Property Management Trading Entity

Financial statements for the 6 months period ending 30 September 2016

Index

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

The financial statements set out on pages 2 to 52 have been prepared on the going concern basis.

Mr Mziwonke Dlabantu
Director-General

Property Management Trading Entity

Financial statement for the 6 months ending 30 September 2016

Statement of Financial Position as at 30 September 2016

	Note	Sept 2016 R '000	March Restated 2016 R '000
Assets			
Current Assets			
Receivables from exchange transactions	3	3 875 348	3 338 867
Receivables from non-exchange transactions	4	191	1 596
Operating lease asset	5	877 715	942 381
Cash and cash equivalents	6	1 505	3 982
		4 754 759	**4 286 826**
Non-Current Assets			
Property, plant and equipment	7	106 341 139	105 989 568
Investment property	8	5 171 164	5 248 495
Heritage assets	9	250 184	250 184
Intangible assets	10	13 804	12 411
		111 776 291	**111 500 658**
Total Assets		**116 531 050**	**115 787 484**
Liabilities			
Current Liabilities			
Operating lease liability	5	789 829	855 195
Bank overdraft	6	750 556	1 468 858
Deferred revenue	11	4 631 830	3 953 877
Payables from exchange transactions	12	4 960 959	3 526 233
Retention liabilities	13	311 150	278 255
Employee benefit obligation	14	191 502	162 790
Finance lease obligation	15	10 199	11 174
Provisions	16	190 642	190 631
		11 836 667	**10 447 013**
Non-Current Liabilities			
Retention liabilities	13	44 659	21 381
Finance lease obligation	15	7 626	433
		52 285	**21 814**
Total Liabilities		**11 888 952**	**10 468 827**
Net Assets Reserves		**104 642 098**	**105 318 657**
Accumulated surplus		104 642 098	105 318 657

* See Note 34

Property Management Trading Entity

Financial statement for the 6 months ending 30 September 2016

Statement of Financial Performance

	Note	Sept 2016 R '000	March Restated 2016 R '000
Revenue from exchange transactions	17	4 446 669	9 375 848
Revenue from non-exchange transactions	18	1 722 711	4 005 455
Total revenue		**6 169 380**	**13 381 303**
Expenditure			
Depreciation, amortisation and impairments on assets	19	1 209 459	2 806 462
Employee related costs	20	767 435	1 309 460
Impairment loss on receivables	21	129 097	414 383
Interest expense	22	1 113	96 634
Loss on disposal/transfer of assets	23	5 227	5 186
Operating leases	24	2 075 863	4 078 030
Property maintenance		1 366 987	3 508 611
Property rates		712 563	1 008 857
Sundry operating expenses	25	578 195	1 325 050
Total expenditure		**6 845 939**	**14 552 673**
Deficit for the year		**(676 559)**	**(1 171 370)**

* See Note 34

Statement of Changes in Net Assets

	Note	Accumulated surplus R '000	Total net assets R '000
Opening balance as previously reported as at 1 April 2015		105 458 056	105 458 056
Adjustments			
Correction of prior period errors	34	(1 326)	(1 326)
Adjustments to net gain from transfer of functions effective 18 November 2013	35	5 880 896	5 880 896
Adjustments to net gain from transfer of functions effective 30 March 2015	35	(1 079)	(1 079)
Adjustments to surplus due to changes to provisional amounts for transfer of functions	35	(4 846 562)	(4 846 562)
Balance at 1 April 2015 as restated*		**106 489 985**	**106 489 985**
Changes in net assets			
Surplus for the year		(1 171 370)	(1 171 370)
Adjustments to surplus due to changes to provisional amounts for transfer of functions		(783 672)	(783 672)
Total changes		(1 955 042)	(1 955 042)
Balance as previously reported as at 31 March 2016		104 534 984	104 534 984
Adjustments			
Correction of prior perid errors and adjustments due to transfers of functions		947 313	947 313
Correction of prior period errors	34	(162 561)	(162 561)
Adjustments to net gain from transfer of functions effective 30 March 2015	35	(1 079)	(1 079)
Balance at 1 April 2016 as restated*		**105 318 657**	**105 318 657**
Changes in net assets			
Deficit for the year		(676 559)	(676 559)
Balance at 30 September 2016		**104 642 098**	**104 642 098**

* See Note 34

Notes to the Financial Statements

1. Presentation of Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB), unless otherwise indicated, and in accordance with Section 91(1) of the Public Finance Management Act (Act 1 of 1999).

These 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 financial statements, are disclosed below.

1.1 Significant judgement and sources of estimation uncertainty

1.1.1 Control of immovable assets

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

1.1.2 Assets and liabilities related to the transfer of functions

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

For initial measurement purposes, assets acquired through the transfer of functions 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 will be 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 1.27. The PMTE will not comply with the requirements of the specific standards of GRAP for those assets and liabilities until the transitional provisions expire for the financial period ending on 31 March 2017 and 31 March 2018 for the respective transfer of functions.

1.1.3 Useful life and residual life

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

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

1.1.4 Classification of accommodation charges as lease revenue

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

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

Notes to Financial Statements

1.1 Significant judgement and sources of estimation uncertainty (continued)

1.1.5 Classification and measurement of leases

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

Cognisance has been taken of the fact that client departments generally extend the period for which they lease premises through the PMTE where these properties are rented from the private sector. It is difficult to conclude that it is certain that the PMTE (as lessee) will always extend the lease term of leasehold property at inception of the lease because of the general occupation trend of its client departments. Taking everything into consideration, management 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.

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

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

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

1.1.6 Impairment of receivables measured at cost or amortised cost

The full voted funds for accommodation from client departments 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.

Notes to Financial Statements

1.1 Significant judgement and sources of estimation uncertainty (continued)

1.1.7 Classification of immovable assets

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

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

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

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

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

The PMTE, as a trading entity of the 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 it to deliver on its mandate, the PMTE may recover an accommodation charge on certain properties it holds. The accommodation charge is not commercially based, but rather to ensure that the PMTE is operating at a break-even level. Where the PMTE does ask market related rent on property that is not utilised by other departments, it is not considered material and therefore all non-financial assets have been classified as non-cash generating for impairment purposes.

1.1.8 Principal versus agent relationship

The PMTE's mandate is to manage the accommodation and infrastructure needs of national departments. Should the PMTE be unable to satisfy the accommodation needs of a particular client department through the use of State-owned property, the PMTE would lease the required property from a private landlord, on behalf of the client department, and for their beneficial occupation; and apply the lease agreement to the occupant/sub-lessee. Consideration was given as to whether the PMTE is acting as an agent on behalf of the client departments, as a result of carrying out these activities.

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

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

Notes to Financial Statements

1.1 Significant judgement and sources of estimation uncertainty (continued)

1.1.9 Related party disclosure

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

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

In the absence of a pricing strategy for leases, judgement was made to determine the disclosures around related party transactions based on the nature of the transactions and the associated terms. In addition, many services have been rendered in-kind to the PMTE stemming from its relationship with the 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 in accordance with an agreement (financial assets) or through legislation (statutory receivables). Refer to note 1.16 and 1.15 respectively.

1.3 Receivables from non-exchange transactions

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

1.4 Leases

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

Finance leases - PMTE as a lessee

Where the PMTE has assessed itself to be a lessee to a finance lease arrangement, it recognises a finance lease liability and a related leasehold asset, which would be disclosed as part of property plant and equipment. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

The PMTE recognises finance lease liabilities resulting from finance leases as a liability on the Statement of Financial Position. Minimum lease payments is apportioned between the finance charge and the reduction of the outstanding liability. Such liabilities are presented as a payable at an amount equal to the net obligation of the lease. Interest expense is recognised based on the interest rate implicit in the finance lease. Where the fair value of the assets are not available to determine the implicit interest rate in the lease, the PMTE uses the rate applicable to debt owed by the state.

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 Financial Statements

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 highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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

1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, 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 accummulated depreciation and accumulated impairment losses, except for assets under construction, land and heritage assets. These are subsequently measured at cost less accumulated impairment losses.

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

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

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

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 Financial Statements

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	indefinte useful lives
Furniture and office equipment	5 - 15 years
Vehicles	5 - 10 years
Computer equipment	3 - 7 years
Other machinery and equipment	10 - 30 years

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

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 Financial Statements

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 cost, 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.

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.

Notes to Financial Statements

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 cost, where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

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

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

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

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

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

The PMTE assess on an annual basis whether there is an indication that it may be impaired. If any such indication exists, the PMTE estimates the recoverable amount or the recoverable service amount of the heritage asset.

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

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

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

1.9 Intangible assets

The PMTE recognises intangible asset when:

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

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

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

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 Financial Statements

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.

Notes to Financial Statements

1.11 Employee benefits (continued)

Leave benefits

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

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

Performance and service bonuses

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

Retirement and medical benefits

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

1.12 Retention liabilities

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

1.13 Provisions and contingencies

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

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

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

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

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

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

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

Notes to Financial Statements

1.14 Reserves

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

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

1.15 Statutory receivables and payables

Classification, recognition and measurement

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

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

Statutory receivables and payables are not discounted.

Impairment of receivables measured at cost

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

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

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

1.16 Financial instruments

Classification, recognition and measurement

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

The PMTE recognises financial assets using trade date accounting.

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

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

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

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

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

Notes to Financial Statements

1.16 Financial instruments (continued)

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

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

Impairment of financial assets measured at amortised cost

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

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

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

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

Derecognition

Financial assets

The PMTE derecognises financial assets using trade date accounting.

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

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

Notes to Financial Statements

1.16 Financial instruments (continued)

Financial liabilities

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

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

1.17 Revenue from exchange transactions

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

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

- the cost of leasing in (in the case where property is leased in from the private sector);
- the budget devolution as agreed upon with the client departments (in the case of state owned accommodation leased to client departments); or
- the market related rental (in the case of state owned accommodation leased to the private sector and individuals).

Accommodation charges disclosed in the financial statements consists of:

- Leasehold inter-governmental, which refers to lease revenue earned from assets which are owned by the private sector, which is then sub-leased to client departments;
- Freehold inter-governmental, which refers to lease revenue from state owned assets leased to client departments; and
- Freehold private, which refers to lease revenue from state owned assets leased to the private sector and individuals

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

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

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

1.18 Revenue from non-exchange transactions

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

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

Transfer payments received from the 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 Financial Statements

1.19 Expenditure

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

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

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

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

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

1.20 Irregular, Fruitless and wasteful expenditure

Irregular, fruitless and wasteful expenditure, as defined by the PFMA, and material losses through criminal conduct is recognised as expenditure in the surplus or deficit according to the nature of the payment and disclosed separately in notes 28 to 29. When the amount is subsequently recoverable, it is recognised as revenue in surplus or deficit. Any receivables recognised as a result of irregular, fruitless and wasteful expenditure or material losses through criminal conduct, are subject to an annual impairment assessment.

1.21 Related parties

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

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed in note 32. 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 32), 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.

1.22 Budget information

The PMTE presents a comparison of budget amounts and actual amounts as a separate additional financial statement. The approved and final budget amounts are prepared on a modified cash basis. The budget is prepared based on the nature of the revenue and the expenditure. The actual amounts (prepared on an accrual basis) are adjusted for basis differences for comparability purposes.

The PMTE budgets for revenue including the transfer payment received through the DPW. The PMTE budget is part of the overall DPW vote.

1.23 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash. The current year's estimates are based on unrecognised capital expenditure which has been approved and either contracted for or an order has been issued to the supplier.

Notes to Financial Statements

1.24 Going concern assumption

These financial statements have been prepared on the going concern basis. Although the PMTE has a bank overdraft of R751 million as at 31 March 2016 (R1 469 million as at 31 March 2015) and the current liabilities exceed the current assets, management maintains their assertion that the PMTE is able to continue on a going concern basis into the foreseeable future. The PMTE operates under the control and support of the National Department of Public Works ("DPW") and National Treasury is aware of the PMTE's overdraft position. Management is implementing a turnaround strategy for the entity.

1.25 Comparative figures

Comparative figures have been adjusted to correct errors identified in the current year but relating to prior years. The effect of the restatements are disclosed in note 34.

1.26 Deferred revenue

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

1.27 Transfer of functions between entities under common control

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

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

Due to the operationalisation of the PMTE, the 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.

Until such time as the measurement period expires, and the items of assets and liabilities associated with the transfer of functions are recognised and measured, in accordance with the applicable Standard of GRAP, the PMTE does not need to comply with the Standards of GRAP on:
- Presentation of Financial Statements (GRAP 1)
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4)
- Leases (GRAP 13)
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

Notes to Financial Statements

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

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

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

Standard/ Interpretation:

- GRAP 106 Transfer of function of entities not under common control
- GRAP 107 Mergers
- IGRAP 17 Service concession agreements where a grantor controls a significant residual interest in an asset
- GRAP 32 Service concession agreements: Grantor

Notes to the Financial Statements

3. Receivables from exchange transactions

	Sept 2016 R '000	March 2016 Restated R '000
Financial assets		
Accommodation debtors - leasehold inter-governmental	416 564	529 080
Accommodation debtors - freehold inter-governmental debtors	241 035	347 811
Accommodation debtors - freehold private	2 687	8 986
Municipal services	548 589	516 312
Debt account	32 039	2 169
Revenue Accrual	1 670 092	1 176 570
Municipal Deposits	15 629	15 160
Other debtors	1 054	8
Recoverable property rates	-	-
	2 927 689	**2 596 096**
Non-financial asset		
Prepaid expenses	947 659	742 771
	3 875 348	**3 338 867**

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

Receivables past due but not impaired

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

Individually significant receivables that are impaired

Individually significant receivables are identified if the specific receivable's outstanding balance exceeds 5% of the total outstanding balance for the class of receivable. The factors to identify impairment are similar to the group assessment for impairment. The analysis below shows the total accumulated impairment from individually significant receivables, as a percentage of the gross receivable balance per class of receivable:

	Sept 2016 %	March 2016 %
Accommodation debtors - freehold inter-governmental debtors	58	49
Accommodation debtors - leasehold inter-governmental	33	34
Municipal services	31	31
Debt account	64	64
Recoverable property rates	100	100

4. Receivables from non-exchange transactions

	Sept 2016 R'000	March 2016 R'000
Accommodation debtors - freehold prestige	191	1 596

Certain properties are leased to prestige officials. According to the ministerial handbook, prestige officials receive one state owned residence at no charge. If available, prestige officials may occupy a second state owned residence which is charged at a reduced market rental.

Receivables from non-exchange transactions past due but not impaired

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

Notes to the Financial Statements

	Sept 2016 R '000	March 2016 Restated R '000

5. Operating lease asset/(liabilities)

Current assets	877 715	942 381
Current liabilities	(789 829)	(855 195)
	87 886	**87 186**
Total operating lease asset - PMTE as lessor		
Leasehold inter-governmental	789 829	855 195
Freehold private	87 886	87 186
	877 715	**942 381**
Total minimum lease receipts - PMTE as lessor		
Within one year	2 776 416	3 014 864
In second to fifth year inclusive	3 930 508	4 103 870
Later than five years	497 410	653 003
	7 204 334	**7 771 737**

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).

	Sept 2016 R'000	March 2016 R'000
Total operating lease liabilities - PMTE as lessee		
Operating lease liabities - leasehold inter-governmental	**789 829**	**855 195**
Total minimum lease payments - PMTE as lessee		
Within one year	2 731 277	2 981 695
In second to fifth year inclusive	3 809 275	4 004 456
Later than five years	376 195	501 514
	6 916 747	**7 487 665**

The PMTE has 2 619 active leases (March 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, as at 31 March, is determined taking into account the contractually agreed upon notice period. These amounts have been included as part of the “within one year” ageing bracket.

Notes to the Financial Statements

	Sept 2016 R '000	March 2016 Restated R '000

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	221	234
Bank balance	1 284	3 748
Bank overdraft	(750 556)	(1 468 858)
	(749 051)	**(1 464 876)**
Current assets	1 505	3 982
Current liabilities	(750 556)	(1 468 858)
	(749 051)	**(1 464 876)**

The interest rate on the bank balance is variable. The average effective interest rate on short term bank deposits is 5.5% (March 2016: 4.67%).

The bank overdraft carries no interest.

7. Property, plant and equipment

	Sept 2016			March 2016 Restated		
	Cost R'000	**Accumulated depreciation and accumulated impairment R'000**	**Carrying value R'000**	**Cost R'000**	**Accumulated depreciation and accumulated impairment R'000**	**Carrying value R'000**
Land	44 661 866	-	44 661 866	44 661 788	-	44 661 788
Buildings and improvements	69 253 044	(7 833 039)	61 420 005	67 733 485	(6 677 237)	61 056 248
Furniture and office equipment	112 820	(30 200)	82 620	100 313	(22 691)	77 622
Motor vehicles	608	(474)	134	608	(384)	224
Computer equipment	210 943	(69 563)	141 380	207 209	(49 292)	157 917
Other machinery and equipment	46 253	(11 119)	35 134	44 939	(9 170)	35 769
Total	**114 285 534**	**(7 944 395)**	**106 341 139**	**112 748 342**	**(6 758 774)**	**105 989 568**

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - Sept 2016

	Opening balance R'000	Additions R'000	Additions through transfer of functions R'000	Disposals R'000	Transfers between DPW and PMTE R'000	Additions through assets under construction R'000	Depreciation R'000	Total R'000
Land	44 661 788	-	-	-	-	78	-	44 661 866
Buildings and improvements	61 056 248	-	-	-	-	1 256 421	(892 664)	61 420 005
Furniture and office equipment	77 622	12 226	-	(508)	1 083	-	(7 803)	82 620
Vehicles	224	-	-	-	-	-	(90)	134
Computer equipment	157 917	5 286	-	(186)	160	-	(21 797)	141 380
Other machinery and equipment	35 769	2 247	-	(659)	91	-	(2 314)	35 134
	105 989 568	**19 759**	**-**	**(1 353)**	**1 334**	**1 256 499**	**(924 668)**	**106 341 139**

Reconciliation of property, plant and equipment - March 2016 Restated

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers between DPW and PMTE R'000	Additions through assets under construction R'000	Depreciation R'000	Impairment loss R'000	Total R'000
Land	44 661 762	-	-	-	26	-	-	44 661 788
Buildings and improvements	59 614 092	-	-	-	3 511 626	(2 049 112)	(20 358)	61 056 248
Furniture and office equipment	76 296	15 701	(877)	(751)	-	(11 961)	(786)	77 622
Vehicles	416	-	-	-	-	(192)	-	224
Computer equipment	169 754	26 888	(887)	(258)	-	(36 778)	(802)	157 917
Other machinery and equipment	37 291	3 367	(257)	(79)	-	(4 236)	(317)	35 769
	104 559 611	**45 956**	**(2 021)**	**(1 088)**	**3 511 652**	**(2 102 279)**	**(22 263)**	**105 989 568**

Notes to the Financial Statements

7. Property, plant and equipment (continued)

Reconciliation of assets under constructions - Sept 2016	Opening balance	Current year expenditure - additions through assets under construction	Transfers to completed projects	Accumulated impairment	Total
Land	655	78	-	-	733
Building improvements	12 677 163	1 611 110	(269 086)	(20 358)	13 998 829
	12 677 818	**1 611 188**	**(269 086)**	**(20 358)**	**13 999 562**

Reconciliation of assets under constructions - March 2016 Restated					
Land	629	26	-	-	655
Building improvements	10 934 798	3 500 344	(1 720 147)	(37 832)	12 677 163
	10 935 427	**3 500 370**	**(1 720 147)**	**(37 832)**	**12 677 818**

Assets subject to finance lease (Net carrying amount)

	Sept 2016 R'000	March 2016 Restated R'000
Furniture and office equipment	16 927	10 633
Vehicles	134	224
	17 061	**10 857**

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

Transitional provisions

All classes of property, plant and equipment were impacted by the transfer of functions. Refer to note 35 for further details.

Notes to the Financial Statements

	Sept 2016 R '000	March 2016 Restated R '000

8. Investment property

	Sept 2016			March 2016 Restated		
	Cost R'000	**Accumulated depreciation and accumulated impairment R'000**	**Carrying value R'000**	**Cost R'000**	**Accumulated depreciation and accumulated impairment R'000**	**Carrying value R'000**
Investment property	5 711 602	(540 438)	5 171 164	5 711 602	(463 107)	5 248 495

Reconciliation of investment property - Sept 2016

	Opening balance R'000	**Depreciation R'000**	**Total R'000**
Building and improvements	3 925 638	(77 331)	3 848 307
Land	1 322 857	-	1 322 857
	5 248 495	**(77 331)**	**5 171 164**

Reconciliation of investment property - March 2016 Restated

	Opening balance R'000	**Depreciation R'000**	**Total R'000**
Building and improvements	4 080 302	(154 664)	3 925 638
Land	1 322 857	-	1 322 857
	5 403 159	**(154 664)**	**5 248 495**

Transitional provisions

All classes of investment property were impacted by the transfer of functions. Refer to note 35 for further details.

Notes to Financial Statements

9. Heritage assets

	Sept 2016			March 2016 Restated		
	Cost R'000	**Accumulated impairment losses R'000**	**Carrying value R'000**	**Cost R'000**	**Accumulated impairment losses R'000**	**Carrying value R'000**
Land	141 985	-	141 985	141 985	-	141 985
Building and improvements	108 199	-	108 199	108 199	-	108 199
Total	**250 184**	**-**	**250 184**	**250 184**	**-**	**250 184**

Reconciliation of heritage assets - Sept 2016

	Opening balance R'000	**Total R'000**
Land	141 985	141 985
Building and improvements	108 199	108 199
	250 184	**250 184**

Reconciliation of heritage assets - March 2016 Restated

	Opening balance R'000	**Total R'000**
Land	141 985	141 985
Building and improvements	108 199	108 199
	250 184	**250 184**

Restrictions on heritage assets

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

Transitional provisions

Heritage assets recognised at provisional amounts

All classes of heritage assets were impacted by the transfer of functions. Refer to note 35 for further details.

Notes to Financial Statements

10. Intangible assets

	Sept 2016			March 2016 Restated		
	Cost	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Computer software	20 068	(6 264)	13 804	17 289	(4 878)	12 411

Reconciliation of intangible assets - Sept 2016

	Opening balance	**Additions**	**Disposals**	**Amortisation**	**Impairment loss**	**Total**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Computer software	12 411	2 779	-	(1 386)	-	13 804

Reconciliation of intangible assets - March 2016 Restated

	Opening balance	**Additions**	**Disposals**	**Amortisation**	**Impairment loss**	**Total**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Computer software	12 379	3 711	(1 660)	(1 996)	(23)	12 411

Transitional provisions

Intangible assets recognised at provisional amounts

All classes of intangible assets were impacted by the transfer of functions. Refer to note 35 for further details.

Notes to the Financial Statements

	Sept 2016 R '000	March Restated 2016 R '000

11. Deferred revenue

Deferred revenue	4 631 830	3 953 877

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

Opening balance	3 953 877	2 599 928
Plus: Revenue deferred during the year	979 786	2 020 919
Less: Revenue recognised during the year	(301 833)	(666 970)
	4 631 830	**3 953 877**

12. Payables from exchange transactions

Financial liabilities		
Accrued expenses - Assets	431 871	267 666
Accrued expenses - Cleaning and gardening	7 908	20 841
Accrued expenses - Employee costs	741 225	-
Accrued expenses - Leases	416 191	326 860
Accrued expenses - Maintenance	586 367	586 367
Accrued expenses - Municipal services	850 813	720 529
Accrued expenses - Other	137 699	190 797
Accrued expenses - Property rates	141 661	33 832
Accrued expenses - Schedule maintenance	545 418	540 498
Accrued expenses - Security	5 298	5 563
Total accrued expenses	3 123 226	2 692 953
Unallocated deposits	52 033	55 335
Trade payables	4	3
Deposits received	16	16
	3 659 007	**2 973 523**
Non-financial liabilities		
Income received in advance - leases	517 625	510 835
Income received in advance - other services	43 102	41 875
Assets suspense	483 728	225 216
	4 960 959	**3 526 233**

13. Retention liabilities

Non-current liabilities	44 659	21 381
Current liabilities	311 150	278 255
	355 809	**299 636**

Notes to the Financial Statements

	Sept 2016 R '000	March Restated 2016 R '000
14. Employee benefit obligations		
Provision for performance bonus		
Opening balance	18 094	18 144
Movement in service cost recognised in financial performance	10 924	(50)
	29 018	**18 094**
Provision for service bonus		
Opening balance	34 012	33 613
Movement in service cost recognised in financial performance	2 266	399
	36 278	**34 012**
Provision for leave		
Opening balance	110 684	118 826
Movement in service cost recognised in financial performance	15 522	(8 142)
	126 206	**110 684**
Total employee benefit obligations	**191 502**	**162 790**

Transitional provisions

Included in the above is employee benefit obligations recognised at provisional amount of R 67 million for obligations transferred at 1 April 2014.

15. Finance lease obligation

	Sept 2016 R '000	March Restated 2016 R '000
Minimum lease payments due		
- within one year	10 199	7 981
- in second to fifth year inclusive	7 971	4 603
	18 170	12 584
less: future finance charges	(345)	(977)
Present value of minimum lease payments	**17 825**	**11 607**
Present value of minimum lease payments due		
- within one year	9 039	7 274
- in second to fifth year inclusive	7 363	4 333
	16 402	**11 607**
Non-current liabilities	7 626	433
Current liabilities	10 199	11 174
	17 825	**11 607**

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 cellphones and 24 months for 3G cards. All contracts have no escalation clauses.

Notes to Financial Statements

16. Provisions

Reconciliation of provisions - Sept 2016	Opening Balance	Additions	Utilised during the year	Total
Municipal services and property rates	177 336	-	-	177 336
Legal proceedings	13 295	457	(446)	13 306
	190 631	**457**	**(446)**	**190 642**

Reconciliation of provisions - March 2016 (restated)	Opening Balance	Additions	Utilised during the year	Total
Municipal services and property rates	-	177 336	-	177 336
Legal proceedings	15 551	2 798	(5 054)	13 295
	15 551	**180 134**	**(5 054)**	**190 631**

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 claim with the local municipalities to ensure only confirmed and valid claims are settled. The project is expected to be finalised during the 2016/17 financial year.

Previously, the PMTE raised an accrual, included in the payables from exchange transactions, amounting to R 461 million payments that have been made in the 2015/16 financial year relating to backlog municipal services and property rates. As a result of this project, the PMTE has identified prepayments to municipalities amounting to R 67 million included in the Prepaid expenses in note 3. Verification process of the confirmed debt from municipalities is currently underway and as a result the debt owed to municipalities has been included above.

Debt owed to/due from municipalities but not confirmed has been included in contingent liabilities and contingent assets respectively (refer to note 26). Included in contingent liabilities is an amount of R 22 million relating to interest charged by municipalities which are still in the process of verification.

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

	Sept 2016 R'000	March 2016 Restated R'000
Accommodation charges - Leasehold Inter-governmental	1 978 789	4 219 721
Accommodation charges - Freehold Inter-governmental	2 168 822	4 855 385
Accommodation charges - Freehold Private	28 309	42 126
Management fees on municipal services	99 202	181 992
Reversal of impairment loss for receivables from exchange transactions	162 693	47 734
Sundry revenue	3 704	21 615
Interest revenue	4 632	7 265
Recoveries	518	10
	4 446 669	**9 375 848**

Interest revenue consists of:		
Interest from receivables	4 632	7 261
Interest on bank balances	-	4
	4 632	**7 265**

Notes to the Financial Statements

	Sept 2016 R '000	March 2016 Restated R '000

18. Revenue from non-exchange transactions

Augmentation	1 702 707	3 524 652
Contractor fines	1 375	10 546
Goods and service in-kind	17 615	34 815
Accommodation charges - Prestige	1 014	2 013
Donations revenue	-	432 877
Reversal of impairment loss for receivables from non-exchange transactions	-	552
	1 722 711	**4 005 455**

19. Depreciation, amortisation and impairments of assets

Property, plant and equipment	1 130 741	2 649 780
Investment property	77 332	154 663
Intangible assets	1 386	2 019
	1 209 459	**2 806 462**

20. Employee related costs

Bargaining council	1 419	317
Basic salary and non-pensionable salary	567 821	970 348
Housing allowances	28 635	52 834
Medical aid contributions	37 812	69 141
Overtime	11 750	21 079
Pension fund contributions	59 604	108 625
Performance bonus	20 118	17 318
Service bonus	40 276	69 798
	767 435	**1 309 460**

21. Impairment loss on receivables

Receivables from exchange transactions	127 271	414 383
Receivables from non-exchange transactions	1 826	-
	129 097	**414 383**

22. Interest expense

Interest on overdue accounts	106	888
Interest on municipal services and property rates	-	94 804
Interest on finance leases	1 007	942
	1 113	**96 634**

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

23. Loss on disposal/transfer of assets

Property, plant and equipment	5 227	5 186

Notes to the Financial Statements

	Sept 2016 R '000	March 2016 Restated R '000

24. Operating lease

Operating lease - building and improvements	2 040 022	4 003 007
Operating lease - vehicles, furniture and office equipment	23 435	42 453
Rent on land	12 406	32 570
	2 075 863	**4 078 030**

25. Sundry operating expenses

Advertising	1 449	3 909
Auditors remuneration	22 083	29 776
Bad debts written off	1 616	14 648
Bank charges	174	196
Claims against the state	36	1 429
Cleaning and gardening	107 328	217 999
Communication expenses	7 476	12 614
Computer software related expenses	6 014	19 961
Consulting fees	139 787	213 105
Consumables	13 636	24 075
Bursaries	4 732	-
Fleet expenses	4 286	18 486
Losses incurred	28 430	55 509
Municipal service expenses	151 020	378 406
Other contractors	3 016	5 435
Other goods and services	1 925	1 724
Retirement awards	355	10 420
Security	40 390	60 948
Service in-kind expenses #	18 118	-
Service in-kind receivable derecognised *	-	187 183
Travel and subsistence	26 324	69 227
	578 195	**1 325 050**

* 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.

Service in kind expense:
This amount relates to expenses and movable assets paid for by the PMTE and utilised by the DPW.

Notes to Financial Statements

26. Contingencies

Contingent liabilities	Sept 2016 R'000	March 2016 Restated R'000
Municipal services and property rates	60 191	60 191
Legal claims against the PMTE	71 990	67 358
	132 181	**127 549**

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 claim with the local municipalities to ensure only confirmed and valid claims are settled. The project is expected to be finalised during of the 2016/17 financial year. For further details refer to note 16.

Legal Claims against the PMTE

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

Contingent assets	Sept 2016 R'000	March 2016 Restated R'000
Municipal services and property rates	1 277	1 277
Legal claims by the PMTE	185 458	179 134
Retentions and variable contract guarantees	122 574	126 215
Recoverable property rates	Undefined	Undefined
Property, plant and equipment	Undefined	Undefined
	309 309	**306 626**

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 claim with the local municipalities to ensure only confirmed and valid claims are settled. The project is expected to be finalised during the 2016/17 financial year. For further details refer to note 16.

Legal claims by the PMTE

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

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.

Notes to Financial Statements

26. Contingencies (continued)

Recoverable property rates

The PMTE is currently paying for property rates on properties of which it is not the registered custodian. There is a project underway whereby properties are correctly vested with the rightful custodian. The total value of the property rates still under investigation amounts to R 90 million (March 2016: R 90 million) and therefore, the amount recoverable for these properties cannot be reliably determined at reporting date.

Property, plant and equipment

The PMTE has identified 251 land parcels (not improved) which are registered in the name of National Government of RSA for which no extents are available. These land parcels have not been recognised in the DPW Asset register as they cannot be reliably measured and hence do not meet the recognition measurement criteria to be accounted for as Immovable Assets in the PMTE financial records.

27. Commitments

Capital commitments - Projects

Commitments for the acquisition of non-financial assets (consisting of property, plant and equipment, investment property, heritage assets and intangible assets) that are contracted for, but not provided for, in the financial statements, are reflected in the table below. Included in the capital commitments amount below of R 4 776 million (2015: R 5 831 million) are the CPAP commitment (Contract Price Adjustment Provision) of R 624 million (March 2016: R 531 million), year end accruals for amounts still owed to the contractors for goods and services already delivered, and finally retentions as illustrated below:

	Sept 2016 R'000	March 2016 Restated R'000
Gross capital commitment	4 775 795	5 831 183
Adjusted for:		
Retentions	(289 632)	(219 332)
Payables from exchange transactions (accrued expenses)	(396 588)	(214 739)
	4 089 575	**5 397 112**

Refer to note 31 for the ageing of capital commitments.

Operating lease vehicle commitments

	Sept 2016 R'000	March 2016 R'000
Within one year	15 737	35 354
In second to fifth year inclusive	-	8 756
Later than five years	-	-
	15 737	**44 110**

The operating lease for vehicles is on a month-to-month basis and therefore no operating lease asset or liability exists. Refer to note 31 for the ageing of other commitments.

Notes to the Financial Statements

	Sept 2016 R '000	March 2016 Restated R '000

28. Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure

	Sept 2016 R '000	March 2016 Restated R '000
Opening balance	246 736	261 461
Fruitless and wasteful expenditure - relating to current year	38	66
Less amounts resolved	(144 162)	-
Less amounts reversed	-	(14 791)
	102 612	**246 736**

The investigations on 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.

The current year amount of R 38 million relates to instances where accommodation was paid for no-show, in addition amount of interest paid on overdue accounts.

The amounts resolved of R132 million relates to finalised SIU cases where there is evidence of corruption between DPW officials and the landlords. Furthermore, the amount of R12.5 million will be recovered from the landlord and is currently under investigation by the SIU..

Details of fruitless and wasteful expenditure - current year	Sept 2016 R'000
Accommodation paid but no-show	5
Interest paid on overdue accounts	33
	38

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.

Notes to the Financial Statements

	Sept 2016 R '000	March 2016 Restated R '000

29. Irregular expenditure

Opening balance	5 147 987	31 985 176
Add: Irregular expenditure - current year	10 586	509 676
Add: Irregular expenditure - prior year	6 381	725
Less: Amounts condoned - current year	-	(90 212)
Less: Amounts condoned - prior years	(278 390)	-
Less: Amounts not recoverable (not condoned)	(550 718)	(27 257 378)
	4 335 846	**5 147 987**

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.

Possible Irregular expenditure identified in the prior years is still in the process of validation in terms of the National Treasury Guideline on Irregular Expenditure. These instances relate to:
- R261 million is being investigated by external investigative authorities
- An amount of R944 million which was identified by the AGSA
- Lease contracts which were renewed in terms of the National Treasury approval, but which may not have met the conditions attached to the approval. The validation is expected to be completed by end March 2017
- Other cases to the amount of R102 million

Details of irregular expenditure – current year

	Sept 2016 R'000
Correct procurement process not followed in current year	10 586
Correct procurement process not followed in prior year	6 381
	16 967

he amount of R6,3 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 R10,5 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)

	Sept 2016 R'000
Correct process not followed	(550 717)

Notes to the Financial Statements

	Sept 2016 R '000	March 2016 Restated R '000

30. Financial instruments disclosure

Categories of financial instruments

	Sept 2016	March 2016
Financial assets at amortised cost		
Receivables from exchange transactions	2 927 689	2 596 096
Cash and cash equivalents	1 505	3 982
	2 929 194	**2 600 078**
Financial liabilities at amortised cost		
Bank overdraft	750 556	1 468 858
Payables from exchange transactions	3 659 007	2 973 523
Retention liabilities	355 809	299 636
Finance lease obligation	17 825	11 607
	4 783 197	**4 753 624**

31. Risk management

Financial risk management

The PMTE's activities expose it to a variety of financial risks which includes market risk (including interest rate risk), credit risk and liquidity risk.

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

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

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

Notes to Financial Statements

31. Risk management (continued)

Liquidity risk

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

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

Sept 2016	Note	1 month R'000	2-12 months R'000	2 years R'000	3 years R'000	> 3 years R'000	Total R'000
Bank overdraft	6	750 556	-	-	-	-	750 556
Accrued expenses - Assets	12	431 871	-	-	-	-	431 871
Accrued expenses - Cleaning and gardening	12	7 908	-	-	-	-	7 908
Accrued expenses - Employee costs	12	741 225	-	-	-	-	741 225
Accrued expenses - Leases	12	416 191	-	-	-	-	416 191
Accrued expenses - Maintenance	12	586 367	-	-	-	-	586 367
Accrued expenses - Municipal services	12	850 813	-	-	-	-	850 813
Accrued expenses - Other	12	137 699	-	-	-	-	137 699
Accrued expenses - Property rates	12	141 661	-	-	-	-	141 661
Accrued expenses - Schedule maintenance	12	545 418	-	-	-	-	545 418
Accrued expenses - Security	12	5 298	-	-	-	-	5 298
Income received in advance - leases	12	517 625	-	-	-	-	517 625
Trade payables	12	4	-	-	-	-	4
Retention liabilities	13	145 823	165 327	22 461	22 147	51	355 809
Capital commitments - Projects	27	1 483 087	2 000 704	498 121	107 663	-	4 089 575
Operating lease commitments (vehicles)	27	3 147	12 590	-	-	-	15 737
		6 764 693	**2 178 621**	**520 582**	**129 810**	**51**	**9 593 757**

March 2016 Restated	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	1 468 858	-	-	-	-	1 468 858
Accrued expenses - Assets	12	267 666	-	-	-	-	267 666
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	190 797	-	-	-	-	190 797
Accrued expenses - Property rates	12	33 832	-	-	-	-	33 832
Accrued expenses - Schedule maintenance	12	540 498	-	-	-	-	540 498
Accrued expenses - Security	12	5 563	-	-	-	-	5 563
Income received in advance - leases	12	510 835	-	-	-	-	510 835
Trade payables	12	3	-	-	-	-	3
Retention liabilities	13	161 279	116 976	14 395	1 283	5 703	299 636
Capital commitments - Projects	27	1 229 448	2 828 984	1 000 633	298 132	39 915	5 397 112
Operating lease commitments (vehicles)		2 946	32 407	8 757	-	-	44 110
		6 066 322	**2 978 367**	**1 023 785**	**299 415**	**45 618**	**10 413 507**

Notes to Financial Statements

31. Risk management (continued)

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

The PMTE has 2 619 active leases (2015: 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 Financial Statements

31. Risk management (continued)

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

	Sept 2016 R'000	March 2016 Restated R'000
Cash and cash equivalents	1 505	3 982
Receivables from exchange transactions	2 927 689	2 596 096
Receivables from non-exchange transactions	191	1 596
Operating lease asset	877 715	942 381
	3 807 100	3 544 055

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

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

Interest rate risk

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

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

32. 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

	Sept 2016 R'000	March 2016 Restated R'000
Revenue from exchange transactions		
Accommodation charges - Freehold Inter-governmental	2 500	-
Revenue from non-exchange transactions		
Augmentation	1 702 707	3 524 652
Goods and service in-kind	17 615	34 815
	1 720 322	**3 559 467**

Notes to Financial Statements

32. 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.

Notes to the Financial Statements

	Sept 2016 R '000	March 2016 Restated R '000

32. Related parties (continued)

Revenue from exchange transactions: Accommodation charges - freehold inter-governmental		
Agriculture, Forestry and Fisheries	49 645	86 340
Arts and Culture	20 202	35 134
Communications	503	875
Correctional Services	511 963	973 655
Defence and Military Veterans	487 871	915 108
Higher Education	421	732
Environmental Affairs	10 143	17 640
Government Communications	16	28
Health	7 842	13 639
Health (Civitas)	42 912	80 965
Home Affairs	24 202	42 090
Human Settlement	257	447
Independent Complaints Directorate	190	360
Justice and Constitutional Development	181 390	346 645
Labour	28 437	49 455
Rural Development and Land Reform	16 066	29 976
Minerals	1 572	2 733
National Treasury	2 943	5 119
National Treasury - SARS	16 669	28 990
Public Services and Administration	24 260	17 610
SA Police Services	603 768	1 146 758
Social Development	274	477
Sports and Recreation	6	10
Statistics SA	2 316	5 155
Trade and Industry	18	32
Water and Sanitation	68 716	120 803
	2 102 602	**3 920 776**

Gross receivables from exchange transactions: Accommodation debtors - freehold inter-governmental		
Arts and Culture	10 101	8 784
Defence and Military Veterans	-	737
International Relations and Cooperation	7 258	7 258
Government Communications	16	-
Health (Civitas)	-	33 735
Home Affairs	12 101	-
Justice and Constitutional Development	1	1
Rural Development and Land Reform	1	1
Public Service and Administration	-	65
Statistics SA	18	941
Trade and Industry	60	60
	29 556	**51 582**

Notes to the Financial Statements

	Sept 2016 R '000	March 2016 Restated R '000

32. Related parties (continued)

Impairment relating to receivables from exchange transactions		
Arts and Culture	1 082	1 076
Defence and Military Veterans	-	112
International Relations and Cooperation	7 258	7 258
Health (Civitas)	-	4 745
Justice and Constitutional Development	1	1
Rural Development and Land Reform	1	1
Public Service and Administration	-	8
Statistics SA	18	130
Trade and Industry	60	5
Government Communications	16	-
Home Affairs	1 296	-
	9 732	**13 336**

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

Expenditure	Sept 2016 R'000	March 2016 Restated R'000
Arts and Culture	5 072	8 620
Defence	6	462
Justice and Constitutional Development	83 111	156 699
National Treasury - SARS	-	484
Presidency	372	-
SA Police Services	-	38
	88 561	**166 303**

Accruals raised		
Arts and Culture	64	988
Defence	6	-
Justice and Constitutional Development	6 811	13 626
National Treasury - SARS	-	484
Presidency	372	-
SA Police Services	-	38
	7 253	**15 136**

Notes to the Financial Statements

32. Related parties (continued)

Remuneration of management

Sept 2016		Basic salary R'000	Non-pensionable salary R'000	Service bonus R'000	Post employment benefits R'000	Other short term benefits R'000	Total R'000
Employees: Regional Managers							
Bloemfontein (Acting)	Mr B Kgasoane	325	124	53	59	18	579
Cape Town	Mr F Johnson	402	56	-	60	26	544
Durban (Acting)	Mr N Vilakazi	325	147	53	42	40	607
Johannesburg	Adv J Monare	334	69	1	54	81	539
Kimberley (Acting)	Mr S Mabinja	335	46	-	-	73	454
Mmabatho	Mr R Matlala	324	94	53	42	118	631
Mthatha	Mr N Tukela	324	147	-	42	3	516
Nelspruit	Mr P Mashiane	334	157	-	54	80	625
Polokwane	Mr M Ntshani	379	34	62	53	78	606
Port Elizabeth	Mr J van der Walt	355	179	-	58	14	606
Pretoria (Acting)	Mr M Dondashe	305	164	-	40	33	542
Employees: Other officials							
Chief Director: Construction Management Inland	Mr W Hlabangwane	366	151	1	47	90	655
Chief Director: PMTE Financial Planning	Ms J Prinsloo	329	138	-	54	1	522
EXCO Members: Head of units		-	-	-	-	-	-
Head of PMTE	Mr P Serote	1 500	-	-	-	-	1 500
Construction Project Management	Mr C Lombaard	222	95	-	-	60	377
Small Harbours	Mr M Govender	453	98	12	59	70	692
Real Estate Registry Services	Ms B Matthews	519	222	-	-	1	742
Supply Chain Management	Ms A Chowan	458	137	-	60	-	655
Exco Members: Deputy Director General:							
Real Estate Management Services (Acting)	Mr M Sithole	360	53	-	47	140	600
Asset Investment Management (Acting)	Mr P Chiaspasco	402	83	66	56	89	696
Planning and Precinct Development	Mr S Subban	460	64	76	60	39	699
User Demand Management	Mr P Mabuza	395	164	65	51	15	690
Project Management	Ms K Khumalo	74	32	-	-	-	106
Project Management Office	Mr M Thobakgale	462	171	-	-	68	701
Facilities Management	Mr P Maroga	519	222	-	-	-	741
Technical Finance expert	Ms B van der Merwe	457	196	-	-	-	653
		10 718	**3 043**	**442**	**938**	**1 137**	**16 278**

Notes to the Financial Statements

32. Related parties (continued)

March 2016		Basic salary R'000	Non-pensionable salary R'000	Service bonus R'000	Post employment benefits R'000	Other short term benefits R'000	Total R'000
Employees: Regional Managers							
Bloemfontein (Acting)	Mr B Kgasoane	574	119	56	107	182	1 038
Cape Town	Mr F Johnson	775	105	65	117	56	1 118
Durban (Acting)	Mr S Semilane	584	239	49	95	7	974
Johannesburg	Adv J Monare	644	125	54	105	174	1 102
Kimberley	Mr Moholo	652	285	72	96	83	1 188
Mmabatho	Mr R Matlala	626	177	52	81	262	1 198
Mthatha	Mr 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
Employees: Other officials							
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
EXCO Members: Head of units							
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
EXCO Members: Deputy Director General:							
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
Projects 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 Mathutle	857	179	72	111	233	1 452
Technical Finance expert	Ms B van der Merwe	74	32	-	-	-	106
		19 608	**5 534**	**974**	**1 897**	**2 659**	**30 672**

Notes to the Financial Statements

32. 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 Acting Deputy Director General: Real Estate Management Services was appointed for 3 months during the financial period ending 30 Sept 2016.

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

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

33. Events after the reporting date

There are no subsequent events identified to be disclosed.

Notes to the Financial Statements

34. 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:

	March 2016 Restated R'000
Statement of financial position	
Decrease in receivables from exchange transactions	(1 019)
Decrease in bank overdraft	8 712
Increase in payables from exchange transactions	(170 006)
Decrease in property, plant and equipment	(1 609)
Increase in intangible assets	35
Increase in opening accumulated surplus	1 326
	(162 561)
Statement of Financial Performance	
Decrease in revenue from non-exchange transactions	(387)
Decrease in operating leases	6 316
Increase in property maintenance	(168 637)
Decrease in depreciation, amortisation and impairments on assets	139
Decrease in sundry operating expenses	8
	(162 561)

Restatement of accrued expenses

Due to the PMTE not having an appropriate system for recording accrual transactions, accruals were incomplete in the prior period. The restatement was performed as in some cases the date of the invoice was used to record the transactions and not the date that the goods were received or the services were rendered. A manual accrual management system has been developed and prior period accruals restated. In addition, management identified an error where prior period accruals were not adequately reversed and has subsequently corrected payables and the effect on surplus or deficit.

	March 2016 Restated R'000
Increase in payables from exchange transactions	(168 987)
Increase in property maintenance	(168 987)

Correction of movable assets

The PMTE identified errors in the movable assets calculations. When transfering 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 and service in-kind revenue from non-exchange calculation for the assets.

	March 2016 Restated R'000
Decrease in property, plant and equipment	(1 609)
Decrease in intangible assets	35
Increase in opening accumulated surplus	1 326
	(248)
Decrease in revenue from non-exchange transactions	(387)
Decrease in depreciation and amortisation	139
	(248)

Notes to the Financial Statements

34. Prior period errors (continued)

Corrections of incorrect invoices processed

Management corrected invalid invoices which were processed on the system in the previous financial period. 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.

	March 2016 Restated R'000
Increase in payables from exchange transactions	(1 019)
Decrease in receivables from exchange transactions	(1 019)
Decrease in bank overdraft	8 712
	6 674
Decrease in operating leases	6 316
Decrease in property maintenance	350
Decrease in sundry operating expenses	8
	6 674

35. Transfer of functions between entities under common control

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

The PMTE was established as a trading entity that operates within the administration of the 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 18 November 2013

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

- Asset Investment Management
- Property Managementt
- 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	Closing provisional amount as at 30 Sept 2016 R'000
Assets			
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	5 902 583	117 972 787
Investment property	5 711 226	-	5 711 226
Heritage assets	610 746	(21 687)	589 059
Intangible assets	40 423	-	40 423
	118 691 525	5 880 896	118 690 778
Liabilities			
Employee benefit obligations	(84 225)	-	(84 225)
Payables from exchange transactions	(1)	-	(1)
Deferred revenue	(3 642 974)	-	(3 642 974)
Retention liabilities	165 277	-	165 277
Net gain on transfer of functions	**115 129 602**	**5 880 896**	**115 128 855**

Contingent liabilities transferred amounted tof R 11.6 million.

The extent of deemed cost applied to the following categories of assets amounts to: Property, plant and equipment (R 93 665 million), Investment Properties (R 5, 711 million) and Heritage Assets (R 248 million).

Notes to the Financial Statements

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

Transfer of function effective 30 March 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 liabilties 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 30 Sept 2016 R'000
Assets			
Receivables from non-exchange transactions	(68 794)	-	(68 794)
Property, plant and equipment	91 905	(1 079)	90 826
Intangible assets	6 624	-	6 624
	29 735	(1 079)	28 656
Liabilities			
Employee benefit obligations	(66 821)	-	(66 821)
Finance lease obligation	(9 134)	-	(9 134)
Net loss on transfer of functions	**(46 220)**	**(1 079)**	**(47 299)**

Effects of transfer of functions on the financial statements

The transfer of functions impacted the financial statements as follows:

Statement of Financial Performance	March 2016 R'000	March 2015 R'000	March 2014 R'000
Revenue from exchange transactions	2 172 095	1 726 351	3 079 448
Revenue from non-exchange transactions	86 537	586 688	235 143
Depreciation, amortisation and impairments on assets	(103 007)	(2 535 161)	(2 421 972)
Impairment loss on receivables	-	135 615	-
Interest expense	-	(83)	-
Loss on disposal/transfer of assets	-	3 863	(432)
Property maintenance	2 592 336	381 985	(12 079 551)
Sundry operating expenses	98 601	10 957	16 414
	4 846 562	**310 215**	**(11 170 950)**

Statement of Financial Position			
Receivables from exchange transactions	(73 066)	7 430	4 702
Property, plant and equipment	227 189	92 491 044	94 615 868
Investment property	(20)	(61 099 468)	(60 949 093)
Heritage assets	(1 079 945)	1 146 788	922 914
Deferred revenue	(721 873)	(410 817)	(2 591 640)
Payables from exchange transactions	2 595 236	(301 967)	(353 037)
Finance lease obligation	-	(2 010)	-
Intangible assets	-	344	(2)
	947 521	**31 831 344**	**31 649 712**

Notes to the Financial Statements

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

Other information

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

- Identification of properties and its components:

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

- Calculate deemed carrying amount:

To deternine the deemed cost, consideration was given to the physical condition of the asset to assessed the remaining useful live that will be used in determining the estimated useful life for depreciation purposes and determining a carrying amount in accordance with GRAP

- Recording of assets and measuring items or components in accordance with GRAP:

Once the physical verification process had been completed, the items were recorded at a deemed cost (carrying amount) as determined. Moveable assets (computer equipment, furniture and office equipment, other machinery and intangible assets) were transferred on the LOGIS system to a separate store which is ring-fenced and marked to identify the PMTE's assets. Immovable assets (properties, infrastructure and heritage assets) will be recorded on a separate asset register

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

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