1. PRESENTATION OF FINANCIAL STATEMENTS

The 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 91(1) of the Public Finance Management Act (Act No. 1 of 1999).

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

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

1.1 Property, plant and equipment

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, its 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.

Land and buildings comprise mainly office buildings. Freehold land and buildings are shown at fair value, based on valuations by external independent valuers every three years, less subsequent depreciation for buildings. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Board and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of financial performance during the financial period in which they are incurred.

Increases in carrying value arising on revaluation are credited directly to the revaluation reserve. Decreases that offset previous increases of the same asset are charged against the revaluation reserve directly in equity; all other decreases are charged to the statement of financial performance.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Minor assets of R5 000 or less are charged to the statement of financial performance in full as expenditure in the year.

1. PRESENTATION OF FINANCIAL STATEMENTS (continued)

1.1 Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the statement of financial performance. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to the reserve fund.

Assets that have indefinite useful lives, such as land, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which they are separately identifiable cash flows. Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

Item		Average useful life
Buildings		50 years
Furniture and equipment	Straight line	3 – 10 years
Motor vehicles	Straight line	5 years
Computer equipment	Straight line	3 – 7 years
Technical equipment	Straight line	3 – 8 years

1.2 Financial instruments

Financial assets

The Board classifies its financial assets as held to maturity. Management determines the classification of financial assets at initial recognition.

This applies to investments where there are fixed or determinable payments and fixed maturity dates and the Board has the positive intent and ability to keep the investments until maturity. These investments are measured and recognised at amortised costs with interest-income recognised in the statement of financial performance.

Assets in this category are classified as current assets if they are expected to be realised within 12 months of the statement of financial position date.

The Board assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from net assets and recognised in the statement of financial performance.

Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Payables from exchange transactions

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

1.3 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.

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.

1.4 Provisions and contingencies

Provisions are recognised when:

- The entity has a present obligation as a result of a past event
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation
- A reliable estimate can be made of the obligation

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

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

1. PRESENTATION OF FINANCIAL STATEMENTS (continued)

1.4 Provisions and contingencies (continued)

The entity recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- Financial difficulty of the debtor
- Defaults or delinquencies in interest and capital repayments by the debtor
- Breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms
- A decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations

Where a fee is received by the entity for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the entity considers that an outflow of economic resources is probable, an entity recognises the obligation at the higher of:

- The amount determined used in the Standard of Generally Recognised Accounting Practice (GRAP) on Provisions, Contingent Liabilities and Contingent Assets
- The amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions

1.5 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of services in the ordinary course of the Board's activities. Revenue is recognised in the accounting period in which the services are rendered, and is exclusive of value-added taxation.

Revenue is recognised when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Board. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the delivery of service has been resolved. The Board bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired the board reduces the carrying amount, to its recoverable amount, being the future estimated cash flow discounted at the original effective interest rate of the instrument. Interest income on impaired loans is recognised using the original effective interest rate.

1.6 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded, i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.7 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:
(a) The period of time over which an asset is expected to be used by the entity, or
(b) The number of production or similar units expected to be obtained from the asset by the entity

1.8 Reserves

Self-insurance reserve

A self-insurance reserve fund was established to manage the uninsured risks of the PPECB. The reserve covers 20% of uninsured movable assets (laptop computers as well as technical equipment carried by inspectors) and also provides for potential indemnity claims based on 1,5% of turnover.

Asset replacement fund

PPECB is a non-profitable entity. It has significant investment in fixed assets. This reserve was established to provide for the replacement of computer as well as technical equipment, without placing reliance on excessive levy increases.

Revaluation reserve

This reserve was established due to surpluses that were generated on the revaluation of land and buildings.

General reserve

The general reserve is maintained to protect the PPECB's operating capacity by funding non-recurring or unforeseen needs, including severe weather or other natural disasters and unexpected obligations after the budget process has occurred, or opportunities to achieve cost savings.

1. PRESENTATION OF FINANCIAL STATEMENTS (continued)

1.9 Employee benefits

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

A constructive obligation is an obligation that derives from an entity's actions whereby 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.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- Wages and salaries
- Short-term compensated absences (such as paid annual leave) where the compensation for the absences is due to be settled within 12 months after the end of the reporting period in which the employees render the related employee service
- Bonus and performance-related payments payable within 12 months after the end of the reporting period in which the employees render the related service, and

The entity recognise the expected cost of bonus and performance-related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Long-term employee benefits

The Board has an obligation to provide long-term service benefits to all employees appointed prior to 1997. According to the current long-service bonus policy, which the Board institutes and operates, permanent employees are entitled to a long-service bonus after completion of a continuous period of service of 20 years, 30 years and 40 years.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

- As a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- As an expense, unless another standard requires or permits the inclusion of the contribution in the cost of an asset.

1.10 Off-setting

If the Board undertakes, in the course of its ordinary activities, transactions that do not generate revenue but are incidental to its main revenue-generating activities, the results of such transactions are presented by netting any income with related expenses arising on the same transaction, when this presentation reflects the substance of the transaction or other event.