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Metropolitan Trading Company SOC Ltd
Trading as Metropolitan Trading Company (SOC) Ltd
Annual Financial Statements
for the year ended 30 June 2017

General Information

Country of incorporation and domicile	South Africa
Legal form of entity	Municipal Owned Entity
Acting Chief Finance Officer (CFO)	Sifiso Dlamini
Business address	33 Hoofd Street Braampark Forum 4 2001
Postal address	P O Box 1049 Johannesburg 2000
Controlling entity	City of Johannesburg Metropolitan Municipality
Bankers	Standard Bank South Africa
Auditors	The Auditor-General of South Africa Registered Auditors
Company registration number	1999/011422/07
Preparer	The annual financial statements were internally compiled by: Lindokuhle Ababio CA(SA)

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

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Abbreviations

GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
MOE's	Municipal Owned Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act

Metropolitan Trading Company SOC Ltd

(Registration number 1999/011422/07)
Trading as Metropolitan Trading Company (SOC) Ltd
Annual Financial Statements for the year ended 30 June 2017

Directors Responsibilities and Approval

The Directors are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Directors to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors were engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board as the prescribed framework by National Treasury .

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Directors acknowledge that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the Directors to meet these responsibilities, the Directors set standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity.While business risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring the appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints

The Directors are of the opinion, based on other information and explanations given by management, that the systems of internal control provide reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement.

The entity is wholly dependent on the City of Johannesburg Metropolitan Municipality for continued funding of operations. The annual financial statements are prepared on the basis that the entity is a going concern and that the City of Johannesburg Metropolitan Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the entity.

The external auditors are responsible for independently auditing and reporting on the entity's annual financial statements.The annual financial statements have been examined by the entity's external auditors and their report is presented on page xxxx

The annual financial statements set out on pages 5 to 45, which have been prepared on the going concern basis, were approved by the directors on and were signed on its behalf by:

Managing Executive : Aubrey Mochela

Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2017.

Audit committee members and attendance

The audit committee consists of 5 members who should meet 4 times per annum as per its approved terms of reference. During the current year 3 meetings were held.

Audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166 of the MFMA and Treasury Regulation 3.1.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

Evaluation of annual financial statements

The audit committee has:

reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the directors;
reviewed the Auditor-General of South Africa's management report and management’s response thereto;
reviewed changes in accounting policies and practices (delete if not applicable);
reviewed the entities compliance with legal and regulatory provisions;
reviewed significant adjustments resulting from the audit.

The audit committee concurs with and accepts the Auditor-General of South Africa's report on the annual financial statements, and is of the opinion that the audited annual financial statements should be accepted and read together with the report of the Auditor-General of South Africa.

Internal audit

The audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the entity and its audits.

Auditor-General of South Africa

The audit committee has met with the Auditor-General of South Africa to ensure that there are no unresolved issues.

____
Chairperson of the Audit Committee

Date: ______________________

Directors Report

The Directors submit their report for the year ended 30 June 2017.

1. Incorporation

The entity was incorporated on 01 March 1999 and obtained its certificate to commence business on the same day.The entity was dormant since 1 July 2013 and was repurposed on 1 September 2015 to house the broadband business of the City.

2. Review of activities

Main business and operations

The entity is tasked with operating Johannesburg Broadband Network.

The entity generated revenue of R288 874 000 from exchange and non-exchange revenue transactions for the year.

Net surplus of the entity was R 21 941 544 (2016: deficit R 86 672 000) .

3. Going concern

We draw your attention to the fact that as at 30 June 2017, the entity’s Liabilities exceed the Assets by R264 925 000(2016: 286 863 000) which is considered material.

The entity is dependent on the City of Johannesburg Metropolitan Municipality for continued funding of operations. The annual financial statements are prepared on the basis that the entity is a going concern and that the City of Johannesburg Metropolitan Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the entity. A letter of comfort has been issued by the City of Johannesburg Metropolitan Municipality regarding the ability of the entity to carrying on as a going concern in the future.

4. Subsequent events

The directors are not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with, in the financial statements that would affect the operations or results of the entity.

The chairperson of the board resigned on 30 August 2017 and the entity is in the process of hiring a new chairperson.

A new acting Managing Executive has been appointed with effect from 01 September 2017.

5. Directors' interest in contracts

The directors of the entity did not have any personal interest in contracts entered into by the entity during the current financial year.

6. Accounting policies

The financial statements are prepared in accordance with South African Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board as the framework prescribed by The National Treasury.

7. Share capital / contributed capital

There were no changes in the authorised or issued share capital of the entity during the year under review.

The entire shareholding of the entity is held by the City of Johannesburg Metropolitan Municipality.

8. Borrowing limitations

All external funding is managed under the auspices of the City of Johannesburg Metropolitan Municipality Asset and Liability Committee and Treasury Department.

9. Non-current assets

There were no major changes in the physical nature of non-current assets of the entity during the year.

Directors Report

The opening balance of the assets has been accounted for at provisional amounts at acquisition date. The entity is still embarking on a valuation exercise to confirm the asset values. Management acknowledges that the two period to state the assets at proivsional amounts as allowed by GRAP 105 will expire on 3 September 2017. The valuation would have been completed by the 2017/18 financial year.

10. Dividends

No dividends were declared or paid to the shareholder during the year.

11. Directors

The non executive directors and independent audit committee members of the entity during the year and to the date of this report are as follows:

Name	Nationality	Changes
Ms S Makotoko - Chairperson	Botswana	Retired Thursday, March 16, 2017
Ms N Makhoba	South African	Resigned Friday, November 25, 2016
Mr T Dlamini	South African	Retired Thursday, March 16, 2017
Mr P Molotsane - Chairperson	South African	Appointed Thursday, March 16, 2017
Ms M Mosweu	South African	Reappointed Thursday, March 16, 2017
Mr L Marwala	South African	Reappointed Thursday, March 16, 2017
Mr R Nkuna	South African	Resigned Wednesday, November 16, 2017
Mr M Padayachee	South African	Retired Thursday, March 16, 2017
Mr O Mabena	South African	Retired Thursday, March 16, 2017
Mr Z Majavu	South African	Retired Thursday, March 16, 2017
Mr M Mthombeni	South African	Appointed Thursday, March 16, 2017
Ms M de Roche Holmes	South African	Appointed Thursday, March 16, 2017
Mr T Tshitangano	South African	Appointed Thursday, March 16, 2017
Mr L Nedohe	South African	Appointed Thursday, March 16, 2017
Mr F Nelwamondo	South African	Appointed Thursday, March 16, 2017
Mr S Sinha	South African	Appointed Thursday, March 16, 2017
Mrs U Exner	South African	Appointed Thursday, March 16, 2017
Ms M Motjope	South African	Appointed Thursday, March 16, 2017
Mr B Dlamini	South African	Appointed Thursday, March 16, 2017
Mr L Ruka	South African	Retired Thursday, March 16, 2017
Mr R Raborifi	South African	Retired Thursday, March 16, 2017

12. Secretary

The entity operated without a Company Secretary from March 2017 .

13. Corporate governance

General

The entity confirms and acknowledges its responsibility to total compliance with King IV Report on Corporate Governance for South Africa. The directors discuss the responsibilities of management in this respect, at board meetings and monitors the entity's compliance with the code during the year.

The salient features of the entity's adoption of the Code is outlined below:

Directors Report

Board of directors

The Board:

- retains full control over the entity, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the entity;
- is of a unitary structure comprising:
- 8 non-executive directors, all of whom are independent directors as defined in the Code.

Chairperson and Managing Executive

The Chairperson is a non-executive and independent director (as defined by the Code).

The roles of Chairperson and Managing Executive are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

Remuneration

The remuneration of the Chief Executive Officer and employees is determined by the board of directors within the parameters set by the City of Johannesburg Metropolitan Municipality as provided for in section 89 of the MFMA. The entity has been operating under an interim management structure for the period under review. Interim management has been seconded from the City to assist the entity.

Executive meetings

The directors have met on 10 separate occasions during the financial year. The directors are scheduled to meet at least 4 times per annum.

Non-executive directors have access to all members of management of the entity.

Name	Board	Audit committee	HR & Remuneration	Service delivery	Social and ethics	AGM
Total meetings	10	3	5	2	1	1
Mr S Makotoko - Chairperson	4					
Ms N Makhoba	1	1				
Mr T Dlamini	7			1	1	
Ms P Molotsane	9		4	1		1
Ms M Mosweu	9	1		1	1	1
Mr L Marwala	8		2	2		1
Mr R Nkuna	4		2			
Mr M Padayachee	7	2		1		1
Mr O Mabena	6			1	1	
Mr Z Majavu	1		1			
Mr L Ruka	2	2				
Mr H Raborifi		1				
Mr B Dlamini	2	3				1
Ms U Exner	2	1				
Mr S Sinha	2			1		
Mr F Nelwamondo	2			1		1
Mr M Mthombeni	2		1	1		1
Ms M de Roche Holmes	1		1			1
Mr T Tshitangano	1			1		1
Mr L Nedohe	1	1				1
Mr M Motjope	1	1				

Directors Report

Audit and risk committee

The Audit committee consists of 2 non-executive directors and 3 independent members.The committee met 4 times during the 2016/2017 financial year to review matters necessary to fulfill its role.

In terms of Section 166 of the Municipal Finance Management Act no 56 of 2003 (MFMA), the City of Johannesburg Metropolitan Municipality, as a parent municipality, must appoint members of the audit committee. Notwithstanding that non-executive directors appointed by the parent municipality constituted the entity's audit committee, National Treasury policy requires that parent municipalities should appoint further members of the entity’s audit committees who are not directors of the entity onto the audit committee. All independent audit committee members were appointed on 16 March 2017. The independent members are:

Mr T Tshitangano
Mr L Nedohe
Ms. M Motjope

Internal audit

This responsibility has been seconded from the City of Johannesburg until internal capacity is adequate. This is in compliance with the Municipal Finance Management Act, 2003.

14. Controlling entity

The entity's controlling entity is City of Johannesburg Metropolitan Municipality.

15. Bankers

Standard Bank Limited of South Africa.

16. Auditors

The Auditor-General of South Africa.

Company Secretary's Certification

Declaration by the company secretary in respect of Section 88(2)(e) of the Companies Act

In terms of Section 88(2)(e) of the Companies Act 71 of 2008, as amended, I certify that the company has lodged with the Commissioner all such returns as are required of a public company in terms of the Companies Act and that all such returns are true, correct and up to date.

The entity's CIPC documents are not up date and the entity is in a process of engaging the shareholder department- Group Governance to ensure that all founding and mandated documents are updated.

Company Secretary

Statement of Financial Position as at 30 June 2017

Figures in Rand thousand	Note(s)	2017	2016 Restated*
Assets			
Current Assets			
Inventories	7	3 084	13
Loans to shareholders	5	210 863	-
Receivables from exchange transactions	8	86 198	54 212
Receivables from non-exchange transactions		380	5 664
Cash and cash equivalents	9	-	53 275
		300 525	**113 164**
Non-Current Assets			
Property, plant and equipment	3	793 227	820 094
Intangible assets	4	130 850	161 767
		924 077	**981 861**
Total Assets		**1 224 602**	**1 095 025**
Liabilities			
Current Liabilities			
Operating lease liability		43	-
Payables from exchange transactions	11	59 658	74 471
VAT payable		8 693	4 865
		68 394	**79 336**
Non-Current Liabilities			
Loans from shareholders	5	1 421 133	1 302 552
Total Liabilities		**1 489 527**	**1 381 888**
Net Liabilities		**(264 925)**	**(286 863)**
Share capital / contributed capital	10	163 897	163 897
Accumulated loss		(428 819)	(450 760)
Total Net Liabilities		**(264 922)**	**(286 863)**

* See Note 28

Statement of Financial Performance

Figures in Rand thousand	Note(s)	2017	2016 Restated*
Revenue			
Revenue from exchange transactions			
Rendering of services		73 078	47 638
Other income		330	55
Interest received - investment	15	4 130	424
Total revenue from exchange transactions		**77 538**	**48 117**
Revenue from non-exchange transactions			
Transfer revenue			
Subsidies		211 158	84 546
Public contributions and donations		178	-
Total revenue from non-exchange transactions		**211 336**	**84 546**
Total revenue	12	**288 874**	**132 663**
Expenditure			
Employee related costs	16	(10 447)	(6 643)
Depreciation and amortisation	17	(95 698)	(78 714)
Finance costs	18	(119 019)	(91 287)
Lease rentals on operating lease		(3 317)	(2 463)
Debt Impairment		(10 943)	-
Repairs and maintenance		(8 835)	(4 419)
General Expenses	19	(17 786)	(127 094)
Total expenditure		**(266 045)**	**(310 620)**
Operating surplus (deficit)		**22 829**	**(177 957)**
Loss on disposal of assets and liabilities		(371)	-
Loss on foreign exchange		(42)	(2)
Fair value adjustments	20	-	91 287
Inventories losses/write-downs		(473)	-
		(886)	**91 285**
Surplus/(deficit) for the year		**21 943**	**(86 672)**

* See Note 28

Metropolitan Trading Company SOC Ltd

(Registration number 1999/011422/07)
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Annual Financial Statements for the year ended 30 June 2017

Statement of Changes in Net Assets

Figures in Rand thousand	Share premium	Accumulated surplus	Total net assets
Balance at 01 July 2015	**163 897**	**(158 234)**	**5 663**
Changes in net assets			
Loss of transfer of function	-	(205 854)	(205 854)
Net loss recognised directly in net assets	-	(205 854)	(205 854)
Loss for the year	-	(86 672)	(86 672)
Total recognised loss for the year	-	(292 526)	(292 526)
Total changes	-	(292 526)	(292 526)
Opening balance as previously reported	163 897	(416 054)	(252 157)
Adjustments			
Correction of errors	-	(34 708)	(34 708)
Restated* Balance at 01 July 2016 as restated*	**163 897**	**(450 762)**	**(286 865)**
Changes in net assets			
Surplus for the year	-	21 943	21 943
Total changes	-	21 943	21 943
Balance at 30 June 2017	**163 897**	**(428 819)**	**(264 922)**
Note(s)	10		

* See Note 28

Cash Flow Statement

Figures in Rand thousand	Note(s)	2017	2016 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		51 699	6 820
Grants		240 720	96 382
Interest income		4 130	424
		296 549	103 626
Payments			
Suppliers		(102 167)	(50 351)
Other payments		(438)	-
		(102 605)	(50 351)
Net cash flows from operating activities	22	**193 944**	**53 275**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(36 563)	-
Cash flows from financing activities			
Loans to shareholder		(210 863)	-
Net increase/(decrease) in cash and cash equivalents		**(53 275)**	**53 275**
Cash and cash equivalents at the beginning of the year		53 275	-
Cash and cash equivalents at the end of the year	9	**-**	**53 275**

* See Note 28

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Rendering of services	26 639	102 394	**129 033**	73 078	**(55 955)**	
Other income	93	-	**93**	330	**237**	
Interest received - investment	2 478	-	**2 478**	4 130	**1 652**	
Total revenue from exchange transactions	**29 210**	**102 394**	**131 604**	**77 538**	**(54 066)**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	63 878	147 280	**211 158**	211 158	**-**	
Public contributions and donations	-	-	**-**	178	**178**	
Total revenue from non-exchange transactions	**63 878**	**147 280**	**211 158**	**211 336**	**178**	
Total revenue	**93 088**	**249 674**	**342 762**	**288 874**	**(53 888)**	
Expenditure						
Personnel	(22 752)	(6 597)	**(29 349)**	(9 140)	**20 209**	
Depreciation and amortisation	-	(130 582)	**(130 582)**	(95 698)	**34 884**	
Finance costs	-	(119 415)	**(119 415)**	(119 019)	**396**	
Lease rentals on operating lease	(2 033)	(535)	**(2 568)**	(3 317)	**(749)**	
Debt Impairment	-	-	**-**	(10 943)	**(10 943)**	
Repairs and maintenance	(14 628)	-	**(14 628)**	(8 835)	**5 793**	
General Expenses	(9 146)	(15 904)	**(25 050)**	(8 015)	**17 035**	
Board fees	-	(965)	**(965)**	(1 307)	**(342)**	
Consulting Fees	(4 254)	-	**(4 254)**	(6 707)	**(2 453)**	
Internal charges	(3 449)	611	**(2 838)**	(338)	**2 500**	
Licence fees	(5 662)	4 081	**(1 581)**	(787)	**794**	
Information Technology cost	(10 468)	-	**(10 468)**	(1 969)	**8 499**	
Audit Fees	(967)	(97)	**(1 064)**	(856)	**208**	
Total expenditure	**(73 359)**	**(269 403)**	**(342 762)**	**(266 931)**	**75 831**	
Operating surplus	**19 729**	**(19 729)**	**-**	**21 943**	**21 943**	
Loss on disposal of assets and liabilities	-	-	**-**	(371)	**(371)**	
Loss on foreign exchange	-	-	**-**	(42)	**(42)**	
Inventories losses/write-downs	-	-	**-**	(473)	**(473)**	
	-	**-**	**-**	**(886)**	**(886)**	
Surplus before taxation	**19 729**	**(19 729)**	**-**	**21 943**	**21 943**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**19 729**	**(19 729)**	**-**	**21 943**	**21 943**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

See note 32 for variance explanations.

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the entity. All figure are to the nearest Rand thousand.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / and/or loans and receivables

The entity assesses its trade receivables and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of intangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors such as exchange rates, inflation and interest.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Accounting Policies

1.4 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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.

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

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

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.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is depreciated on the straight line basis over its expected useful life to its estimated residual value.

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

Item	Depreciation method	Average useful life
Network Infrastructure	Straight line	25 years
Network equipment	Straight line	3 - 10 years
Furniture and Fittings	Straight line	7 years
Office equipment	Straight line	5 years
IT equipment	Straight line	3 - 10 years
Leasehold improvements	Straight line	3 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Accounting Policies

1.4 Property, plant and equipment (continued)

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The entity assesses at each reporting date whether there is any indication that the entity expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

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

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

Assets which the entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

The entity separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.5 Intangible assets

An asset is identifiable if it either:

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

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

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

The entity assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

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.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Accounting Policies

1.5 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

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

Item	**Useful life**
Operating system	10 - 20 years
Customer list	5 years
Computer software	3 years

The entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

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

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A financial asset is:
- cash;

Accounting Policies

1.6 Financial instruments (continued)

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 assets consist of cash and cash equivalents and receivables.

The classification of financial assets depends on their nature and purpose, and is determined at the time of initial recognition(trade date).

Cash and cash equivalent

Cash and cash equivalents comprise of cash on hand which is classified as loan to shareholder due to the sweeping arrangement between the entity and COJ. These are initially and subsequently recorded at fair value.

Receivables from exchange transcations

Receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Apprpriate allowances for estimated irrecoverable amounts are recognised in the statement of financial position when there is objective evidence that the asset is impaired.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount the deficit is recognised in the statement of financial performance under operating expenses. When receivables are uncollectible, it is written off against the allowance account for receivables

All receivables are on an accrual basis except for VAT which on an invoice basis.

Financial Liabilities

A financial liability is any liability that is a contractual obligation to:
deliver cash or another financial asset to another entity; or
exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Financial liabiilities consist of interest- bearing borrowings, trade and other payables, and bank overdrafts.

Financial liabilities are initially recognised at fair value and subsequently measure at amortised cost, using the effective interest rate method, except for financial liabilities at fair value through profit and loss, which are measure at fair value.

Finance costs on financial liabilities at amortised costs are expensed in the statement of financial performance in the period in which they are incurred using the effective interest rate method.

Gains and losses on financial liabilities at fair value through profit or loss arises from fair value movements and related transcation costs on these liabilities. These gains and losses are recognised in the statement of financial performance in the period in which they are incurred.

Loan from Shareholder

Loan from shareholder is classified as a financial liability which are initially recognised at fair value and subsequently measured at amortised cost.

Payables from exchange transcations

Trade payables are initially measured at fair value and are subsequently measured at amortised costs, using the effective interest rate method.

Offsetting of financial assets and liabilities

Accounting Policies

1.6 Financial instruments (continued)

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when and only when , the municipality has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Initial recognition

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

The entity recognises financial assets using trade date accounting.

1.7 Tax

Current tax assets and liabilities

Current tax for current and prior periods is to the extent unpaid, recognised as a liability. If the amount already paid in respect of the current period and prior periods exceeds the amounts due for those periods, the excess is recognised as an asset.

Current tax liabilities(assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using teh tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable surplus will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to net assets; or
- a business combination.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Accounting Policies

1.8 Leases (continued)

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

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.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

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.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the entity incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Accounting Policies

1.11 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

1.12 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives 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.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

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

Accounting Policies

1.13 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- The amount of the revenue can be measured reliably.

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the entity’s right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.14 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Subsidy:

1.14 Revenue from non-exchange transactions (continued)

Subsidy is recognised as revenue when:

1. It is probable that the economic benefits or service potential associated with the transaction will flow to the entity,

2. The amount of the revenue can be measured reliably and

3. To the extent that there has been compliance with any restrictions associated with the grant.

Revenue from these grants is only recognised when it is probable that economic benefits or service potential associated with the transaction will flow to the entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

1.15 Comparative figures

When the presentation or classification of items in the annula financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as it is practical, and the prior year comparatives are restated accordingly where material. .

1.16 Unauthorised expenditure

Unauthorised expenditure means:

overspending of a vote or a main division within a vote; and

expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Accounting Policies

1.18 Irregular expenditure (continued)

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.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. 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.

1.19 Budget information

Entity are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2016/07/01 to 2017/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.20 Related parties

The entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be 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.

Accounting Policies

1.21 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.22 Value-added tax (VAT)

The entity is registered with the South African Reserver Services (SARS) for VAT on the invoice basis, in accordance with 15(2) of the VAT Act No.89 of 1991.

Notes to the Annual Financial Statements

Figures in Rand thousand	2017	2016

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the entity has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after
GRAP 17: Property,Plant and Equipment	01 April 2017

2.2 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2017 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	
GRAP 20 : Related Parties	Not yet effective	
Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:

2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2017 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:

3. Property, plant and equipment

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Furniture and fixtures	1 144	(14)	1 130	-	-	-
Office equipment	101	(2)	99	-	-	-
IT equipment	862	(82)	780	-	-	-
Leasehold improvements	873	(26)	847	-	-	-
Network Infrastructure	806 544	(57 240)	749 304	775 963	(25 676)	750 287
Network Equipment	99 371	(58 304)	41 067	96 188	(26 381)	69 807
Total	**908 895**	**(115 668)**	**793 227**	**872 151**	**(52 057)**	**820 094**

Notes to the Annual Financial Statements

Figures in Rand thousand	2017	2016

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Depreciation	Total
Furniture and fixtures	-	1 266	(122)	(14)	1 130
Office equipment	-	101	-	(2)	99
IT equipment	-	862	-	(82)	780
Leasehold improvements	-	873	-	(26)	847
Network Infrastructure	750 287	30 819	(238)	(31 564)	749 304
Network Equipment	69 807	3 194	(11)	(31 923)	41 067
	820 094	**37 115**	**(371)**	**(63 611)**	**793 227**

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Depreciation	Total
Network Infrastructure	-	775 963	(25 676)	750 287
Network Equipment	-	96 188	(26 381)	69 807
	-	**872 151**	**(52 057)**	**820 094**

Pledged as security

No property, plant and equipment was pledged as security:

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
General expenses	8 837	4 419

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the entity.

4. Intangible assets

	2017			2016		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Operating systems	50 664	(8 133)	42 531	50 664	(3 697)	46 967
Customer list	137 743	(50 506)	87 237	137 743	(22 957)	114 786
Computer software	1 188	(106)	1 082	17	(3)	14
Total	**189 595**	**(58 745)**	**130 850**	**188 424**	**(26 657)**	**161 767**

Figures in Rand thousand | 2017 | 2016

4. Intangible assets (continued)

Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Operating systems	46 967	-	(4 436)	42 531
Customer list	114 786	-	(27 549)	87 237
Computer software	14	1 171	(103)	1 082
	161 767	**1 171**	**(32 088)**	**130 850**

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Operating Systems	-	50 664	(3 697)	46 967
Customer lists	-	137 743	(22 957)	114 786
Computer software	-	17	(3)	14
	-	**188 424**	**(26 657)**	**161 767**

Pledged as security

No intangible assets are pledged as security:

Borrowing costs capitalised

5. Loans to (from) shareholders

	2017	2016
Sweeping account	210 863	-
Terms and conditions		
Subordinated loans	(1 421 133)	(1 302 552)
	(1 210 270)	**(1 302 552)**

The City of Johannesburg has an arrangement with all its municipal owned entities, that the bank accounts will be swept over night to the primary bank account of the City of Johannesburg, and the required amounts by the municipal owned entities will be swept back to their bank accounts when requested. The account bears interest at the repo rate, compounded daily]

The loan from City of Johannesburg is subordinated in favour of creditors until such time that the assets of the entity exceeds
the liabilities. The loan bears an interest of 8.81% per annum. The first capital repayment is due to City of Johannesburg Metropolitan Municipality by 30 September 2018.

	2017	2016
Current assets	210 863	-
Non-current liabilities	(1 421 133)	(1 302 552)
	(1 210 270)	**(1 302 552)**

Subordinate loans

	2017	2016
Loans at beginning of the year	(1 302 552)	-
Receipts	-	(1 302 552)
Repayments	-	-
Interest	(118 581)	-
Loan balance at end of year	**(1 421 133)**	**(1 302 552)**

Notes to the Annual Financial Statements

Figures in Rand thousand	2017	2016

6. Deferred tax

Deferred tax (asset)/ liability are attributable to the following:

Property, Plant and Equipment	846	1 712
Intangible Assets	1 954	889
Provisions	-	(77)
Provision for doubtful debts	(2 298)	-
Operating lease liability	(12)	-
Deferred asset arising from tax loss	(15 892)	(46 075)
Deferred tax unrecognised	15 402	43 551
	-	**-**

The deferred tax asset has not been raised as it is improbable that the entity will generate sufficient taxable profits in the forseeable future to utilise the deferred tax asset.

7. Inventories

Consumable stores	3 084	13

In the current year inventories were written down by R472 961.

Inventory pledged as security

The entity does not have any inventory held as security, surety or pledged .

8. Receivables from exchange transactions

Trade debtors	12 089	23 802
Account receivable: Related Parties	74 109	30 410
	86 198	**54 212**

Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2017, R 69 587 (2016: R 54 212) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	6 147	10 055
2 months past due	6 055	11 070
3 months past due	75 651	33 086

Trade and other receivables impaired

The amount of the provision was R (10 943) as of 30 June 2017 (2016: R -).

The ageing of these trade receivables are as follows:

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	-	53 275

Notes to the Annual Financial Statements

Figures in Rand thousand	2017	2016

9. Cash and cash equivalents (continued)

The City of Johannesburg has an arrangement with all its municipal owned entities, that the bank accounts will be swept over night to the primary bank account of the City of Johannesburg, and the required amounts by the municipal owned entities will be swept back to their bank accounts when requested. The account bears interest at the repo rate, compounded daily.

The entity had the following bank accounts

10. Share capital / contributed capital

Authorised		
475 Ordinary shares of R1 each	-	-
Reconciliation of number of shares issued:		
Reported as at 01 July 2016	-	-
Issued		
Ordinary	-	-
Share premium	163 897	163 897
	163 897	**163 897**

11. Payables from exchange transactions

Trade payables	20 518	24 919
Accrued leave pay	426	349
Accrued bonus	262	274
Board fees and remuneration	894	767
Icasa licence accrual	329	151
Sundry Accruals	1 005	-
Related party payables	36 224	48 011
	59 658	**74 471**

12. Revenue

Rendering of services	73 078	47 638
Sundry revenue	330	55
Interest received	4 130	424
Government grants & subsidies	211 158	84 546
Public contributions and donations	178	-
	288 874	**132 663**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Rendering of services	73 078	47 638
Sundry revenue	330	55
Interest received - investment	4 130	424
	77 538	**48 117**

Notes to the Annual Financial Statements

Figures in Rand thousand	2017	2016

12. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Transfer revenue		
Government grants & subsidies	211 158	84 546
Public contributions and donations	178	-
	211 336	**84 546**

13. Operating lease - as lessor

Operating leases relate to non cancellable contracts between the entity and its customers that does not transfer the significant
risk and rewards associated with ownership.

Minimum lease payment receivable		
-within one year	30 597	30 597
-in second to fifth year inclusive	106 462	111 123
-later than five years	147 893	174 425
	284 952	**316 145**

14. Other revenue

Tender fees	330	55

Tender fees relate the administration levies charged to prospective suppliers to access tender bid documentation.

15. Investment revenue

Interest revenue		
Interest earned: Bank	4 130	424

Total interest earned is interest on the sweeping account , calculated using the bank prime interest rate.

16. Employee related costs

Basic	6 420	3 471
Medical aid - company contributions	439	318
UIF	32	21
SDL	82	42
Leave pay provision charge	251	398
ER Contributions	3	9
Other short term costs	154	33
Defined contribution plans	824	617
Travel, motor car, accommodation, subsistence and other allowances	-	86
Overtime payments	449	498
13th Cheques	366	274
Loco allowances	120	109
Board fees and remuneration	1 307	767
	10 447	**6 643**

Notes to the Annual Financial Statements

Figures in Rand thousand	2017	2016

17. Depreciation and amortisation

Property, plant and equipment	63 610	52 057
Intangible assets	32 088	26 657
	95 698	**78 714**

18. Finance costs

Interest on shareholder loan	118 581	91 287
Other interest paid	438	-
	119 019	**91 287**

19. General expenses

Advertising	1 462	487
Auditors remuneration	856	-
Bank charges	13	2
Consulting and professional fees	6 707	123 324
Consumables	-	5
Entertainment	92	-
Fines and penalties	1 211	-
Insurance	338	-
Conferences and seminars	174	268
Information technology expense	1 969	1 774
Fleet	456	76
Placement fees	56	-
Printing and stationery	43	12
Protective clothing	40	8
Royalties and license fees	787	300
Subscriptions and licence fees	8	-
Telephone and fax	13	252
Transport and freight	7	-
Training	33	-
Travel - local	23	-
Electricity	51	-
Municipal rates	4	-
Wayleaves	1 342	576
Other expenses	1 773	-
Rendering of services	328	-
Storage charges	-	10
	17 786	**127 094**

20. Fair value adjustments

Loan from shareholder	-	91 287

Notes to the Annual Financial Statements

Figures in Rand thousand	2017	2016

21. Taxation

Major components of the tax expense

Current		
Local income tax - current period	-	-
Deferred		
Originating and reversing temporary differences	(2 034)	2 524
Arising from previously unrecognised tax deficit / tax credit / temporary difference	-	-
Deferred tax asset arising from tax loss	(29 722)	(46 075)
Deferred tax asset unrecognised	15 402	43 551
Prior year deferred tax utilised	16 354	-
	-	**-**

The deferred tax asset has not been raised as it is improbable that the entity will generate sufficient taxable profits in the forseeable future to utilise the deferred tax asset.

Reconciliation of the tax rate

Tax rate reconciliation.

Accounting surplus (deficit)	21 943	(86 672)
Tax at the applicable tax rate of 28% (2016: 28%)	6 144	(24 268)
Tax effect of adjustments on taxable income		
Tax effects on permanent differences	8 175	(19 283)
(Decrease)/Increase in unprovided deferred tax asset	(14 319)	43 551
	-	**-**

The effective tax rate is 0% (2016: 0%).

Notes to the Annual Financial Statements

Figures in Rand thousand	2017	2016

22. Cash generated from operations

Surplus (deficit)	21 943	(86 672)
Adjustments for:		
Depreciation and amortisation	95 698	78 714
Gain on sale of assets and liabilities	371	-
Loss on foreign exchange	42	2
Fair value adjustments	-	(91 287)
Interest income	-	(424)
Finance costs	-	91 287
Debt impairment	10 943	-
Movements in operating lease assets and accruals	43	-
Cost on transfer of function	-	42 551
Movement in provision for leave	-	3 665
Donations	(178)	-
Changes in working capital:		
Inventories	(3 072)	(13)
Receivables from exchange transactions	(31 986)	(54 211)
Other receivables from non-exchange transactions	5 284	-
Movement in loans from shareholder	118 581	-
Vat input adjustment	(4 185)	(4 808)
Payables from exchange transactions	(23 841)	74 471
Movement in VAT Payable	3 828	-
Inventory loss	473	-
	193 944	**53 275**

23. Financial instruments disclosure

Categories of financial instruments

2017

Financial assets

	At fair value	At amortised cost	Total
Loans to shareholders	210 863	-	210 863
Trade and other receivables from exchange transactions	-	86 198	86 198
Other receivables from non-exchange transactions	-	380	380
Cash and cash equivalents	-	-	-
	210 863	**86 578**	**297 441**

Financial liabilities

	At amortised cost	Total
Loans from shareholders	1 421 133	1 421 133
Trade and other payables from exchange transactions	59 658	59 658
Operating Lease Liability	43	43
	1 480 834	**1 480 834**

2016

Financial assets

Notes to the Annual Financial Statements

Figures in Rand thousand	2017	2016

. Financial instruments disclosure (continued)

	At amortised cost	Total
Loans to shareholders	-	-
Trade and other receivables from exchange transactions	54 212	54 212
Other receivables from non-exchange transactions	5 664	5 664
Cash and cash equivalents	53 275	53 275
	113 151	**113 151**

Financial liabilities

	At amortised cost	Total
Loans from shareholders	1 032 552	1 032 552
Trade and other payables from exchange transactions	74 471	74 471
	1 107 023	**1 107 023**

Notes to the Annual Financial Statements

Figures in Rand thousand	2017	2016

24. Transfer of functions between entities under common control

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

Entities involved in the transfer of functions were:

City of Johannesburg Metropolitan Municipality and Metropolitan Trading Company Soc Ltd.

The following functions were transferred:

1. Broadband business and

2. Manage the Johannesburg Broadband network (JBN).

The initial accounting of the transfer of function was incomplete as at 30 June 2016. The account balances affected are Property, plant and equipment and intangible assets. The amounts recognised are therefore provisional amounts as per paragraph 40 of GRAP 105.

The transfer of function took place during the 2016 financial year and was finalised on Friday, September 4, 2015.

Value of the assets acquired and liabilities assumed

	2017	2016
Assets acquired		
Property, plant and equipment	-	865 738
Inventory	-	188 407
	-	**1 054 145**
Adjustments to the basis of accounting		
Legal expenses	-	42 551
Difference between the carrying amounts of the assets acquired, the liabilities assumed and adjustments required to the basis of accounting	**-**	**1 096 696**
Consideration paid		
Loan	-	1 302 551
Difference between net assets and the consideration paid	**-**	**205 855**
Net cash inflow (outflow) on transfer of function		
Cash consideration paid	-	1 302 551

Initial accounting is incomplete

Assets were accounted for at provisional amounts at acquisition date, the parent municipality is still embarking on a valuation exercise to confirm the Asset values.

Notes to the Annual Financial Statements

Figures in Rand thousand	2017	2016

25. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
Computer equipment	28	-
Tools of Trade	1 227	-
Lan Infrastructure	1 202	-
Core Switches	2 339	-
Completion of Johannesburg Broadband Network	35 998	-
	40 794	**-**

Total capital commitments		
Already contracted for but not provided for	40 794	-

Total commitments

Total commitments		
Authorised capital expenditure	40 794	-

This committed expenditure relates to other: specify and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	1 587	-
- in second to fifth year inclusive	2 932	-
	4 519	**-**

Operating lease smoothing and calculations is based on the contract relating to operating lease of Braampark office building. The leasing term is 3 years and the escalation rate is 8.5% p.a. .

Notes to the Annual Financial Statements

Figures in Rand thousand	2017	2016

26. Related parties

Relationships

Controlling entity	City of Johannesburg Metropolitan Municipality
Other members of the group	City Housing Company (SOC) Ltd
	City of Johannesburg Property Company (SOC) Ltd
	Johannesburg City Parks NPC
	Johannesburg Development Agency (SOC) Ltd
	Johannesburg Metropolitan Bus Services (SOC) Ltd
	Johannesburg Roads Agency (SOC) Ltd
	Johannesburg Water (SOC) Ltd
	City Power Johannesburg (SOC) Ltd
	Pikitup Johannesburg (SOC) Ltd
	Roodepoort City Theatre NPC
	The Johannesburg Theatre (NPC)
	The Johannesburg Fresh Produce Market (SOC) Ltd

Related party balances

	2017	2016
Loan accounts - Owing (to) by related parties		
City of Johannesburg Metropolitan Municipality	1 421 133	1 302 552
Amounts included in Trade Receivable regarding related parties		
City of Johannesburg Metropolitan Municipality	74 109	30 410
Johannesburg Metropolitan Bus Services (SOC) Ltd	61	-
Amounts included in Trade Payables regarding related parties		
City of Johannesburg Metropolitan Municipality	36 112	35 315
Loan to Shareholder		
City of Joahnessburg Metropolitan Municipality	210 863	-

Related party transactions

	2017	2016
Interest received from related parties		
City of Johannesburg Metropolitan Municipality	3 226	-
Interest paid to related parties		
City of Johannesburg Metropolitan Municipality	118 581	-
Revenue from related parties - Subsidies and grants		
City of Johannesburg Metropolitan Municipality	211 158	20 917
Revenue from related parties - Rendering Services		
City of Johannesburg Metropolitan Municipality	37 756	20 917
Johannesburg Metropolitan Bus Services (SOC) Ltd	53	-
Purchases from related parties		
City Power Johannesburg (SOC) Ltd	941	-
The Johannesburg Theatre NPC	40	-
City of Johannesburg Metropolitan Municipality	456	-
Compensation to directors and other key management		
Short-term employee benefits	941	-

Figures in Rand thousand

Notes to the Annual Financial Statements

27. Directors' emoluments

The executive directors were seconded from the City of Johannesburg during the year, therefore no director emoluments were incurred.

Non - Executive

2017

	Directors' fees	Total
Ms S Makotoko	74	74
Ms N Makhoba	23	23
Mr T Dlamini	76	76
Mr P Molotsane - Chairperson	179	179
Ms M Mosweu	130	130
Mr L Marwala	110	110
Mr R Nkuna	43	43
Mr M Padayachee	81	81
Mr O Mabena	45	45
Mr Z Majavu	10	10
Mr L Ruka	36	36
Mr B Dlamini	42	42
Mr L Nedohe	61	61
Mr F Nelwamondo	72	72
Mr S Sinha	50	50
Mrs U Exner	60	60
Mr M Mthombeni	45	45
Ms M De Roche Holmes	69	69
Mr T Tshitangano	61	61
Mr M Motjope	57	57
	1 324	**1 324**

2016

	Directors' fees	Total
Ms S Makotoko - Chairperson	76	76
Ms N Makhoba	71	71
Mr T Dlamini	71	71
Mr P Molotsane - Chairperson	73	73
Ms M Mosweu	72	72
Mr L Marwala	68	68
Mr R Nkuna	68	68
Mr M Padayachee	75	75
Mr O Mabena	68	68
Mr Z Majavu	21	21
Mr B Dlamini	44	44
Mr L Ruka	38	38
Mr R Raborifi	23	23
	768	**768**

28. Prior period errors

Intercompany Trade Payables

During the financial year the entity discovered that an amount of R12,695 482 and R26, 457 098 paid by the City of Johannesburg Metropolitan Municipality on behalf of the entity for consulting fees was never recorded in the prior year as a trade payable

Figures in Rand thousand

28. Prior period errors (continued)

Hosting Costs

During the current financial year the entity was issued credit notes for hosting cost invoices which were billed in in foreign currency for the current year and previous financial year and issued with Rand denominated invoices for the costs. The entity accounted for the credit notes and Rand denominated invoices for the previous financial year in the current financial year.

The correction of the error results in adjustments as follows:

Statement of financial position		
Intercompany Trade Payables	39 153	-
Trade Payables	364	-
Deferred tax	9 616	-
Statement of Financial Performance		
Consulting Fees	34 344	-
Hosting Costs	364	-
Tax effects on expense	(9 616)	-

29. Risk management

Financial risk management

The treasury function of the municipal entities is centrally managed by the parent municipality City of Johannesburg Metropolitan Municipality.

This includes the management all financial risks and liquidity risk which the entity might be exposed to. Such as maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses,central treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.]

Liquidity risk

30 June 2017	Less than 1 year	Between 1 and 2 years	Between 3 and 5 years	Over 5 years
Loan from shareholder	-	179 344	538 031	2 331 469
Trade and other payables	59 658	-	-	-
Related parties trade payables	36 112	-	-	-
	95 770	**179 344**	**538 031**	**2 331 469**

30 June 2016	Less than 1 year	Between 1 and 2 years	Between 3 and 5 years	Over 5 years
Loan from shareholder	-	-	358 687	2 690 156
Trade and other payables	74 471	-	-	-
Related parties trade payables	35 315	-	-	-
	109 786	**-**	**358 687**	**2 690 156**

Figures in Rand thousand

29. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The maximum exposure to credit risk is limited to the values disclosed in note 8.

Market risk

Interest rate risk

As the entity has no significant interest-bearing assets, the entity's income and operating cash flows are substantially independent of changes in market interest rates.

Foreign exchange risk

MTC was exposed to foreign exchange risk relating to the Seacom supplier based in Mauritius. During the period under review, Seacom began invoicing MTC in Rands as per MFMA requirements therefore MTC is no longer exposed to foreign exchange risk.

30. Fruitless and wasteful expenditure

Audit Fees	11	-
Tax penalties	1 211	-
Interest expense charged by the Auditor General	3	-
Recruitment Costs	234	-
Rental	460	-
Hosting fees	131	-
	-	-
	2 050	**-**

Information Systems audit scheduled by The Office of the Auditor-General and MTC Acting CTO was not honoured by MTC Acting CTO after auditors had been sent to MTC.

Interim MTC management had been seeking the assistance of SARS to register the entity for e-filling since the inception of MTC as a Broadband Entity. SARS was only able to assist the entity with the registration in Sept 2016. This resulted in penalties being incurred for VAT returns not submitted since the inception of MTC (Sept 2015).

Interest charged by Auditor General on late payment of December Invoice due to the entity not having a CFO and Financial Manager during January to February to make payments to suppliers

There entity was in the process of recruiting certain vacant executive positions which had to be halted due to irregularities that took place during the process.

The entity had to pay rental for two buildings for the period of 1 March 2017 to 31 May 2017due to renovations which were still taking place at the Braampark offices which was due to have been occupied by the entity from 1 March 2017.

The entity is incurring hosting fees for Teraco to Host certain Ericsson equipment however the link is not connected due to the Ericsson investigation underway

Figures in Rand thousand

Notes to the Annual Financial Statements

31. Irregular expenditure

Opening balance	1 435	-
Add: Irregular Expenditure - current year	9 948	1 435
Less: Amounts condoned	-	-
Less: Amounts recoverable (not condoned)	-	-
	11 383	**1 435**

Details of irregular expenditure – current year

	Disciplinary steps taken/criminal proceedings	
An opinion was sought from a professional accounting firm as to the application of GRAP105 and whether MTC was compliant with the requirements of GRAP105. The information was required within 72 hours due to the 31 August deadline for the submission of AFS to the Auditor General therefore the appropriate SCM procedures where not followed.	None awaiting investigation by internal audit	77
A deviation from normal procurement processes was used in contracting Ericson to supply network infrastructure and install services and software for the completion and refurbishment of the active and passive MTC network. This deviation was justified through the use of regulation 36 of SCM i.e. sole supplier. This has been challenged and hence the classification as irregular expenditure	A forensic investigation was conducted by Group Forensic Investigation Services which found the contract between MTC and Ericsson to be irregular as proper SCM processes where not followed. There was however contention on the finality of the report between Group Legal and Forensics.	6 661
As part of renting new premises MTC required the installation of certain infrastructure and did not go out on 14 day tender instead obtained 3 quotes on the mistaken belief that the order was below R30 000	None awaiting investigation by internal audit	673
A supplier contracted to the entity to perform civil works (new builts) performed repairs and maintenance on network breakages which fell outside the signed contract	Group Forensic Investigation services investigated the contract between MTC and RKDJ and found that the contract for performing repairs and maintenance was irregular	2 537
		9 948

32. Budget differences

Material differences between budget and actual amounts

The material variances are as follows:

Rendering of services : Included in the budget is revenue of R60 million which was anticipated from one of CoJ's departments but never materialised.

Interest received: More interest was received due to a higher bank balance.

Employee cost : The was a moratorium placed on the filling of vacant position which resulted in underspending of the budget.

Depreciation: Depreciation lower than budget due to planned network expansion that did not take place.

Repairs and maintenance :No maintenance was performed during the year resulting in underspending of budget.

Notes to the Annual Financial Statements

32. Budget differences (continued)

Rent: The entity paid rent for two buildings for three months whilst awaiting completion of renovations of the new premises.

Board fees: More board meetings were held than planned to discuss leadership and governance issue within the entity.

Licence fees: Some of the licence budgeted for could not be obtained due to an ongoing investigation of one of the suppliers.

Consulting fees: More consultants were appointed than budgeted to assist with the changes within the entity.

General expenditure: the variance is due to under spending on marketing, training, bank charges, telephone costs and consultant fees for the asset verification due to lower than anticipated staff complement and the ongoing study on the viability of the entity.