

### 3.1 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### *Provision for bad debt*

The management of the Trading Entity, with their detailed knowledge of each of their debtors, consider the recovery of each and every debtor individually, at year-end. This analysis involves an assessments of the recoverability of each debtor balances based on how long the debt is outstanding.

#### **Estimates**

Estimates are informed by historical experience, information currently available to management, assumptions, and other factors that are believed to be reasonable under the circumstances. These estimates are reviewed on a regular basis. Changes in estimates that are not due to errors are processed in the period of the review and applied prospectively.

In the process of applying the Entity's accounting policies the following estimates, were made:

#### *Impairments*

Based on the results of each year's physical inspection, the management of the Trading Entity assess whether there are any indications of impairment.

Impairment on vehicles are determined by comparing market values with market values as published by TransUnion Business Solutions.

Based on the indicators of impairment that are present the impairment of each asset is estimated.

#### *Provisions*

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions is included in Note 5.7.

Provisions are measured using management's best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to the present value where the effect is material.

### 3.1 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (continued)

#### *Long service awards*

Long service awards comprise of cash awards that are offered to the employees of the Entity at their 20, 30 and 40 year employment milestones.

The present value of the long service awards provision depends on a number of factors that are determined on an actuarial basis using a number of assumptions. This involves the adjustment of the obligation by the current published cash award according to the Department of Public Service and Administration. Any changes in these assumptions will impact on the carrying amount of the long service awards provision.

The Entity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the obligation. The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds.

Additional information is disclosed in Note 5.7.1.

#### *Effective interest rate*

The Entity makes use of the official pre-tax interest rate (*standard interest rate to be levied on debts owing to the state*) as issued by National Treasury, for all its discounting calculations.

### 3.2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

#### 3.2.1. Statements and interpretations not yet effective GRAP 18 - Segment Reporting

##### *No effective date*

The standard requires the identification and aggregation of the operating segments of the Entity into reportable segments. For each of the reportable segments identified details of the financial performance and financial position should be disclosed.

This standard will not have an effect on the Entity's recognition and measurement of items, but will only affect disclosure.

### **3.2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (*continued*)**

#### **3.2.2 Statements and interpretations not yet effective (*continued*)**

Whether or not this standard would be applicable to the Entity should be determined / finalised once more guidance becomes available on the application of the requirements and relevant exemptions.

#### **GRAP 32 - Service Concession Arrangements: Grantor**

*No effective date*

The standard provides guidance on how the grantor should account for service concession arrangements. The standard addresses how service concession revenue and the related assets and liabilities should be accounted for.

Taking into consideration that the Entity is not involved in service concession arrangements it is considered that this standard will not have a significant impact on its financial statements once it becomes effective.

#### **GRAP 105 – Transfer of Function between Entities under Common Control**

*No effective date*

This standard provides the accounting treatment for transfers of functions between entities under common control. The standard determines that assets and liabilities transferred to entities under common control will be recognised at their carrying values (determined by the transferring Entity as though it were on GRAP) in the records of the receiving Entity. The difference between the consideration transferred and the carrying value of the assets / liabilities transferred is recognised in accumulated surplus / deficit.

This standard will only have an effect on the financial statements of the Entity when functions are transferred between entities under common control. The transfer of functions would be accounted for as mentioned above.

#### **GRAP 106 – Transfer of Function Between Entities Not Under Common Control**

*No effective date*

This standard deals with other transfers of functions between entities not under common control and requires the Entity to measure transferred assets and liabilities at fair value. The difference between the consideration transferred and the carrying value of the assets / liabilities transferred is recognised in accumulated surplus / deficit. This standard does not yet have an effective date.

This standard will only have an effect on the financial statements of the Entity when functions are transferred between entities not under common control. The transfer of functions would be accounted for as mentioned above

### **3.2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (*continued*)**

#### **3.2.2 Statements and interpretations not yet effective (*continued*)**

##### **GRAP 107 – Mergers**

*No effective date*

This standard deals with requirements of accounting for a merger between two or more entities. The standard determines that the assets and liabilities acquired through the merger should be measured at their carrying values. Any difference between these carrying values and the consideration transferred for the merger is recognised in accumulated surplus / deficit. This standard does not yet have an effective date.

This standard will only have an effect on the financial statements of the Entity when it enters into a merger. The merger would be accounted for as mentioned above.

##### **GRAP 108 - Statutory Receivables**

*No effective date*

This standard prescribes the accounting treatment for receivables arising from legislation rather than from contracts entered into between parties. This standard provides that statutory receivables are initially measured at transaction price and subsequently measured using the cost model. Application of the cost model allows for adjustment to the carrying amount to reflect any interest or other charges that may have accrued on the receivable, impairment losses or amounts derecognised. This standard is not anticipated to have a significant impact on the financial statements of the Entity.

##### **GRAP 109 - Accounting by Principals and Agents**

*No effective date*

As the objective of this Standard is to outline when an entity is a principal or an agent, the Board agreed that entities should first assess in what capacity they act in an arrangement, based on the principles in this Standard, before applying other Standards of GRAP that deal with the recognition and measurement of transactions arising from that arrangement.

This standard is anticipated to have an impact on the financial statements of the Entity.

IGRAP 17 – Service Concession Arrangements where a Grantor controls a significant residual interest in an asset



### **3.2. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (*continued*)**

#### **3.2.2 Statements and interpretations not yet effective (*continued*)**

*No effective date*

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

Taking into consideration that the Entity is not involved in service concession arrangements it is considered that this standard will not have a significant impact on its financial statements once it becomes effective.

### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **4.1 Property, Plant & Equipment**

*Recognition*

Property, Plant & Equipment is recognised when:

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

*Initial Measurement*

An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

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 the entity. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located. 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.

Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

##### 4.1 Property, Plant & Equipment (*continued*)

###### ***Subsequent Measurement***

###### ***Office Equipment and Furniture***

Equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and impairment losses. Such costs include the cost of replacing part of such plant and equipment when the cost is incurred if the recognition criteria are met.

Office Equipment is being depreciated over a useful life of 1-5 years, on a straight-line basis. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each financial year-end. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

###### ***Motor Vehicle Fleet and Road Building Equipment***

Following initial recognition at cost, the fleet is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

These assets are depreciated over a useful life of 3-7 years for Motor Vehicle Fleet and over 3 – 13 years for Road Building Equipment, on a straight-line basis. Depreciation is calculated, taking into account an estimated remaining useful life, which is re-assessed at every financial year-end. The estimated remaining useful life is mainly based on the life cycle of each fleet item. The depreciation also takes into account a residual value. The estimated residual value of each fleet item is determined in the same way as the residual value that is determined by management during the annual calculation of the daily tariffs, being the lowest of 30% of the original purchase price or in instances where the carrying amount is lower than 30% of the purchase price, that lower carrying amount.

The fleet is revalued on an annual basis, at year-end. The frequency of these valuations will ensure that the fair value of the fleet will not differ materially from its carrying amount.

The annual revaluation is done by adjusting the TransUnion market values with a calculated factor. The factor is determined by dividing the actual average selling price of the vehicles sold for the previous 3 years by the average TransUnion market values on vehicles sold for the previous 3 years.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

##### 4.1 Property, Plant & Equipment (*continued*)

Any revaluation surplus is credited to the asset revaluation reserve included in the reserves section of the Statement of Financial Position, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the Statement of Financial Performance, in which case the increase is recognised in the Statement of Financial Performance. A revaluation deficit is recognised in the Statement of Financial Performance, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

Accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is realised by transferring it from the reserve to accumulated surplus.

Gains and losses on disposal are determined by deducting the carrying value of the specific fleet item (as determined at the date of disposal) from the proceeds obtained from the auction of the specific fleet item.

The Entity calculates the fair value of the fleet on a yearly basis as at 31 March. Fair value is determined through:

- The use of market-based evidence;
- The condition of each vehicle, based upon yearly physical inspections.

Skilled persons within the Entity perform the yearly valuation.

##### *Tools*

Tools are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and impairment. Such costs include the cost of replacing part of such plant and equipment when the cost is incurred if the recognition criteria are met.

Tools are depreciated over a useful life of 1-5 years, on a straight-line basis.

##### *De-recognition*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits or service potential are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Financial Performance in the year the asset is derecognised.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

##### 4.2 Impairment of Assets

##### 4.2.1 Impairment of Cash Generating Assets

The Entity assesses at each reporting date whether there is any indication that an asset may be impaired. The Entity considers, as a minimum, the following indications:

###### *External sources of information*

- a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- b) Significant changes with an adverse effect on the Entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Entity operates or in the market to which an asset is dedicated.
- c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

###### *Internal sources of information*

- a) Evidence is available of obsolescence or physical damage of an asset noted through physical verification.
- b) Significant changes with an adverse effect on the Entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset
- c) is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- d) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)**

##### **4.2 Impairment of Assets (*continued*)**

##### **4.2.1 Impairment of Cash Generating Assets (*continued*)**

###### *Recognition*

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

###### *Measurement*

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. This recoverable amount is determined for individual assets.

In assessing value-in-use for assets, the estimated future cash flows are discounted to their present value using the official pre-tax interest rate as issued by National Treasury reflecting current market assessments of the time value of money and the risks specific to the assets.

Impairment losses are recognised in the Statement of Financial Performance.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Entity makes an estimate of the assets recoverable amount.

###### *Reversal of impairment losses*

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

##### 4.2 Impairment of Assets (*continued*)

##### 4.2.1 Impairment of Cash Generating Assets (*continued*)

##### 4.3 Financial Instruments

###### *Classification*

The Entity has the following types of financial assets (classes and category) as reflected on the face of the Statement of Financial Position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Trade and other receivables	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The Entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Trade and other payables	Financial liability measured at amortised cost

###### *Recognition*

The Entity recognises a financial asset or a financial liability in its Statement of Financial Position when, and only when, the Entity becomes a party to the contractual provisions of the instrument. This is achieved through the application of trade date accounting.

Upon initial recognition the Entity classifies financial instruments as financial assets or financial liabilities in conformity with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of financial assets or financial liabilities.

Financial assets within the scope of GRAP 104 are classified as either financial assets at cost, fair value or amortised cost, as appropriate.

The Entity determines the classification of its financial assets on initial recognition. The classification depends on the purpose for which the financial assets were acquired. The Entity's financial instruments at amortised cost comprise trade and other receivables and cash and short-term deposits in the Statement of Financial Position.



#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)**

##### **4.3 Financial Instruments (*continued*)**

###### *Initial Measurement*

When a financial instrument is recognised, the Entity measures it initially at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

###### *Subsequent Measurement*

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, amortised cost or cost.

###### *Financial Assets*

A financial asset is cash, a residual interest of another Entity or a contractual right to receive cash or another financial asset from another entity or exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the Entity.

###### *Financial Instruments at Amortised Cost*

Financial instruments at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial recognition financial instruments at amortised cost are subsequently carried at amortised cost using the effective interest method less any allowance for impairment.

###### *Trade and Other Receivables from Exchange Transactions*

Trade receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment.

A provision for impairment of trade receivables is established when there is objective evidence that the Entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The Entity will also assess debtors on an individual basis in order to arrive at the provision. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance.



#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

##### 4.3 Financial Instruments (*continued*)

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 shall be reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the Statement of Financial Performance.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the Statement of Financial Performance.

##### *Payables from Exchange Transactions*

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method.

##### *Cash and Cash Equivalents*

Cash and short-term deposits in the Statement of Financial Position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

Cash and cash equivalents are measured at amortised cost.

##### *De-recognition*

A financial asset is derecognised at trade date, when:

- The cash flows from the asset expire, are settled or waived;
- Significant risks and rewards are transferred to another party; or
- Despite having retained significant risks and rewards, the Entity has transferred control of the asset to another entity.

A financial liability is derecognised when the obligation is discharged, cancelled or settled.

##### *Impairments*

All financial assets measured at amortised cost, or cost, are subject to an impairment review. The Entity 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.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

##### 4.4 Employment Benefits

###### *Short-term Employee Benefits*

Short term employee benefits encompasses all those benefits that become payable in the short term, i.e. within a financial year or within 12 months after the financial year. Therefore, short term employee benefits include remuneration, compensated absences and bonuses.

Short term employee benefits are recognised in the Statement of Financial Performance as services are rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

###### *Retirement Benefits*

No provision is made for retirement benefits in the financial statements of the Entity. Any potential liabilities are disclosed in the financial statements of the Government Employees Pension Fund and not in the financial statements of the employer department. The retirement benefits are therefore treated as a defined contribution plan by the Entity and any contributions are recognised as an expense.

The Entity expenses retirement benefits paid.

###### *Long Service Awards*

Cash awards are offered to the Entity's employees at their 20, 30 and 40 year employment milestones.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring the long service award

provision the Entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the long service award provision resulting from employee services rendered in the current period.

Interest cost is the increase in the present value of the long service award provision which arises as a result of the benefits nearing settlement.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)**

##### **4.4 Employment Benefits (*continued*)**

The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds.

The Entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard required or permits their inclusion in the cost of an asset:

- Current service cost
- Interest cost

The Entity uses the Projected Unit Credit Method to determine the present value of its long service award provision and the related current service. The Projected Unit Credit Method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

When the amounts become due by the Entity and are paid, the amounts are expensed.

##### **4.5 Revenue**

###### **4.5.1 Revenue from Exchange Transactions**

An exchange transaction is one in which the Entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

###### *Recognition*

Revenue from exchange transactions is recognised to the extent that it is probable that the economic benefits or service potential will flow to the Entity and the revenue can be reliably measured.

The following specific recognition criteria must also be met before revenue is recognised:

###### ***Interest Income***

Revenue is recognised as interest accrues (using the effective interest method: that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)**

##### **4.5 Revenue (*continued*)**

##### **4.5.1 Revenue from Exchange Transactions (*continued*)**

###### *Lease Income*

Revenue from the renting of vehicles is recognised with specific reference to:

- Revenue from Tariffs: based on the actual s travelled using the approved Tariff.
- Revenue from Daily Tariffs: based on the actual days of usage, using the approved Daily Tariff.
- Revenue from Rentals Received: based on the above mentioned tariffs. This is specific to the equipment fleet.

Revenue is recognised in the reporting periods in which the services are rendered.

###### *Recoverable Revenue*

Recoverable revenue represents payments relating to the misuse and/or damage of vehicles and/or third party claims. This type of income has its origin from two sources and the income from these sources is recognised as follows:

- Claims against third parties: Income is only recognised when it is actually received.
- Claims against clients: Income is only recognised when a case has been concluded and the claim has been made out to a specific client.

###### *Measurement*

Revenue from exchange transactions is measured at the fair value of the consideration received or receivable.

##### **4.5.2 Revenue from Non-Exchange Transactions**

Revenue from non-exchange transactions refers to transactions where the Entity received revenue, vehicles or equipment from another entity without directly giving approximately equal value in exchange.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

##### 4.5 Revenue (*continued*)

##### 4.5.2 Revenue from Non-Exchange Transactions (*continued*)

###### *Recognition*

Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

**The Entity recognises an asset arising from a non-exchange transaction when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria.**

###### *Measurement*

Revenue arising from a non-exchange transaction is measured at the fair value of the asset received, less the amount of any liabilities that are also recognised due to conditions that must still be satisfied.

Once the conditions are satisfied, the liability is decreased revenue of an equal amount is recognised.

##### 4.5.3 Services In-kind

All services in-kind rendered to the Entity should be disclosed. Due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, services in-kind are not recognised.

##### 4.5.4 Conditional Grants

###### *Recognition*

Revenue received from conditional grants is recognised as revenue to the extent that the Entity has complied with any of the criteria, conditions or obligations embodied in the agreement.

To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

###### *Measurement*

Revenue arising from the receipt of a conditional grant is measured at the fair value of the grant received, less the amount of any liabilities that are also recognised due to conditions that must still be satisfied.

Where there are conditions attached to a grant that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)**

##### **4.6 After Reporting Date Events**

These are events, both favourable and unfavourable, that occur between the reporting date and the date on which the financial statements are authorised for issue. The financial statements are only adjusted in respect of “adjusting events” as defined in the Standard.

The entity makes disclosure of non-adjusting events after the reporting date that are material, in other words, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Reporting date means the date of the last day of the reporting period to which the financial statements relate. The reporting date of the Entity is 31 March 2017.

##### **4.7 Contingent Liability**

A contingency is a condition, the ultimate outcome of which will be confirmed only on the occurrence or non-occurrence, of one or more uncertain future events. Contingent liabilities are disclosed, but not recognised.

A contingent liability is:

- a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity; or
- b) a present obligation that arises from past events but is not recognised because:  
it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

##### 4.8 Net Assets

Net Assets is the net difference between assets and liabilities. It is represented by the following reserves:

- Accumulated Surplus/(Deficit);
- Revaluation Reserve;

The Free State Fleet Management has to replace the fleet of equipment at the end of its useful life. Accumulated surplus represents funds that are available to meet this obligation.

The allocation to accumulated surplus is thus the following:

- Annual transfer of the surplus / (deficit) to accumulated surplus;
- Funding received from the client for the purchase of equipment;
- Transfers from equity components (revaluation reserve); and
- Any prior year adjustment.

Accumulated surplus is used to finance capital increases in equipment to be replaced. On an annual basis approval is obtained from Provincial Treasury for the retention of the surplus for that specific financial year.

##### 4.9

##### Leases

*The Entity as a lessor:*

##### *Recognition*

For those leases that meet the definition of a finance lease, where the entity is the lessor, the entity recognises the asset subject to the lease at the inception of the lease. Along with the recognition of the asset the entity recognises a finance lease receivable. Finance lease income is allocated between the finance lease receivable and finance income using the effective interest rate method and the resulting finance income is recognised in the Statement of Financial Performance as it accrues.

For those leases classified as operating leases the asset subject to the lease is not recognised and no lease receivable is recognised at the inception of the lease. Lease payments received under an operating lease are recognised as income, in the Statement of Financial Performance, in the period that the income accrues.



#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

##### 4.9 Leases (*continued*)

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; namely, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of iGRAP 3.

##### *Measurement*

Finance lease receivables are recognised at an amount equal to the entity's net investment in the lease. This net investment in the lease is calculated as the sum of the minimum future lease payments and unguaranteed residual value discounted over the lease term at the rate implicit in the lease.

Rental Income from operating leases is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined lease payments and the contractual lease payments are recognised as either an operating lease asset or operating lease liability. An operating lease liability is raised to the extent that lease payments are received in advance (i.e. the straight-line lease payments are more than the contractual lease payments). The operating lease asset and / or operating lease liability are measured as the undiscounted difference between the straight-line lease receipts and the contractual lease receipts.

##### *De-recognition*

Finance lease receivables are derecognised when the entity's right to the underlying cash flows expire or when the entity no longer expects economic benefits to flow from the finance lease receivable.

Operating lease liabilities are derecognised when the entity's obligation to provide economic benefits or service potential under the lease agreement expires. Operating lease assets are derecognised when the entity's right to the underlying cash flows expire or the entity no longer expects economic benefits to flow from the operating lease asset.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)**

##### **4.10 Changes in accounting policies, estimates and prior period errors**

Changes in accounting policies that are effected by management are applied retrospectively unless it is impracticable.

Changes in accounting estimates are applied prospectively. Details of changes in estimates are disclosed in the Notes to the Annual Financial Statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the entity shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Prior period errors are omissions from, and misstatements in, the Entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- was available when financial statements for those periods were authorised for issue; and
- could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Material Omissions or misstatements of items are material if they could, individually or collectively; influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Prior period errors are corrected retrospectively.

##### **4.11 Surplus or Deficit**

Gains and losses arising from fair value adjustments on investments and loans, and from the disposal of assets, are presented separately from other revenue in the Statement of Financial Performance.

Income, expenditure, gains and losses are recognised in surplus or deficit except for the exceptional cases where recognition directly in net assets is specifically allowed or required by a Standard of GRAP.

#### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)

##### 4.12 Irregular Expenditure

Irregular expenditure is expenditure that is contrary to the Public Finance Management Act (PFMA) and the State Tender Board Act, 1968 (Act No. 86 of 1968) or is in contravention of the entity's supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance, and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

##### 4.13 Provisions

###### *Recognition*

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.

###### *Initial measurement*

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.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when it is virtually certain that reimbursement will be received if the Entity settles the obligation.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*continued*)**

##### **4.13 Provisions (*continued*)**

###### *Subsequent measurement*

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating deficits.

###### *De-recognition*

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.

##### **4.14 Related Parties**

A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

All transactions with related parties (at arm's length and not at arm's length) or in and not in the ordinary course of business are disclosed.

##### **4.15 Commitments**

A commitment is an intention or decision to sacrifice future economic benefits and it is lack of a present obligation because there is no enforceable or irrecoverable agreement between parties. Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance but are included in the disclosure notes.

FREE STATE FLEET MANAGEMENT TRADING ENTITY  
NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
For the year ended 31 MARCH 2017

	31 March 2017 R'000	31 March 2016 Restated R'000
<b>5.1 Revenue</b>		
<b>5.1.1 Revenue from Exchange Transactions</b>		
Revenue from Exchange Transactions comprises:		
Flat rates service charges:		
- Daily charges	264 516	245 374
- Hiring of road building equipment	67 440	52 545
Service based on consumption:		
- Kilometre tariffs	166 340	175 298
- Recovery of damages	662	(285)
	<b>498 958</b>	<b>472 932</b>
<b>5.1.2 Finance Income</b>		
PMG bank account	14 115	19 647
Discounting of revenue	2 624	3 882
	<b>16 739</b>	<b>23 529</b>
<b>5.1.3 Other Income</b>		
Other income	103	64
	<b>103</b>	<b>64</b>
This mainly consists of commission income on garnish payments made on behalf of staff members.		
<b>5.1.4 Revenue from Non-Exchange Transactions</b>		
Donations Received	2 984	-
	<b>2 984</b>	<b>-</b>
Donations received consists of 2 vehicles received from the Department of Agriculture and 11 vehicles received from the Department of Police, Roads and Transport.		
<b>5.2 Expenses</b>		
<b>5.2.1 Administrative Expense</b>		
Stationery and printing	554	334
Telephone and fax	749	693
External audit and consultants' fees	3 614	2 727
Other expenses	282	228
	<b>5 199</b>	<b>3 982</b>

	31 March 2017	31 March 2016 Restated
Notes	R'000	R'000
<b>5.2.2 Employee Benefit Expense</b>		
Salaries and wages	39 728	35 569
Bonuses	5 177	4 502
Contributions to retirement funds	5 031	4 494
Medical aid contributions	3 883	3 751
Housing allowance	2 441	2 241
<b>Other employee relate costs</b>	2 852	2 706
	<b>59 112</b>	<b>53 263</b>
Leave accrual	<u>279</u>	<u>145</u>
	<b>59 391</b>	<b>53 408</b>
 <b>Number of employees at year-end</b>	 <b>189</b>	 <b>198</b>

Other employee relate costs includes overtime payments.

		31 March 2017 R'000	31 March 2016 Restated R'000
	Notes		
<b>5.2.3 Other Operating Expenses</b>			
Provision for bad debt adjustment	5.4.1.1	22 557	(1 279)
First auto fees (transaction costs)		9 328	6 948
Fuel, oil & grease		166 340	144 087
Net Impairment loss/(reversal)	5.3.4/5	61 533	55 570
Legal fees		853	55
Licence fees		6 290	4 514
Maintenance services		6 190	3 021
Tyres and Repairs		81 721	79 285
Small equipment		2	-
Toll fees		3 990	3 396
Travel and subsistence		1 568	1 878
Rent of buildings		4 577	4 323
Safeguard and security		-	554
Donations		1 128	181
Other		20 220	14 921
<b>Total</b>		<b>386 297</b>	<b>317 454</b>

The comparative figures were restated to improve the transparency of the financial statements.

Other operating expenses mainly consist of:

- Tyres and tubes
- Valet and washing services
- Telephone, data costs & postage
- Gas
- Groceries
- Uniforms
- Tracking
- Mobile offices



Notes	31 March 2017 R'000	31 March 2016 Restated R'000
<b>5.2.4 Depreciation Expense</b>		
Depreciation – office equipment, furniture and tools	736	626
Depreciation – machinery fleet	14 891	13 376
Depreciation – vehicle fleet	66 058	126 901
<b>Total</b>	<b>81 684</b>	<b>140 903</b>

#### 5.3 Property, Plant & Equipment

Office Equipment, Furniture and Tools	5.3.1	3 324	1 608
Vehicle Fleet	5.3.2	340 513	332 528
Road Building Equipment	5.3.3	154 262	136 497
<b>Total</b>		<b>498 099</b>	<b>470 633</b>

There are no restrictions on the title of the above mentioned classes of Property, Plant and Equipment nor has the Entity pledged any of these items as securities for liabilities incurred.

### 5.3 Property, Plant & Equipment (*continued*)

#### 5.3.1 Office Equipment, Furniture and Tools

	Office Equipment and Furniture R'000	Tools R'000	Total R'000
	<b>1 355</b>	<b>156</b>	<b>1 511</b>
<b>Carrying Value – 31 March 2015</b>			
Cost	3 561	1 175	4 736
Accumulated depreciation & impairment	(2 206)	(1 019)	(3 225)
Additions	723	-	723
Derecognised	-	-	-
Depreciation	(559)	(67)	(626)
<b>Carrying Value – 31 March 2016 (Restated)</b>	<b>1 519</b>	<b>89</b>	<b>1 608</b>
Cost	4 284	1 175	5 459
Accumulated depreciation & impairment	(2 765)	(1 086)	(3 851))
Additions	1 889	565	2 454
Derecognised	-	-	-
Depreciation	(677)	(59)	(736)
Disposals	(3)	-	(3)
<b>Carrying Value – 31 MARCH 2017</b>	<b>2 728</b>	<b>595</b>	<b>3 323</b>
Cost	6 170	1 740	7 910
Accumulated depreciation & impairment	(3 442)	(1 145)	(4 587)

### 5.3 Property, Plant & Equipment (*continued*)

	31 March 2017  R'000	31 March 2016  Restated R'000
<b>5.3.2 Vehicle Fleet</b>		
Opening balance – 1 April	332 528	348 970
Valuation	332 528	348 970
Accumulated depreciation	-	-
<u>Movements:</u>		
Additions	161 986	162 970
Disposals	(30 340)	(23 205)
Error	11 173	(6 585)
Depreciation expense	(66 058)	(126 901)
Annual revaluation of vehicle fleet	(68 776)	(22 721)
Impairment loss recognised in the Statement of Financial Performance	(77 789)	(65 823)
Reversal of impairment loss previously recognised in the Statement of Financial Performance	12 750	9 321
Impairment loss recognised in the Statement of Changes in Net Assets	(5 763)	(934)
Revaluation recognised in the Statement of Changes in Net Assets	2 026	34 715
<b>Fleet at Valuation</b>	<b>340 513</b>	<b>332 528</b>
Valuation	340 513	332 528
Accumulated depreciation	-	-

If the fleet was still measured using the cost model, the carrying amounts would have been as follows:

At Cost	853 188	782 483
Accumulated depreciation	(669 994)	(621 696)
Net book value	<b>183 194</b>	<b>160 787</b>

**Number of vehicles at the end of the year** **3 315**

### 5.3 Property, Plant & Equipment (*continued*)

#### 5.3.2 Vehicle Fleet (*continued*)

The reversal of the impairment loss was caused by the following:

The vehicle fleet is revalued internally at the end of each year using Mead & McGrouther values. The Mead & McGrouther values are adjusted to account for the fact that the market values of Fleet Management's vehicles are lower compared to normal vehicles as the Entity's vehicles are used as pool vehicles. Therefore a significant impairment loss is recognised in the year in which a vehicle is purchased.

A portion of the impairment loss mentioned above is usually reversed in the year after a vehicle is purchased as the Mead & McGrouther values tend to be more in line with the actual value of a vehicle that has been in the fleet for more than a year.

#### **Vehicles Stolen:**

During the current year, no vehicles were stolen (2016: 8 vehicles with a cost price of R2.0 million and a book value of R1.0 million).

### 5.3.3 Road Building Equipment

	31 March 2017  R'000	31 March 2016  Restated R'000
<b>Opening balance – 1 April</b>	<b>136 497</b>	<b>143 093</b>
Valuation	<u>136 497</u>	<u>143 093</u>
Accumulated depreciation	<u>-</u>	<u>-</u>
<u>Movements:</u>		
Additions	19 749	-
Capitalised costs including work-in-progress	-	2 865
Disposals	-	(2 913)
Error	241	(241)
Transfers	(243)	-
Depreciation expense	(14 891)	(13 376)
Annual revaluation of road building equipment fleet	12 909	7 069
Impairment loss recognised in the Statement of Financial Performance	(1 023)	(902)
Reversal of impairment loss previously recognised in the Statement of Financial Performance	3 774	1 834
Impairment loss recognised in the Statement of Changes in Net Assets	-	(85)
Revaluation recognised in the Statement of Changes in Net Assets	10 158	6 222
 <b>Fleet at Valuation</b>	 <b>154 262</b>	 <b>136 497</b>
Valuation	<u>154 262</u>	<u>136 497</u>
Accumulated depreciation	<u>-</u>	<u>-</u>

### 5.3 Property, Plant & Equipment (*continued*)

#### 5.3.3. Road Building Equipment (*continued*)

##### Revaluation

As at 31 March 2016 a valuation was performed on the entire Road Building Equipment fleet to determine a fair value for the fleet at this date. Due to costs associated with obtaining an independent valuator, the valuation was performed internally. The valuation was performed by Mr. R. Oosthuizen, a registered mechanical engineer, who is in the employment of the Fleet Management Trading Entity. Mr. R. Oosthuizen has extensive knowledge of the road building equipment market. During the calculation of the revaluation, he utilised this knowledge of the market as a basis. He has 31 years of experience in the road building equipment environment. Management believes that Mr. R. Oosthuizen's knowledge and expertise is sufficient for the performance of this valuation.

The key assumptions used by Mr. R. Oosthuizen during his valuation are:

- The open market prices of new road building equipment;
- The open market expenditure **to repair road building equipment**.

#### 5.3.4 Impairment Loss

An impairment loss, amounting to R78.8 million (Vehicle Fleet: R77.8 million; Road Building Equipment: R1 million) [2016: R66.7 million (Vehicle Fleet: R65.8 million; Road Building Equipment: R0.9 million)] was identified at the financial year-end. The impairment loss was the result of asset revaluations performed at the financial year-end. The recoverable amount was based on the assets' fair value less costs to sell. The fair value was determined after taking into account current market values and market conditions.

#### 5.3.5 Revaluation Gain

A revaluation gain, amounting to R2.7 million (Vehicle Fleet: Rnil; Road Building Equipment: R2.7 million) [2016: R0.9 million (Vehicle Fleet: Rnil; Road Building Equipment: R0.9 million)] was identified at the financial year-end. The revaluation gain was the result of asset revaluations performed at the financial year-end. The recoverable amount was based on the assets' fair value less costs to sell. The fair value was determined after taking into account current market values and market conditions.

	31 March 2017	31 March 2016 Restated
Notes	R'000	R'000
<b>5.4.1 Trade and Other Receivables from Exchange Transactions</b>		
Staff debtors	13	27
Trade Receivables	289 461	198 854
Less: Provision for bad debts	(73 230)	(50 592)
	<b>216 244</b>	<b>148 289</b>

#### 5.4.1.1 Allowance for Doubtful Debt

Individually and collectively impaired:

<b>At 1 April</b>	<b>50 592</b>	<b>51 871</b>
Charge for the year	22 638	-
Utilised	-	-
Reversed	-	(1 279)
<b>At 31 March</b>	<b>73 230</b>	<b>50 592</b>



#### 5.4.1 Trade and Other Receivables from Exchange Transactions (*continued*)

##### 5.4.1.1 Allowance for Doubtful Debt (*continued*)

At 31 March 2017, the age analysis of trade and other receivables is as follows:

Year	Total R'000	Current R'000	30 – 60 days R'000	60 – 90 days R'000	90 days R'000
2016	148 290	36 695	14 573	7 062	89 960
2017	216 245	75 639	28 347	17 034	95 224

At 31 March 2017, the age analysis of trade and other receivables provided for as impaired is as follows:

Year	Total R'000	> 120 days R'000
2016	50 592	81 825
2017	73 230	90 811

*Past due and not impaired trade receivables* – no detailed breakdown is considered necessary. History has shown, that past due debts are generally recoverable through the assistance of Provincial Treasury.

	31 March 2017	31 March 2016
Notes		Restated
	R'000	R'000

#### 5.5 Cash and Cash Equivalents

Cash at Banks	63 036	172 920
Cash on Hand	8	8
Cash investments	73 791	87 350
	<u>136 835</u>	<u>260 278</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates.

*For the purpose of the cash flow statement, cash and cash equivalents comprise the following at 31 March:*

Cash and Cash Equivalents at the end of the period	<u>136 835</u>	<u>260 278</u>
--	----------------	----------------

## 5.6 Payables from Exchange Transactions

Trade Payables	38 300	63 970
	<u>38 300</u>	<u>63 970</u>
<i>Other Payables</i>		

Other Payables include Long Service Awards not yet paid and other Debt Payables.

## 5.7 Employee Benefits

### *Short-term employee benefits:*

#### ***Leave Pay Provision:***

Balance at the beginning of the year	8 950	8 804
Amount provided for during the year	(279)	146
<b>Balance at the end of the year</b>	<u><b>8 671</b></u>	<u><b>8 950</b></u>

#### ***Performance Bonus Provision:***

Balance at the beginning of the year	818	773
Amount provided for during the year	52	45
<b>Balance at the end of the year</b>	<u><b>870</b></u>	<u><b>818</b></u>

#### ***Bonus Accrual:***

Balance at the beginning of the year	1 514	1 539
Amount accrued during the year		
Unused amounts reversed	-	(25)
<b>Balance at the end of the year</b>	<u><b>1 637</b></u>	<u><b>1 514</b></u>
<b>Total:</b>	<u><b>11 177</b></u>	<u><b>11 282</b></u>

## 5.7 Employee Benefits (continued)

### Leave Pay Provision

A provision is recognised for the liability that the Entity has at year-end relating to each and every employee.

The provision comprises two elements:

- a) The total number of days due to every employee at the year-end; and
- b) The current daily salary of every employee.

### Performance Bonus Provision

A provision is raised for performance bonuses. The provision is based on the performance bonuses paid during the year taking into account the effect of inflation.

### Bonus Accrual

An accrual is recognised for the yearly bonus that employees earn in their birth- months. The accrual consists of the employee's salaries provided pro-forma based on the number of months that have passed since the employee's previous birthday.

	31 March 2017 R'000	31 March 2016 Restated R'000
<b>5.7.1 Long Service Awards Provision</b>		
Balance at the beginning of the year	1 686	2 232
Interest cost	199	192
Current service cost	118	172
Transferred to current portion	114	(62)
Benefits paid/(expected)	119	(55)
Actuarial (Gains)/Losses	32	(794)
<b>Total</b>	<b>2 267</b>	<b>1 686</b>
Non-current	2 267	1 686
Current	158	272
<b>Total</b>	<b>2 425</b>	<b>1 958</b>

### Key assumptions used

Inflation rate	6.30%	5.90%
Expected retirement age (years)	65	65
Government bonds yield (discount rate)	9.01%	7.88%

## 5.8 Prior Period Errors

### ***Change in revaluation surplus incorrectly not accounted for***

During the prior year the depreciation expense was overcharged, which lead to a change in the theoretical carrying value of the assets. This then lead to a change in the revaluation surplus which was not taken into account.

**31 March  
2016  
Restated  
R'000**

Decrease in Revaluation Surplus	(4 619)
Decrease in Property, Plant and Equipment	(4 619)

### ***Stolen vehicles incorrectly not accounted for***

During the prior year, three vehicles were stolen, however the closing carrying values were not removed from the asset register and thus lead to an overstatement of the property, plant and equipment opening balance as well as an overstatement of the opening balance of the revaluation surplus.

Correcting the prior period error had the following effect on the comparative information:

**31 March  
2016  
Restated  
R'000**

Decrease in Revaluation Surplus	(164)
Decrease in Property, Plant and Equipment	(164)

### ***Additions not recorded***

## 5.8 Prior Period Errors (*continued*)

During 2017 it was discovered that there were vehicle additions during the 2016 financial year that were not recorded during 2016. Among them were 5 vehicles that were donated to the Entity by the Department of Police, Roads and Transport.

This error was corrected retrospectively.

Correcting the prior period error had the following effect on the comparative information:

	31 March 2016 Restated R'000
Decrease in Property, Plant and Equipment	(1 802)
Decrease in Accumulated Funds	(1 802)

### ***Disposal not accounted for***

During the prior financial year a vehicle was disposed of. However the disposal was not recorded in the prior year. This resulted in an overstatement of property, plant and equipment as well as an understatement of depreciation and loss on sale of vehicle.

	31 March 2016 Restated R'000
Decrease in Property, Plant and Equipment	(4)
Decrease in Accumulated Funds	(4)

### ***Stolen vehicles and disposals of prior years not accounted for***

During the 2017 financial year it was discovered that a number of vehicles were stolen or disposed of during the 2015 financial year but not derecognised from the fixed asset register.

## 5.8 Prior Period Errors (*continued*)

This error was corrected retrospectively.

Correcting the prior period error had the following effect on the comparative information:

	31 March 2016 Restated R'000
(Decrease) in Property, Plant and Equipment	(241)
(Decrease) in Revaluation Surplus	(115)
(Decrease) in Accumulated Funds	(125)

### ***Assets written off were depreciated and revalued***

During 2017 it was discovered that two vehicles that were written off during the 2015 financial year, were depreciated and revalued. This led to an overstatement of assets and an overstatement of the revaluation surplus.

This error was corrected retrospectively.

Correcting the prior period error had the following effect on the comparative information:

	31 March 2016 Restated R'000
Increase in Property, Plant and Equipment	3
Increase in Accumulated Funds	36
Decrease in Revaluation Surplus	(33)

**5.8 Prior Period Errors (*continued*)**

***Risk Management Accrual***

During the current financial year it was discovered that the amounts received from clients as part of the Daily Tariffs charged to them to write off actual costs incurred in the repair of vehicles that have been involved in accidents/incidents have incorrectly been classified and disclosed as an Accrual in prior years. These amounts were reclassified to Accumulated Funds.

This error was corrected retrospectively.

Correcting the prior period error had the following effect on the comparative information:

	<b>31 March 2016 Restated R'000</b>
Increase in Accumulated Funds	18 012
Decrease in Trade and other Payables	(29 115)
Increase in Revenue from Non-Exchange Transactions	11 102

## 5.9 Cash Generated from Operations

	31 March 2017  R'000	31 March 2016 Restated R'000
Surplus for the Period	(13 954)	(13 072)
Adjusted for:		
Donations received	(2 984)	-
Impairment loss / Valuation (Gain) – Vehicle Fleet and Road Building Equipment		
Depreciation - Vehicle Fleet and Road Building Equipment	61 532	55 570
Depreciation - Office Equipment, Furniture and Tools	80 948	140 277
Provision for bad debts	736	626
Long Service Awards Provision	22 638	(1 279)
Performance Bonus Provision	469	(485)
Operating Expense Provision	174	21
Accident Accrual	-	(75 979)
Stolen vehicle recovered	19 991	-
Thefts & losses	-	-
Profit on disposal of Property, Plant & Equipment	-	181
	284	(5 355)
Donation made during the year	1 128	-
Other non-cash items	358	5 770
<b>Operating Profit before Working Capital Changes</b>	<b>171 320</b>	<b>106 275</b>
<b>Working Capital Changes:</b>	<b>(93 625)</b>	<b>12 912</b>
(Increase)/Decrease in Trade and Other Receivables	(67 956)	(34 033)
Increase/(Decrease) in Trade and Other Payables	(25 670)	46 945
<b>Cash Generated from Operations</b>	<b>77 694</b>	<b>119 188</b>



## 5.10 Related Parties

The Entity, which from the beginning of the 2009 year consists of both the Government Garage Trading Entity and Road Building Equipment Trading Entity, is managed under the administration of the Department of Police, Roads & Transport since 1 April 2009. The following table provides the total amount of transactions, which have been entered into with related parties for the related financial year:

### 2016/2017 Financial Year

Related Party: Free State Department of Police, Roads & Transport

Transactions	Amount owed by/(to) related party at 31 March 2016	Rand value of services rendered: (by)/to related party	Rand value of amounts settled to/(by) related party during the financial year	Amount owed by/(to) related party at 31 March 2017
	R'000	R'000	R'000	R'000
Purchase of vehicles/equipment	(400)	(229)	-	(629)

### 2015/2016 Financial Year

Related Party: Free State Department of Police, Roads & Transport

Transactions	Amount owed by/(to) related party at 31 March 2014	Rand value of services rendered: (by)/to related party	Rand value of amounts settled to/(by) related party during the financial year	Amount owed by/(to) related party at 31 March 2016
	R'000	R'000	R'000	R'000
Purchase of vehicles/equipment	(400)	540	-	140

The Provincial Treasury paid for the use of the transversal operating systems (BAS, PERSAL and LOGIS) on behalf of Fleet Management to SITA. No value for this service can be attributed to this transaction.

The Department of Police, Roads & Transport provided the following service in-kind to the Entity free of charge:

- General assistance with human resource administration.

### 5.10 Related Parties (*continued*)

No value for this service can be attributed to this transaction.

The Department of Police, Roads & Transport and the Entity shared the following services:

- Internal audit; and
- Audit committee.

No value for these services can be attributed to these transactions.

#### *Terms and Conditions of Transactions with Related Parties*

The services rendered to related parties are made on the same basis as those terms and conditions applicable to transactions with other Fleet Management clients, these transactions were done at market value. In the same way, services rendered by related parties to Fleet Management are rendered on the same terms and conditions as the transactions with other clients of such a related party.

None of the balances owed by the related party have been included in the yearly provision for bad debts, since the related parties do not have long outstanding debts.

#### **Key Personnel**

The following employees at Fleet Management are seen as being key personnel as at 31 March 2017:

- Mr. SO Nair (*Head: Fleet Management effective 1 June 2014*) – Mr. G Ramotsoto acted in this position from 01 February 2017 without an acting allowance.
- Mrs. L Dunn-Radile (*CFO: Fleet Management*) – Mr. MJ Morobe acted in this position for the financial year without an acting allowance.
- Mr. RL Botha (*Director: Fleet Management*) – Mr. W Bezuidenhout acted in this position from 01 July 2016 without an acting allowance.
- Mr. S Modise (*Director: Security effective 1 March 2014*)

No transactions relating to Fleet Management's normal business of rental of vehicles occurred between the above-mentioned key management personnel and the Fleet Management during the past financial year (2016: Rnil).

The following compensation has been paid to the respective members:

**5.10 Related Parties (continued)**

**2017**

	Basic Salary	Bonuses and performance related payments	Housing allowance	Pension and medical aid	Other non-pensionable remuneration	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Mr SO Nair ( <i>Head: Fleet Management</i> )	193	52	-	33	42	320
Mrs L Dunn-Radile ( <i>CFO: Fleet Management</i> )	674	56	-	112	121	963
Mr RL Botha ( <i>Director: Fleet Management</i> )	664	57	6	106	117	951
Mr S Modise ( <i>Director: Security</i> )	544	47	48	71	218	928
<b>Total</b>	<b>2 075</b>	<b>208</b>	<b>54</b>	<b>322</b>	<b>498</b>	<b>3 162</b>

2016

	Basic Salary R'000	Bonuses and performance relate payments R'000	Housing allowance R'000	Pension and medical aid R'000	Other non- pensionable remuneration R'000	Total R'000
Mr SO Nair ( <i>Head: Fleet Management</i> )	730	61	-	95	157	1 043
Mrs L Dunn-Radile ( <i>CFO: Fleet Management</i> )	642	54	-	108	114	917
Mr RL Botha ( <i>Director: Fleet Management</i> )	633	53	6	102	110	904
Mr S Modise ( <i>Director: Security</i> )	519	52	48	67	187	873
<b>Total</b>	<b>2 524</b>	<b>220</b>	<b>54</b>	<b>372</b>	<b>568</b>	<b>3 738</b>

During the current financial year Mr. MJ Morobe acted as Chief Financial Officer: Fleet Management with a total annual remuneration of R624 000, which is paid by the Free State Department of Police, Roads and Transport.

### 5.10 Related Parties (*continued*)

No transactions occurred between the above-mentioned key management and Fleet Management in the normal operation of the entity relating to the rental of vehicles during the past financial year (2016: Rnil)

### 5.11 Contingent Liabilities

#### *Legal Cases*

At financial year-end, a labour related case amounting to R33.4 million (2016: R27.5 million) remained unresolved. The case represents a contingent liability for Fleet Management due to the fact that the occurrence/settlement of the possible obligation cannot be measured with sufficient reliability.

#### *Housing Guarantees*

At the financial year-end, a total of R47 thousand (2016: R63 thousand) was offered as security for housing guarantees and other guarantees made on behalf of employees. These guarantees represent a contingent liability for the Fleet Management, due to the fact that the recoverability of the obligation cannot be measured with sufficient reliability.

There is no possibility of reimbursement for any of the contingent liabilities mentioned above.

#### *Transit Solution dispute*

At financial year-end, a dispute amounting to Rnil (2016: R5.8 million) remained unresolved. The dispute represents a contingent liability for Fleet Management due to the fact that the occurrence/settlement of the possible obligation cannot be measured with sufficient reliability.

There is no possibility of reimbursement for any of the contingent liabilities mentioned above

#### *P51 Cases*

At the financial year-end, a total number of 3 P51 cases were still unresolved, that had to be addressed by the Legal Claims Section at Fleet Management. These cases represent a contingent liability for Fleet Management, due to the fact that the occurrence/settlement of the obligation cannot be measured with sufficient reliability.

P51 cases are those cases where a private party has a possible claim against the Government due to the fact that the private party was involved in an incident with a Government owned vehicle.

	31 March 2017 R'000	31 March 2016 Restated R'000
--	---------------------------	---------------------------------------

## 5.12 Commitments

### 5.12.1 Capital

Capital commitments on 31 March	<u>109 785</u>	<u>155 970</u>
---------------------------------	----------------	----------------

At 31 March 2017, the Entity had capital commitments principally relating to vehicles 248 (2016: 164 vehicles) and equipment that have been ordered before financial year-end. It is expected that these vehicles and equipment will be delivered during the next financial year (2017/2018), and that the purchase price will be settled at that stage.

### 5.12.2 Current

Current commitments on 31 March	<u>12 678</u>	<u>1 472</u>
---------------------------------	---------------	--------------

At 31 March 2017, the Entity had current commitments principally relating to stationery and consumables that have been ordered before financial year-end. It is expected that these items will be delivered during the next financial year (2017/2018), and that the purchase price will be settled at that stage.

## 5.13 Events after the reporting date

No significant events came to management's attention, since the reporting date that would require adjustment to or disclosure in the financial statements as at 31 March 2017.

## 5.14 Pensions and Other Post-Employment Plans

The Entity's employees are all members of the Government Employees Pension Fund (GEPF). This fund is a self-administered, defined benefit pension fund. The GEPF has been established in terms of Section 237(3) of the Interim Constitution of the Republic of South Africa, which effectively consolidated the ten former Government Pension Funds into one Fund.

The Fleet Management's responsibility relating to the pensions of the employees is limited to the monthly contributions made to the GEPF. As soon as an employee retires, he/she will be dependent upon the GEPF for the payment of the monthly pensions. In the financial statements of the Fleet Management, the retirement benefit is therefore classified as a *defined contribution plan*.

Pension Contributions Recognised as Expense	<u>5 031</u>	<u>4 494</u>
---	--------------	--------------

### 5.15 Financial Risk Management Objectives and Policies

The Entity's principal financial liabilities comprise trade payables, trade creditors and loans given. The main purpose of these financial liabilities is to raise finance for the Entity's operations. The Entity has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

It is, and has been throughout 2017 and 2016 the Entity's policy that no trading in derivatives shall be undertaken.

The main risk arising from the Entity's financial instruments is credit risk.

#### *Credit Risk*

The Entity trades only with recognised, creditworthy third parties. The Free State Provincial Treasury assists the Entity in the recovery of debt from the different clients. In addition, receivable balances are monitored on an ongoing basis with the result that the Entity's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 5.4. There are no significant concentrations of credit risk within the Entity.

With respect to credit risk arising from the other financial assets of the Entity, which comprise cash and cash equivalents, the Entity's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

#### *Market Risk*

Market risk is the risk that the value of a financial instrument will fluctuate with changing market prices whether caused by factors specific to the instrument or to general external market changes. The Entity has no financial instruments which are affected by changing market prices.

#### *Liquidity Risk*

Liquidity risk is the risk of the Entity defaulting on its financial obligations as a result of insufficient funding capacity in relation to such obligations. The Entity views this as not being a significant risk in view of the fact that it has sufficient cash reserves, and its assets sufficiently cover its liabilities. The Entity also has access to possible assistance from the Provincial Treasury, in terms of Treasury Regulation 19.5.



## 5.15 Financial Risk Management Objectives and Policies (continued)

The following are the contractual maturities of financial liabilities:

At 31 MARCH 2017	Carrying Amount R'000	Contractual cash flows R'000	Within 1 year R'000
Trade and Other Payables	38 300	38 300	38 300

At 31 March 2016	Carrying Amount R'000	Contractual cash flows R'000	Within 1 year R'000
Trade and Other Payables	63 970	63 970	63 970

### *Foreign Currency Risk*

Foreign currency risk is the risk that the value of a financial instrument will fluctuate with changes in foreign currency. The Entity has no financial instruments which are affected by changes in foreign currency, as it has no foreign currency transactions.

### *Interest Rate Risk*

Interest rate risk stems from the risk associated with an Entity's exposure to changes within the interest rate. The Entity has cash balances which generates interest income. An interest rate is used to discount trade receivables and trade payables at year-end.

The risk is managed through the following:

- Surplus cash balances are invested; and
- The Entity ensures that trade receivable and trade payable balances are as low as possible.

## General Risk Management Principles

Risk management is of critical importance to the Entity as it understands that changing market conditions make risk unavoidable. Over the years the Entity has sought and implemented a comprehensive risk management process to consistently identify, understand and properly manage risk at all times. Risk policies, limits and control procedures are continuously monitored.



## 5.15 Financial Risk Management Objectives and Policies (continued)

### Capital Risk Management

The Entity's objectives when managing capital are to safeguard the Entity's ability to continue as a going concern in order to provide benefits for stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Entity may sell assets to reduce debt.

Consistent with others in the industry, the Entity monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital.

31 March 2017	31 March 2016
	Restated
R'000	R'000

## 5.16 Financial Instruments

Set out below is a comparison by category of carrying amounts of all the Entity's financial instrument that are carried in the financial statements:

### *Financial Assets Carried at Amortised Cost*

Cash	136 835	260 278
Trade and Other Receivables from Exchange Transactions	216 244	148 289

### *Financial Liabilities Carried at Amortised Cost*

Payables from Exchange Transactions	38 301	63 970
-------------------------------------	--------	--------

## 5.17 Irregular Expenditure

Reconciliation of Irregular Expenditure:

Opening balance	-	44
Irregular expenditure current year	-	15
Condoned or written off by Executive Committee	-	(15)
Transfer to receivables for recovery-not condoned	-	-
Irregular expenditure awaiting condonement	-	(44)
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>

## 5.18 Operating Lease Receivable (as Lessor)

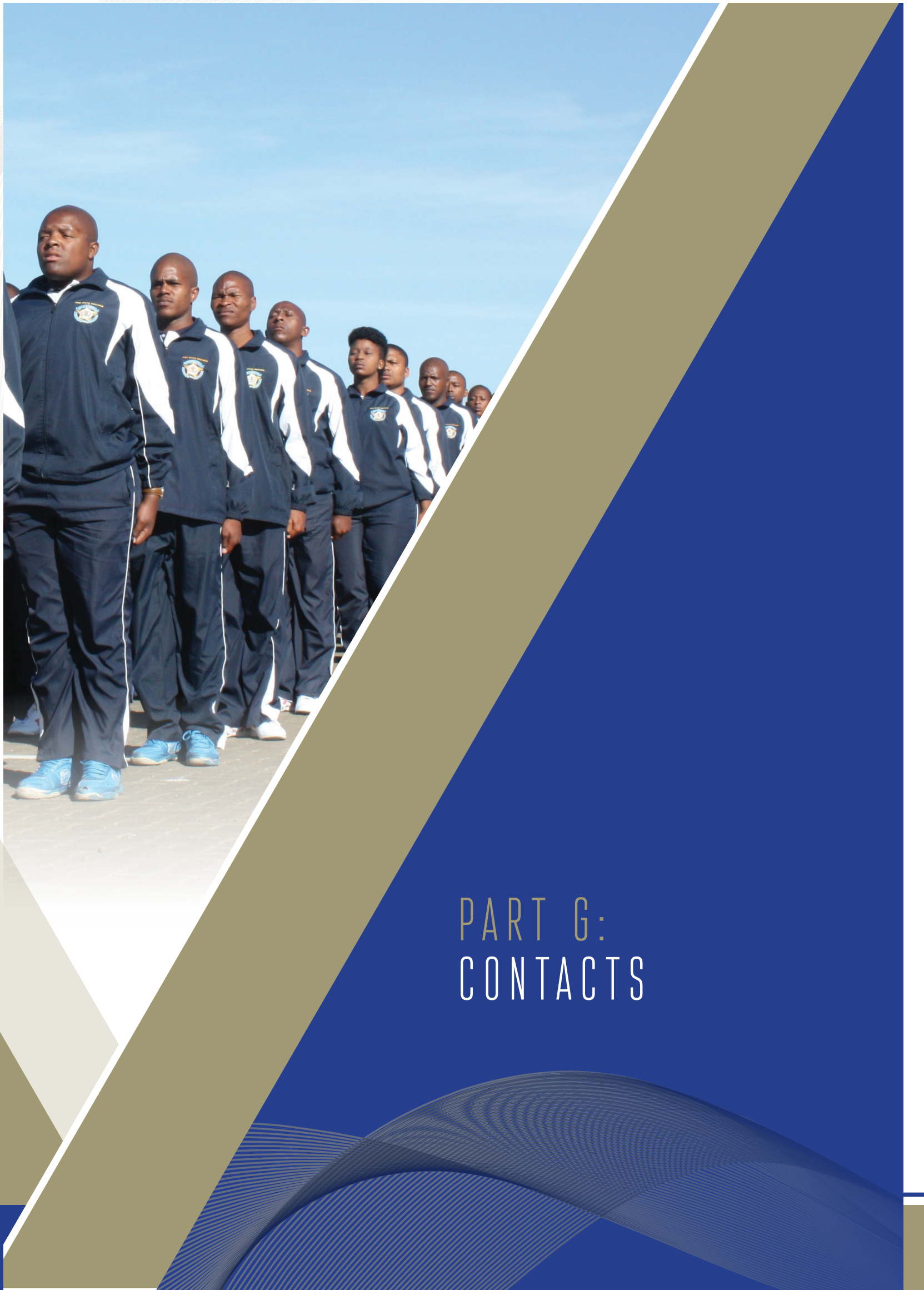
The Entity has entered into service level agreements with various clients. In terms of the service level agreements, vehicles are rented to these clients at rates as approved by Provincial Treasury.

Future minimum rentals receivable under the service level agreements that are in place at 31 March:

Within one year	240 061	203 404
After one year but not more than five years	216 093	184 704
More than five years	1 091	2 051
<b>Total future minimum lease receivable</b>	<b>457 245</b>	<b>390 159</b>

## 5.19 Accumulated Surplus

Accumulated Surplus includes an amount of R36 723 million (2016: R29 114 million) received from clients as part of the Daily Tariffs charged to them. In terms of the service level agreement with clients, these amounts are to be utilised to write off actual costs incurred in the repair of vehicles that have been involved in accidents/incidents (only where the client's driver did not lose his/her state cover).



## PART G: CONTACTS

## **CONTACTS:**

Postal Address:

PO Box 119, Bloemfontein, 9300

Toll-free complaints/compliments line:

0800 72 73 74

### **MEMBER OF THE EXECUTIVE COUNCIL (MEC)**

Mr. MS Mashinini

Tel: (051) 409 8849

Fax: (051) 409 8864

E-mail: mashininis@freetrans.gov.za

### **HEAD OF THE DEPARTMENT (HOD)**

Mr. SJ Msibi

Tel: (051) 409 8856

Fax: (051) 409 8863

E-mail: HOD@freetrans.gov.za

### **HEAD: OFFICE OF THE MEC**

Mr. L Mahoa

Tel: (051) 409 8850

Fax: (051) 409 8864

E-mail: mahoa@freetrans.gov.za

### **HEAD: OFFICE OF THE HOD**

Mr. TT Mmile

Tel: (051) 409 8856

Fax: (051) 409 8863

E-mail: Teboho.mmile@gmail.com

### **CHIEF DIRECTORATE: FINANCE**

CFO

Ms. A Botes

Tel: (051) 4098737

Fax: (086) 662 4901

E-mail: botesa@freetrans.gov.za

### **CHIEF DIRECTORATE: CORPORATE SERVICES**

Chief Director

Mr. NN Selai

Tel: (051) 409 8481

Fax: 086 759 9291

E-mail: chief.corporate@freetrans.gov.za

**CHIEF DIRECTORATE: TRANSPORT OPERATIONS**

Chief Director

Mr. T Ubane

Tel: (051) 403 7409

Fax: 086 547 4362

E-mail: [chief.transport@freetrans.gov.za](mailto:chief.transport@freetrans.gov.za)

**CHIEF DIRECTORATE: TRANSPORT REGULATION**

Chief Director: Law Enforcement

Mr. G Ramotsoto

Tel: (051) 409 0412

Fax: 086 642 1087

E-mail: [chief.traffic@freetrans.gov.za](mailto:chief.traffic@freetrans.gov.za)

**CHIEF DIRECTORATE: ROADS INFRASTRUCTURE**

Chief Director

Mr. R Thekiso

Tel: (051) 409 8579/93

Fax: (051) 409 8594

E-mail: [chief.roads@freetrans.gov.za](mailto:chief.roads@freetrans.gov.za)

**CHIEF DIRECTORATE: PROVINCIAL SECRETARIAT FOR POLICE SERVICE**

Acting Chief Director

Mr. AL Myburgh

Tel: (051) 409 8838

Fax: 086 641 6159

E-mail: [CRO@freetrans.gov.za](mailto:CRO@freetrans.gov.za)

**FLEET MANAGEMENT TRADING ENTITY**

Chief Director

Mr. J Morobe

Tel: (051) 400 5203

Fax: (051) 447 8450

E-mail: [morobej@fsfleet.gov.za](mailto:morobej@fsfleet.gov.za)



## NOTES

This image shows a blank sheet of white paper with horizontal ruling lines. The lines are evenly spaced and extend across the width of the page. In the top right corner, there is a decorative element consisting of a series of parallel, slightly curved lines in a light purple color, forming a triangular shape. Similarly, in the bottom right corner, there is another decorative element made of solid purple lines forming a triangular shape. The overall design is clean and minimalist, typical of a notebook or a template for writing.

## This image shows a full page of blank, white-lined paper. It features horizontal ruling lines spaced evenly down the page. At the top and bottom edges, there are decorative wavy borders in a light beige or cream color. The paper is otherwise completely blank, with no text or markings.



## NOTES

[illegible]

## This image shows a full page of blank, white-lined paper. It features horizontal ruling lines spaced evenly down the page. The top and bottom edges are decorated with light blue, wavy, watercolor-like borders. There are no margins, text, or other markings on the page.