2014/2015

# ANNUAL REPORT

ESTATE AGENCY AFFAIRS BOARD
OF SOUTH AFRICA

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OF SOUTH AFRICA

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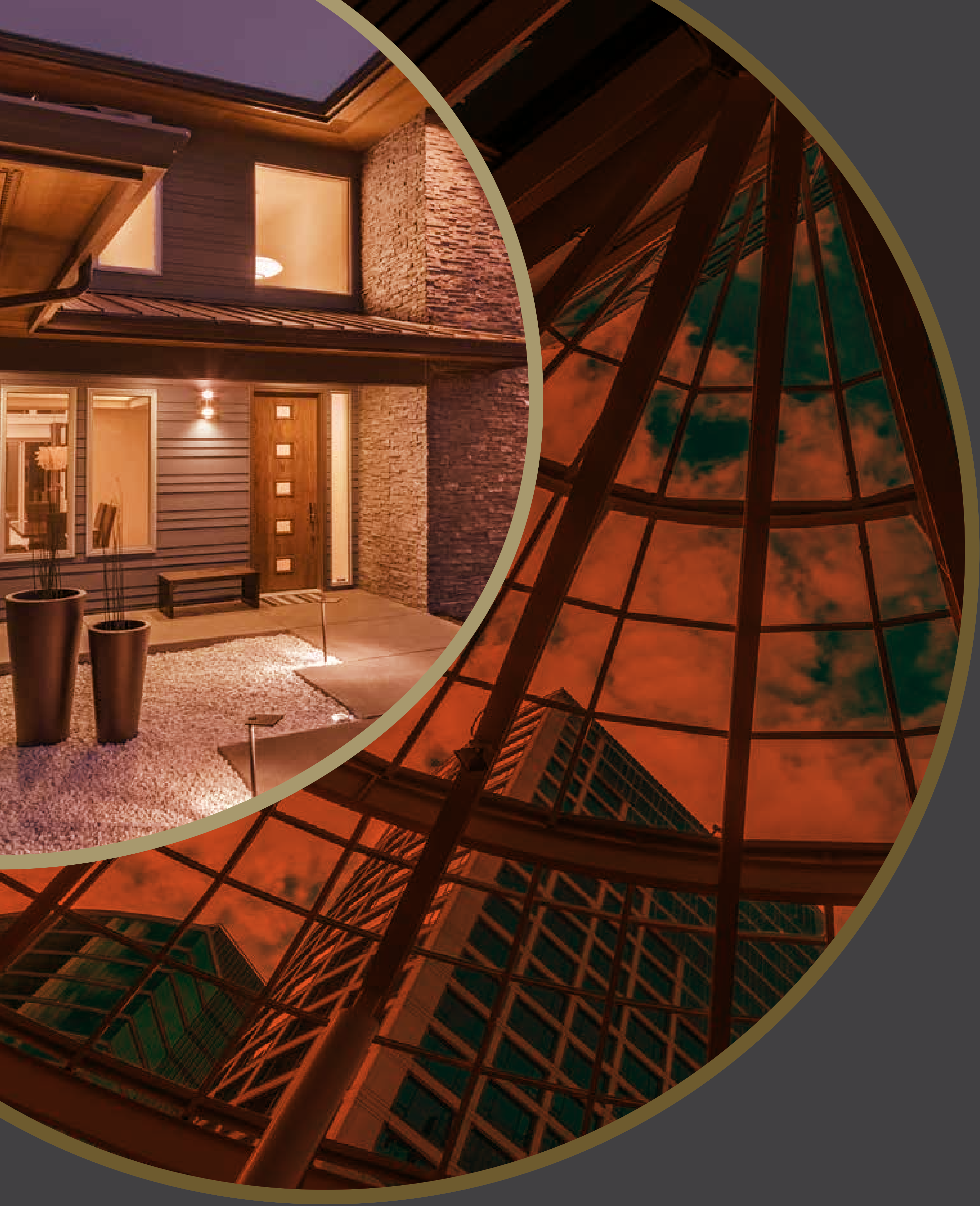
Report in terms of section 11 (1) of the Estate Agency Affairs Act, 1976
(Act 112 of 1976)

Annual Report concerning the activities of the Estate Agency Affairs Board for the year ended 31 March 2015, in accordance with the requirements of the Public Finance Management Act, 1 of 1999.



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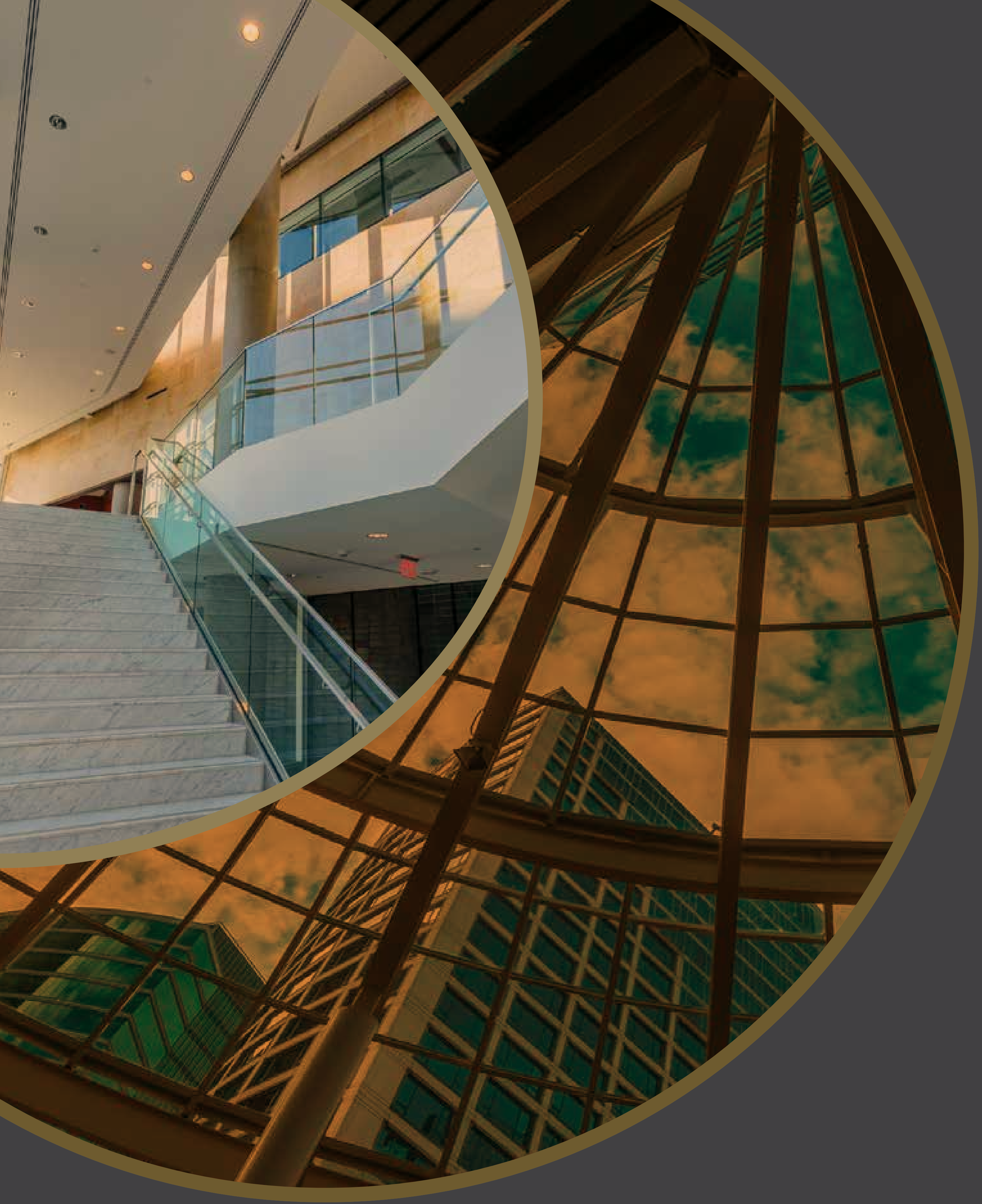


# GENERAL INFORMATION

| | |
|---|---|
| Nature of business and principal activities | The Estate Agency Affairs Board regulates the estate agents industry in terms of the Estate Agency Affairs Act 1976 (Act 112 of 1976) |
| Legal form of Entity | Schedule 3, Part A Public Entity in accordance with the Public Finance Management Act, 1 of 1999 |
| Registered Office | Estate Agency Affairs Board<br>63 Wierda Road East<br>Wierda Valley<br>Sandton, Johannesburg<br>2196 |
| Postal Address | Private Bag X10<br>Benmore<br>2010 |
| Contact Numbers | Tel: +27 87 285 3222<br>General Fax: + 27 11 880 9831/9725 |
| Website | www.eaab.org.za |
| Email | eab@eaab.org.za |
| Auditors | Ngubane and Co (Johannesburg) Incorporated<br>Chartered Accountants (SA)<br>Registered Auditors |
| Bankers | ABSA Bank Limited<br><br>Nedbank Limited |

# STRATEGIC OVERVIEW

The Estate Agency Affairs Board ("EAAB") was established in 1976 in terms of the Estate Agency Affairs Act, 112 of 1976 ("the Act"), with the mandate to regulate and control certain activities of estate agents in the public interest. The EAAB regulates the estate agency profession by ensuring that all persons carrying out the activities of an estate agent as a service to the public are registered with the EAAB. A fidelity fund certificate, which is to be renewed each year, is issued as evidence of such registration and confirmation that such person is legally entitled to carry out the activities of an estate agent.

A core function of the EAAB is to manage and control the Estate Agents Fidelity Fund in the interest of the public and estate agents registered with the EAAB.

## THE MANDATE OF THE EAAB

### The primary mandate of the EAAB

(a) Regulate, maintain and promote the standard of conduct of estate agents having due regard to the public interest;
(b) Issue fidelity fund certificates to qualifying applicants;
(c) Prescribe the standard of training of estate agents;
(d) Investigate complaints against estate agents and institute disciplinary proceedings against offending estate agents where required; and
(e) Manage and control the Estate Agents Fidelity Fund.

### Secondary mandate of the EAAB

The EAAB is the Supervisory Body of the estate agency profession pursuant to the Financial Intelligence Centre Act, and is obliged to take all steps required to prevent, alternatively identify, and report on anti-money laundering and terrorist financing activities.

## VISION

To be a sound and trusted world class regulator.

## MISSION

Ensure the integrity of the transaction between the estate agent and consumer is of a high statndard by regulating, protecting, guiding and enhancing the conduct of the real estate agents' profession in South Africa.

## VALUES

After comprehensive consultation and interaction with relevant stakeholders, both internal and external, within the estate agency environment, it was agreed that the following values will underscore the Board's behaviour as it strives to achieve the ideals encapsulated in its vision and mission, namely:

- **Integrity:** the quality of adhering to the highest moral principles and professional standards;
- **Responsibility:** the authority to make decisions independently and to be accountable for actions taken;
- **Transparency:** to remove all barriers to - and the facilitation of free and easy stakeholder access to the Board"s operations;
- **Excellence in service delivery:** to exceed client expectations in service delivery;
- **Communication:** the effective exchange of information in such a manner that there is a mutual understanding;
- **Participation:** the involvement of all relevant stakeholders in what the EAAB does;
- **Professionalism:** maintaining performance standards and expectation within the industry
- **Target Driven:** to have an operational bias towards tangible delivery.

## STRATEGIC OBJECTIVES AND GOALS

- To improve compliance to the Estate Agency Affairs Act;
- To increase consumer education by inculcating an awareness of the EAAB and its role and services;
- To effectively and efficiently manage the EAAB;
- To effectively and efficiently control and manage the Fidelity Fund; and
- To build capacity of key stakeholders.

## LEGISLATIVE MANDATES

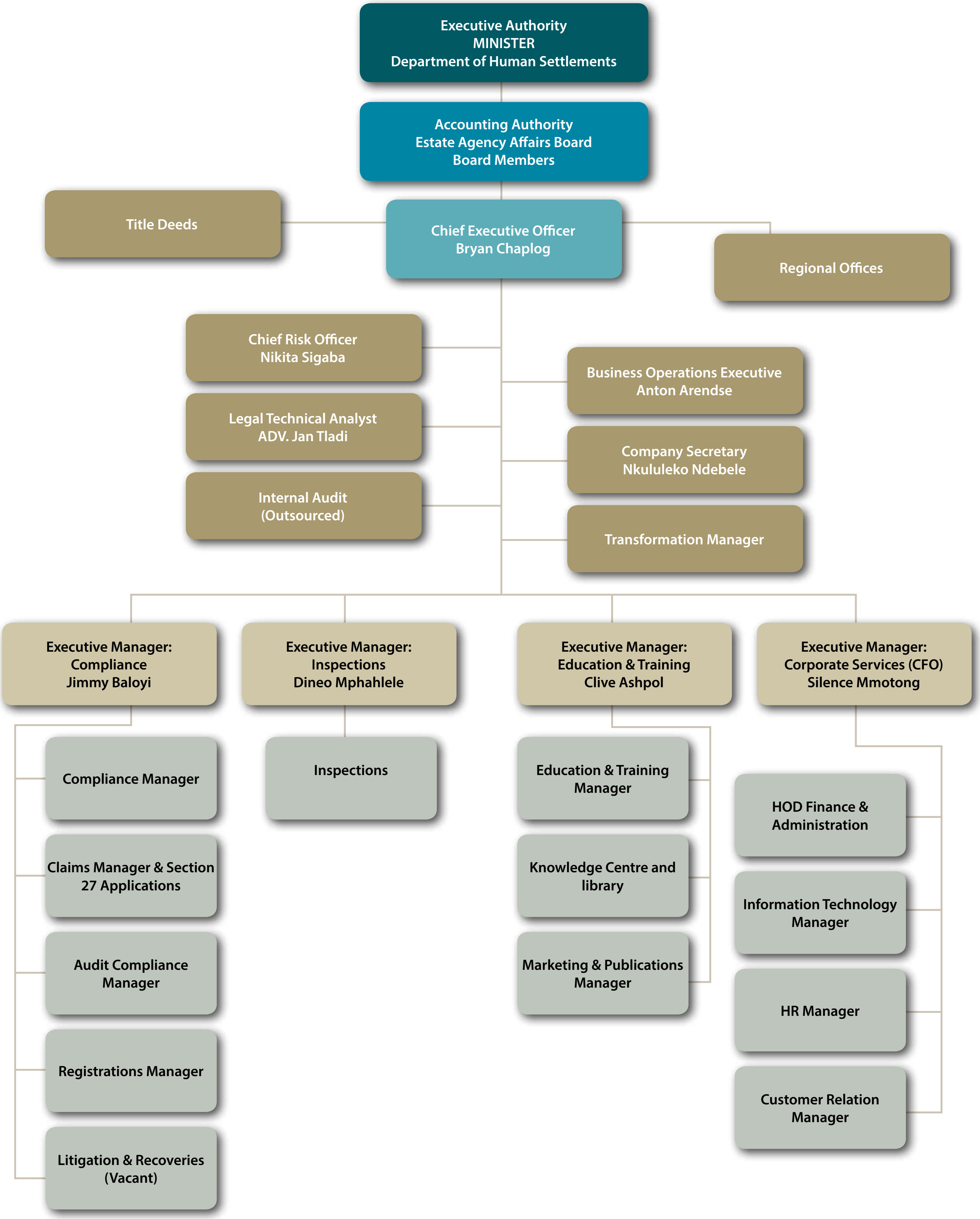
The EAAB is a schedule 3A public entity in terms of the Public Finance Management Act, 1 of 1999. The EAAB must always remain aware of, and comply with, legislation impacting on its functioning. Other relevant legislation includes, but is not limited to:

- The South African Constitution;
- The Estate Agency Affairs Act, 112 of 1976;

## STRATEGIC OVERVIEW...continued

- The Preferential Procurement Framework Act of 2000;
- The Financial Intelligence Centre Act, 38 of 2001;
- The Labour Relations Act, 66 of 1995;
- The SA Qualifications Authority Act, 58 of 1995;
- The Skills Development Act, 97 of 1998;
- The Promotion of Administrative Justice Act;
- The Promotion of Access to Information Act;
- The National Credit Act; and
- The Consumer Protection Act.

# ORGANISATIONAL STRUCTURE



From left to right: Adv. Tshepo Maake , Ms Jabhile Mbele, Mr Sikander Kajee, Ms Pat Lebenya-Ntanzi, Ms Maletsatsi Maceba-Wotini (Deputy Chairman), Mr Bethuel Nsibande, Prof. Kwandiwe Kondlo (Chairman), Dr Fazel Randera, Mr Mputumi Bubele Damane and Ms Jill Corfield.

# BOARD MEMBERS

# EXECUTIVE MEMBERS

From left to right: Ms Dineo Mphahlele (Executive Manager: Inspections), Mr Clive Ashpol (Executive Manager: Education and Training), Mr Anton Arendse (Business Operations Executive), Advocate Jan Tladi (Legal Technical Analyst), Mr Nikita Sigaba (Chief Risk Officer), Mr Bryan Chaplog (Chief Executive Officer), Mr Nkululeko Ndebele (Company Secretary), Mr Jimmy Baloyi (Executive Manager: Enforcement and Compliance), Mr Silence Mmotong (Chief Financial Officer)

*"By promoting quality standards and continuous performance improvement both internally and externally the EAAB has been able to strive closer to ensuring an acceptable level of compliance while never losing sight of the attainable goal of maximum compliance. These efforts will be better enhanced with the imminent promulgation of the Property Practitioner's Act, which legislation shall replace the Estate Agency Affairs Act. Much effort has been expended by the Department of Human Settlements as well as the EAAB in developing this long awaited legislation."*

# CHAIRMAN'S REPORT

**PROFESSOR KWANDIWE KONDLO**
**CHAIRMAN**

It is a pleasure to report on the positive growth and improvement that the EAAB has attained in the year under review. Innovation and modernization have typified the organisation's efforts toward a professionalized and inclusive estate agency industry. The Board expresses its unreserved appreciation to the Minister of Human Settlements for the confidence and support that she has given throughout the period and is committed to continue to fulfill the mandate with which it has been entrusted.

I would like to express my thanks and appreciation to my fellow Board members for the diligent work and dedication that they have consistently shown in discharging the often onerous functions of Board members. In all of my interactions with Board members it has been my experience that they have always acted with dignity and professionalism and have been only too eager to impart their specialised knowledge, skills and expertise for the betterment and advancement of the organisation.

It would be remiss to not from the very onset express appreciation for the efforts of management in what must clearly at times be a daunting task and to commend them for steadfastly staying the course. It is through their unrelenting efforts that the organization has once again obtained a clean Audit Report. The CEO, Bryan Chaplog has risen to the many challenges that have faced the organization and for this his efforts are commended.

I firmly believe that accelerated progress was made by the organisation to realise its vision of being a world class regulator which is responsive to, the needs and expectations of its stakeholders. During the period under review the EAAB continued to make steady progress, even if from a relatively low base, in the imperative of redressing the past, building the future and, also, guiding the real estate sector towards professionalism. This, no doubt, augurs well for the future.

The EAAB, during this period, focussed significant energy and resources on the actualisation of such critical success factors as:

- advancing the professionalism of the estate agency sector and ensuring that it is viewed as a career of choice rather than as 'a job of last resort';
- providing excellent career preparation and training for new entrants into the sector and, in particular, members of previously disadvantaged communities, women and the youth;
- increasing consumer protection;
- promoting quality standards and continuous performance improvement both internally and externally;
- encouraging maximum levels of compliance;
- building awareness and appreciation for the sector regulatory value proposition of the EAAB and enhancing the EAAB's brand contribution; and
- ensuring that the EAAB was sufficiently resourced and

had the necessary capacity to successfully achieve its statutory regulatory mandate.

I am inclined to believe that estate agency practitioners and the consuming public alike continue to repose the maximum faith and trust in the EAAB as the statutory regulator of the sector. Consumers, especially, will henceforth be able to confidently rely on advice sought and received from professional estate agents as a result of the higher entry level standards which are now applicable.

During the period under review members of the Board of the EAAB were again encouraged to interact, both formally and informally, with all sector professionals as well as other interested stakeholders. Constructive engagement, in fact, represents a critical aspect in achieving positive outcomes for consumers. Both my fellow Board members and I were, thus, privileged to be able to determine at first-hand the commendable levels of dedication, commitment and professionalism evinced by estate agency sector professionals. We were, moreover, afforded the opportunity to discuss issues of mutual interest and concern with, and to gauge the feelings of, sector members and stakeholders with special reference to current and envisaged EAAB strategies, programmes and initiatives. This interaction together with these interventions, in addition, provided a valuable opportunity for the EAAB to determine the prospects for further growth and improvement in the future.

As in the preceding years the EAAB focused on its core mandate and mission of advancing the professionalism of the sector by providing adequately qualified practitioners to serve the consumer and thus afford the requisite protection in the less likely event that there was need to approach the fund. By promoting quality standards and continuous performance improvement both internally and externally the EAAB has been able to strive closer to ensuring an acceptable level of compliance while never losing sight of the attainable goal of maximum compliance. These efforts will be better enhanced with the imminent promulgation of the Property Practitioner's Act, which legislation shall replace the Estate Agency Affairs Act. Much effort has been expended by the Department of Human Settlements as well as the EAAB in developing this long awaited legislation. At time of print of this report the legislation is due to commenced the process of public participation on its way to promulgation.

The EAAB, during the period under review, continued to perform its statutory obligations as the Supervisory Body of the estate agency profession in accordance with the requirements of the Financial Intelligence Centre Act. While the performance of this function has severely tested the EAAB's finite resources, the EAAB has continued not only to cooperate fully with the Financial Intelligence Centre but also efficiently and effectively to implement the terms of the Memorandum of Understanding concluded between the two organisations. This has inevitably resulted in the reinforcement of the EAAB's risk management capability to the benefit of the estate agency sector.

**PROFESSOR KWANDIWE KONDLO**
**CHAIRMAN**

*South Africa should work together so that every economically active South African can transact in immovable property in a well-functioning property market. Collaboration between the public and private sector will ensure that our property market thrive and all participants reap the economic and social benefits of this sector. The EAAB has aligned its mandate with the overall mandate of the Department of Human Settlements by reprioritising certain aspects of current mandate so that the interest of the public is more emphasized. Our continued modernisation efforts are allowing the EAAB to reach a larger audience and stakeholder platform.*

# CHIEF EXECUTIVE OFFICERS'S REPORT

**B S CHAPLOG**
**CHIEF EXECUTIVE OFFICER**

The Estate Agency Affairs Board (EAAB) is indeed honoured to report that the 2015 financial year was an excellent year, largely attributable to the EAAB having acted under the guidance of the Honourable Minister of Human Settlements, Ms. Lindiwe Sisulu MP, and its knowledgeable Board. The EAAB also greatly appreciates the oversight that was so conscientiously provided by the National Department of Human Settlements under the able leadership of the Director General, Mr Thabane Zulu, who completed a successful term of five years in office on 31 May 2015. We welcome the next phase departmental leadership under the newly appointed Acting Director General, Mr Mbulelo Tsangana, who is known not only to be a dedicated leader but one who is committed to serving South Africans through Human Settlements.

The EAAB dedicated itself not only to playing a more responsive role in the South African landscape but also positively to impact the property sector for both the consumers and property practitioners. The EAAB has steadfastly focused on improving its operational environment by more effectively using technology and technological innovations in its service offering to estate agents and stakeholders. While additional services continue to be provided through the use of online solutions the EAAB nevertheless remains flexible in the adjustment of these solutions as it navigates past the normal implementation challenges. The EAAB continues, furthermore, to focus on professionalising the real estate sector and, in this respect, successfully launched its Continuing Professional Development Programme (CPD) for practicing professional estate agents during the year under review in its joint capacity as statutory regulator and, also, as the SA Qualifications Authority recognised professional body. It is gratifying to record that the CPD programme is running nationally while more than 10 000 estate agents have already registered for the first year of the first cycle of this transformative initiative of professionalising the industry. With the introduction of CPD, property consumers can rest assured that registered and compliant estate agents, who are enrolled in CPD, will consistently provide them with professional estate agency services of the highest calibre as such estate agents will be knowledgeable of, and up to date with, property-related legalities and processes.

Full credit for the implementation of this innovative development must be given to the EAAB Board of Directors, who remained determinedly focussed on keeping the EAAB on track to reach its ultimate goal of becoming a world class regulator. The EAAB extends its sincere gratitude to the members of the EAAB Board for having provided the required leadership, competencies and skills in the various sub-committees upon which they served, as their contribution to better serve property consumers in general and the property profession in particular. The EAAB, in addition, extends its profound thanks and gratitude to both the EAAB Chairman, Professor Kwandiwe Kondlo, and the Deputy Chairman, Ms. Maletsatsi Wotini, who were re-elected to their respective positions, for having providing sagacious leadership to the Board and to the EAAB as an organisation.

As South Africans become increasingly aware of the inherent value of property as an economic enabler, it is anticipated they will progressively focus on property ownership as a key investment goal and opportunity rather than simply viewing property only as a means of shelter.

The legislative review of the Estate Agency Affairs Act, 112 of 1976, made significant progress during the past financial year as it was presented to various forums as part of the legislative process. It is envisaged that valuable and well considered inputs on the proposed Property Practitioners Bill will be forthcoming from stakeholders once the Bill has been published for public comment in due course.

**Registrations and renewals of Fidelity Fund Certificates**

It is interesting to note that the number of registered intern estate agents has increased from 15 671 on 31 March 20124 to 16 224 on 31 March 2015. The increased number of registered intern estate agents is a source of great encouragement as it would seem to indicate that more younger people are entering the estate agency sector as a professional career of choice. The number of registered intern estate agents is also a powerful indicator of the long-hoped for transformation of the sector to accord with population demographics.

**Education and training**

The Education and Training Department was again tasked with ensuring both the professionalisation and the transformation of the estate agency sector by fully implementing the educational dispensation for estate agents as established by the Standard of Training of Estate Agents Regulations promulgated on 4 June 2008. In terms of the Education Regulations, all registered estate agents are required to be certificated against the appropriate NQF Real Estate qualifications. The quality assurance of these qualifications, however, vests in the Services SETA. Estate agents are also required to pass a Professional Designation Examination for both principal and non-principal estate agents respectively and to participate in the CPD programme.

During the period under review the EAAB successfully conducted four Professional Designation Examinations for both principal and non-principal estate agents countrywide. The Professional Designation Examination for principal estate agents is referred to as the PDE 5 while the Professional Designation Examination for non-principal estate agents is known as the PDE 4. A total number of estate agents who enrolled for the PDE4 and PDE5 were 614 and 158 respectively, of which a total of 467 and 113 passed for PDE4 and PDE5 respectively.

The CPD requirement for estate agents was implemented by the EAAB as from 1 January 2015. Estate agents enrolling for the programme must complete a Professional Development Plan (PDP) while the prescribed fee for participation in the programme is the sum of R2 000 for non-principal estate agents and R2 500 for principal estate agents. Intern estate agents are excused from participation in the programme until such time as they acquire full status as professional estate agents.

During the year under review, a CPD IT system was procured for the management, monitoring and control of the CPD programme on a paperless basis. Some 10 852 estate agents have registered to participate in the CPD programme comprising 3 520 principal estate agents and 7 332 non-principal estate agents.

**Disciplinary Inquiries**

The EAAB continued to receive and investigate complaints against estate agents from members of the public. After comprehensive investigation, and where warranted, disciplinary proceedings are instituted against offending estate agents. During the financial year under review 2 888 new complaints were received. The represents a decrease of 12.9% over previous years which may well be attributable to the ongoing professionalisation of the sector.

The intensive consumer awareness initiatives conducted by the EAAB during the period under review, using all available means of communication including community radio stations, has resulted more knowledgeable and empowered consumers who are increasingly aware of their rights and obligations when engaging in property transactions. The need to reach even more consumers remains a challenge that the EAAB remains determined to address.

**Fidelity Fund and Claims**

The management and control of the Estate Agents Fidelity Fund is a function integral to the activities of the EAAB. During the financial year under review, the Fund reported a surplus of R3 million in sharp contrast to a loss of R9.3 million reported in the previous year. Despite an increase in the number of claims that have been lodged against the Fund during the financial year under review, the liquidity and solvency of the Fund remains strong.

**Compliance with Auditor's Report requirements**

It is gratifying to note that the vast majority of auditor's reports covering the period under review were timeously electronically submitted. This prevented a recurrence of the previous situation pursuant to which estate agency firms that had neglected to submit auditor's reports were required to comply with a lengthy legal procedure to regularise their positions. The financial year under review, in fact, represents that largest number of compliant auditor's reports ever received by the EAAB and serves to compliment the EAAB's innovative online submission reporting programme allied with ever-increasing levels of co-operation and support received from estate agency principals and their auditors.

**Stakeholder management**

The EAAB has expanded its coverage and reach in terms of stakeholder management. It is reaping the rewards of an improved communication platform pursuant to which the vast majority of estate agents can be accessed through electronic means. The "MyEAAB" portal and the launch of the "MyCPD" portal has had the beneficial result not only of enabling the EAAB to update the contact details of its constituents but also increased its capability of reaching specifically identified stakeholder segments.

During the year under review, the EAAB conducted an extensive national stakeholder roadshow seminar programme. These roadshow seminars were extremely well attended and well received by estate agents. The EAAB, through its extensive communication programme and strategy, endeavours to keep estate agents abreast of legislative changes while emphasising legislative compliance for the professional estate agent. The EAAB, as an integral function of its stakeholder awareness programme, continues to promote the importance of strict compliance with the provisions of the Code of Conduct for Estate Agents, applicable regulations and, of course, the EAA Act and FIC Act. The consequences of non-compliance are illustrated and discussed with attendees while significant attention is also given to the EAAB's routine inspections, general contraventions of the EAA and FIC Act and peremptory trust accounting and auditor's report submission requirements. It is stressed that non-compliance with these requirements will result in the estate agency firm concerned being rendered disqualified and, consequently, blocked in terms of section 27 of the EAAB Act.

Some 9 500 estate agents attended EAAB roadshow seminars during 2014 when they were advised that stakeholder roadshow seminars would henceforth become part of the CPD programme.

**Consumer education**

As part of its consumer awareness programmes for the year under review, the EAAB successfully conducted workshops in all provinces. The EAAB's consumer awareness programmes also assists in carrying all relevant messages through its radio platforms which has increased significantly during the year under review.

The EAAB's consumer awareness includes both engaging with consumers and educating them on who the EAAB is as well as its duties and obligations as the statutory regulator of the real estate profession. It is imperative that consumers should be made aware of the importance of using only duly registered estate agents for all property transactions and be apprised of the significant difference between engaging the services of persons who purport to be estate agents but who are not registered with the EAAB. In most instances, in this latter respect, the unfortunate result is a fraudulent transaction with the consequent loss of the consumer's money.

In these consumer awareness endeavours, the EAAB also communicates and encourages participation in its "One Learner – One Estate Agency" Youth Brigade Empowerment programme.

A major underlying objective of the 'One Learner - One Estate Agency' Youth Brigade Empowerment Programme is to increase the level of representation and participation of the youth and previously disadvantaged persons within the property sector in general and the estate agency environment in particular, the intention being to accelerate the much needed transformation of the real estate sector which is presently heavily skewed in favour of white South Africans. Participation in the programme is, thus, open to matriculants, FET (TVET) college graduates, university and university of technology graduates as well as persons with disability. The programme aims, in particular, at meaningfully placing intern estate agents from previously disadvantaged groups into the service of registered estate agency enterprises.

To utilise immovable property as a store of wealth it is essential that the property owner be provided with the title deed of the property concerned. In furtherance of this consideration the Department of Human Settlements recently instituted a far-reaching transformation programme aimed at providing title deeds to all property owners. This laudable objective aligns with the mandate of the EAAB and., also, with the mandate and priorities of the Department of Human Settlements.

All recipients and beneficiaries of subsidised and affordable housing will be furnished with the title deed to their property, whether the house in question was acquired before or after the transition to democracy in 1994. Housing beneficiaries who have already received the title deed to their properties are in the happy position where they are the acknowledged owners of those homes and able to deal with them accordingly by, for instance, using those homes as collateral to secure loans for the purpose of, for instance, establishing a business and upgrading facilities or for resale.

This contributes to the creation of a much needed secondary housing market in previously overlooked areas. Persons owning neither own homes ca, furthermore, bequeath those properties to their chosen heirs upon death without the extreme difficulties that are currently experienced where the owner of a property does not have access to the title deed of that property. Homeowners having title to their properties are able fully to benefit from the undisputed advantages of property ownership and able meaningfully fully to participate in the economy in general to their advantage.

The EAAB in fully mindful of the importance attaching to the speedy eradication of the current backlog in the issue of title deeds to home owners and of the fundamental value of facilitating the issue of title deeds to persons in, particularly, the Reconstruction and Development Programme ("RDP"), the Breaking New Ground programme ("BNG") and gap markets. This can best be facilitated by leveraging on existing strategic alliances concluded with the Ministry of Human Settlements, national and provincial Departments of Human Settlements, municipalities and the various deeds offices while receiving much valued support to this end from the Black Conveyancers Association ("BCA").

By so doing additional value will necessarily be created in the affordable housing market while, simultaneously, the necessary secondary housing market will be stimulated. This will also have the desired effect of increasing the number of property practitioners rendering estate agency services in the affordable housing market and, more especially, in the gap market , where the income of a prospective property owner, while sufficient to disqualify that person from benefitting from economic housing is yet insufficient to obtain mortgage finance through the usual channels. The issue of title deeds to property owners will, no doubt, also serve as a vital wealth creator which has hitherto been absent, thereby alleviating poverty and providing an added incentive to property ownership.

**Estate Agency Sector Transformation**

It remains unfortunately true that the transformation of the property sector is occurring at an extremely very slow pace. The EAAB will, consequently, continue to focus on transforming the property sector to reflect the demographic realities of a democratic South Africa. Changes in the spatial demographics of the South African property landscape can only be achieved once buyers, sellers, landlords and tenants and estate agents become more cognisant, and reflective, of the demographics of South Africa.

The 'One Learner – One Estate Agency' Youth Brigade Empowerment Programme aims at placing intern estate agents in the service of registered estate agency enterprises so that they may act under the supervision and control of a suitably qualified mentor for a period of twelve months.

This internship period is intended to equip intern estate agents with the required property market experiential learning while they obtain the necessary real estate qualifications. Over 700 new interns have already been placed on the programme which is sponsored by Services Sector Education and Training Authority ("SETA").

The EAAB is grateful that the Services SETA, the key funding partner of the programme, has so willingly agreed to support the EAAB in this endeavour. I have no doubt that the programme will prove to be a great success even as the

EAAB strives to forge fraternal working relationships with various other transformation stakeholder bodies. The keenly awaited end result is the acceleration of transformation within the sector. Following a partnership agreement concluded between the EAAB and the South African Graduates Development Agency (“SAGDA”) a further 3 000 intern estate agents in the implementation of the next cycle.

**Property Practitioners Bill**

The Property Practitioners Bill is undergoing the various legislative processes includes reviews from the Board, the Department of Human Settlements, the Office of State Law Advisor, the office of the Minister, Cabinet and Parliament respectively. The EAAB earnestly encourages its stakeholders to submit considered input on the Bill once it has been published for public comment.

**The Future**

South Africans must work together so that all citizens and residents of the country are able to transact in immovable property in a well-functioning and efficient property market. Collaboration between the public and private sectors will ensure that the property market thrives thereby enabling all participants to reap the economic and social benefits of this huge sector. The EAAB has aligned its mandate with the overall mandate of the Department of Human Settlements by reprioritising certain aspects of the current mandate in order more fully to emphasise the interests of the consuming public. Through its continued modernisation efforts the EAAB has been able to reach a larger audience and interact with an increased stakeholder platform.

The focus on housing consumer education will undoubtedly enhance the property market on the basis that a well-informed property consumer is an empowered consumer and one who, at that, holds the key to a well-functioning and well regulated property market.

The CPD programme represents an important cornerstone for the development of the property market as it ensures that consumers are able to rely on professional services and advice from practicing professional estate agents. It is hoped that the EAAB regional footprint will shortly expand as the EAAB opens a regional office in KwaZulu-Natal which will, hopefully soon be expanded to cover all provinces.

**Acknowledgements**

The EAAB is immensely proud of the fact that it is making impressive gains in the execution of its regulatory functions and most of its modernisation projects are yielding great results. The success of some of the new projects and innovations is evidence that the EAAB is moving in the right direction. Without the continued support of the Executive Authority and the EAAB Board in its leadership, the EAAB would not have been able to achieve its overall success in many of the areas that operational breakthrough has been achieved. While focussing on optimising certain operational areas that are not yielding the desired results, we are confident that modernisation is the only way that will lead to increased operational efficiency. The ongoing co-operation with all industry staking holders created a collaborative problem solving approach as we collectively address common challenges. We also thank the industry stakeholders for their commitment in this regard.

I herewith also wish to express my sincere gratitude to the EAAB executives, management and staff for their commitment to the EAAB and the industry while striving to optimise our service offerings.

**B S CHAPLOG**
**CHIEF EXECUTIVE OFFICER**

# OPERATIONAL OVERVIEW

**INTRODUCTION**

The mandate of the Estate Agency Affairs Board (EAAB), which is set out in section 7 of the Estate Agency Affairs Act, 112 of 1976 ("the Act'), defines the following five essential regulatory pillars of activity, namely:

(a) The registration of estate agents and the renewal of fidelity fund certificates;
(b) The education and training of both existing estate agents and new entrants in to the profession;
(c) The conduct of disciplinary investigations and hearings;
(d) The conduct of inspections to ensure compliance;
(e) The consideration of claims lodged against the Estate Agents Fidelity Fund.

**COMPLIANCE**

**Registrations and Renewals**

The EAAB has comprehensively reviewed its operational processes with a view to improving, and making more effective, the processes for the issuing of valid fidelity fund certificates (FFC's) in respect of both new registrations and renewals. Areas specifically reviewed include, amongst others, capacity requirements, closer inter-departmental liaison and system amendments.

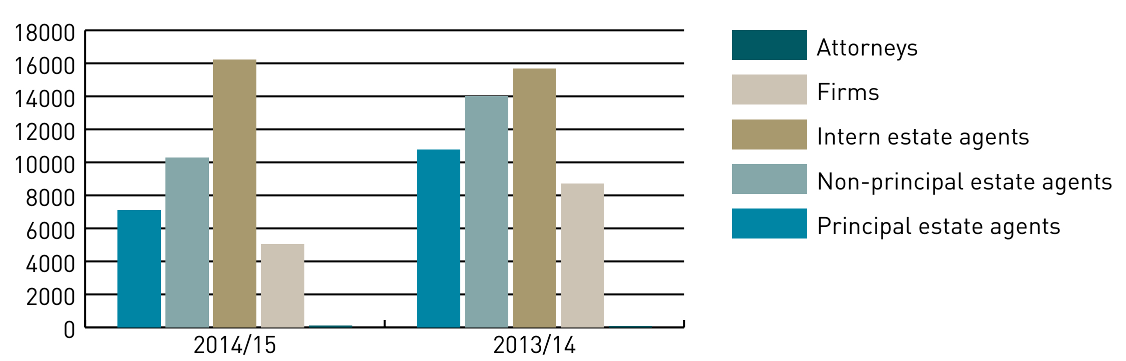
The EAAB has taken all steps necessary to ensure that the turnaround time for the issuing, and renewal, of fidelity fund certificates has been significantly reduced and is presently exploring all other feasible avenues to reduce turnaround times yet further, (by, for example, the implementation of an on-line registration process). Despite the very real challenges in resolving and attending to registration related queries, the recent creation of a Customer Relations Department has resulted in the allocation of additional human resource to expedite the resolution of queries and further reduce turnaround times.

The entire Fidelity Fund Certificate renewal process has been re-engineered to ensure not only that renewal notices are timeously dispatched, but also that renewal levy payments received are efficiently processed and correctly allocated so as to expedite the issue of fidelity fund certificates within the agreed turn-around time of five working days. Fidelity fund certificates are duly issued to all estate agents and estate agency enterprises that have fully complied with EAAB registration requirements and who have not been rendered disqualified for any of the reasons referred to in the Act including, in particular, the failure to submit a statutory auditor's report within four months after the financial year end of the estate agency enterprise concerned. During the 2014/15 financial year the EAAB issued a total of **38 753** fidelity fund certificates. The table below reflects the number of fidelity fund certificates issued during the year under review. During the year under review, fewer fidelity fund certificates have been issued which can be attributed to the non-compliance of audit report submissions by estate agency firms and the section 27 applications.

## Registrations and Renewals

| CATEGORY | 31 March 2015 | 31 March 2014 |
|---|---|---|
| Principal estate agents | 7 094 | 10 757 |
| Non-principal estate agents | 10 274 | 14 013 |
| Intern estate agents | 16 224 | 15 671 |
| Firms | 5 057 | 8 708 |
| Attorneys | 104 | 89 |
| **TOTAL** | **38 753** | **49 238** |

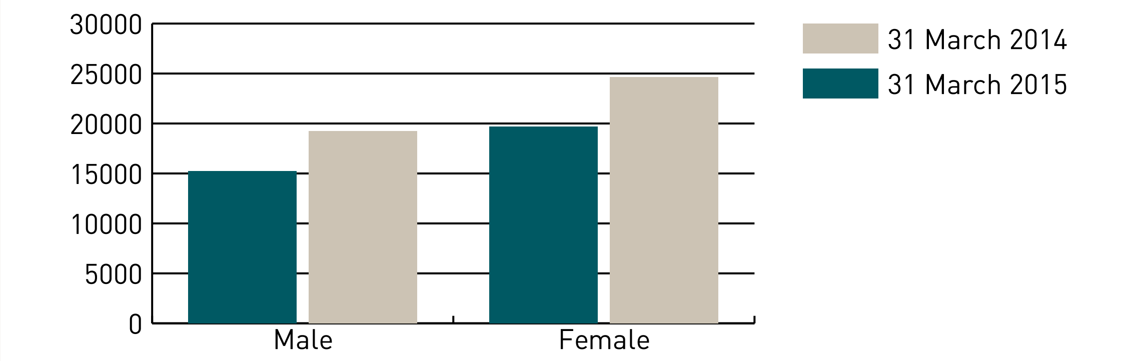
**REGISTRATIONS AND RENEWALS**



### Fidelity Fund Certificate – By Gender

| CATEGORY | 31 March 2015 | 31 March 2014 |
|---|---|---|
| Male | 15 216 | 19 234 |
| Female | 19 710 | 24 646 |
| **TOTAL** | **34 926** | **43 880** |

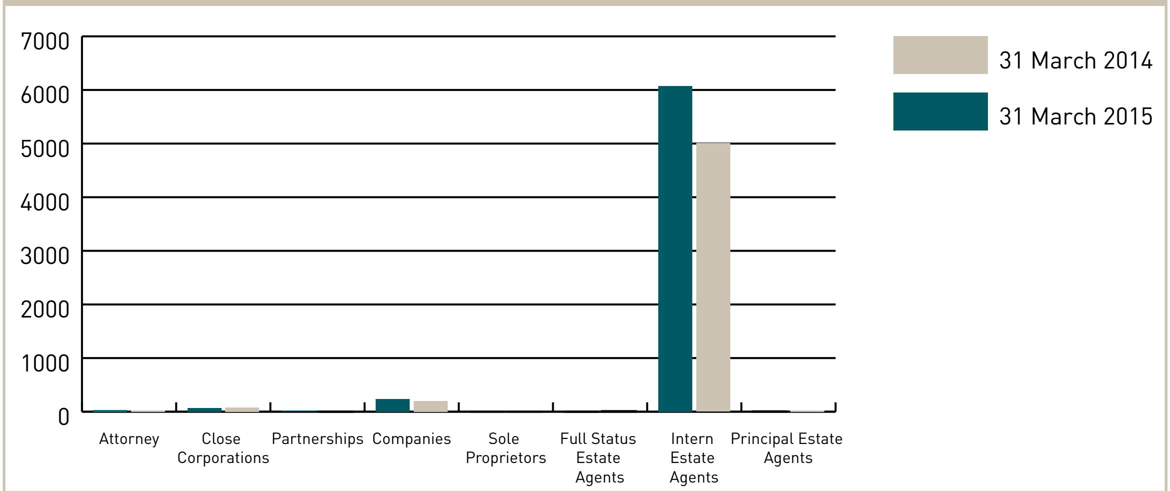
**FFC ISSUED BY GENDER**




### New Registrations

| CATEGORY | 31 March 2015 | 31 March 2014 |
|---|---|---|
| Attorney | 34 | 24 |
| Close Corporations | 66 | 77 |
| Partnerships | 18 | 1 |
| Companies | 240 | 196 |
| Sole Proprietors | 0 | 0 |
| Full Status Estate Agents | 1 | 11 |
| Intern Estate Agents | 6 074 | 5 007 |
| Principal Estate Agents | 7 | 22 |
| **TOTAL** | **6 440** | **5 338** |

**NEW REGISTRATIONS FFCS ISSUED BY ANNUAL YEAR**



## EDUCATION AND TRAINING

The Education and Training Department was again tasked with ensuring both the professionalisation and the transformation of the estate agency sector by fully implementing the educational dispensation for estate agents as established by the Standard of Training of Estate Agents Regulations promulgated on 4 June 2008.

### Education and training regulatory and prescribed qualifications for estate agents

In terms of regulation 4(1)(a) of the Education Regulations no person may perform the functions and activities of a non-principal estate agent unless that person has completed the Further Education and Training Certificate: Real Estate (SAQA QUAL ID 59097). The regulation also prescribes that no person may perform the functions and activities of a principal estate agent unless that person has completed the National Certificate: Real Estate (SAQA QUAL ID 20188).

These qualifications, which are presently quality assured by the Services Sector Education and Training Authority (SSETA), are designed to enhance the provision of entry level service within the property and real estate professions and also seek to provide the broad knowledge, skills and values that are needed by estate agency practitioners in the property and real estate environment.

The following is a table illustrating number of estate agents who qualified against these prescribed qualifications during the year under review:

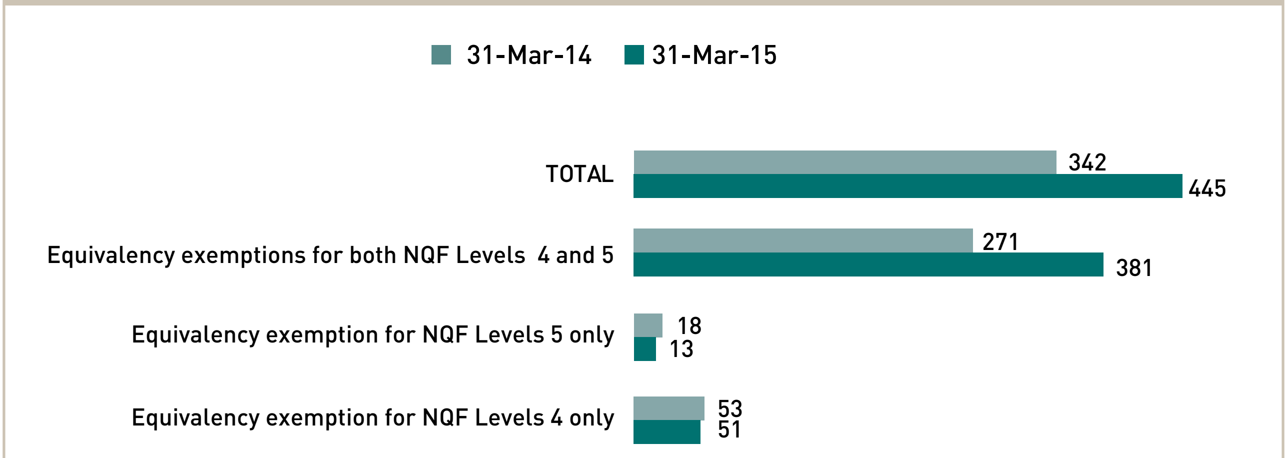
| Estate agents who qualified at NQF 4 (FETC: Real Estate) | Estate agents who qualified at NQF 5 (NC: Real Estate) |
|---|---|
| 1297 | 600 |

### Equivalency Exemption based on academic achievements

By resolution of the Board in 2008, all currently registered estate agents who have achieved qualifications that are relevant and meeting the prescribed equivalency exemption matrices of the Estate Agency Affairs Board, may apply for the grant of exemption from completing the prescribed qualifications as required in terms of regulation 4(1)(a) of the Education Regulation. Qualifying estate agents may apply to EAAB by furnishing the institution with certain naturally occurring evidence to the EAAB justifying the application and, including proof of the academic achievements acquired. During the period under review, equivalency exemptions were granted as follows:

| **Equivalency exemption applications assessed and granted** | | |
|---|---|---|
| **CATEGORY** | **31 March 2015** | **31 March 2014** |
| Equivalency exemptions for NQF Level 4 only | 51 | 53 |
| Equivalency exemption for NQF Level 5 only | 13 | 18 |
| Equivalency exemptions for both NQF Levels 4 and 5 | 381 | 271 |
| **TOTAL** | **445** | **342** |

**EQUIVALENCY EXEMPTIONS**



**Study Material for Estate agents**

The EAAB as a professional body has continued to implement mandate to provide study material to stakeholders and estate agents, with the underlying objective of making education and training experience of estate agents more meaningful whilst preparing them to undertake the Professional Designation Examination successfully.

***Study Guide for the Professional Practitioner in Real Estate***

To function effectively and successfully in the modern computerised and globalised business environment it is vital that estate agents be fully resourced and equipped with the required knowledge, skills and competencies in a variety of relevant contexts, spheres and disciplines. Estate agents must, furthermore, be able not only to confront but also deal with the many obstacles, and take advantage of the possible benefits arising from developing opportunities, which will doubtless arise in the course and scope of their daily estate agency activities and interactions with consumers.

The 'Study Guide for the Professional Practitioner in Real Estate', is intended to assist estate agents in meeting these challenges. The study guide contains the prescribed study material for practicing non-principal estate agents wishing to write the Professional Designation Examination for non-principal estate agents (PDE 4) after having been certificated against the Further Education and Training Certificate: Real Estate (NQF Level 4). The underlying aim of the Study Guide is to contribute to an improvement of the status, competencies and professionalism of non-principal estate agents. During the period under review **646** copies of the Study Guide were requested and dispatched by the Estate Agency Affairs Board to, relevant stakeholders.

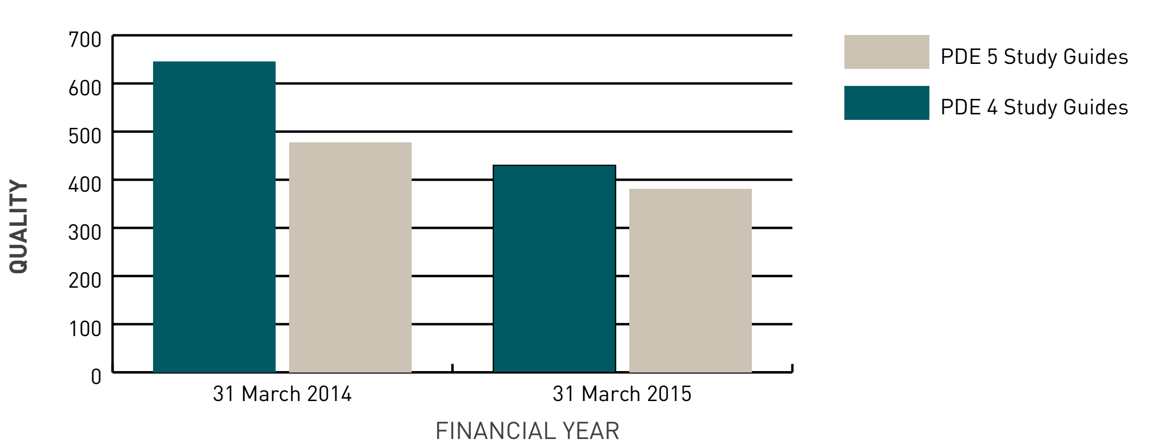
***Study Guide for the Master Practitioner in Real Estate***

The Study Guide for the Master Practitioner in Real Estate, published in two separate volumes, is aimed at meeting the generic management and educational needs of principal estate agents wishing to write the Professional Designation Examination for principal estate agents (PDE 5) after having been certificated against the National Certificate: Real Estate (NQF Level 5). After having studied for and passed the Professional Designation Examination principal estate agents should be able, amongst others, successfully to coordinate and manage the human resources function of their particular estate agency enterprises, integrate marketing plans with business processes, prepare and maintain financial reports, documents and records and analyse, interpret, implement and control estate agency principles, systems and policies. Principal estate agents should, in addition, have gained the necessary knowledge and expertise to identify and explain the most salient features of, and socio-politico-economic factors affecting, the property market in general, apply and utilise relevant accounting techniques when preparing reports and returns, and interpret the property principles, methods and approaches necessarily used in estate agency practice. During the period under review **430** copies of the Study Guide were requested and dispatched by the Estate Agency Affairs Board to, relevant stakeholders.

Below is a table illustrating the number of study material issued to stakeholders at the end of financial year 31 March 2015.

| **Study materials issued** | | |
|---|---|---|
| **CATEGORY** | **31 March 2015** | **31 March 2014** |
| PDE 4 Study Guides | 646 | 478 |
| PDE 5 Study Guides | 430 | 381 |
| **TOTAL** | **1 076** | **859** |

**STUDY GUIDES**



### The Professional Designation Examination (PDE)

In terms of regulation 4(3) of the Education Regulations no person may be registered by the Board as a full status estate agent unless that person has also successfully completed the Professional Designation Examination (PDE), conducted by the Board. PDE. The PDE represents the final test of an estate agent's ability practically to implement and apply the learning that has been achieved in both the classroom and at the workplace. All practicing estate agents, whether principals or non-principals, who have been certificated against the National Certificate: Real Estate or the Further Education and Training Certificate: Real Estate, as the case may be, are required to write and pass the Professional Designation Examination.

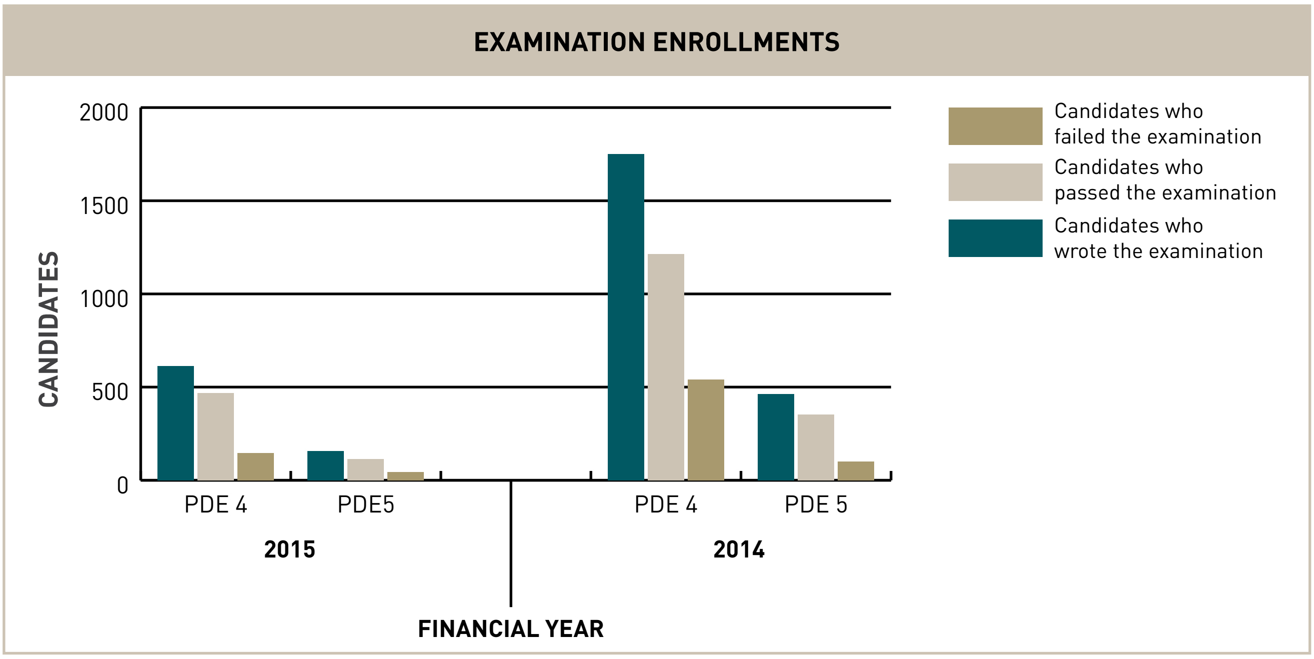
During the period under review the Board successfully conducted four Professional Designation Examinations for both principal and non-principal estate agents countrywide. The Professional Designation Examination for principal estate agents is referred to as the PDE 5 while the Professional Designation Examination for non-principal estate agents is known as the PDE 4.

Successful PDE candidates are authorised by the EAAB to use the following designations as an indication of the fact that they have achieved professional status as estate agents, namely:

- Mater Practitioner in Real Estate (MPRE) for principal estate agents; and
- Professional Practitioner in Real Estate (PPRE) for non-principal estate agents.

The consolidated result of the four examination sessions is as follows:

| CATEGORY | 2015 | | 2014 | |
|---|---|---|---|---|
| | PDE 4 | PDE 5 | PDE 4 | PDE 5 |
| Candidates who wrote the examination | 614 | 158 | 1 750 | 463 |
| Candidates who passed the examination | 467 | 113 | 1 215 | 352 |
| Candidates who failed the examination | 147 | 45 | 540 | 100 |
| Pass rate | 76% | 71% | 69% | 76% |

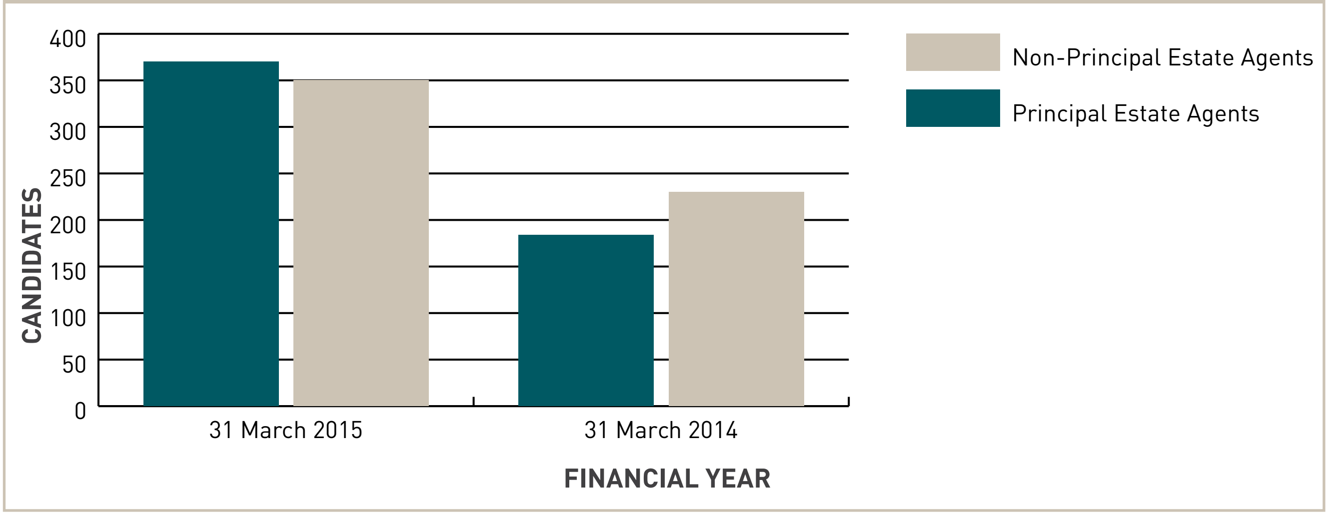



### Exemption of estate agents from the Professional Designation Examination

In terms of regulation 4(3) of the Education Regulations, estate agents who have been issued with a valid fidelity fun certificate between 2003 and 2008 may apply and granted exemption from undertaking the professional designation examination. The grant of the statutory PDE exemption to such persons does not, however, necessarily entitle them to an exemption from the NQF Level 5 or Level 4 qualifications for estate agents, as the case may be, and nor are they entitled to use the professional designations that are awarded to persons who have successfully undertaken the PDE. It would seem that this latter fact has served as a primary inducement in encouraging many of the estate agents who have received the statutory PDE exemption nevertheless to write and pass the PDE.

During the year under review, the statutory exemptions granted are as follows:

| Statutory exemptions granted | | |
|---|---|---|
| **CATEGORY** | **31 March 2015** | **31 March 2014** |
| Principal Estate Agents | 370 | 184 |
| Non-Principal Estate Agents | 350 | 230 |
| **TOTAL** | **720** | **414** |




### Exemption of estate agents who are 60 years of age or older from the education requirements

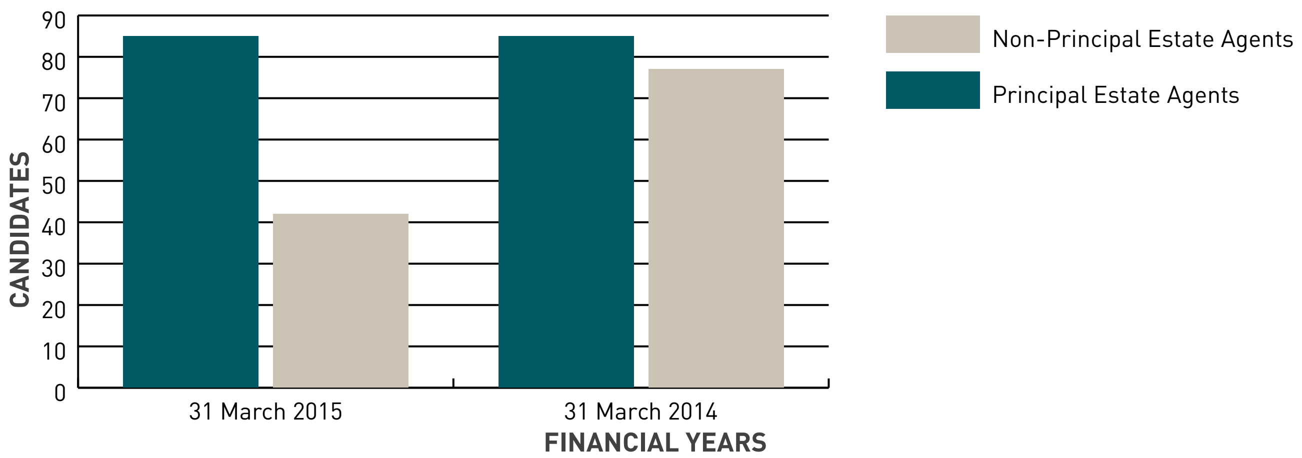
By resolution of the Board in 2011, all currently registered estate agents who have held a valid fidelity fund certificate for a continuous period of at least five years, whether as a principal or non-principal estate agent, and who are 60 years of age, or older, may apply to the EAAB for an equivalency exemption against the NQF Level 5 and/or NQF Level 4 qualifications in real estate and/or the Professional Designation Examination for principal and/or non-principal estate agents as the case may be. Qualifying applicants are required to furnish certain naturally occurring evidence to the EAAB justifying the application and, also, to ensure that such evidence, which is required to enable the EAAB to consider the grant of an equivalency exemption, is properly collected and duly collated into a Portfolio of Evidence ("PoE").

During the period under review a total of 174 applicants applied for the grant of the "Over 60s" educational exemption. Of these applications 85 qualifying principal estate agents and 77 qualifying non-principal estate agents were granted, whether conditionally or unconditionally, the educational exemption. Twelve applications under this category were refused since the applicants concerned failed to satisfy the EAAB that they were fit and proper persons to be granted the educational exemption.

The following table illustrates age-based exemptions granted during the year under review:

| Age - based exemptions granted | | |
|---|---|---|
| **CATEGORY** | **31 March 2015** | **31 March 2014** |
| Principal Estate Agents | 85 | 85 |
| Non-Principal Estate Agents | 42 | 77 |
| **TOTAL** | **127** | **162** |

## AGE - BASED EXEMPTIONS GRANTED




### Status upgrade granted and issue of amended fidelity fund certificates to qualifying estate agents

In terms of regulation 4 of the Education Regulations, estate agents who are registered as intern estate agents as well as those who wish to upgrade their status into principal estate agents may be granted status upgrade and issued with an amended fidelity fund certificate, upon meeting educational requirements, including completion of internship requirements and successful completion of both the prescribed qualifications for non-principal estate agents and the Professional Designation Examination at this level. Below is an illustration of the number of estate agents who have successfully applied for and issued with amended fidelity fund certificates upon meeting requirements:

| | |
|---|---|
| Status Upgrade to Full status estate agent (from Intern status) | 116 |
| Status Upgrade to Principal estate agent (from non-principal status) | 64 |

### Continuing Professional Development

A continuing professional development ("CPD") requirement for estate agents was implemented by the EAAB with effect from 1 August 2012. This requirement conforms to current best practice requirements to be found in most world-wide real estate regulatory jurisdictions. It is essential that members of the estate agency profession maintain their professional standing and status through undergoing the mandatory continuing professional education and development programme. CPD, in addition, enables estate agents to keep abreast of relevant sector and property trends and changes since these can, cumulatively and sequentially, have significant consequences on both the internal and external environments within which estate agents are required to operate.

Estate agents were firstly required to complete a professional development plan (PDP) and pay the prescribed fee or R2 000 for non-principal estate agents and R2 500 for principal estate agents. Intern estate agents are excluded to participate in this programme. During the year under review, a CPD IT system was implemented with about **10 852** estate agents registered to participate in the CPD programme, of which **3 520** were principal estate agents and **7 332** were non-principal estate agents.

### COMPLIANCE

The mandate of the EAAB is two-fold. It is divided into the primary and secondary mandates. The primary mandate of the EAAB as outlined in the Act, 112 of 1976 is to maintain and promote the standard of conduct of estate agents and to regulate the activities of estate agents all in the interest of the public. The secondary mandate is stipulated in the Financial Centre Intelligence Act which designates the EAAB as a Supervisory body for estate agents. The FIC Act places an obligation on the part of the EAAB to ensure compliance with the FIC Act by estate agents. Therefore the Enforcement & Compliance Department is tasked with carrying out this core mandate of the EAAB. The Department receives and investigates complaints from members of the public and follow through with disciplinary proceedings where the evidence received establishes incidents of wrong doing on the part of estate agents. The activities of the Department are informed by the number of complaints the Board receives from members of the public against estate agents. The various sources from which the Board receives complaints are as follows:

1. Post / Mail
2. Email/
3. On-line

4. Fax
5. Walk-in clients
6. Whistle Blower
7. Inspections

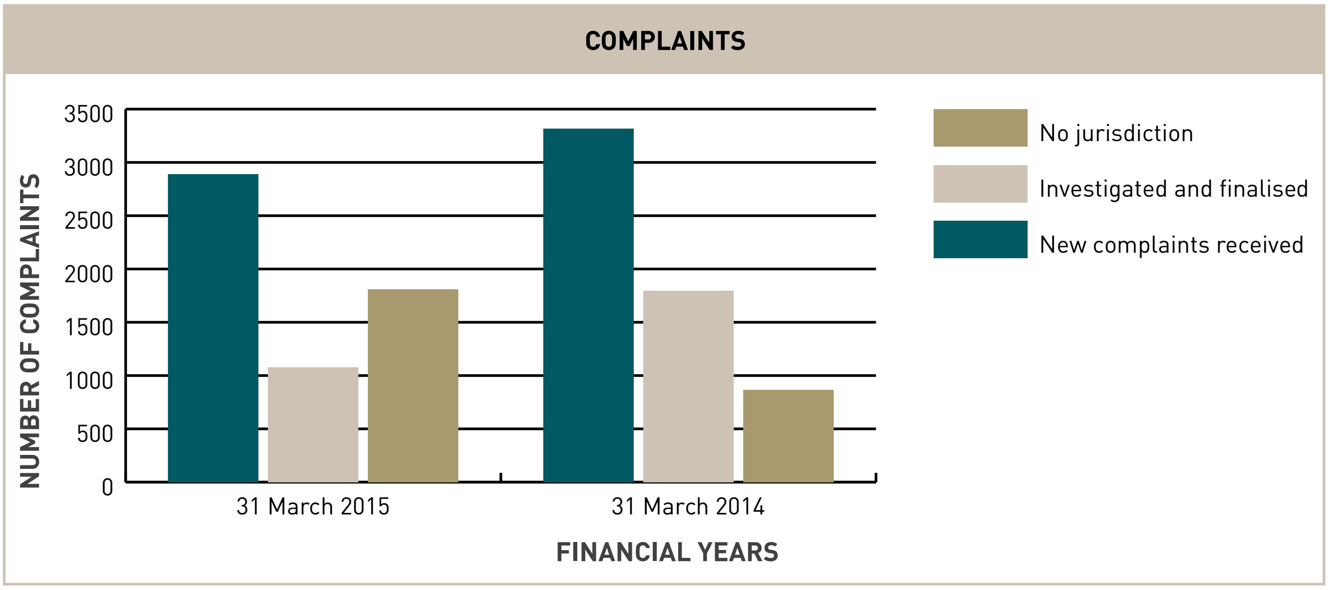
Although the Department was in the period under review inundated with matters relating to the contravention of the Act, particularly matters relating to the late or no submission of the Audit Reports by estate agents, the Section 27 Department was prepared to deal with most of the applications that were lodged by disqualified agencies due to the fact that a number of temporary employees were appointed to assist with the Section 27 applications.

The consumer awareness initiatives that the Board has undertaken through various means including community radio stations, has resulted in more and more consumers becoming aware of their rights which in turn reduced the number of complaints that the Department received from the public. However, the need to reach more consumers remains a challenge that the Board needs to continuously deal with.

During the period under review, the Department received a total number of **2 888** new complaints. A total number of **1 812** new files were opened, of which **1 076** were finalised and the remaining **736** are still under investigation. **1 076** matters were enrolled for hearing by the disciplinary committee which matter resulted in **1 072** convictions and **4** acquittals. **0** appeals were lodged by the respondent estate agents against either the findings or the sentences imposed by the disciplinary committees.

### Complaint Statistics

| CATEGORY | 31 March 2015 | 31 March 2014 |
|---|---|---|
| New complaints received | 2 888 | 3 318 |
| Investigated and finalised | 1 076 | 1 797 |
| No jurisdiction | 1 812 | 868 |
| Pending | 736 | 653 |

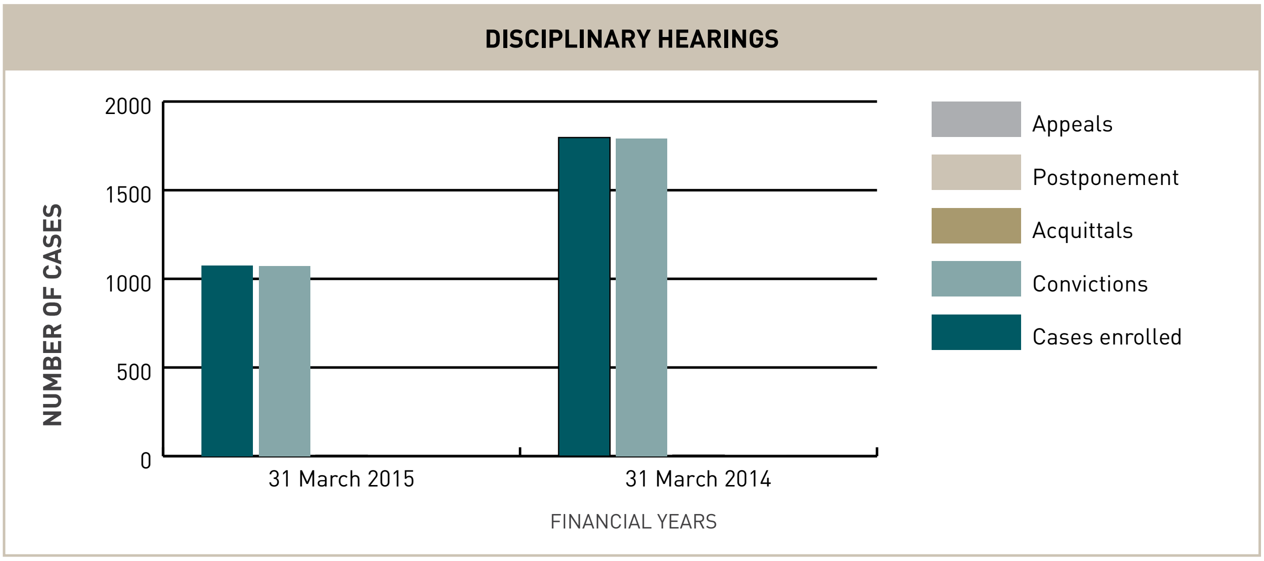



### Complaint statistics

Although convictions were secured in matters relating to contraventions of the code of conduct and the Act in general, the majority of convictions relate to late or non-submission of audit reports by principal estate agents. However, the challenge remains the misappropriation of trust funds by estate agents as well as failure on the part of estate agents to abide by the provisions of the code of conduct. The Department remains optimistic that the insourcing of the Inspectorate Department will go a long way towards ensuring that non-compliant estate agents are inspected and brought to book. The introduction of the Inspectorate Department has led to the effectiveness of the Enforcement & Compliance Department as we are now beginning to see a slight decline in the number of contraventions.

### Disciplinary Hearings

| CATEGORY | 31 March 2015 | 31 March 2014 |
|---|---|---|
| Cases enrolled | 1 076 | 1 797 |
| Convictions | 1 072 | 1 792 |
| Acquittals | 4 | 5 |
| Postponement | 0 | 0 |
| Appeals | 0 | 3 |




### Desired performance of the Unit

It is the aim and objectives of the Enforcement Department to:

- Ensure that 70% of all cases opened and which fall within the disciplinary jurisdiction of the EAAB, are resolved within six months;
- Ensure that 60% of all cases enrolled for hearing by
- Committees of Inquiry result in securing of convictions; and
- Collect 70% of all fines imposed by the Committees of Inquiry on estate agents found guilty of sanctionable conduct.

### Whistle blower reports

The Department continues to receive a large number of whistle blower reports from the members of the public, Home Owners Associations as well as Bodies Corporate.

However, most of these reports are complaints that need to be lodged in the ordinary way by estate agents and more often than not the complainants omit to furnish the Department with sufficient information to deal with the matter effectively. What exacerbates the problem further is the fact that most complainants opt to remain anonymous thereby making it difficult to obtain further information from them. We have also realized that most matters are duplicates because each time the complainants contact the Whistle Blower to enquire about their matters they get a new reference number thereby creating the impression that a certain number of complaints were made only to find that one matter was reported more than once. However, where complaints are lodged with sufficient details the matters will be taken through the normal disciplinary investigations and be set down before a disciplinary committee for hearing eventually. During the period under review **301** whistle blower reports were received. **91** files were opened as a result of such receipt and **210** matters were found to be not within the jurisdiction of the EAAB.

### Problems encountered in providing service

Unregistered estate agents remain a nightmare for the Department. Although the current Act makes it a criminal offence to operate as an estate agent without being issued with a fidelity fund certificate by the Board, lack of cooperation from the SAPS, NPA and, to a certain extent, the Department of Justice makes it almost impossible for the EAAB to effectively root out these illegal operators. In some instances there is lack of cooperation from the complainants themselves especially once they successfully claim from the fund monies misappropriated from them by estate agents. It is difficult to trace unregistered estate agents once complaints are lodged against them and it therefore becomes impossible to bring them before a disciplinary committee. The EAAB still faces the challenge of Conveyancers paying commission over to unregistered estate agents despite the Practice Note that was put in place after consultation with the Law society during the year

2011. We, however, remain optimistic that more stringent measures to curb this problem will be included in the new Bill which is aimed at repealing the current legislation.

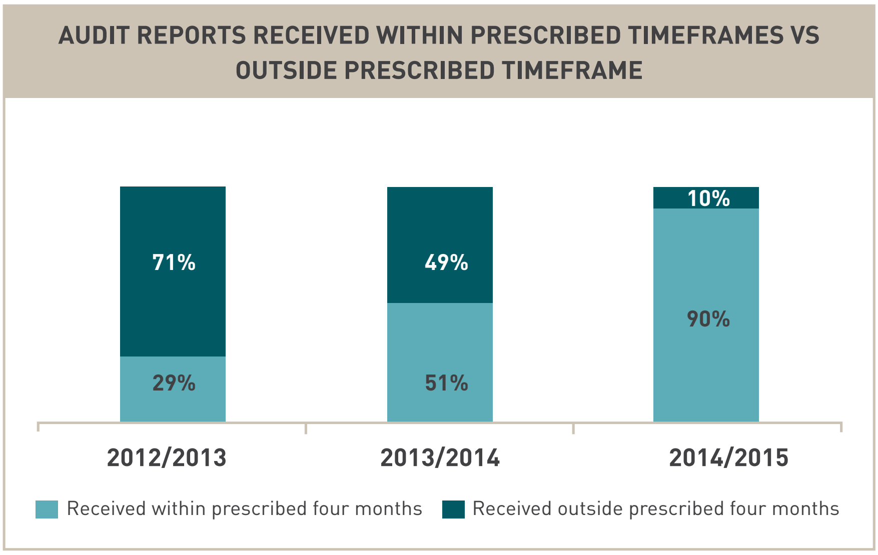
### Key policy developments

Although there has not been any significant policy shift in the Department, we are continuing to revise and review the policies that we currently have in order to ensure that they are up to date and create conducive environment for the Department to carry out its functions effectively and efficiently. Furthermore, the Department is part of the Legislative Review Task Team established by the Ministry of Human Settlements which is working on finding better ways and means of dealing with the challenges faced by the EAAB as a regulator in its endeavour to ensure maximum consumer protection.

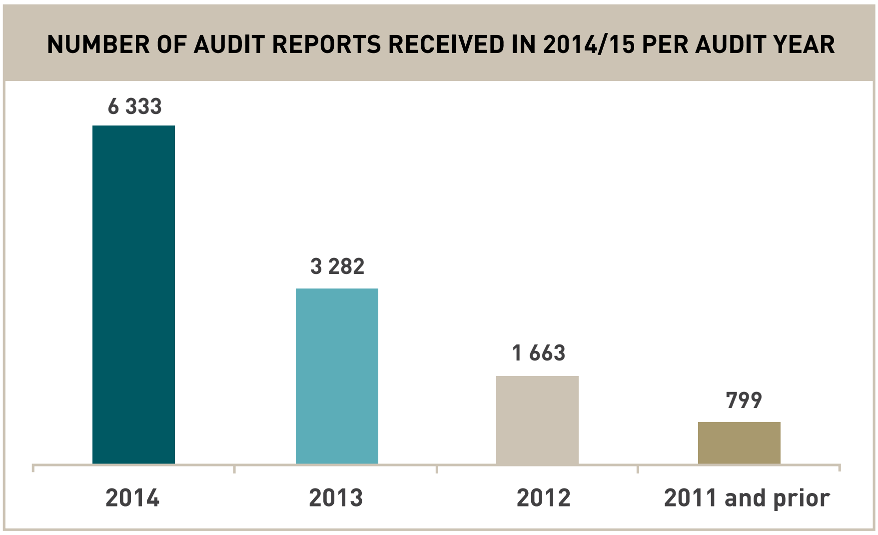
## AUDIT COMPLIANCE

### Improvement In Compliance Levels Relating To Submission of Audit Reports

The measures implemented by EAAB in 2013 to enforce compliance with the legislated audit requirements by disqualifying non-compliant estate agencies has yielded results and increased compliance levels were noted in the 2014/2015 financial year, as indicated below:




During the financial year ended 31 March 2015, a total of 12 077 audit reports were received and these comprised of 6 333 for the 2014 financial year, 5 744 for the financial years prior to 2014 relating to estate agencies who were regularising their registration status by submitting the outstanding audit reports. The table below indicates the breakdown of these 12 077 audit reports per audit year:



### MyEAAB Auditors portal

Towards the end of the 2013/2014 financial year, EAAB introduced the MyEAAB Auditors Portal, a web-based audit report submission portal that can be accessed on the EAAB website.

The MyEAAB Auditors Portal enables the auditors of estate agent firms to register and complete and submit the online audit report on behalf of the estate agent firm. This is in compliance with section 32(4) of the Estate Agency Affairs Act which requires the auditor, to transmit to EAAB, the audit report after the completing the audit. The MyEAAB Auditors Portal is integrated with EAAB's system and audit reports submitted via the portal are in real time uploaded on EAAB's main system.

### New pronouncement

On 1 March 2015, EAAB determined, in terms of section 32(4) of the Estate Agency Affairs Act, the sole manner of submission of audit reports to be the MyEAAB Auditors Portal and with effect from that date, audit reports that were emailed, faxed, hand-delivered or posted were no longer accepted as having been received. This new pronouncement was communicated to all registered auditors through the Independent Regulatory Board for Auditors. The response of the auditors of estate agents has been encouraging and positive.

### Benefits of submitting audit reports online

Some of the benefits embraced by the auditors of estate agents arising from the use of the MyEAAB Auditors Portal are as follows:

- **Online submission is faster and easier to use**. All estate agent details, such as registered and trading names, addresses and trust account details was automatically pre-populated when the estate agency firm PIN number was entered. This reduces the time required to complete the online auditors report and also reduce input errors.
- **Auditors' reports that are submitted online are automatically reviewed to reduce errors.** Errors may result in incomplete auditors' reports and follow up correspondence to estate agents and their auditors. The online submission automatically provides prompts when information appears to be incorrect or has not been entered.
- **Flexibility to provide additional comments.** The online submission provides sufficient flexibility to auditors to accurately describe any basis of audit opinion or any contraventions in detail.
- **Immediate notification of successful submission.** MyEAAB Auditors Portal immediately notifies the principal estate agent and their auditor through an automated email confirmation that the auditors' report has been submitted.
- **No risk of auditors reports being faxed to wrong number or emailed to wrong address or lost in regular mail.** When auditors reports were emailed, posted or submitted at EAAB offices, there was considerable delay between when auditors reports being sent and when there are received and internally processed on EAAB's system and this created anxiety for estate agents and resulted in unnecessary calls and emails to auditors and/or EAAB regarding the status of the auditors' reports.
- **Reducing number of penalties for late submission.** Online submission reduces the number of penalties levied annually for auditors reports not received within the prescribed period of four months.

### Enhancements to the MyEAAB Auditors Portal

Following a post-implementation review, The MyEAAB Auditors Portal is currently being enhanced in order to automate the preliminary audit report verification and the request of additional documentation that may be required on the areas of non-compliance that will be identified during the preliminary verification.

### Disqualification for submission of audit reports outside prescribed timeframe

A number of estate agencies are still being disqualified from being issued with a Fidelity Fund Certificate as a result of failing to submit the audit report within the prescribed four months after the financial year end.

A number of these estate agent firms are currently in the process of applying for the removal of the disqualifications by submitting the outstanding audit reports and paying the applicable penalties and fines.

### Non-complaince issues in submitted audit reports

All non-compliance issues appearing on the auditors reports submitted to the EAAB are carefully assessed to determine materiality. Those aspects found to be of a strictly administrative nature are generally resolved.

However, all contraventions of the provisions of the Estate Agency Affairs Act and/or other legislation are referred to the Enforcement Department for formal investigation and, where necessary, institution of appropriate disciplinary processes.

### Types of non-compliance matters in audit reports

The following non-compliance categories are still being noted in the submitted audit reports;

- Trading illegally without a Fidelity Fund Certificate in contravention of section 26 of the Estate Agency Affairs Act;
- Not submitting audit report to EAAB within 4 months in contravention of section 29(b) of the Estate Agency Affairs Act;
- Operating without a trust account in contravention of sections 32(1) and 32(2) of the Estate Agency Affairs Act;
- Not balancing trust accounting records monthly in contravention of section 32(3)(b) of the Estate Agency Affairs Act;
- Not keeping separate accounting records in contravention of

section 32(3)(a) of the Estate Agency Affairs Act;

- Not administering the trust account in the prescribed manner (deficits or surplus) in contravention of section 32(3)(c) of the Estate Agency Affairs Act;
- Not registering as an accountable institution with Financial Intelligence Centre;
- Not reporting unusual and suspicious transactions to Financial Intelligence Centre;
- Not reporting cash transactions above R25 000 to Financial Intelligence Centre.
- Bank account details for the trust account different from those registered on the EAAB system;
- Business audits not conducted;
- Accounting framework not indicated;
- IT3b certificates reflecting interest earned on trust accounts not provided;
- Audit opinion not expressed; and
- Trust account details not provided.

### Interventions on the non-compliance issues

In order to reduce the number of non-compliance issues in submitted audit reports, EAAB had the following interventions in the 2014/15 financial year:

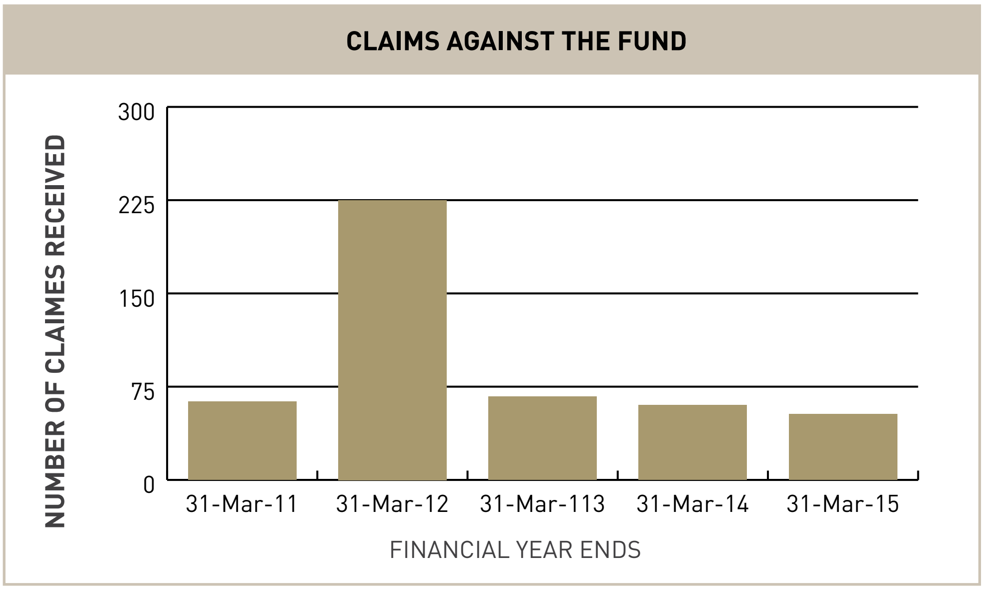
- The Frequently Asked Questions handbook for estate agents was updated with the new commonly asked questions and the relevant answers relating to audit compliance;
- The content being delivered at the Continuing Professional Development (CPD) events relating to audit compliance was developed with a view of placing more emphasis on the common non-compliance matters;
- Frequently Asked Questions specifically relating to auditors of estate agents were developed and communicated to auditors through their regulatory body, the Independent Regulatory Board for Auditors.

## CLAIMS AND SECTION 27 APPLICATIONS

### Claims

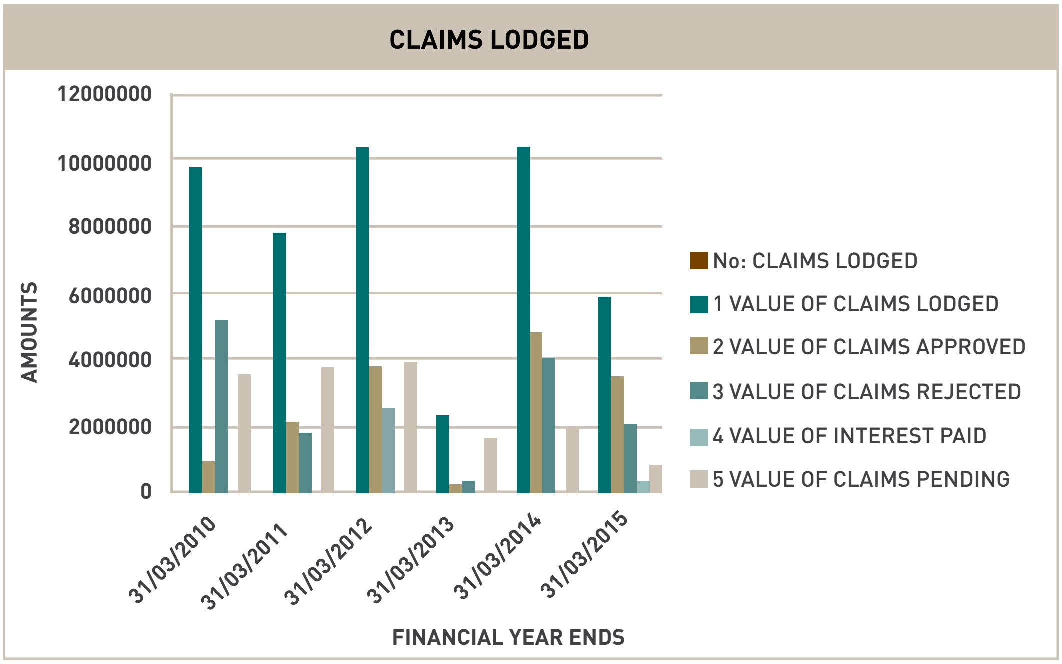
The Estate Agency Affairs Act provides for the establishment and control of the Estate Agency Fidelity Fund, which fund is controlled and managed by the EAAB. One of the purposes of the fund is to reimburse persons who have suffered financial loss as a result of theft of trust monies due to dealings with an Estate Agent. The Board is required to receive claims and investigate them after having completed the investigation. The matter will be placed before a claims committee (sub-committee of the Board) for consideration; the claims committee will then prepare recommendations for submission to the full Board (comprising all Board members) for approval.

| STATISTICS OF NEW CLAIMS AGAINST THE FUND | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Number of claims received | 53 | 60 | 67 | 225 | 63 |




The claims processed against the fidelity fund for the period 2014/2015.

| CLAIMS LODGED | | | | | | |
|---|---|---|---|---|---|---|
| **Claims Statistics (Rand)** | **31-Mar-15** | **31-Mar-14** | **31-Mar-13** | **31 – Mar 12** | **31-Mar-11** | **31-Mar-10** |
| Value of claims lodged | 5 947 783 | 10 447 339 | 2 352 209 | 10 461 075 | 7 852 732 | 9 815 633 |
| Value of claims approved | 3 516 964 | 4 866 526 | 288 600 | 3 849 910 | 2 198 569 | 982 217 |
| Value of claims rejected | 2 151 043 | 4 077 828 | 389 004 | 2 588 229 | 1 846 848 | 5 230 209 |
| Value of claims pending | 870 728 | 2 049 283 | 1 674 605 | 4 022 936 | 3 807 315 | 3 603 207 |



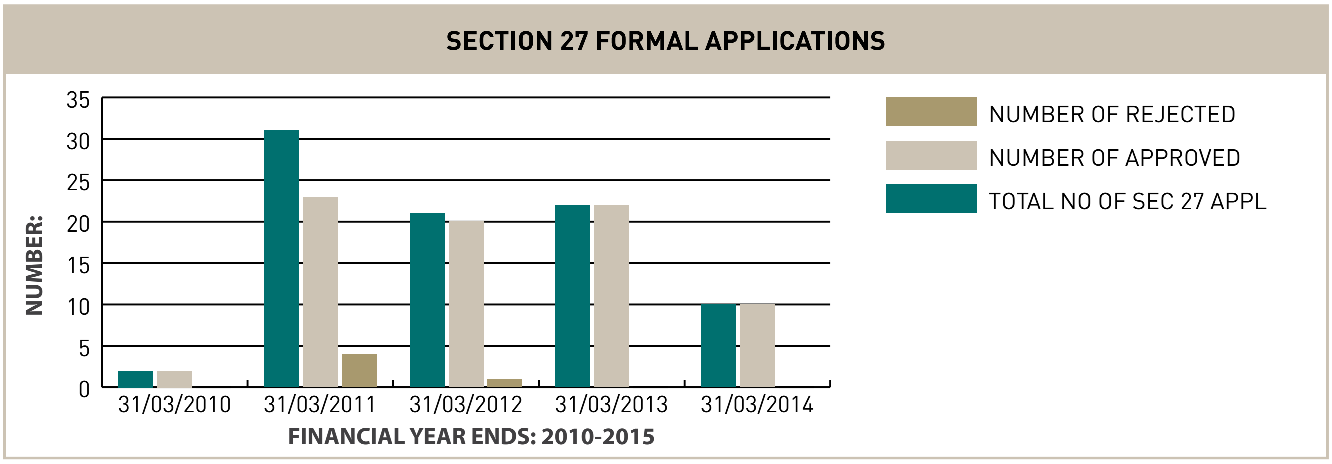

The table above indicates that the Claims, Compliance and Enforcement Committee considered 53 claims with a total rand value of **R5 947 783** and paid out the total rand value of **R3 516 964** inclusive of interest. The claims received by the Board have reduced and this is attributed to controls being put in place and monitoring and reviewing of the claims process.

### Section 27 Applications

Section 27 of the Estate Agency Affairs Act provides for disqualification of estate agents under certain circumstances. However, provided that if in respect of any person who is subject to any disqualification referred to in this section, the board is satisfied that, with due regard to all the relevant considerations, the issue of a fidelity fund certificate to such person will be in the interest of justice, the board may issue, on such conditions as the board may determine, a fidelity fund certificate to such person when he or she applies therefor.

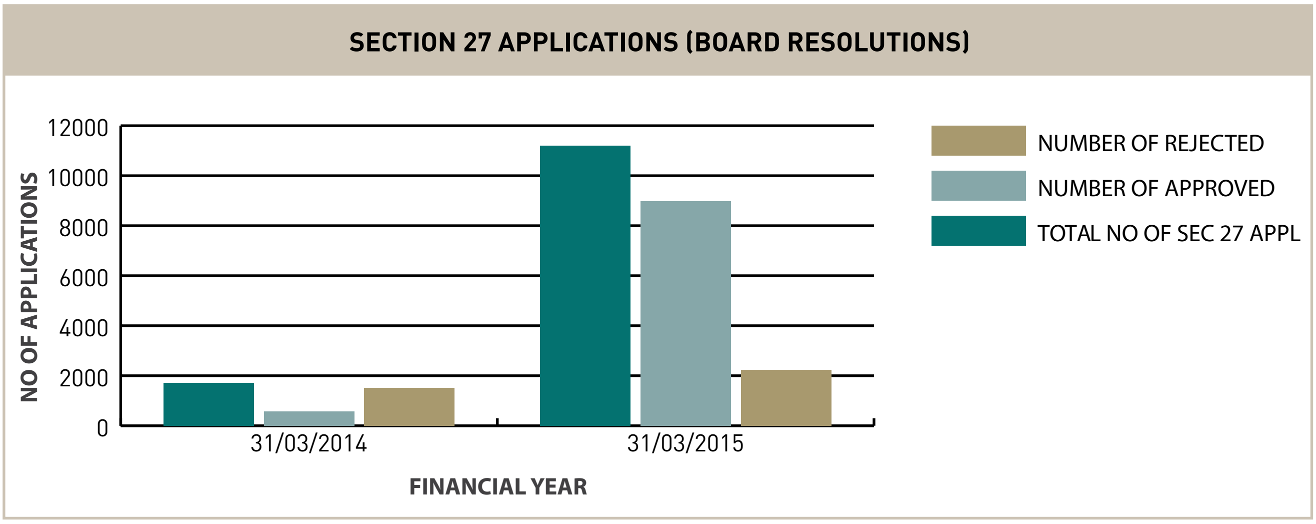
### FORMAL SECTION 27 APPLICATIONS (NON BOARD RESOLUTION)

| NO | DESCRIPTION | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| 1 | TOTAL NO OF SEC 27 APPL | **2** | **31** | **21** | **22** | **10** |
| 2 | NUMBER OF APPROVED | **2** | **23** | **20** | **22** | **10** |
| 3 | NUMBER OF REJECTED | **0** | **4** | **1** | **0** | **0** |




## FORMAL SECTION 27 APPLICATIONS (BOARD RESOLUTION)

| NO | DESCRIPTION | 2014 | 2015 |
|---|---|---|---|
| 1 | TOTAL NO OF SEC 27 APPL | 1 718 | 11 200 |
| 2 | NUMBER OF APPROVED | 570 | 8 974 |
| 3 | NUMBER OF REJECTED | 1 512 | 2 226 |




## INSPECTIONS

The Estate agency affairs board has as one of its mandate to regulate , maintain and promote the standard of conduct of estate agents having due regard to public interest. Section 32A empowers the Board to conduct inspections for the purpose of compliance with the act as well as ethical conduct and transgression of the code of conduct for estate agents.

The EAAB is also responsible for the supervision and enforcement of compliance by Estate Agents with the provision of the financial intelligence Centre act or any order, determination or directive made in terms of the FIC act.

The EAAB has as one of its mandate to conduct inspections in terms of section 32A. The EAAB together with the FIC conduct joint inspections in order to ensure the following:

1. To protect consumers
2. To comply with its mandate in terms of the EAAB Act and FIC Act
3. To improve the responsibility and accountability of all estate agents

4. To curb illegal trading of all those trading without a fidelity fund certificate and to impose disciplinary sanctions
5. To maintain and improved the relationship between the Board, FIC and estate agencies

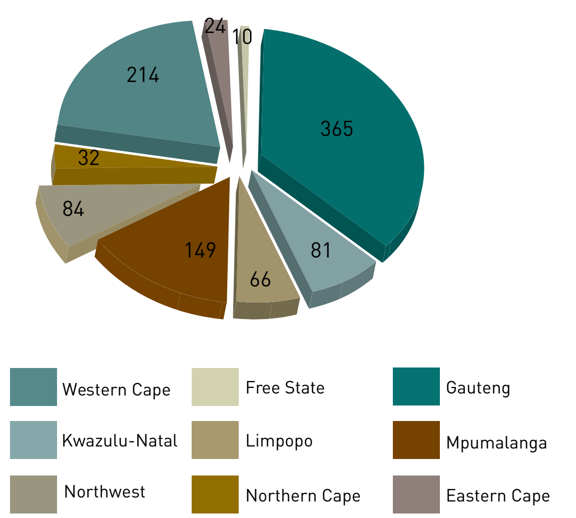
***Programme Of Action 2014/2015***

Our target being a total of 1220 inspections and we completed 1025 inspections. Various contraventions were identified per province. 90 percent of our total target for the year was reached.

### *Total Number Of Inspections Conducted For 2014/2015*

| Item no. | Province | Number of inspections per province | Inspections per province as a % of total |
|---|---|---|---|
| 1 | Eastern Cape | 24 | 2% |
| 2 | Free State | 10 | 1% |
| 3 | Gauteng | 365 | 36% |
| 4 | Kwazulu-Natal | 81 | 8% |
| 5 | Limpopo | 66 | 6% |
| 6 | Mpumalanga | 149 | 15% |
| 7 | Northwest | 84 | 8% |
| 8 | Northern Cape | 32 | 3% |
| 9 | Western Cape | 214 | 21% |
| | **TOTAL** | **1025** | **100%** |

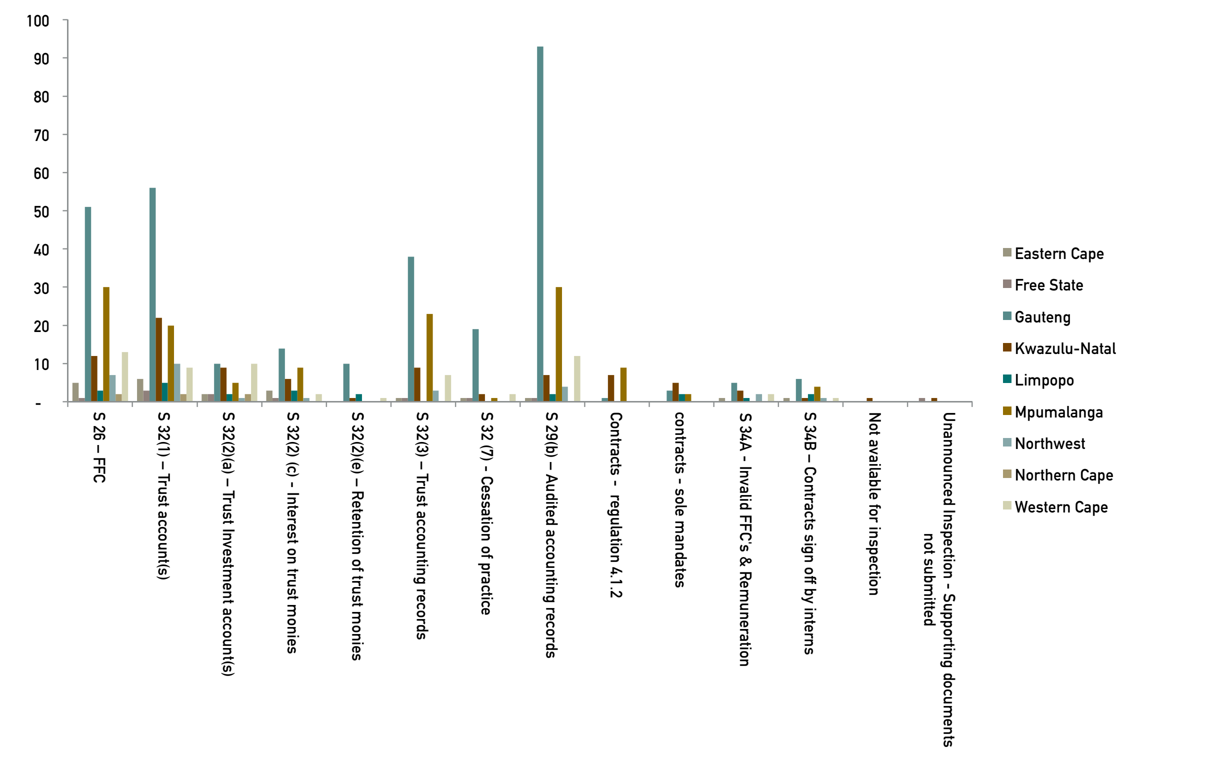
**NUMBER OF INSPECTIONS PER PROVINCE**



### *EAA Act, 112 Of 1976 Contraventions Per Province*

| | Province | S 26 – FFC | S 32(1) – Trust account(s) | S 32(2)(a) – Trust Investment account(s) | S 32(2) (c) - Interest on trust monies | S 32(2)(e) – Retention of trust monies | S 32(3) – Trust accounting records | S 32 (7) - Cessation of practice | S 29(b) – Audited accounting records | Contracts - regulation 4.1.2 | Contracts - sole mandates | S 34A - Invalid FFC's & Remuneration | S 34B – Contracts sign off by interns | Not available for inspection | Unannounced Inspection - Supporting documents not submitted |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Eastern Cape | 5 | 6 | 2 | 3 | - | 1 | 1 | 1 | - | - | 1 | 1 | - | - |
| 2 | Free State | 1 | 3 | 2 | 1 | - | 1 | 1 | 1 | - | - | - | - | - | 1 |
| 3 | Gauteng | 51 | 56 | 10 | 14 | 10 | 38 | 19 | 93 | 1 | 3 | 5 | 6 | - | - |
| 4 | Kwazulu-Natal | 12 | 22 | 9 | 6 | 1 | 9 | 2 | 7 | 7 | 5 | 3 | 1 | 1 | 1 |
| 5 | Limpopo | 3 | 5 | 2 | 3 | 2 | - | - | 2 | - | 2 | 1 | 2 | - | - |
| 6 | Mpumalanga | 30 | 20 | 5 | 9 | - | 23 | 1 | 30 | 9 | 2 | - | 4 | - | - |
| 7 | Northwest | 7 | 10 | 1 | 1 | - | 3 | - | 4 | - | - | 2 | 1 | - | - |
| 8 | Northern Cape | 2 | 2 | 2 | - | - | - | - | - | - | - | - | - | - | - |
| 9 | Western Cape | 13 | 9 | 10 | 2 | 1 | 7 | 2 | 12 | - | - | 2 | 1 | - | - |
| | **Total** | **124** | **133** | **43** | **39** | **14** | **82** | **26** | **150** | **17** | **12** | **14** | **16** | **1** | **2** |

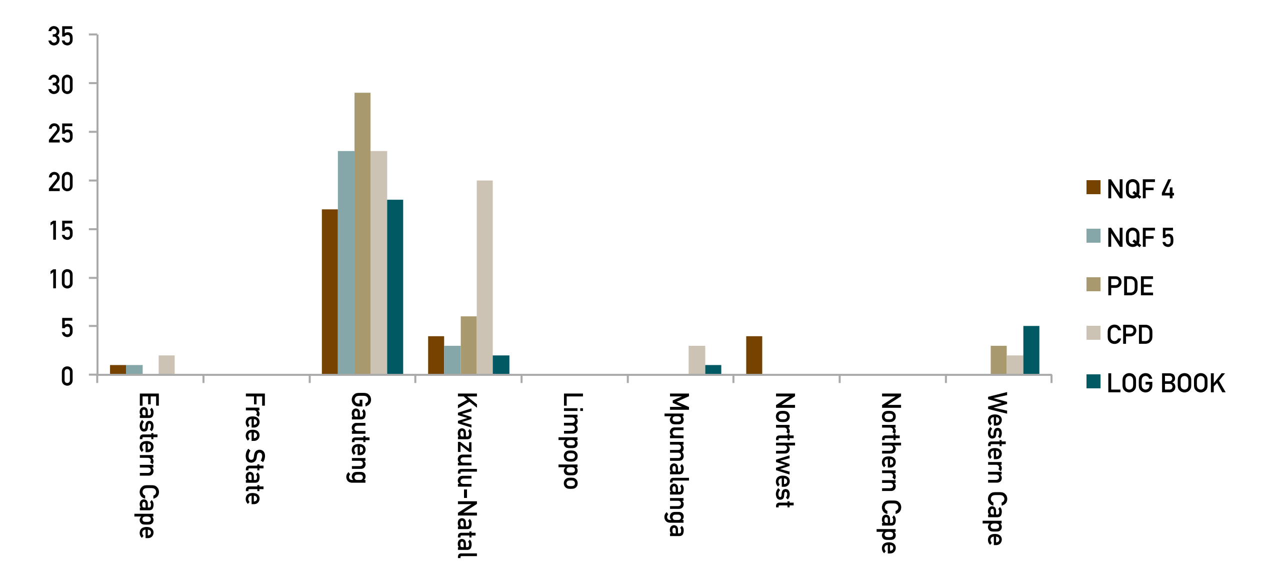
**EAA ACT, 112 OF 1976 CONTRAVENTIONS PER PROVINCE**



***Contraventions (Educational Requirements) Per Province***

| | NQF 4 | NQF 5 | PDE | CPD | LOG BOOK |
|---|---|---|---|---|---|
| Eastern Cape | 1 | 1 | 0 | 2 | 0 |
| Free State | 0 | 0 | 0 | 0 | 0 |
| Gauteng | 17 | 23 | 29 | 23 | 18 |
| Kwazulu-Natal | 4 | 3 | 6 | 20 | 2 |
| Limpopo | 0 | 0 | 0 | 0 | 0 |
| Mpumalanga | 0 | 0 | 0 | 3 | 1 |
| Northwest | 4 | 0 | 0 | 0 | 0 |
| Northern Cape | 0 | 0 | 0 | 0 | 0 |
| Western Cape | 0 | 0 | 3 | 2 | 5 |

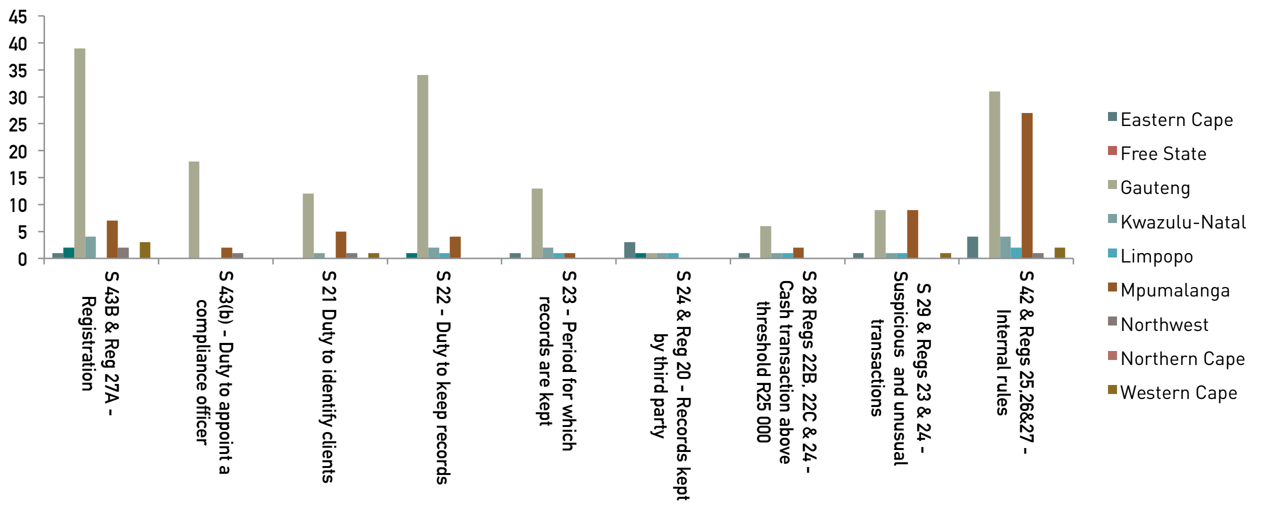
REG 4 CONTRAVENTIONS (EDUCATIONAL REQUIREMENTS) PER PROVINCE



### *FIC Act 38 Of 2001 Contraventions Per Province*

| | Province | S 43B & Reg 27A - Registration | S 43(b) - Duty to appoint a compliance officer | S 21 Duty to identify clients | S 22 - Duty to keep records | S 23 - Period for which records are kept | S 24 & Reg 20 - Records kept by third party | S 28 Regs 22B, 22C & 24 - Cash transaction above threshold R25 000 | S 29 & Regs 23 & 24 - Suspicious and unusual transactions | S 42 & Regs 25,26&27 - Internal rules |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Eastern Cape | 1 | 0 | 0 | 0 | 1 | 3 | 1 | 1 | 4 |
| 2 | Free State | 2 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 0 |
| 3 | Gauteng | 39 | 18 | 12 | 34 | 13 | 1 | 6 | 9 | 31 |
| 4 | Kwazulu-Natal | 4 | 0 | 1 | 2 | 2 | 1 | 1 | 1 | 4 |
| 5 | Limpopo | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 2 |
| 6 | Mpumalanga | 7 | 2 | 5 | 4 | 1 | 0 | 2 | 9 | 27 |
| 7 | Northwest | 2 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 1 |
| 8 | Northern Cape | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 9 | Western Cape | 3 | 0 | 1 | 0 | 0 | 0 | 0 | 1 | 2 |
| | | **58** | **21** | **20** | **42** | **18** | **7** | **11** | **22** | **71** |

**FICA, 38 OF 2001 CONTRAVENTIONS PER PROVINCE**



# INTEGRATED HUMAN CAPITAL MANAGEMENT REPORT

### Introduction

Fundamental to the EAAB strategy, the Board understands that to meet its vision of being world class regulator, it must be resourced with talented, energised and passionate people. For EAAB to become a more people-centred organisation, its focus is on fostering healthy and mutually beneficial relationships with its employees. The reviewed Human Resources strategy (2014 /2015) was approved by the board in January 2015.

### Skills Development

EAAB is committed to promoting a learning culture which enables employees to develop and grow to reach their full potential. EAAB spent R1, 9 million on learning activities during the year under review.

**PIVOTAL Training**: More than R1 million was invested by EAAB to assist 31 employees to further their education during the year, which is a significant uplift from the previous years.

**Skills Programme**: 42 employees were provided an opportunity to develop their skills through various training programmes that they attended.

### Talent Management

**Recruitment:** Attracting top talent remained a key driver of the human resources agenda in 2015 and significant progress has been made in attracting and promoting more talent when compared to other years. Great steps were made in executive and senior management appointments during the year , which included a blend of external appointments and internal promotions to ensure a well-balanced management team.

**Retention and succession planning**: A new talent management system was introduced during the year to identify and develop top talent within the organisation for more effective succession planning. An increase in internal promotions and transfers compared to external appointments was evident during 2014 appointments; this was subsequent to the creation of the promotions and succession planning policy.

### Performance Management

The performance management process is integral to EAAB's culture and a prerequisite for sustainable performance. For the 2014/2015 year-end process more than 82% of employees' in scope completed a performance review.

### Employee Wellness programme

The EAAB had committed itself to addressing the wellness of employees within the context of issues affecting the employee in order to enhance and sustain the quality of life. EAAB had partnered with an EAP service provider to ensure that the Employee Wellbeing Programme (EWP) is aligned with business strategies as well as provide an effective support structure to all employees and managers. A wellness day event which embraces Health Risk Assessments i.e Cholesterol, Glucose, blood pressure, Body Mass index, HIV testing and counselling was held for all staff during the current financial year.

### Human resource policies

A range of policies affirm the EAAB's commitment to recognising an employee's rights and to provide procedures that protect such rights. EAAB continues to foster strong relationships with relevant role players such as the employee unions to ensure that employees' interests are respected and protected. There was a consultation process with the employees in respect of the human resource policies that were reviewed during the financial period such as:

- Housing Allowance Policy
- Succession Planning Policy
- Staff Remuneration Policy
- Recruitment Policy

### Planned action for the 2015/16 period:

Emphasis will continue to be placed on the identified focus areas of the human resources strategy, with particular attention being paid to:

- Experiential learning and on the job training opportunities to students and internal staff

- Improve management and succession planning for internal talent
- Continued focus on enhancing EAAB's employment equity status
- Creating development opportunities through leadership programmes for historically disadvantaged individuals
- Alignment with job descriptions, job grades and remuneration and implementation of personal development plans;
- Development of a retention strategy
- Conducting an employee survey

## HUMAN RESOURCE OVERSIGHT STATISTICS

### Personnel cost by Programme

| Programme | Total expenditure (R'000) | Total personnel per costs (R'000) | Personnel expenditure as a % of Total expenditure | No. of employees | Average personnel costs per employee (R'000) |
|---|---|---|---|---|---|
| | | | | | |
| CEO's office | 18,356 | 9,441 | 51% | 11 | 858 |
| Compliance | 31,357 | 24,367 | 78% | 41 | 594 |
| Education & Training | 9,644 | 7,895 | 82% | 12 | 657 |
| Corporate services | 37,913 | 15,556 | 41% | 31 | 501 |
| | **97,270** | **57,259** | | **95** | |

### Personnel costs per salary band

| Programme | Total personnel costs (R'000) | Personnel expenditure as a % of Total personnel expenditure | No. of employees | Average personnel costs per employee (R'000) |
|---|---|---|---|---|
| | | | | |
| Top Management | 14 657 | 26% | 8 | 1 832 |
| Senior Management | 10 384 | 18% | 10 | 1 038 |
| Professional qualified | 6 581 | 12% | 9 | 731 |
| Skilled | 4 815 | 8% | 9 | 535 |
| Semi- Skilled | 19 771 | 35% | 55 | 363 |
| Unskilled | 851 | 1% | 4 | 213 |
| **Total** | **57 259** | | **95** | **602** |

EAAB remuneration structure is based on fixed annual salary package which an employee can structure over 12 or 13 months.

### Training costs

| Programme | Personnel expenditure (R'000) | Total Training expenditure (R'000) | Training expenditure as a % of Total Personnel expenditure | No. of employees trained | Average training costs per employee |
|---|---|---|---|---|---|
| | | | | | |
| CEO & Strategy | 9,441 | 430 | 5% | 8 | 54 |
| Compliance | 24,367 | 394 | 2% | 16 | 25 |
| Education & Training | 7,895 | 150 | 2% | 9 | 17 |
| Corporate services | 15,556 | 951 | 6% | 11 | 86 |
| **Total** | **57,259** | **1,925** | | **44** | **44** |

## Employment and vacancies

| Programme | 2013/14 No. of employees | 2014/15 Approved posts | 2014/15 No. of employees | 2014/15 Vacancies | % of Vacancies |
|---|---|---|---|---|---|
| | | | | | |
| CEO's office | 7 | 21 | 11 | 10 | 47% |
| Compliance | 34 | 47 | 41 | 6 | 12% |
| Education & Training | 7 | 14 | 12 | 2 | 14% |
| Corporate services | 25 | 37 | 31 | 6 | 16% |
| **Total** | **74** | **119** | **95** | **24** | **20%** |

| Salary Bands | 2013/14 No. of employees | 2014/15 Approved posts | 2014/15 No. of employees | 2014/15 Vacancies | % of Vacancies |
|---|---|---|---|---|---|
| | | | | | |
| Top Management | 7 | 9 | 8 | 1 | 11% |
| Senior Management | 8 | 13 | 10 | 3 | 23% |
| Professional qualified | 1 | 11 | 9 | 2 | 18% |
| Skilled | 6 | 14 | 9 | 5 | 35% |
| Semi- Skilled | 48 | 68 | 55 | 13 | 19% |
| Unskilled | 4 | 4 | 4 | 0 | 0% |
| **Total** | **74** | **119** | **95** | **24** | **20%** |

## Employment changes

| Salary Bands | Employment at the beginning of the period | Appointments | Terminations | Employment at the end of the period |
|---|---|---|---|---|
| Top Management | 7 | 2 | 1 | 8 |
| Senior Management | 7 | 3 | 0 | 10 |
| Professional qualified | 1 | 8 | 0 | 9 |
| Skilled | 6 | 3 | 0 | 9 |
| Semi- Skilled | 48 | 9 | 2 | 55 |
| Unskilled | 4 | 0 | 0 | 4 |
| **Total** | **73** | **25** | **3** | **95** |

## Reasons for leaving EAAB employment

| Reason | Number | % of staff leaving |
|---|---|---|
| | | |
| Death | 0 | 0 |
| Resignation | 1 | 1% |
| Dismissal | 1 | 1% |
| Retirement | 1 | 1% |
| Ill health | 0 | 0 |
| Expiry of contract | 0 | 0% |
| Promoted to higher position | 0 | 0% |
| **Total** | **3** | **3%** |

## Labour relations: Misconduct and Disciplinary

| Reason | Number |
|---|---|
| | |
| Verbal warning | 1 |
| Written warning | 11 |
| Final written warning | 0 |
| Dismissal | 1 |
| **Total** | **13** |

## Employment equity status

| | AFRICAN MALE | | COLOURED MALE | | INDIAN MALE | | WHITE MALE | |
|---|---|---|---|---|---|---|---|---|
| **Skills Level** | **EAAB staff** | **EE Target** | **EAAB staff** | **EE Target** | **EAAB staff** | **EE Target** | **EAAB staff** | **EE Target** |
| | | | | | | | | |
| Top Management | 5 | 5 | 2 | 1 | 0 | 0 | 0 | 1 |
| Senior Management | 4 | 3 | 0 | 0 | 0 | 0 | 0 | 1 |
| Professional qualified | 3 | 3 | 0 | 0 | 0 | 0 | 0 | 1 |
| Skilled | 2 | 5 | 0 | 1 | 1 | 1 | 0 | 0 |
| Semi-skilled | 14 | 12 | 0 | 1 | 0 | 1 | 0 | 0 |
| Unskilled | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **30** | **28** | **2** | **3** | **1** | **2** | **0** | **3** |

## Employment equity status

| | AFRICAN FEMALE | | COLOURED FEMALE | | INDIAN FEMALE | | WHITE FEMALE | |
|---|---|---|---|---|---|---|---|---|
| **Skills Level** | **EAAB staff** | **EE Target** | **EAAB staff** | **EE Target** | **EAAB staff** | **EE Target** | **EAAB staff** | **EE Target** |
| | | | | | | | | |
| Top Management | 1 | 2 | 0 | 0 | 0 | 0 | 0 | 0 |
| Senior Management | 4 | 4 | 0 | 0 | 0 | 1 | 2 | 0 |
| Professional qualified | 5 | 3 | 0 | 0 | 1 | 0 | 0 | 1 |
| Skilled | 6 | 11 | 0 | 2 | 0 | 0 | 0 | 1 |
| Semi-skilled | 38 | 19 | 2 | 2 | 1 | 0 | 0 | 4 |
| Unskilled | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Total** | **56** | **39** | **2** | **4** | **2** | **1** | **2** | **6** |

# CORPORATE GOVERNANCE

### The composition of the Board

The Board consists of fifteen members appointed by the Minister of Human Settlements for a period not exceeding three years, and who are eligible for reappointment, of whom:

- five are members of the estate agents' industry;
- five are from civil society representing the interests of consumer; and
- five are from related professions and institutions such as the legal profession, financial institutions, property owners and developers.

Of the 15 members appointed 13 remained in active office at 1 April 2014. One member vacated office as she had become disqualified from being an estate agent. The other was suspended as a result of having been disqualified from being an estate agent. Of the remaining members, three continued to serve on the Board despite having been disqualified and this was raised by the external auditors in the Audit Report tabled before the Board on the 30th of July 2014. As a result of this being raised as a reportable irregularity, the affected members accordingly vacated their office in accordance to the Estate Agency Affairs Act. As a result of the disqualifications the Board of the EAAB was reduced from its statutorily required number of 15 to the current number of 10 during the 2014/15 financial year. This did not hamper the Board in the performance of its duties nor affect the quorum required to properly constitute meetings of the Board. The quorum for any meeting of the Board is six members. The Board is responsible for providing overall guidance on the strategy, business plan and related affairs of the EAAB. The roles and responsibilities of the Board are further delineated in a Board Charter as well as a Shareholder's Compact. Efforts are currently under way to fill the vacancies on the Board. It is noted that the term of office of the current Board members ends on 31 December 2015.

The Board is obliged to meet at least once in each financial year, during the financial year under review the Board held six meetings, two of which were Special Meetings. An annual Board workshop is also generally convened for the purpose of reviewing the strategic and business plans, the budget and the risk profile of the EAAB.

### Committees

The Board is given the power to appoint committees to advise it on any matters over which it has power. The Estate Agency Affairs Board has appointed the following Committees to assist it in the discharge of its duties: the Claims Committee (as indicated in clause X above); the Audit and Risk Committee; the Finance and Investments Committee; the Education and Committee; the transformation Committee; the Social and Ethics Committee; and the Human Resources and Remunerations Committee.

The Committees are comprised entirely of Board members with Executive Management in attendance by invitation. The Secretary of the Committees is the Company Secretary. The various committees have met frequently during the period under review in discharge of their fiduciary duties. The number of meetings and attendance at such is indicated on the tables below

### Attendance at Board and Committee Meetings for the Year

| **Board Meetings [15 Members]** | | | |
|---|---|---|---|
| **Member** | **Date of Appointment** | **Total Number of Meetings** | **Total Attended** |
| 1. Kwandiwe Kondlo (Chairperson) | 1/ 1/2013 | 5 | 5 |
| 2. Maletsatsi Wotini | 1/ 1/2013 | 5 | 4 |
| 3. Andile Ben-Mazwi | 1/ 1/2013 | 5 | 3 |
| 4. Jill Corfield | 1/ 1/2013 | 5 | 5 |
| 5. Mputumi Damane | 1/ 1/2013 | 5 | 5 |
| 6. Sikander Kajee | 1/ 1/2013 | 5 | 4 |
| 7. Patricia Lebenya | 1/ 1/2013 | 5 | 2 |
| 8. Tshepo Maake | 1/ 1/2013 | 5 | 3 |
| 9. Rhulani Marivate | 1/ 1/2013 | 5 | 0 |

| Board Meetings [15 Members] | | | |
|---|---|---|---|
| **Member** | **Date of Appointment** | **Total Number of Meetings** | **Total Attended** |
| 10. Jabhile Mbele | 1/ 1/2013 | 5 | 3 |
| 11. Leo Mlambo | 1/ 1/2013 | 5 | 3 |
| 12. Dineo Molomo | 1/ 1/2013 | 5 | 0 |
| 13. Bethuel Nsibande | 1/ 1/2013 | 5 | 3 |
| 14. Dina Porteous | 1/ 1/2013 | 5 | 0 |
| 15. Fazel Randera | 1/ 1/2013 | 5 | 3 |

| Chairman's Committee Meetings [10 Members] | | | |
|---|---|---|---|
| **Member** | **Date of Appointment** | **Total Number of Meetings** | **Total Attended** |
| 1. Kwandiwe Kondlo (Chairperson) | 1/02/2013 | 3 | 3 |
| 2. Maletsatsi Wotini | 1/02/2013 | 3 | 2 |
| 3. Mputumi Damane | 1/02/2013 | 3 | 3 |
| 4. Patricia Lebenya | 1/02/2013 | 3 | 2 |
| 5. Fazel Randera | 1/02/2013 | 3 | 2 |
| 6. Tshepo Maake | 1/02/2013 | 3 | 1 |
| 7. Dineo Molomo | 1/02/2013 | 3 | 0 |
| 8. Leo Mlambo | 1/02/2013 | 3 | 1 |
| 9. Sikander Kajee | 1/02/2013 | 3 | 1 |
| 10. Andile Ben-Mazwi | 1/02/2013 | 3 | 1 |

| Audit, Risk and Finance Committee [8 Members] | | | |
|---|---|---|---|
| **Member** | **Date of Appointment** | **Total Number of Meetings** | **Total Attended** |
| 1. Kyansambo Vundla (Chairperson) | 1/02/2013 | 6 | 5 |
| 2. Sikander Kajee | 10/05/2013 | 6 | 5 |
| 3. Moope Mphahlele | 1/02/2013 | 6 | 4 |
| 4. David Bosa | 24/03/2011 | 6 | 5 |
| 5. Putukwane Madisha (Term ended 15/08/2014) | 1/02/2013 | 6 | 1 |
| 6. Mputumi Damane | 15/08/2014 | 6 | 5 |
| 7. Jabhile Mbele | 15/08/2014 | 6 | 0 |
| 8. Bethuel Nsibande (Term ended 15/08/2014) | 10/05/2013 | 6 | 1 |

| Human Resources and Remunerations Committee [6 Members] | | | |
|---|---|---|---|
| **Member** | **Date of Appointment** | **Total Number of Meetings** | **Total Attended** |
| 1. Patricia Lebenya (Chairperson) | 10/05/2013 | 7 | 6 |
| 2. Bethuel Nsibande | 10/05/2013 | 7 | 1 |
| 3. Ewaldina Porteous | 10/05/2013 | 7 | 0 |
| 4. Maletsatsi Wotini | 10/05/2013 | 7 | 7 |
| 5. Tshepo Maake | 10/05/2013 | 7 | 5 |
| 6. Leo Mlambo | 10/05/2013 | 7 | 2 |

| Education and Training Committee [8 Members] | | | |
|---|---|---|---|
| **Member** | **Date of Appointment** | **Total Number of Meetings** | **Total Attended** |
| 1. Fazel Randera (Chairperson) | 10/05/2013 | 3 | 3 |
| 2. Patricia Lebenya | 10/05/2013 | 3 | 2 |
| 3. Maletsatsi Wotini | 15/08/2015 | 3 | 3 |
| 4. Mputumi Damane | 15/08/2015 | 3 | 2 |
| 5. Dineo Molomo | 10/05/2013 | 3 | 0 |
| 6. Ewaldina "Dina" Porteous | 10/05/2013 | 3 | 0 |
| 7. Andile Ben-Mazwi | 10/05/2013 | 3 | 0 |
| 8. Leo Mlambo | 10/05/2013 | 3 | 0 |

| Transformation, Social and Ethics Committee [8 Members] | | | |
|---|---|---|---|
| **Member** | **Date of Appointment** | **Total Number of Meetings** | **Total Attended** |
| 1. Leo Mlambo (Chairperson) | 10/05/2013 | 2 | 2 |
| 2. Fazel Randera | 10/05/2013 | 2 | 1 |
| 3. Patricia Lebenya-Ntanzi | 10/05/2013 | 2 | 2 |
| 4. Andile Ben-Mazwi | 10/05/2013 | 2 | 2 |
| 5. Maletsatsi Maceba Wotini | 10/05/2013 | 2 | 1 |
| 6. Dineo Molomo | 10/05/2013 | 2 | 0 |
| 7. Tshepo Maake | 10/05/2013 | 2 | 1 |
| 8. Jill Corfield | 10/05/2013 | 2 | 1 |

## Governance Statement

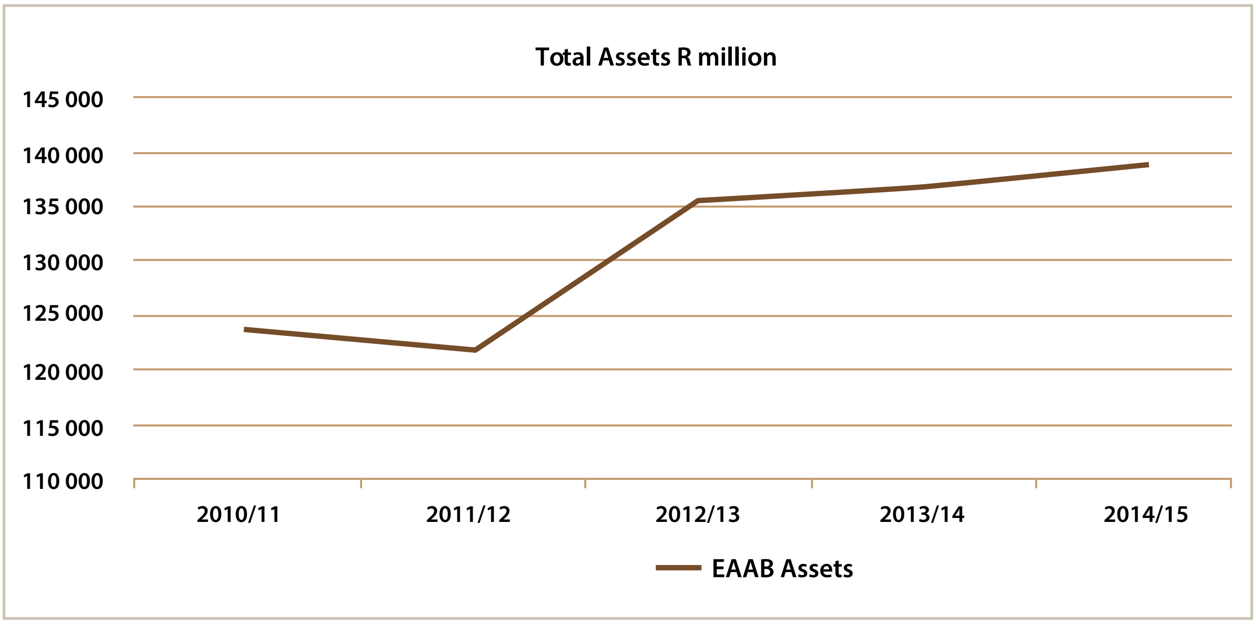
The Estate Agency Affairs Board ("EAAB") remains strongly dedicated to ensuring strict compliance with, amongst others, Public Finance Management Act, 1 of 1999, the Financial Intelligence Centre Act, Treasury Regulations, the Estate Agency Affairs Act, 112 of 1976, and the principles of sound corporate governance. The EAAB has, furthermore, consistently sought to fulfill its statutory regulatory mandate by having due regard to the precepts of responsible decision making, fairness, transparency, accountability and effective leadership.

# FINANCIAL OVERVIEW

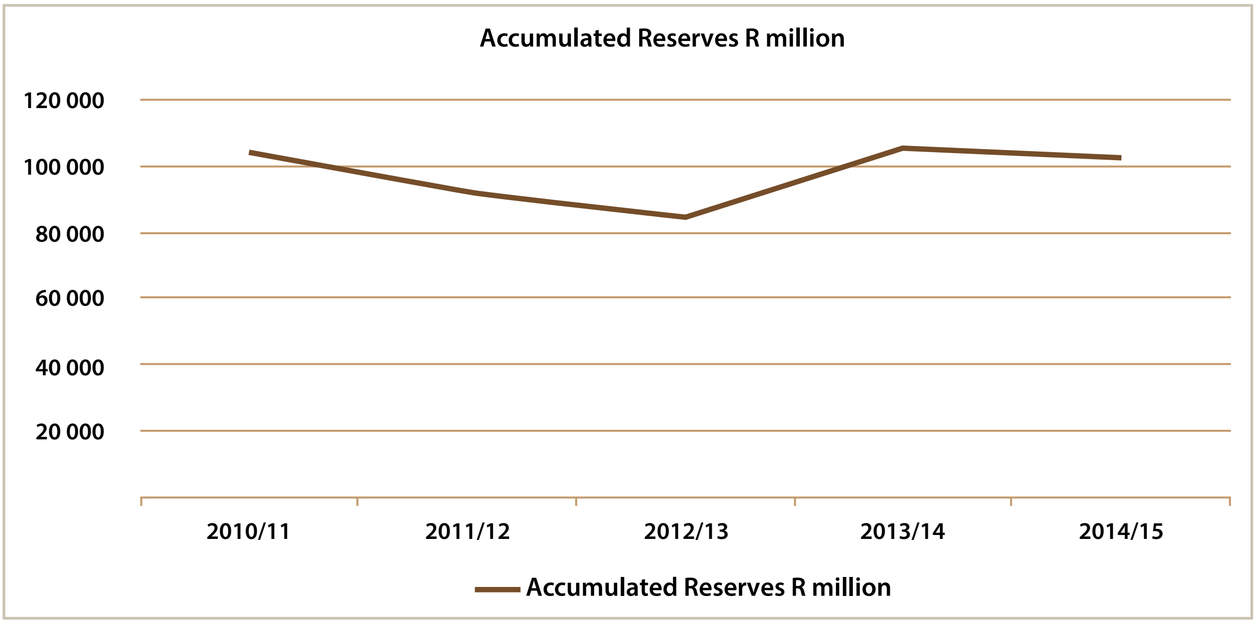
## THE ESTATE AGENCY AFFAIRS BOARD (EAAB)

A financial overview of the five (5) year period ended 31 March 2015 reveals the following key achievements:

(a) Total assets grew by 12% from R123, 944 million to R138, 843 million;




(b) Capital and reserves grew negatively by -2% from R103,972 million to R102,388 million



## The Estate Agency Affairs Board 5 Year Review

| | 2014/15 | 2013/14 | 2012/13 | 2011/12 | 2010/11 |
|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| **INCOME STATEMENT** | | | | | |
| Revenue - Contributions | 17 545 | 16 279 | 18 662 | 18 034 | 17 418 |
| Revenue - Management Fee | 51 409 | 52 253 | 52 983 | 30 535 | 29 250 |
| Revenue - Examinations | 11 630 | 2 541 | 751 | 481 | 808 |
| Other Income | 11 486 | 9 439 | 10 663 | 5 685 | 7 922 |
| Operating Expenditure | (35 744) | (34 243) | (41 516) | (27 060) | (17 380) |
| Depreciation and Impairments | (3 219) | (2 348) | (366) | (1 779) | (2 110) |
| Auditors Remuneration | (1 046) | (1 461) | (1 666) | (1 165) | (941) |
| Employee Costs | (57 260) | (36 560) | (49 990) | (40 872) | (32 075) |
| Forensic Audit Fees | - | - | - | (1 060) | - |
| Investment Income | 2 486 | 2 879 | 5 771 | 5 145 | 5 212 |
| Gain in disposal of non-current assets | 111 | | | | |
| Finance Costs | - | - | (3) | (41) | (84) |
| **Net Surplus/(Deficit)** | **(2 602)** | **8 779** | **(4 711)** | **(12 098)** | **8 020** |
| **BALANCE SHEET** | | | | | |
| Property, Plant and Equipment | 73 596 | 73 377 | 1 738 | 944 | 1 256 |
| Non-current assets held for sale | - | - | - | 18 839 | 18 839 |
| Intangible Assets | 2 323 | 2 055 | 1 963 | 2 041 | 2 099 |
| Retirement Benefit Assets | - | - | - | - | 2 369 |
| Inventories | 129 | 364 | 165 | 59 | 223 |
| Loan Fund - Fidelity Fund | 12 497 | 21 868 | 17 580 | 13 437 | 17 831 |
| Financial Assets | - | 1 355 | 27 450 | 77 193 | 74 859 |
| Trade and other Receivables | 2 272 | 3 940 | 1 428 | 5 558 | 1 978 |
| Bank and Cash | 48 025 | 33 935 | 85 099 | 3 989 | 4 490 |
| **Total Assets** | **138 842** | **136 894** | **135 423** | **122 060** | **123 944** |
| Capital and Reserves | 102 388 | 104 990 | 84 526 | 91 875 | 103 972 |
| Loan Fund - Fidelity Fund | - | - | - | - | - |
| Current Liabilities | 27 220 | 23 681 | 18 593 | 12 873 | 8 920 |
| Non-current Liabilities | 9 234 | 8 223 | 32 304 | 17 312 | 11 052 |
| **Total Equity and Liabilities** | **138 842** | **136 894** | **135 423** | **122 060** | **123 944** |
| **CASH FLOWS** | | | | | |
| Net cash from operating activities | 6 976 | 1 106 | 10 673 | (1 075) | 13 086 |
| Net cash from investing activities | 7 113 | (52 270) | 69 188 | 2 109 | (24 130) |
| Net cash from financing activities | - | - | (80) | (206) | 33 |
| **Total movement for the year** | **14 089** | **(51 164)** | **79 781** | **828** | **(11 011)** |
| Cash at the beginning of the year | 33 936 | 85 099 | 5 318 | 4 490 | 15 501 |
| **Total cash at the end of the year** | **48 025** | **33 935** | **85 099** | **5 318** | **4 490** |

| | 2014/15 | 2013/14 | 2012/13 | 2011/12 | 2010/11 |
|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| **RATIO ANALYSIS** | | | | | |
| % Year on year inclease/(decrease) in total assets | 1% | 1% | 11% | (2%) | 5% |
| ***Profitability and net Asset Management*** | | | | | |
| Asset Turnover (%) | 79% | 68% | 86% | 53% | 46% |
| Return on net Assets (%) | (3%) | 8% | (6%) | (13%) | 8% |
| Current Ratio | 2 | 3 | 7 | 8 | 11 |
| Operating Margin (%) | (3%) | 12% | (7%) | (25%) | 17% |
| ***Performance*** | | | | | |
| % Year on year increase/(decrease) in net surplus/(deficit) | (130%) | (286%) | (61%) | (251%) | (43%) |
| Revenue per employee (R'000) | 848 | 974 | 978 | 645 | 625 |
| Net surplus/(deficit) per employee (R'000) | | | | | |
| Number of employees | 95 | 73 | 74 | 76 | 76 |

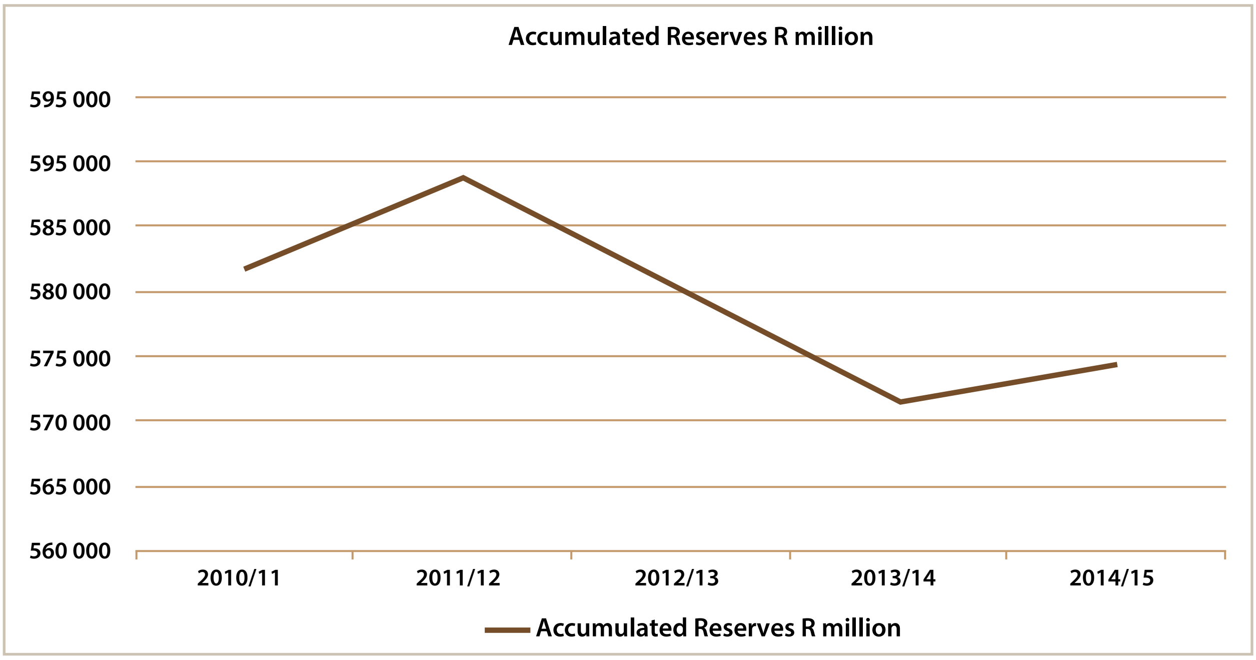
**Ratio Definitions**

| | |
|---|---|
| Net Assets | Total assets less total liabilities |
| Asset Turnover | Revenue divided by net assets |
| Return on net assets | Net surplus as a percentage of net assets |
| Current ratio | Current assets to current liabilities |
| Operating margin | Net surplus/(deficit as a percentage of revenue |

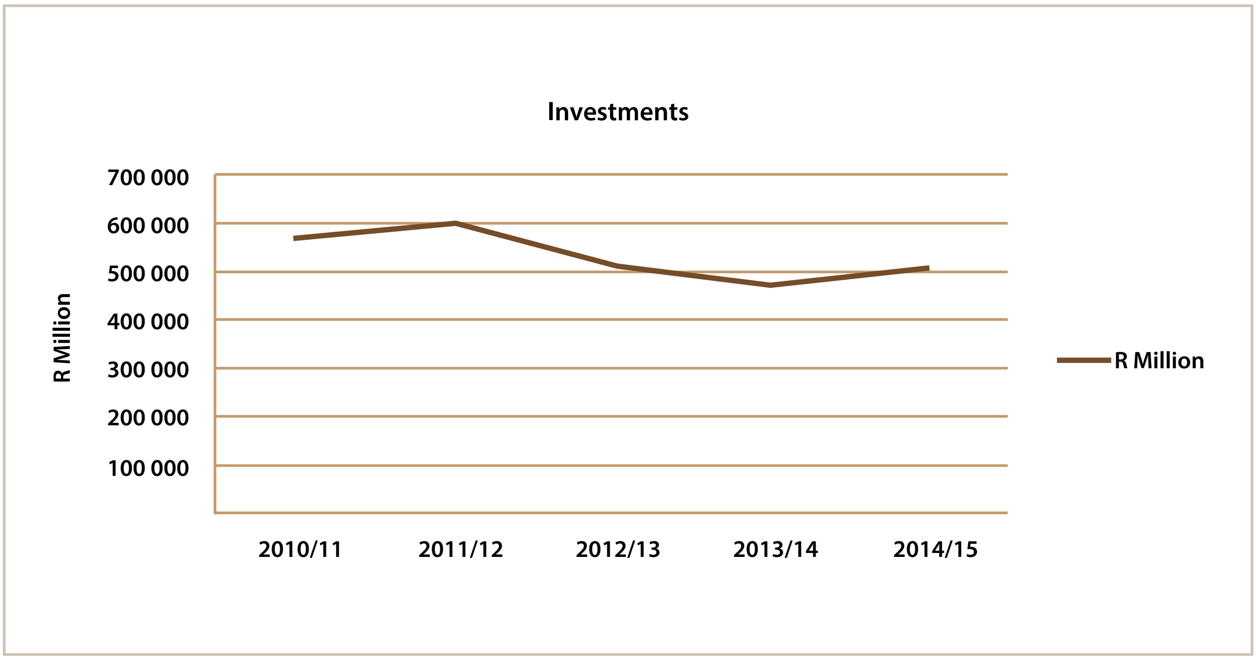
## THE ESTATE AGENTS FIDELITY FUND (EAFF)

A financial overview of the five (5) year period ended 31 March 2015 reveals the following key achievements:

(a) The accumulated reserves of the fidelity fund reduced by -1% over the five (5) year period from R581,611 million to R574, 234 million;




(b) The Investments declined by -11% from R570,922, 085 to R508, 651;



## The Estate Agents Fidelity Fund 5 Year Review

| | 2014/15<br>R'000 | 2013/14<br>R'000 | 2012/13<br>R'000 | 2011/12<br>R'000 | 2010/11<br>R'000 |
|---|---|---|---|---|---|
| **INCOME STATEMENT** | | | | | |
| Revenue - Contributions | 29 357 | 19 737 | 21 796 | 20 987 | 24 539 |
| Other Income | 3 843 | 4 608 | 379 | 4 211 | 8 654 |
| Operating Expenditure | (18 494) | (19 459) | (12 165) | (23 631) | (19 139) |
| Management Fee- EAAB | (51 409) | (52 253) | (52 983) | (30 535) | (29 250) |
| Investment Income | 29 516 | 28 291 | 26 687 | 28 369 | 31 737 |
| Fair Value Adjustments | 10 209 | 9 703 | 8 173 | 7 685 | 7 926 |
| | | - | - | - | - |
| **Net Surplus/(Deficit)** | **3 022** | **(9 373)** | **(8 113)** | **7 086** | **24 467** |
| **BALANCE SHEET** | | | | | |
| Financial Assets | 508 651 | 472 814 | 511 089 | 597 987 | 570 922 |
| Trade and other Receivables | 3 118 | 4 697 | 10 405 | 7 774 | 3 652 |
| Bank and Cash | 85 407 | 127 494 | 86 809 | 2 248 | 29 443 |
| **Total Assets** | **597 176** | **605 005** | **608 303** | **608 009** | **604 017** |
| Capital and Reserves | 574 234 | 571 213 | 580 585 | 588 718 | 581 611 |
| Loan Fund - Fidelity Fund | | | | | |
| Current Liabilities | 22 942 | 33 792 | 27 718 | 19 291 | 22 406 |
| Non-current Liabilities | | | | | |
| **Total Equity and Liabilities** | **597 176** | **605 005** | **608 303** | **608 009** | **604 017** |
| **CASH FLOWS** | | | | | |
| Net cash from operating activities | (16 459) | (7 292) | (10 515) | (7 811) | 48 233 |
| Net cash from investing activities | (25 628) | 47 977 | 95 071 | (19 380) | (33 837) |
| **Total movement for the year** | **(42 087)** | **40 685** | **84 556** | **(27 191)** | **14 396** |
| Cash at the beginning of the year | 127 494 | 86 809 | 2 252 | 29 442 | 15 046 |
| **Total cash at the end of the year** | **85 407** | **127 494** | **86 808** | **2 251** | **29 442** |
| **RATIO ANALYSIS** | | | | | |
| ***Profitability and net Asset Management*** | | | | | |
| Net Assets Value (R'000) | 574 234 | 571 213 | 580 585 | 588 715 | 581 611 |
| Management fee payable to EAAB as a % of net assets | (9%) | (9%) | (9%) | (5%) | (5%) |
| % Year on year inclease/(decrease) in financial assets (Investment) | 8% | (7%) | (15%) | 5% | (6%) |
| % Year on year inclease/(decrease) in total assets | (1%) | (1%) | 0% | 1% | 8% |
| ***Profitability and net Asset Management*** | | | | | |
| Asset Turnover (%) | 12% | 10% | 10% | 10% | 11% |
| Return on net Assets (%) | 1% | (2%) | (1%) | 1% | 4% |
| Current Ratio | 26 | 18 | 22 | 32 | 27 |
| Operating Margin (%) | 4% | (16%) | (14%) | 12% | 38% |

| | 2014/15 | 2013/14 | 2012/13 | 2011/12 | 2010/11 |
|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 |

**Ratio Definitions**

| | |
|---|---|
| Net Assets | Total assets less total liabilities |
| Asset Turnover | Revenue divided by net assets |
| Return on net assets | Net surplus as a percentage of net assets |
| Current ratio | Current assets to current liabilities |
| Operating margin | Net surplus/(deficit as a percentage of revenue |

# ANNUAL PERFORMANCE REPORT – 2014/15

## PROGRAMME 1: COMPLIANCE

### Strategic objective

To improve compliance with the Estate Agency Affairs Act and the Financial Intelligence Centre Act
This performed through:

- Regulating, maintaining and promoting the standard of conduct of estate agents having due regard to the public interest;
- Issue fidelity fund certificates to qualifying applicants;
- Investigate complaints against estate agents and institute disciplinary proceedings against offending estate agents where required;

Processes utilized to meet objectives:

- New Registrations & Renewals processes
- Property Consumer complaints
- Investigations & Disciplinarians
- Inspections

**PROGRAMME 1: COMPLIANCE**

**Strategic Objectives**

- To improve compliance with the Estate Agency Affairs Act.

| PROGRAMME | KEY PERFORMANCE INDICATOR | Actual Achievements 2013/2014 | Planned Targets 2014/2015 | Actual Achievements 2014/2015 | Deviation from planned target to Actual Achievement for 2014/2015 (under)/over performance | Comment on deviations below target. |
|---|---|---|---|---|---|---|
| **Disciplinary** | Number of complaints received investigated and resolved | 634 | 1200 | 1023 | (177) | The number of complaints raised amounted to 2888 The enforcement department was fully capacitated for three quarters of the financial year. |
| **Inspection** | Number of inspections performed | 800 | 1452 | 1107 | (345) | The inspection department was fully capacitated for one quarter of the financial year. |
| **Licensing** | Number of new registration FFC issued | 12484 | 8715 | 6004 | (2711) | The new education and training requirement has reduced the number of new entrants into the Estate Agency sector |
| | Number of renewals FFC issued | 34729 | 52500 | 32900 | (19600) | EAAB was more stringent in issuing Fidelity Fund certificates to Estate Agents which did not submit their Audit reports on time. |
| | Percentage of previously disadvantaged estate agents receiving licences | N/A | 5% | 15% | 10% | Target achieved |

## PROGRAMME 2: CORPORATE SERVICES

### Strategic objective

- To improve the effectiveness and efficiency of the EAAB.
- To increase stakeholder awareness of the EAAB and its role and services

Processes utilized to meet objectives:

- Consumer awareness
- Audit Reports Submission
- Estate Agents awareness
- Information and publication
- Finance and Administration
- Improved customer satisfaction
- Information Technology
- Human Resource Management

**PROGRAMME 2: CORPORATE SERVICES**

**Strategic Objectives**

- To increase stakeholder awareness of the EAAB and its stakeholders
- To effectively and efficiently manage the EAAB

| PROGRAMME | KEY PERFORMANCE INDICATOR | Actual Achievements 2013/2014 | Planned Targets 2014/2015 | Actual Achievements 2014/2015 | Deviation from planned target to Actual Achievement for 2014/2015 (under)/over performance | Comment on deviations |
|---|---|---|---|---|---|---|
| **Stakeholder awareness** | Consumer awareness campaigns performed | 13 | 20 | 22 | 22 | Target achieved. |
| | Estate Agency capacity building campaigns performed | 22 | 16 | 30 | 14 | Target achieved |
| | Number of agent magazine issued | 4 | 4 | 4 | 0 | Target achieved |
| **Administration** | Number of internal and external audit observations raised | N/A | 8 | 20 | 12 | Internal audit findings were mainly raised for the Enforcement and Compliance departments |
| | Number of Board meetings held | N/A | 6 | 5 | (1) | No special Board meeting was held during the financial period. |
| | Percentage of vacancy at EXCO and MANCO | N/A | 10% | 3% | 7% | Target achieved |
| | Percentage of implementation of ICT strategy | N/A | 90% | 80% | (10%) | ICT involved in CPD implementation project more than expected |
| | Percentage of queries received from stakeholders and resolved within 48 hours | N/A | 85% | 93% | 8% | Target achieved |

## PROGRAMME 3: FIDELITY FUND

### Strategic objective

- To improve the sustainability of the Fidelity Fund

Processes utilized to meet objectives:

- Claims approval and payments
- Claims recoveries
- Collection of interest on Trust Accounts from Estate Agents
- Investment of fidelity funds

| PROGRAMME 3: FIDELITY FUND | | | | | | |
|---|---|---|---|---|---|---|
| **Strategic objective**<br>• To improve the sustainability of the Fidelity Fund | | | | | | |
| **PROGRAMME** | **KEY PERFORMANCE INDICATOR** | **Actual Achievements 2013/2014** | **Planned Targets 2014/2015** | **Actual Achievements 2014/2015** | **Deviation from planned target to Actual Achievement for 2014/2015** | **Comment on deviations** |
| **Fidelity Fund Growth** | Value of claims approved | R3,051,254 | Maximum of R5,618,000 | R3 588 179 | (2 029 821) | Target achieved |
| | Interest received from Estate Agents Trust account | R17,085,869 | R23,246,000 | R27 712 420 | 4 466 420 | Target achieved |
| | Percentage of claims recovered by Fidelity Fund | R0 | 30% | 0% | (0%) | There is a difficulty in recovering claims as Estate Agents are mostly untraceable at the time of recovery. |

## PROGRAMME 4: EDUCATIONS AND TRAINING

### Strategic objective

To build capacity of key stakeholders; and professionalize the Estate Agency sector.

This performed through:

Prescribing the Education and Training curricula for Estate Agents through SAQA accredited Real Estate qualifications.

Processes utilized to meet objectives:

- Estate Agents certification – Professional Designation Examination
- Accreditation of RPL service providers
- Provision of study material

| PROGRAMME 4: EDUCATION AND TRAINING | | | | | | |
|---|---|---|---|---|---|---|
| **Strategic Objectives**<br>• To build capacity of key stakeholders | | | | | | |
| **PROGRAMME** | **KEY PERFORMANCE INDICATOR** | **Actual Achievements 2013/2014** | **Planned Targets 2014/2015** | **Actual Achievements 2014/2015** | **Deviation from planned target to Actual Achievement for 2014/2015** | **Comment on deviations** |
| **Education and Training** | Number of NQF Level 4 candidates enrolled and passed PDE 4 | 1266 | 1500 | 472 | (1028) | Estate Agents have delayed the enrollment to sit the exam as the due date to obtain the relevant qualification is set for the 30th of June 2015. |
| **Education and Training** | Number of NQF Level 5 candidates enrolled and passed PDE 5 | 337 | 200 | 127 | (73) | Estate Agents have delayed the enrollment to sit the exam as the due date to obtain the relevant qualification is set for the 30th of June 2015. |
| **Education and Training** | Number of candidates enrolled for the CPD | 0 | 1600 | 8691 | 7091 | Target achieved |

# The Estate Agency Affairs Board and its controlled entity

## Consolidated and Separate Financial Statements

*for the year ended 31 March 2015*

# INDEX

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

# STATEMENT OF RESPONSIBILITY

The Board of the Estate Agency Affairs Board ("EAAB") as the accounting authority is required by the Public Finance Management Act, 1 of 1999, to maintain adequate accounting records and is responsible for the content and integrity of the consolidated and separate financial statements and related financial information included in this report. It is its responsibility to ensure that the consolidated and separate financial statements fairly present the state of affairs of the EAAB 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 are engaged to express an independent opinion on the consolidated and separate financial statements and were given unrestricted access to all financial records and related data.The consolidated and separate 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.

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

The Board acknowledges that it is ultimately responsible for the system of internal financial control established by the EAAB and places considerable importance on maintaining a strong control environment. To enable the Board to meet these responsibilities, the standards were set 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 an acceptable level of risk. These controls are monitored throughout the EAAB and all employees are required to maintain the highest ethical standards in ensuring the EAAB's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the EAAB is on identifying, assessing, managing and monitoring all materials risks across the EAAB. While operating risk cannot be fully eliminated, the EAAB endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Board is of the opinion, based on the information and explanations given by management that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated and separate financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The Board has reviewed the EAAB's cash flow forecast for the year to 31 March 2016 and, in the light of this review and the current financial position, it is satisfied that the EAAB has or has access to adequate resources to continue in operational existence for the foreseeable future.

The consolidated and separate financial statements set out on pages 77 to 118, which have been prepared on the going concern basis, were approved on 31 July 2015 and were signed on its behalf by:

**PROFESSOR KWANDIWE KONDLO**
**CHAIRMAN**

**B S CHAPLOG**
**CHIEF EXECUTIVE OFFICER**

# AUDIT AND RISK COMMITTEE REPORT

We are pleased to present our report for the financial year ended 31 March 2015.

### Audit and risk committee members and attendance

The audit and risk committee consists of the members listed hereunder and met six times during the year in terms of its approved terms of reference. The Chief Executive Officer, Chief Financial Officer and the Chief Risk Officer were invited to attend all meetings of this committee.

| **Audit, Risk and Finance Committee [8 Members]** | | | |
|---|---|---|---|
| **Member** | **Date of Appointment** | **Total Number of Meetings** | **Total Attended** |
| 1. Kyansambo Vundla (Chairperson) | 1/02/2013 | 6 | 5 |
| 2. Sikander Kajee | 10/05/2013 | 6 | 5 |
| 3. Moope Mphahlele | 1/02/2013 | 6 | 4 |
| 4. David Bosa | 24/03/2011 | 6 | 5 |
| 5. Putukwane Madisha (Term ended 15/08 2014) | 1/02/2013 | 3 | 1 |
| 6. Mputumi Damane | 15/08/2014 | 3 | 3 |
| 7. Jabhile Mbele | 15/08/2014 | 3 | 0 |
| 8. Bethuel Nsibande (Term ended 15/08 2014) | 10/05/2013 | 3 | 0 |

### Audit and risk committee responsibility

The audit and risk committee reports that it has complied with its responsibilities arising from section 51(1)(a)(ii) of the PFMA and Treasury Regulation 27.1.

The audit and risk committee also reports that it has adopted appropriate formal terms of reference as its audit and risk 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 system of internal controls applied by the entity over financial and risk management is effective, efficient and transparent. In line with the PFMA and the King III Report on Corporate Governance requirements, Internal Audit provides the audit and risk committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal Auditors, the Audit Report on the consolidated and separate financial statements, and the management report of the external auditors, it was noted that, other than the issues raised in the report of the external auditors,  no matters were reported that indicate any material deficiencies in the system of internal control or any deviations therefrom. Accordingly, we can report that the system of internal control over financial reporting for the period under review was efficient and effective.

### Evaluation of financial statements

The audit and risk committee has:

- reviewed and discussed the audited consolidated and separate financial statements to be included in the annual report, with the external auditors;
- reviewed the external auditors' management report and management's response thereto;
- reviewed the entities compliance with legal and regulatory provisions; and
- reviewed the going concern of the Estate Agency Affairs Board and its controlled entity;

The audit and risk committee concur with and accept the external auditors' report the consolidated and separate financial statements, and are of the opinion that the audited consolidated and separate financial statements should be accepted and read together with the report of the external auditors.

### Internal audit

The internal audit activities were conducted throughout the financial year in accordance with the internal audit plan as approved by the audit and risk committee.

We are therefore satisfied that the internal audit function was operating effectively and that it has addressed the risks pertinent to the entity.

### Independent Audit

We have met with the external auditors to ensure that there are no unresolved issues.

**MS K VUNDLA**
**CHAIRPERSON OF THE AUDIT COMMITTEE**
**DATE: 31 JULY 2015**

# INDEPENDENT AUDITORS' REPORT

### Introduction

We have audited the consolidated and separate financial statements of the Estate Agency Affairs Board of South Africa set out on pages 77 to 118, which comprise the statement of financial position as at 31 March 2015, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting authority's responsibility for the financial statements

The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with Generally Recognised Accounting Practices and the requirements of the Public Finance Management Act, 1 of 1999 of South Africa, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the Estate Agency Affairs Board as at 31 March 2015 and financial performance and cash flows for the year then ended, in accordance with Generally Recognised Accounting Practices and the requirements of the Public Finance Management Act, 1 of 1999 of South Africa.

### Emphasis of Matter

I draw attention to the matter below. My opinion is not modified in respect of this matter to indicate that the opinion is not modified in respect of the matter emphasised.

### Material losses (through criminal conduct) / impairments

As disclosed in note 9 to the financial statements, material losses to the amount of R8 835 358 and R131 512 were incurred as a result of the impairment of trade debtors and loss due to criminal activities by employees respectively.

### Additional matters

The Estate Agency Affairs Board provided supplementary information in the financial statements on whether resources were obtained and used according to the legally adopted budget, in accordance with GRAP 1, Presentation of financial statements. The supplementary budget information set out on pages 81 to 84 does not form part of the financial statements and is presented as additional information. Accordingly, I do not express an opinion thereon.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, we have a responsibility to report findings on the reported performance information against predetermined objectives for the selected objectives presented in the annual report, non-compliance with legislation and internal control. We performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

### Predetermined objectives

1. We performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the Estate Agent Affairs Board of South Africa for the year ended 31 March 2015:
2. To improve compliance with the Estate Agency Affairs Act, Financial Intelligence Act and Property Sector Act;
3. To improve the effectiveness and efficiency of the EAAB and to increase stakeholder awareness of the EAAB and its role and services;
4. To improve the sustainability of the Fidelity Fund; and

To build capacity of key stakeholders; and professionalize the Estate Agency sector

We evaluated the reported performance information against the overall criteria of usefulness and reliability.

We evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

The material findings in respect of the selected objectives are as follows:

### Usefulness of reported performance information

#### *Consistency*

#### Reported objective not consistent with planned objective

Treasury Regulation 30.1.3(g) requires that the strategic/annual performance plan should form the basis for the annual report, therefore requiring consistency of objectives and targets between planning and reporting documents. A total of 25% of the reported objectives are not consistent with those approved in the strategic plan. This was as a result of inadequate review of planned and reported performance information.

#### *Measurability*

#### Performance targets not achievable and specific

The National Treasury *Framework for managing programme performance information (FMPPI)* requires that performance targets be specific in clearly identifying the nature and required level of performance and furthermore the targets should be realistic given existing capacity. A total of 23% of the targets did not meet the SMART criteria.

#### Performance indicators not suitable

The National Treasury *Framework for managing programme performance information (FMPPI)* requires that a good performance indicator should be reliable, well defined, verifiable, cost effective, appropriate and relevant. It was identified that 23% of indicators/measures were not suitable to achieve planned strategic objectives.

### Reliability of reported performance information

We did not raise any material findings on the reliability of the reported performance information for the selected objectives.

**Additional Matter**

We draw attention to the following matters:

**Achievements of planned targets**

Refer to the annual performance report on pages 63 to 66 for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness of the reported performance information for the selected objectives reported in the above-mentioned paragraphs of this report.

**Compliance with laws and legislation**

We performed procedures to obtain evidence that the entity had complied with applicable laws and legislations regarding financial matters, financial management and other related matters. Our findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the Public Audit Act, are as follows:

***Treasury regulations***

Supplier invoices were not settled within 30 days as required by the Treasury Regulations 8.2.3.

The accounting authority did not submit the strategic plan for approval to the relevant authority by 1 April 2014 as required by National Treasury *Framework for managing programme performance information (FMPPI)* and PFMA Act.

***Public Finance Management Act, 1 of 1999***

Debtors collection process was ineffective and contravene PFMA 51(1)(b)(i) TR 31.1.2(a) & (e) regarding revenue collection.

***Estate Agency Affairs Board Act***

The entity has 10 board members instead of 15 as required by section 3 (1) of the Estate Agency Affairs Act.

**Internal control**

We considered internal control relevant to our audit of the consolidated and separate financial statements, annual performance report and compliance with laws and legislation.

The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the findings on non-compliance with laws and legislation included in this report.

**Leadership**

Limited oversight over the financial reporting and compliance with related internal controls.

**Financial and performance management**

Reviewing and monitoring of compliance with laws and regulations was not adequate.

Preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information was not adequate.

Ngubane & Co

**Ngubane & Co. (Jhb) Inc.**
**Registered Auditors**
**Director: Ephraem Sibanda**
**Registered auditor**
**31 July 2015**

# STATEMENT OF FINANCIAL POSITION

| | | Group | | Board | |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| | Notes | R | R | R | R |
| **Assets** | | | | | |
| **Current Assets** | | | | | |
| Inventories | 8 | 129,051 | 364,084 | 129,051 | 364,084 |
| Loan fund - Fidelity Fund | 5 | - | - | 12,497,297 | 21,868,156 |
| Financial assets | 6 | 508,651,316 | 474,168,938 | - | 1,354,526 |
| Trade and other receivables from exchange transactions | 9 | 5,390,983 | 8,636,566 | 2,272,462 | 3,940,115 |
| Cash and cash equivalents | 10 | 133,431,521 | 161,429,725 | 48,024,523 | 33,935,752 |
| | | **647,602,871** | **644,599,313** | **62,923,333** | **61,462,633** |
| **NonCurrent Assets** | | | | | |
| Property, plant and equipment | 3 | 73,595,565 | 73,376,614 | 73,595,565 | 73,376,614 |
| Intangible assets | 4 | 2,322,679 | 2,054,808 | 2,322,679 | 2,054,808 |
| | | **75,918,244** | **75,431,422** | **75,918,244** | **75,431,422** |
| **Total Assets** | | **723,521,115** | **720,030,735** | **138,841,577** | **136,894,055** |
| **Liabilities** | | | | | |
| **Current Liabilities** | | | | | |
| Trade and other payables | 12 | 31,976,390 | 31,313,679 | 22,867,954 | 20,647,509 |
| Provisions | 11 | 5,287,132 | 3,905,614 | 3,950,657 | 2,648,169 |
| Current portion of postretirement medical aid liability | 7 | 401,000 | 385,000 | 401,000 | 385,000 |
| | | **37,664,522** | **35,604,293** | **27,219,611** | **23,680,678** |
| **Non-Current Liabilities** | | | | | |
| Post retirement pension fund liability | 7 | 1,655,000 | 806,000 | 1,655,000 | 806,000 |
| Noncurrent portion of postretirement medical aid liability | 7 | 7,579,000 | 7,417,000 | 7,579,000 | 7,417,000 |
| | | **9,234,000** | **8,223,000** | **9,234,000** | **8,223,000** |
| **Total Liabilities** | | **46,898,522** | **43,827,293** | **36,453,611** | **31,903,678** |
| **Net Assets** | | **676,622,593** | **676,203,442** | **102,387,966** | **104,990,377** |
| **Net Assets** | | | | | |
| Accumulated surplus | | 676,622,593 | 676,203,442 | 102,387,966 | 104,990,377 |

# STATEMENT OF FINANCIAL PERFORMANCE

| | | Group | | Board | |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| | Notes | R | R | R | R |
| Revenue from exchange transaction | 13 | 98,257,784 | 76,550,074 | 80,584,625 | 71,071,487 |
| Other Income | 14 | 15,329,375 | 14,047,276 | 11,486,369 | 94,392,271 |
| Operating expenses | | (51,631,623) | (50,677,042) | (33,747,389) | (31,892,783) |
| Auditors remuneration | | (1,046,482) | (1,461,166) | (1,046,482) | (1,461,166) |
| Depreciation and amortisation | | (3,210,602) | (2,347,825) | (3,210,602) | (2,347,825) |
| Employee costs | 15 | (57,259,623) | (36,559,806) | (57,259,623) | (36,559,806) |
| Board members emoluments | 22 | (1,872,324) | (2,192,516) | (1,872,324) | (2,192,516) |
| Audit committee emoluments | 22 | (125,429) | (156,775) | (125,429) | (156,775) |
| Impairment loss | 16 | (8,954) | - | (8,954) | - |
| **Operating (deficit) surplus** | | **(1,567,878)** | **(2,797,780)** | **(5,199,809)** | **5,899,887** |
| Investment income | | 1,876,472 | 2,204,486 | 2,486,842 | 2,878,904 |
| Gain on disposal of noncurrent assets | | 110,557 | - | 110,557 | - |
| **Surplus (deficit) for the year** | | **419,151** | **(593,294)** | **(2,602,410)** | **8,778,791** |

# STATEMENT OF CHANGES IN NET ASSETS

| | Accumulated surplus | Total net assets |
|---|---|---|
| | R | R |
| **Group** | | |
| **Balance at 01 April 2013** | **676,796,736** | **676,796,736** |
| Deficit for the year | (593,294) | (593,294) |
| **Balance at 01 April 2014** | **676,203,442** | **676,203,442** |
| Surplus for the year | 419,151 | 419,151 |
| **Balance at 31 March 2015** | **676,622,593** | **676,622,593** |
| **Board** | | |
| **Balance at 01 April 2013** | **96,211,586** | **96,211,586** |
| Surplus for the year | 8,778,791 | 8,778,791 |
| **Balance at 01 April 2014** | **104,990,376** | **104,990,376** |
| Deficit for the year | (2,602,410) | (2,602,410) |
| **Balance at 31 March 2015** | **102,387,966** | **102,387,966** |

# CASH FLOW STATEMENT

| | | Group | | Board | |
|---|---|---|---|---|---|
| | | 2015 | 2014 | 2015 | 2014 |
| | Notes | R | R | R | R |
| **Cash flows from operating activities** | | | | | |
| **Receipts** | | | | | |
| Cash received from estate agents and other sources | | 116,982,168 | 93,594,789 | 93,974,226 | 77,798,843 |
| Interest income | | 1,876,472 | 2,204,486 | 2,486,842 | 2,878,904 |
| | | 118,858,640 | 95,799,275 | 96,461,068 | 80,677,747 |
| **Payments** | | | | | |
| Cash paid to suppliers and employee costs | | (108,761,612) | (96,570,088) | (89,484,826) | (79,571,587) |
| **Net cash flows from operating activities** | 18 | **10,097,028** | **(770,813)** | **6,976,242** | **1,106,160** |
| **Cash flows from investing activities** | | | | | |
| Purchase of property, plant and equipment | 3 | (2,693,553) | (73,545,672) | (2,693,553) | (73,545,672) |
| Proceeds from sale of property, plant and equipment | 3 | 133,376 | - | 133,376 | - |
| Purchase of other intangible assets | 4 | (1,052,679) | (532,060) | (1,052,679) | (532,060) |
| Changes in the loan fund | | - | - | 9,370,859 | (4,287,933) |
| Movements of financial assets | | (34,482,378) | 64,370,118 | 1,354,526 | 26,095,766 |
| **Net cash flows from investing activities** | | **(38,095,234)** | **(9,707,614)** | **7,112,529** | **(52,269,899)** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(27,998,206)** | **(10,478,427)** | **14,088,771** | **(51,163,739)** |
| Cash and cash equivalents at the beginning of the year | | 161,429,726 | 171,908,153 | 33,935,75 | 85,099,491 |
| **Cash and cash equivalents at the end of the year** | 10 | **133,431,520** | **161,429,726** | **48,024,523** | **33,935,752** |

# STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

| Budget on Cash Basis | | | | | | |
|---|---|---|---|---|---|---|
| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
| | R | R | R | R | R | |
| **Group** | | | | | | |
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| FFC contributions | 29,519,163 | - | **29,519,163** | 19,106,789 | **(10,412,374)** | Note 1 |
| Interest on trust funds | 23,245,717 | - | **23,245,717** | 27,796,440 | **4,550,723** | Note 2 |
| Investment income | 40,486,623 | - | **40,486,623** | 41,601,461 | **1,114,838** | Note 3 |
| Income from examinations | 5,952,500 | - | **5,952,500** | 11,629,566 | **5,677,066** | Note 4 |
| Claims recoverable | 4,494,000 | - | **4,494,000** | 3,549,305 | **(944,695)** | Note 5 |
| Other income | 9,421,496 | - | **9,421,496** | 11,890,627 | **2,469,131** | Note 6 |
| **Total revenue from exchange transactions** | **113,119,499** | **-** | **113,119,499** | **115,574,188** | **2,454,689** | |
| **Expenditure** | | | | | | |
| Employee costs | (62,117,250) | - | **(62,117,250)** | (57,384,330) | **4,732,920** | Note 7 |
| Board members remuneration | (1,710,000) | - | **(1,710,000)** | (1,872,324) | **(162,324)** | Note 8 |
| Administrative costs | (48,472,409) | - | **(48,472,409)** | (55,898,383) | **(7,425,974)** | Note 9 |
| **Total expenditure** | **(112,299,659)** | **-** | **(112,299,659)** | **(115,155,037)** | **(2,855,378)** | |
| **Surplus (deficit)** | **819,840** | **-** | **819,840** | **419,151** | **(400,689)** | |

# STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
...continued

**NOTES**

Note1: FFC Contributions

FFC Contributions was less than budget due to unexpected delays in the finalisation of increase in levies. It is envisaged that the increased levies would be finalised and gazzetted during the first quarter of the next financial year.

Note 2: Interest on trust funds

This was due to increase in the level of compliance by the firms submitting audit reports on trust funds as per requirement

Note 3: Interest income

More interests were received than budgeted due to an increase in the interest rate (Reserve Bank increased interest rates by 2.5 basis points in July 2014).

Note 4: Examinations

Income from examinations was more than expected due to the income genarated from Continued Professional Development programme ("CPD") as a result of earlier than envisaged full implementation of the CPD programme.

Note 5: Claims recoverable

Claims recoverable were less than budgeted for due to less claims paid and recoverable during the year under review.

Note 6 : Other income

Other income generated was more than budgeted due to more fines and penalties imposed on noncompliant estate agents.

Note 7: Employee costs

The employee costs are below budget due to a number of vacant positions being filled late in the financial year. The financial implication of the new appointments will be seen in the new financial year.

Note 8: Board members remuneration

Board members remuneration was more than budgeted due to more than envisaged number of meetings andngagements during the financial year.

Note 9: Administration costs

Staff training and development (This is attributable to dashboard training that was offered to management and executives as well as corporate governance workshop offered to board members).

Telephone and Telex (This was due to an additional fibre line required to support the call centre operations, to improve efficiency, which was not budgeted for).

Rates and Taxes Building (This was due to an increase in municipal valuation of the EAAB property).

Consultants costs (This was due to inspections that were conducted by Audit firms on behalf of EAAB due to staff shortage at EAAB. The staff capacity has been increased and inspections are now conducted by EAAB employees. The effect of the increased capacity will be seen in the next financial year.)

Legal costs (This was due to protracted legal costs against EAAB (EAAB vs G Madubanya). The case has since been finalized).

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| | R | R | R | R | R | |
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| FFC contributions | 27,977,971 | - | **27,977,971** | 17,545,883 | **(10,432,088)** | Note 1 |
| Management fee | 52,343,919 | - | **52,343,919** | 51,409,176 | **(934,743)** | Note 2 |
| Investment income | 1,568,205 | - | **1,568,205** | 2,486,842 | **918,637** | Note 3 |
| Examinations | 5,952,500 | - | **5,952,500** | 11,629,566 | **5,677,066** | Note 4 |
| Other income | 9,421,496 | - | **9,421,496** | 11,596,926 | **2,175,430** | Note 5 |
| **Total revenue from exchange transactions** | **97,264,091** | **-** | **97,264,091** | **94,668,393** | **(2,595,698)** | |
| **Expenditure** | | | | | | |
| Employee costs | (62,117,250) | - | **(62,117,250)** | (57,384,330) | **4,732,920** | Note 6 |
| Board members remuneration | (1,710,000) | - | **(1,710,000)** | (1,872,324) | **(162,324)** | Note 7 |
| Administrative costs | (33,187,300) | - | **(33,187,300)** | (38,014,149) | **(4,826,849)** | Note 8 |
| **Total expenditure** | **(97,014,550)** | **-** | **(97,014,550)** | **(97,270,803)** | **(256,253)** | |
| **Surplus/(deficit)** | **249,541** | **-** | **249,541** | **(2,602,410)** | **(2,851,951)** | |

## NOTES

Note1: FFC Contributions

FFC Contributions was less than budget due to the unexpected delays in the finalisation of increase levies for FFC contributions. In is envisages that the increased levies would be finalised and gazzetted during the first quarter of the next financial year.

Note 2: Management fee

Budget for management fees is based on the projected growth of the net asset value of the Fidelity Fund. The variance is directly attributable to the budgeted growth not being achieved in the Fidelity Fund.

Note 3: Investment Income

More interest was received than budgeted; due to an increase in the interest rate (Reserve Bank increased interest rates by 2.5 basis points in July 2014).

Note 4: Examinations

Income from examinations was more than expected due to the income genarated from Continued Professional Development programme ("CPD") as a result of earlier than envisaged full implementation of the CPD.

# STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
...continued

Note 5: Other income

Other income generated was more than budgeted due to more fines and penalties imposed on noncompliant estate agents.

Note 6: Employee costs

The employee costs are below budget due to a number of vacant positions being filled late in the financial year. The financial implication of the new appointments will be seen in the new financial year.

Note 7: Board members remuneration

Boar members remuneration was more than budgeted due to more than envisaged number of meetings and ngagements during the financial year.

Note 8: Administration costs

Staff training and development (This is attributable to dashboard training that was offered to management and executives as well as corporate governance workshop offered to board members).

Telephone and Telex (This was due to an additional fibre line required to support the call centre operations, to improve efficiency, which was not budgeted for).

Rates and Taxes Building (This was due to an increase in municipal valuation of the EAAB property).

Consultants costs (This was due to inspections that were conducted by Audit firms on behalf of EAAB due to staff shortage at EAAB. The staff capacity has been increased and inspections are now conducted by EAAB employees. The effect of the increased capacity will be seen in the next financial year.)

Legal costs (This was due to protracted legal costs against EAAB (EAAB vs G Madubanya). The case has since been finalized).

# ACCOUNTING POLICIES

### 1. Basis of preparation

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, 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, are disclosed below.

These accounting policies are consistent with the previous period.

### 1.1 Going concern assumption

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

### 1.2 Consolidation

#### Basis of consolidation

Consolidated financial statements are the financial statements of the Group presented as those of a single entity.

The consolidated financial statements incorporate the financial statements of the Board and its controlled entity, Estate Agents Fidelity Fund ("EAFF") presented as those of a single entity.

Control exists when the Board has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The results of controlled entities, are included in the consolidated financial statements from the effective date of acquisition or date when control commences to the effective date of disposal or date when control ceases. The difference between the proceeds from the disposal of the controlled entity and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the controlled entity recognised in net assets in accordance with the Standard of GRAP on The Effects of Changes in Foreign Exchange Rates, is recognised in the consolidated statement of financial performance as the surplus or deficit on the disposal of the controlled entity.

An investment in an entity is accounted for in accordance with the Standards of GRAP on Financial Instruments from the date that it ceases to be a controlled entity, unless it becomes an associate or a jointly controlled entity, in which case it is accounted for as such. The carrying amount of the investment at the date that the entity ceases to be a controlled entity is regarded as the fair value on initial recognition of a financial asset in accordance with the Standards of GRAP on Financial Instruments.

The financial statements of the EAAB and its controlled entity used in the preparation of the consolidated financial statements are prepared as of the same reporting date.

When the reporting dates of the controlling entity and a controlled entity are different, the controlled entity prepares, for consolidation purposes, additional financial statements as of the same date as the controlling entity unless it is impracticable to do so. When the financial statements of a controlled entity used in the preparation of consolidated financial statements are prepared as of a reporting date different from that of the controlling entity, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the controlling entity's financial statements. In any case, the difference between the reporting date of the controlled entity and that of the controlling entity shall be no more than three months. The length of the reporting periods and any difference in the reporting dates is the same from period to period.

Adjustments are made when necessary to the financial statements of the controlled entities to bring their accounting policies in line with those of the controlling entity.

All intraentity transactions, balances, revenues and expenses are eliminated in full on consolidation.

## 1.3 Property, plant and equipment

Property, plant and equipment are tangible noncurrent 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 nonexchange 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 nonmonetary asset or monetary assets, or a combination of monetary and nonmonetary 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.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Land and buildings are revalued every three years.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.
Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

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

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

| **Item** | **Average useful life** |
|---|---|
| Land | Indefinite |
| Buildings | 40 50 years |
| Furniture and fixtures | 10 15 years |
| Motor vehicles | 5 11 years |
| Office equipment | 3 10 years |
| Computer equipment | 3 10 years |

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

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 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.

### 1.4 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 economic 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 economic entity; and
- the cost or fair value of the asset can be measured reliably.

The economic 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 nonexchange 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.

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** |
|---|---|
| Patents, trademarks and other rights | 5 -15 years |
| Computer software, internally generated | 5 - 15 years |

### 1.5 Financial instruments

#### Classification

The entity classifies financial assets and financial liabilities into the following categories:

- Financial instruments at fair value
- Financial instruments at cost
- Financial instruments at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is reassessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

#### Initial recognition and measurement

#### Intial recognition

The entity recognises a financial asset or a financial liability in its Statement of Financial Position when, and only when, the entity becomes a party to the contractual provisions of the instrument.

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of a financial liability, a financial asset or a residual interest.

Financial instruments are evaluated, based on their terms, to determine if those instruments contain both liability and residual interest components (i.e. to assess if the instruments are compound financial instruments). To the extent that an instrument is in fact a compound instrument, the components are classified separately as financial liabilities and residual interests as the case may be.

#### Initial measurement

Financial instruments are measured initially at fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as availableforsale financial assets.

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

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

### Subsequent measurement

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

All financial assets and financial liabilities are measured after initial recognition using the following categories:

### Financial Instrument at fair value.

Financial instruments at fair value are subsequently measured at fair value, based on the quoted prices in an active market, unless the market for a financial instrument is not active, in which case the entity establishes a fair value using a valuation techniques.

- Derivatives.
- Compound instruments that are designated at fair value i.e. an instrument that includes a derivative and a nonderivative host contract.
- Instruments held for trading.
- Nonderivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition.
- An investment in a residual interest for which fair value can be measured reliably.

Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

### Financial instruments at amortised cost

Nonderivative financial assets or nonderivative financial liabilities that have fixed or determinable payments, excluding those instruments that the entity designates at fair value at initial recognition or are held for trading.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method

### Financial instruments at cost

Investments in residual interests, which do not have quoted market prices and for which fair value cannot be determined reliably.The entity assesses which instruments should be subsequently measured at fair value, amortised cost or cost, based on the definitions of financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost as set out above.

Financial instruments at cost are subsequently measured at cost.

### Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entityspecific inputs.

### Impairment of financial assets

At each end of the reporting period the entity assesses all financial assets ( amortised / cost ) other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

The entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant.

### 1.5 Financial instruments (Continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.In the case of equity securities classified as availableforsale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for availableforsale financial assets, the cumulative loss  measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit  is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

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

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as availableforsale.
Impairment losses are also not subsequently reversed for availableforsale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

#### Gain and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit. For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired or through the amortisation process.

#### Offsetting

The entity does not offset financial assets and financial liabilities in the Statement of Financial Position unless a legal right of setoff exists and the parties intend to settle on a net basis.

#### Derecognisition

A financial asset is derecognised at trade date, when: The cash flows from the asset expire, are settled or waived; a) Significant risks and rewards are transferred to another party; or b) Despite having retained significant risks and rewards, the entity has transferred control of the asset to another entity.

#### Loans to (from) economic entities

These include loans to and from controlling entities, fellow controlled entities, controlled entities, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortised cost.

### Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value plus transaction costs that are directly attributable to the acquisition, subsequently stated at amortised cost using the effective interest rate method, less provision for impairment. 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.

Trade and other receivables are classified as loans and receivables.

### Payables from exchange transactions

Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition, 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 , cash with the banks and  demand deposits. Cash equivalents are short term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

## 1.6 Tax

### Tax expenses

Estate Agency Affairs Board is a schedule 3, Part A Public Entity and is therefore, exempt from VAT and Income tax.

## 1.7 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.
When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

### Operating leases  lessee

Operating lease payments are recognised as an expense on a straightline 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.

## 1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a nonexchange 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 economic 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 weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the economic 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 writedown of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the writedown or loss occurs. The amount of any reversal of any writedown 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.

### 1.9 Non-current assets held for sale and disposal groups

Noncurrent assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Noncurrent assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A noncurrent asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

### 1.10 Employee benefits

#### Short-term employee benefits

The cost of shortterm employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and nonmonetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of nonaccumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Defined benefit plans

The Board provides a defined benefit pension plan for the benefit of its employees.

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

The defined benefit liability or asset recognised in the financial statements represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets.

Any net asset recognised is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reduction in future contributions that the entity is entitled to in terms of section 15E of the Pension Funds Act.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.
Actuarial gains and losses are recognised immediately in income or expense in the period the benefits are vested, otherwise they are recognised when it is probable that the expense will be incurred.

Surplus or deficit on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The defined benefit asset or obligation recognised is recognised as the net difference between the value of the plan assets and plan liabilities and also taking past service cost into consideration.

Plan assets included in the defined benefit plan asset or liabilities recognised are measured at their fair values. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of any defined benefit asset recognised is limited to the sum of any past service costs and actuarial gains and losses not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

### Other post retirement obligations

The entity provides postretirement health care benefits upon retirement to some retirees.

The entitlement to postretirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations annually.

## 1.11 Provisions and contingencies

Provisions are recognised when:

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

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

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

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

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.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.
A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the economic entity.

No obligation arises as a consequence of the sale or transfer of an operation until the economic entity is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 20.

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 prespecified terms and conditions.

The economic 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; and
- 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 economic 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 economic entity considers that an outflow of economic resources is probable, an economic entity recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- 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.

### 1.12 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrues to the entity directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable, excluding indirect taxes, rebates and discounts.

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.

#### Recognition

Revenue from exchange transactions is only recognised once all of the following criteria have been satisfied:

a) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
b) The amount of revenue can be measured reliably; and
c) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Fidelity Fund Certificates (FFC) revenue is derived from levies paid for the issuing of FFC's in the course of ordinary activities as prescribed by the Estate Agency Affairs Act 112 of 1976 and approved by the Minister of Trade and Industry.Revenue is recognised when persuasive evidence exists, usually in the form of an FFC issued in terms of the Estate Agency Affairs Act, that the significant risks and rewards of ownership have been transferred to the estate agent, recovery of the consideration is probable, the associated costs of the FFC can be estimated reliably, there is no continuing management involvement with the FFC once issued, and the amount of the revenue can be measured reliably.

Revenue from FFC is recognised when the fidelity fund certificate is issued.

Revenue from CPD is recognised when estate agents enrolled and paid.

#### Measurement

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

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.

#### Sale of study guides

Revenue from the sale of study guides is recognised when all the following conditions have been satisfied:

- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- 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; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

### 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 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.

Revenue from management fees is recognised in surplus or deficit when services are rendered and the value of service rendered can be measured reliably.

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

### Interest, royalties and other income

Revenue arising from the use by others of entity assets yielding interest and royalties is recognised when:

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.

Penalties charged to agents on the late renewal of an FFC are recognised upon issue of the FFC.

Penalties on the late submission of auditors reports are recognised when cash is received.

Advertising fee is recognised when the advertisement is published.

All other income is recognised when the related FFC is issued.

### 1.13 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.

### 1.14 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 year 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.

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.

### 1.15 Standards, amendments to standards and interpretations issued but not yet effective

The standards of GRAP and / or amendments disclosed in the notes of the annual financial statements which have been issued by the Accounting Standards Board will only become effective in future periods or have not been given an effective date by the Minister of Finance. The entity has not earlyadopted any of these new Standards or amendments thereto, but has referred to them for guidance in the development of accounting policies in accordance with GRAP 3 as read with Directive 5.

### 1.16 Budget information

Economic Entity is 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 economic 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 programmes linked to performance outcome objectives.
The approved budget covers the fiscal period from 2014/04/01 to 2015/03/31.

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

The 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.

### 1.17 Related parties

The economic entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government.

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

### 1.18 Use of estimates

The preparation of the entity's financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the entity's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on the management's best knowledge of the current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### 1.19 Significant judgements, estimates and assumptions

The key assumptions concerning the future and other key sources of estimation at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### Impairment of non financial assets

The entity assesses whether there are any indicators of impairment for all non financial assets at each reporting date. Indefinite life intangibles are tested for impairment annually and other times when such indicators exist. Other non financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

#### Useful lives and residual values

The useful lives and residual values of property, plant and equipment and intangibles are reviewed at each balance sheet date. These useful lives and residual values are estimated by management based on historic analysis and other available information and any changes noted are accounted for as changes in accounting estimates. Changes in estimates that are not due to errors are processed in the period of the review and applied prospectively.

#### Fair values

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entityspecific inputs. Where nterest is not accrued, estimates and judgments is required for interest rate to be used.

#### Provisions

Provisions are measured as the present value of the estimated future outflow required to settle the obligations. In the process of determining the best estimate of the amounts that will be required in the future to settle the provision management consideres the weighted avarage probability of the potential outcomes of the provision raised.This measurement entails determining what the different potential outcomes are for a provision as well as the financial impact of each of those potential outcomes.

Provisions were raised and management determined an estimate based on the information available.

Additional disclosure of these estimates of provisions are included in note 11.

#### Allowance for doutful debts.

An impairment is recognised for estimated losses firstly on an individually significant trade receivable and, secondly, on a group of trade receivables with similar credit risk that are assessed to be impaired based on objective evidence as a result of one or more events that occurred during the reporting period. For estate agents who have defaulted, management makes judgments based on the assessment of their ability to make payments based on credit worthiness and historical write off experience. Should the financial condition of the estate agent change, actual write offs could differ from impairment

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

### Pension and other postemployment benefits

Postemployment benefits offered by the entity take the form of defined benefit plans.The cost of defined benefit pension plans, other postemployment medical benefits, and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its longterm nature, a defined benefit obligation is highly sensitive to changes in these assumptions. Allassumptions are reviewed at each reporting date.

### Depreciation and amortisation

Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management's estimation of the asset's condition, expected condition at the end of the period of use, its current use, and expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life.

| | Group | | Board | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | R | R | R | R |

## 2. New standards and interpretations

### 2.1 Standards and interpretations issued, but not yet effective

The following Standards of GRAP and / or amendments thereto have been issued by the Accounting Standards Board, but will only become effective in future periods or have not been given an effective date by the Minister of Finance. The EAAB has not early adopted any of these new Standards or amendments thereto, but has referred to them for guidance in the development of accounting policies in accordance with GRAP 3 as read with Directive 5:

| | |
|---|---|
| GRAP 20: | Related Party Disclosure. No effective date has been determined and no impact. |
| GRAP 32: | Standard of GRAP on Service Concession Arrangements: Grantor. No effective date has been determined and no impact. |
| GRAP 108: | Statutory Receivables. No effective date has been determined and no impact. |
| GRAP 105: | Transfer of Functions Between Entities Under Common Control. No effective date has been determined and no impact. |
| GRAP 106: | Transfer of Functions Between Entities Under Common Control. No effective date has been determined and no impact. |
| GRAP 107: | Merges. No effective date has been determined and no impact. |

### 3. Property, plant and equipment

| Group | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 15,925,800 | - | 15,925,800 | 15,925,800 | - | 15,925,800 |
| Buildings | 57,516,716 | (2,726,653) | 54,790,063 | 56,870,240 | (1,301,313) | 55,568,927 |
| Furniture and fixtures | 1,692,265 | (999,462) | 692,803 | 1,573,906 | (936,633) | 637,273 |
| Motor vehicles | 513,360 | (36,616) | 476,744 | 236,397 | (192,659) | 43,738 |
| Office equipment | 1,932,079 | (1,001,718) | 930,361 | 1,150,044 | (569,615) | 580,429 |
| Computer equipment | 2,231,343 | (1,451,549) | 779,794 | 1,744,894 | (1,124,447) | 620,447 |
| **Total** | **79,811,563** | **(6,215,998)** | **73,595,565** | **77,501,281** | **(4,124,667)** | **73,376,614** |

| Board | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 15,925,800 | - | 15,925,800 | 15,925,800 | - | 15,925,800 |
| Buildings | 57,516,716 | (2,726,653) | 54,790,063 | 56,870,240 | (1,301,313) | 55,568,927 |
| Furniture and fixtures | 1,692,265 | (999,462) | 692,803 | 1,573,906 | (936,633) | 637,273 |
| Motor vehicles | 513,360 | (36,616) | 476,744 | 236,397 | (192,659) | 43,738 |
| Office equipment | 1,932,079 | (1,001,718) | 930,361 | 1,150,044 | (569,615) | 580,429 |
| Computer equipment | 2,231,343 | (1,451,549) | 779,794 | 1,744,894 | (1,124,447) | 620,447 |
| **Total** | **79,811,563** | **(6,215,998)** | **73,595,565** | **77,501,281** | **(4,124,667)** | **73,376,614** |

| | Group | | Board | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | R | R | R | R |

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

### Reconciliation of property, plant and equipment - Group - 2015

| | | | | | | |
|---|---|---|---|---|---|---|
| Buildings | 55,568,927 | 646,476 | - | (1,425,340) | - | 54,790,063 |
| Furniture and fixtures | 637,273 | 192,616 | (21,874) | (115,212) | - | 692,803 |
| Motor vehicles | 43,738 | 511,479 | (16,180) | (62,293) | - | 476,744 |
| Office equipment | 580,429 | 782,035 | - | (432,103) | - | 930,361 |
| Computer equipment | 620,447 | 560,947 | (1,802) | (390,844) | (8,954) | 779,794 |
| | **73,376,614** | **2,693,553** | **(39,856)** | **(2,425,792)** | **(8,954)** | **73,595,565** |

### Reconciliation of property, plant and equipment - Group - 2014

| | Opening balance | Additions | Depreciation | Total |
|---|---|---|---|---|
| Land | - | 15,925,800 | - | 15,925,800 |
| Buildings | - | 56,870,240 | (1,301,313) | 55,568,927 |
| Furniture and fixtures | 559,531 | 185,715 | (107,973) | 637,273 |
| Motor vehicles | 80,504 | - | (36,766) | 43,738 |
| Office equipment | 429,676 | 267,587 | (116,834) | 580,429 |
| Computer equipment | 668,508 | 296,330 | (344,391) | 620,447 |
| | **1,738,219** | **73,545,672** | **(1,907,277)** | **73,376,614** |

### Reconciliation of property, plant and equipment - Board - 2015

| | Opening balance | Additions | Disposals | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|
| Land | 15,925,800 | - | - | - | - | 15,925,800 |
| Buildings | 55,568,927 | 646,476 | - | (1,425,340) | - | 54,790,063 |
| Furniture and fixtures | 637,273 | 192,616 | (21,874) | (115,212) | - | 692,803 |
| Motor vehicles | 43,738 | 511,479 | (16,180) | (62,293) | - | 476,744 |
| Office equipment | 580,429 | 782,035 | - | (432,103) | - | 930,361 |
| Computer equipment | 620,447 | 560,947 | (1,802) | (390,844) | (8,954) | 779,794 |
| | **73,376,614** | **2,693,553** | **(39,856)** | **(2,425,792)** | **(8,954)** | **73,595,565** |

### Reconciliation of property, plant and equipment - Board - 2014

| | Opening balance | Additions | Depreciation | Total |
|---|---|---|---|---|
| Land | - | 15,925,800 | - | 15,925,800 |
| Buildings | - | 56,870,240 | (1,301,313) | 55,568,927 |
| Furniture and fixtures | 559,531 | 185,715 | (107,973) | 637,273 |
| Motor vehicles | 80,504 | - | (36,766) | 43,738 |
| Office equipment | 429,676 | 267,587 | (116,834) | 580,429 |
| Computer equipment | 668,508 | 296,330 | (344,391) | 620,447 |
| | **1,738,219** | **73,545,672** | **(1,907,277)** | **73,376,614** |

| | Group | | Board | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | R | R | R | R |

## 4. Intangible assets

| Group | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Intellectual property | 781,837 | (662,262) | 119,575 | 781,837 | (551,885) | 229,952 |
| Computer software | 6,371,851 | (4,168,747) | 2,203,104 | 5,319,172 | (3,494,316) | 1,824,856 |
| **Total** | **7,153,688** | **(4,831,009)** | **2,322,679** | **6,101,009** | **(4,046,201)** | **2,054,808** |

| Board | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Intellectual property | 781,837 | (662,262) | 119,575 | 781,837 | (551,885) | 229,952 |
| Computer software | 6,371,851 | (4,168,747) | 2,203,104 | 5,319,172 | (3,494,316) | 1,824,856 |
| **Total** | **7,153,688** | **(4,831,009)** | **2,322,679** | **6,101,009** | **(4,046,201)** | **2,054,808** |

**Reconciliation of intangible assets - Group - 2015**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Intellectual property | 229,952 | - | (110,377) | 119,575 |
| Computer software | 1,824,856 | 1,052,679 | (674,431) | 2,203,104 |
| | **2,054,808** | **1,052,679** | **(784,808)** | **2,322,679** |

**Reconciliation of intangible assets - Group - 2014**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Intellectual property | 156,367 | - | 73,585 | 229,952 |
| Computer software | 1,806,930 | 532,060 | (514,134) | 1,824,856 |
| | **1,963,297** | **532,060** | **(440,549)** | **2,054,808** |

**Reconciliation of intangible assets - Board - 2015**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Intellectual property | 229,952 | - | (110,377) | 119,575 |
| Computer software | 1,824,856 | 1,052,679 | (674,431) | 2,203,104 |
| | **2,054,808** | **1,052,679** | **(784,808)** | **2,322,679** |

| | Group | | Board | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | R | R | R | R |

**4. Intangible assets (continued)**

**Reconciliation of intangible assets - Board - 2014**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Intellectual property | 156,367 | - | 73,585 | 229,952 |
| Computer software | 1,806,930 | 532,060 | (514,134) | 1,824,856 |
| | **1,963,297** | **532,060** | **(440,549)** | **2,054,808** |

**Change in estimate**

The EAAB re-assessed the useful life and residual values of its intangible assets during the year. This has led to a change in estimate on the useful life of some of the intangible assets. This has led to a decrease in armotisation for the year of R22 878. The effect in the subsequent financial year will result in an increase in armotisation of R324 156.

**5. Loan fund - Fidelity Fund**

**Managed and controlled entities**

| | Group 2015 | Group 2014 | Board 2015 | Board 2014 |
|---|---|---|---|---|
| Estate Agents Fidelity Fund | - | - | 12,497,297 | 21,868,156 |

This represents the outstanding balances resulting from the transactions between the Estate Agency Affairs Board and the Estate Agents Fidelity Fund. These balances are payable monthly and the interest is charged on the outstanding balance at the average interest rate earned by the Estate Agents Fidelity Fund from its investments.

**6. Financial assets**

**At fair value**

| | Group 2015 | Group 2014 | Board 2015 | Board 2014 |
|---|---|---|---|---|
| Liberty Life | 127,634,465 | 117,425,947 | - | - |

This investments consist of Liberty Life's unlisted property fund, with returns derived from rental and capital appreciation generated from the underlying assets. This investment is renewable on a monthly basis and has an everage return of 10.54% per annum.

| | Group | | Board | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | R | R | R | R |
| **6. Financial assets(continued5)** | | | | |
| **At amortised cost** | | | | |
| First National Bank | - | 1,354,526 | - | 1,354,526 |
| Consist of short-term fixed deposits invested for eight months, interest payable at an average rate of 5.72% per annum. | | | | |
| Nedbank | 166,605,794 | 156,630,846 | - | - |
| Consists of fixed deposits invested for twenty four months, interest payable monthly at a rate of 6.50% per annum. | | | | |
| Absa | 84,955,918 | 29,278,334 | - | - |
| Consist of fixed deposits invested for a period between three and six months, interest payable monthly at a rate of 6.27% per annum. | | | | |
| Investec | 104,719,669 | 144,743,815 | - | - |
| Consist of fixed deposits invested for twenty four months, interest payable monthly at a rate of 6.75% per annum. | | | | |
| Standard Bank | 24,735,470 | 24,735,470 | - | - |
| Consist of fixed deposits invested for twenty four months, interest payable monthly at a rate of 6.86% per annum. | | | | |
| | **381,016,851** | **356,742,991** | **-** | **1,354,526** |
| **Current assets** | | | | |
| At fair value | 127,634,465 | 117,425,947 | - | - |
| At amortised cost | 381,016,851 | 356,742,991 | - | 1,354,526 |
| | **508,651,316** | **474,168,938** | **-** | **1,354,526** |

## 7. Employee benefit obligations

### Defined benefit plan

The Board provides a defined benefit plan to its employees. Both the employer and the employees fund these plans, taking into account the recommendations of the independent actuaries where relevant. The defined benefit plan, to which 51% (2014: 86%) belong, consists of the Estate Agency Affairs Board Pension Fund governed by the Pension Fund Act of 1956. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on 11 May 2015 by Mr. T.W. Doubell, a fellow of the Faculty of Actuaries of South Africa. The present value of the defined benefit obligation, and the related current service costs, were measured using the projected unit credit method.

| | Group | | Board | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | R | R | R | R |

## 7. Employee benefit obligations (continued)

**The amounts recognised in the statement of financial position are as follows:**

| | | | | |
|---|---|---|---|---|
| **Carrying value** | | | | |
| Present value of the defined benefit obligation-wholly unfunded | 94,658,000 | 76,130,000 | 94,658,000 | 76,130,000 |
| Fair value of plan assets | (96,313,000) | (76,936,000) | (96,313,000) | (76,936,000) |
| | **(1,655,000)** | **(806,000)** | **(1,655,000)** | **(806,000)** |

**Changes in the present value of the defined benefit obligation are as follows:**

| | | | | |
|---|---|---|---|---|
| Opening balance | 76,936,000 | 68,329,000 | 76,936,000 | 68,329,000 |
| Current service costs | 6,054,000 | 7,089,000 | 6,054,000 | 7,089,000 |
| Interest costs | 7,150,000 | 5,647,000 | 7,150,000 | 5,647,000 |
| Benefits paid | (1,832,000) | (1,835,000) | (1,832,000) | (1,835,000) |
| Actuarial (gain)/loss at end of year | 8,005,000 | (2,294,000) | 8,005,000 | (2,294,000) |
| | **96,313,000** | **76,936,000** | **96,313,000** | **76,936,000** |

**Net expense recognised in the statement of financial performance**

| | | | | |
|---|---|---|---|---|
| Current service cost | 6,054,000 | 7,089,000 | 6,054,000 | 7,089,000 |
| Interest cost | 7,150,000 | 5,647,000 | 7,150,000 | 5,647,000 |
| Actuarial (gains) losses | 8,005,000 | (606,000) | 8,005,000 | (606,000) |
| Curtailment | (223,000) | (14,301,000) | (223,000) | (14,301,000) |
| Actual return on plan assets | (13,267,000) | (3,323,000) | (13,267,000) | (3,323,000) |
| | **7,719,000** | **(5,494,000)** | **7,719,000** | **(5,494,000)** |

**Changes in the fair value of plan assets are as follows:**

| | | | | |
|---|---|---|---|---|
| Opening balance | 76,130,000 | 55,208,000 | 76,130,000 | 55,208,000 |
| Current year contributions | 7,039,000 | 6,256,000 | 7,039,000 | 6,256,000 |
| Contributions underpaid | - | 1,965,000 | - | 1,965,000 |
| Current year benefits paid | (1,832,000) | (1,835,000) | (1,832,000) | (1,835,000) |
| Current year expense, taxes and premiums paid | (1,238,000) | (1,217,000) | (1,238,000) | (1,217,000) |
| Withdrawal benefits unpaid | - | (1,688,000) | - | (1,688,000) |
| Current year interest | 7,072,000 | 4,560,000 | 7,072,000 | 4,560,000 |
| Asset adjustments | 1,821,000 | 14,301,000 | 1,821,000 | 14,301,000 |
| Actuarial gain/(loss) | 5,666,000 | (1,420,000) | 5,666,000 | (1,420,000) |
| | **94,658,000** | **76,130,000** | **94,658,000** | **76,130,000** |

| | Group | | Board | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | R | R | R | R |

## 7. Employee benefit obligations (continued)

### Key assumptions used

Assumptions used at the reporting date:

| | | | | |
|---|---|---|---|---|
| Discount rates used | 8.80% | 9.29% | 8.80% | 9.29% |
| Expected rate of return on assets | 8.80% | 9.29% | 8.80% | 9.29% |
| Expected increase in salaries | 7.94% | 8.14% | 7.94% | 8.14% |
| Expected pension increases | 6.00% | 6.00% | 6.00% | 6.00% |
| Marital status at retirement age | 90.00% | 90.00% | 90.00% | 90.00% |

### Post retirement medical aid benefit

It is the policy of the entity to provide retirement benefits to employees who were at the employ of the EAAB or members of its medical aid on or before 30 June 1996. Six of the EAAB current employees and nine pensioners are covered under this plan.

The most recent actuarial valuations of the post employment medical aid benefits were carried out on 11 May 2015 by Mr. T.W. Doubell, a fellow of the Actuarial Society of South Africa. The present value of the liability, and the related current service cost and past service cost, were measured using the projected unit credit method and with reference to PGN301, the relevant professional guidance of the Actuarial Society of South Africa.

The plan is a final salary post employment medical benefit plan.

| | | | | |
|---|---|---|---|---|
| Current portion of post-retirement medical aid liability | 401,000 | 385,000 | 401,000 | 385,000 |
| Non-current portion of post-retirement medical aid liability | 7,579,000 | 7,417,000 | 7,579,000 | 7,417,000 |
| | **7,980,000** | **7,802,000** | **7,980,000** | **7,802,000** |

### Post retirement medical aid benefit obligation

| | | | | |
|---|---|---|---|---|
| Opening balance | 7,802,000 | 7,886,000 | 7,802,000 | 7,886,000 |
| Interest costs | 747,000 | 648,000 | 747,000 | 648,000 |
| Current service costs | 149,000 | 139,000 | 149,000 | 139,000 |
| Subsidy payments | (393,000) | (388,000) | (393,000) | (388,000) |
| Actuarial (gain)/loss | (325,000) | (483,000) | (325,000) | (483,000) |
| | **7,980,000** | **7,802,000** | **7,980,000** | **7,802,000** |

### Net expense recognised in the statement of financial performance

| | | | | |
|---|---|---|---|---|
| Current service cost | 149,000 | 139,000 | 149,000 | 139,000 |
| Interest cost | 747,000 | 648,000 | 747,000 | 648,000 |
| Actuarial (gains) losses | (325,000) | (483,000) | (325,000) | (483,000) |
| | **571,000** | **304,000** | **571,000** | **304,000** |

| | Group | | Board | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | R | R | R | R |

## 7. Employee benefit obligations (continued)

Assumptions used at the reporting date:

| | | | | |
|---|---|---|---|---|
| Discount rates used | 8.89% | 9.47% | 8.89% | 9.47% |
| Consumer price index inflation | 7.05% | 8.00% | 7.05% | 8.00% |
| Health care cost inflation | 8.05% | 8.00% | 8.05% | 8.00% |

## 8. Inventories

| | | | | |
|---|---|---|---|---|
| Pre-printed FFC stock | - | 2,729 | - | 2,729 |
| NQF4 Study Materials | 129,051 | 361,355 | 129,051 | 361,355 |
| | **129,051** | **364,084** | **129,051** | **364,084** |

## 9. Trade and other receivables from exchange transactions

| | | | | |
|---|---|---|---|---|
| Trade debtors | 524,454 | 3,140,965 | 55,635 | 2,902,892 |
| Prepayments | 1,794,539 | 875,073 | 1,759,104 | 875,073 |
| Deposits | 150,000 | 150,000 | 150,000 | 150,000 |
| Accrued interest | 2,614,267 | 4,464,958 | - | 6,580 |
| Other receivables | 307,723 | 5,570 | 307,723 | 5,570 |
| | **5,390,983** | **8,636,566** | **2,272,462** | **3,940,115** |

**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 unless the recoverability is uncertain. At 31 March 2015, R 119,587 (2014: R 2,546,534) were past due but not impaired.

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

| | | | | |
|---|---|---|---|---|
| 1 month past due | 70,317 | 2,351,612 | - | 2,296,014 |
| 2 months past due | 49,270 | 152,979 | - | 152,979 |
| 3 months past due | - | 41,943 | - | 2,100 |

**Trade and other receivables impaired**

Trade and other receivables balances are equivalent to their fair values.

| | | | | |
|---|---|---|---|---|
| Movements in Impairment of trade and other receivables | 8,835,358 | 5,683,406 | 1,601,857 | 709,428 |

| | Group | | Board | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | R | R | R | R |

**9. Trade and other receivables from exchange transactions (continued)**

**Reconciliation of provision for impairment of trade and other receivables**

| | | | | |
|---|---|---|---|---|
| Opening balance | 20,199,853 | 14,876,697 | 2,564,407 | 2,215,229 |
| Provision for impairment | 8,835,358 | 5,683,406 | 1,601,857 | 709,428 |
| Amounts written off as uncollectible | - | (100,000) | - | (100,000) |
| Debt recovered | - | (260,250) | - | (260,250) |
| | **29,035,211** | **20,199,853** | **4,166,264** | **2,564,407** |

**10. Cash and cash equivalents**

Cash and cash equivalents consist of:

| | | | | |
|---|---|---|---|---|
| Cash on hand | 5,532 | 1,028 | 5,532 | 1,028 |
| Bank balances | 19,309,831 | 9,540,212 | 16,665,792 | 3,018,826 |
| Short-term deposits | 31,353,199 | - | 31,353,199 | - |
| Other cash and cash equivalents | 82,762,958 | 151,888,486 | - | 30,915,898 |
| | **133,431,520** | **161,429,726** | **48,024,523** | **33,935,752** |

**11. Provisions**

**Reconciliation of provisions - Group - 2015**

| | Opening Balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Provision for claims | 1,257,445 | 1,336,475 | (1,257,445) | 1,336,475 |
| Leave pay provision | 2,648,169 | 3,950,657 | (2,648,169) | 3,950,657 |
| | **3,905,614** | **5,287,132** | **(3,905,614)** | **5,287,132** |

**Reconciliation of provisions - Group - 2014**

| | **Opening Balance** | **Additions** | **Utilised during the year** | **Total** |
|---|---|---|---|---|
| Provision for claims | 2,717,461 | 1,257,445 | (2,717,461) | 1,257,445 |
| Leave pay provision | 1,849,765 | 2,648,169 | (1,849,765) | 2,648,169 |
| | **4,567,226** | **3,905,614** | **(4,567,226)** | **3,905,614** |

| | Group | | Board | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | R | R | R | R |

## 11. Provisions (continued)

**Reconciliation of provisions - Board - 2015**

| | Opening Balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Leave pay provision | 2,648,169 | 3,950,657 | (2,648,169) | 3,950,657 |

**Reconciliation of provisions - Board - 2014**

| | Opening Balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Leave pay provision | 1,849,765 | 2,648,169 | (1,849,765) | 2,648,169 |

## 12. Trade and other payables from exchange transactions

| | | | | |
|---|---|---|---|---|
| Trade payables | 3,286,793 | 4,795,487 | 3,286,793 | 4,795,487 |
| Unallocated deposits | 5,002,524 | 2,807,367 | 4,052,670 | 2,411,668 |
| Estate agents funds received in advance | 18,450,336 | 14,203,682 | 11,236,872 | 6,939,881 |
| Accrued expense | 4,924,362 | 9,505,893 | 3,979,244 | 6,499,223 |
| Staff debtors | - | 1,250 | - | 1,250 |
| Deposits held on operating lease | 312,375 | - | 312,375 | - |
| | **31,976,390** | **31,313,679** | **22,867,954** | **20,647,509** |

## 13. Revenue from exchange transactions

| | | | | |
|---|---|---|---|---|
| Contributions - Principal | 7,051,955 | 7,661,874 | 7,051,955 | 7,661,874 |
| Contributions - Full status estate agents | 5,720,381 | 6,078,485 | 4,159,475 | 4,090,532 |
| Contributions - Intern estate agents | 6,334,453 | 4,525,627 | 6,334,453 | 4,525,627 |
| Interest received on trust funds | 27,796,440 | 17,749,167 | - | - |
| Management fees | - | - | 51,409,176 | 52,252,664 |
| Interest received on investments | 29,516,471 | 28,291,022 | - | - |
| Fair value adjustment | 10,208,518 | 9,703,109 | - | - |
| Income from examinations | 11,629,566 | 2,540,790 | 11,629,566 | 2,540,790 |
| | **98,257,784** | **76,550,074** | **80,584,625** | **71,071,48** |

| | Group | | Board | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | R | R | R | R |
| **14. Other income** | | | | |
| Claims recoverable | 3,549,305 | 3,470,924 | - | - |
| Penalties and fines | 6,576,552 | 6,752,427 | 6,576,552 | 6,752,427 |
| Interest other | 293,701 | 158,142 | - | - |
| Royalties and amendments | 3,323,425 | 2,115,315 | 3,323,425 | 2,115,315 |
| Other income | 1,586,392 | 1,550,468 | 1,586,392 | 571,529 |
| | **15,329,375** | **14,047,276** | **11,486,369** | **9,439,271** |
| **15. Employee related costs** | | | | |
| Basic | 43,394,109 | 38,715,649 | 43,394,109 | 38,715,649 |
| Medical aid - company contributions | 4,373,128 | 3,863,378 | 4,373,128 | 3,863,378 |
| UIF | 174,001 | 156,644 | 174,001 | 156,644 |
| SDL | 433,366 | 370,572 | 433,366 | 370,572 |
| Other valuation adjustments | (2,214,000) | (2,438,724) | (2,214,000) | (2,438,724) |
| Leave pay provision charge | 1,791,428 | 946,793 | 1,791,428 | 946,793 |
| Defined benefit plan net expenses | 8,715,762 | (5,494,000) | 8,715,762 | (5,494,000) |
| Overtime and temporary staff | 20,829 | 135,494 | 20,829 | 135,494 |
| Post-medical aid benefits net expenses | 571,000 | 304,000 | 571,000 | 304,000 |
| | **57,259,623** | **36,559,806** | **57,259,623** | **36,559,806** |
| **16. Impairment loss** | | | | |
| **Impairments** | | | | |
| Property, plant and equipment | 8,954 | - | 8,954 | - |

Impairment of property, plant and equipment relates to assets that have become obsolete and could no longer be used.

**17. Operating lease**

Lease of fibre optic lines and photocopy machine

| **Minimum lease payments due** | | | | |
|---|---|---|---|---|
| - within one year | 720,983 | 1,164,267 | 720,983 | 1,164,267 |
| - in second to fifth year inclusive | 645,684 | 1,108,085 | 645,684 | 1,108,085 |
| | **1,366,667** | **2,272,352** | **1,366,667** | **2,272,352** |

| | Group | | Board | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | R | R | R | R |

## 17. Operating lease (continued)

**Fibre Optic Line - Call Centre**

The Board leased a fibre optic line for transmission of data and voice between its main offices and call center operations for a period of 3 years effective from 08 November 2012. The lease payment is R36 940 per month with annual escalation of 15%. No contingent rent is payable and the lease is not renewable at the end of the lease term

**Fibre Optic Line - Voice**

The Board leased a fibre optic line for transmission of data and voice at its main offices for a period of 5 years effective from 26 November 2012. The lease payment is R27 727 per month with annual escalation of 15%. No contingent rent is payable and the lease is not renewable at the end of the lease term

**Photocopy Machine**

The Board leased a photo copy machine for a period of 3 years effective from 27 February 2014. The lease payment is R10 806 per month with no annual escalation. No contingent rent is payable and the lease is not renewable at the end of the lease term.

## 18. Cash generated from (used in) operations

| | Group 2015 R | Group 2014 R | Board 2015 R | Board 2014 R |
|---|---|---|---|---|
| Surplus (deficit) | 419,151 | (593,294) | (2,602,410) | 8,778,791 |
| **Adjustments for:** | | | | |
| Depreciation and amortisation | 3,210,602 | 2,347,825 | 3,210,602 | 2,347,825 |
| Loss on sale of assets | 18,859 | - | 18,859 | - |
| Gain on sale of non-current assets | (110,557) | - | (110,557) | - |
| Impairment deficit | 8,954 | - | 8,954 | - |
| Movements in retirement benefit assets and liabilities | 849,000 | (12,315,000) | 849,000 | (12,315,000) |
| Movements in provisions | 1,381,518 | (661,612) | 1,302,488 | 798,404 |
| Movements in post-retirement medical aid liabilities | 178,000 | (84,000) | 178,000 | (84,000) |
| Other non-cash items | (1,826) | - | (1,825) | - |
| Changes in working capital: | | | | |
| Inventories | 235,033 | (199,497) | 235,033 | (199,497) |
| Trade and other receivables from exchange transactions | 3,245,583 | 3,196,936 | 1,667,653 | (2,512,418) |
| Trade and other payables from exchange transactions | 662,711 | 7,537,829 | 2,220,445 | 4,292,055 |
| | **10,097,028** | **(770,813)** | **6,976,242** | **1,106,160** |

## 19. Commitments

**Authorised operating expenditure**

| | Group 2015 R | Group 2014 R | Board 2015 R | Board 2014 R |
|---|---|---|---|---|
| **Minimum lease/contract payments due** | | | | |
| - within one year | 3,685,934 | 6,508,862 | 3,685,934 | 6,508,862 |
| - in second to fifth year inclusive | 1,328,521 | 5,688,871 | 1,328,521 | 5,688,871 |
| | **5,014,455** | **12,197,733** | **5,014,455** | **12,197,733** |

| | Group | | Board | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | R | R | R | R |

## 20. Contingencies

**Claims against the Fidelity Fund - Pending Claims**

As at year end, the claims lodged against the Fidelity Fund which have not yet been considered amounted to R457 882. These claims will be considered by the Board subsequent to year end the the outcome of such consideration is unknown.

**Civil Claims against the Fidelity Fund**

A number of civil claims have been instituted against the Fidelity Fund. The total estimated value of the claims are R7 096 904.06 and the likely outcome of these cases is unknown.

## 21. Related parties

| | |
|---|---|
| Relationships | |
| Board members and key management personel | Refer to members' report note |
| Controlled entities | Estate Agents Fidelity Fund controlled in terms of the Estate Agency Affairs Act (Refer to note |
| Public entities and departments | South African Revenue Services |

| | Group 2015 | Group 2014 | Board 2015 | Board 2014 |
|---|---|---|---|---|
| **Related party balances** | | | | |
| **Loan accounts - Owing by related parties** | | | | |
| The Estate Agents Fidelity Fund | | | 12,497,297 | 21,868,156 |
| **Amounts included in Trade receivable (Trade Payable) regarding related parties** | | | | |
| South African Revenue Services | | | - | (817,770) |
| **Related party transactions** | | | | |
| **Administration fees received from related parties** | | | | |
| The Estate Agents Fidelity Fund | | | (51,409,176) | (52,252,664) |
| **Employee taxes paid to related parties** | | | | |
| South African Revenue Services | | | 12,896,367 | 12,174,753 |
| **Interest received from related parties** | | | | |
| The Estate Agents Fidelity Fund | | | (610,371) | (674,417) |

Figures in Rand

## 22. Members' emoluments

**Executive**

**2015**

| | Basic Salary | Acting Allowance | Contribution to Pension Scheme | Contribution to Medical Scheme | Leave Termination Costs | Other Costs | Total |
|---|---|---|---|---|---|---|---|
| Mr. Bryan Chaplog (Chief Executive Officer: Appointed 01 October 2013) | 1,978,661 | - | 136,400 | 58,162 | - | 1,001 | 2,174,224 |
| Mr. C. Ashpol (Executive Manager: Education and Training - Appointed 01 May 1983) | 1,355,847 | - | 269,533 | 24,855 | 426,087 | 30,059 | 2,106,381 |
| Ms D Mphahlele (Executive Manager: Inspections - Appointed 01 February 2013) | 1,299,937 | 77,278 | 307,185 | 96,936 | - | 12,619 | 1,793,955 |
| Mr. J. Baloyi (Executive Manager - Compliance - Appointed 01 February 2013) | 1,299,937 | - | 254,625 | 127,803 | - | 12,729 | 1,695,094 |
| Mr. S. Mmotong (Chief Financial Officer - Appointed 01 February 2012) | 1,376,719 | 67,442 | 287,178 | 96,936 | - | 5,152 | 1,833,427 |
| Mr. N. Ndebele (Company Secretary - Appointed 10 January 2011) | 1,260,220 | - | 80,626 | - | - | 5,079 | 1,345,925 |
| Mr. N. Sigaba (Chief Risk Officer - Appointed 01 June 2010) | 1,386,491 | 86,392 | 95,469 | 37,721 | - | 79 | 1,606,152 |
| Mr. J. Tladi (Legal Technical Analyst - Appointed 01 August 2013)) | 1,236,028 | - | 128,092 | 42,811 | - | 6,615 | 1,413,546 |
| Mr. A. Arendse (Executive Manager: Operations - Appointed 01 October 2014)) | 606,915 | - | 69,583 | - | - | 11,317 | 687,815 |
| | **11,800,755** | **231,112** | **1,628,691** | **485,224** | **426,087** | **84,650** | **14,656,519** |

Figures in Rand

**Executive**

**2014**

| | Basic Salary | Acting Allowance | Contribution to Pension Scheme | Contribution to Medical Scheme | Other Costs | Total |
|---|---|---|---|---|---|---|
| Mr. Bryan Chaplog (Acting Chief Executive Officer - Appointed 04 October 2010) | 1,635,334 | 584,361 | 112,693 | 53,262 | - | 2,385,650 |
| Mr. C. Ashpol (Executive Manager: Education and Training - Appointed 01 May 1983) | 1,405,157 | - | 332,049 | 22,254 | - | 1,759,460 |
| Ms. D. Mphahlele (Executive Manager - Inspections) | 1,197,641 | 164,704 | 283,826 | 88,770 | 39,900 | 1,774,841 |
| Mr. J. Baloyi (Executive Manager - Compliance - Appointed 01 October 2011) | 1,197,262 | - | 231,266 | 117,018 | 17,700 | 1,563,246 |
| Mr. S. Mmotong (Chief Financial Officer - Appointed 01 February 2012) | 1,108,992 | 263,959 | 243,352 | 88,770 | 2,542 | 1,707,615 |
| Mr. N. Ndebele (Company Secretary - Appointed 10 January 2011) | 1,146,649 | - | 76,500 | - | - | 1,223,149 |
| Mr. N. Sigaba (Chief Risk Officer - Appointed 01 June 2010) | 1,281,318 | 160,991 | 88,268 | 34,538 | - | 1,565,115 |
| Mr. J. Tladi (Legal Technical Analyst - Appointed 01 August 2013)) | 738,133 | - | 83,576 | 20,032 | - | 841,741 |
| | **9,710,486** | **1,174,015** | **1,451,530** | **424,644** | **60,142** | **12,820,817** |

**Board Members Remuneration**

**2015**

| | Board Meetings | Committees fees | Travelling | Other fees | Total |
|---|---|---|---|---|---|
| Prof. KM Kondlo (Chairperson - Appointed: 01 January 2013) | 39,560 | 46,608 | 5,979 | 347,772 | 439,919 |
| Mr. A.B. Mazwi (Vacated Office: 30 July 2014) | 14,832 | 11,536 | 4,117 | 42,048 | 72,533 |
| Mr. S.A. Kajee (Appointed: 01 January 2013) | 20,640 | 45,888 | 4,178 | 5,440 | 76,146 |
| Adv. T.C. Maake (Appointed: 01 January 2013) | 15,696 | 69,288 | 14,011 | 37,076 | 136,071 |
| Mr. L. Mlambo (Vacated Office: 30 July 2014) | 6,592 | 31,232 | 1,643 | 98,952 | 138,419 |
| Ms. M.N. Wotini (Deputy Chairperson - Appointed: 01 January 2013) | 24,432 | 92,232 | 36,480 | 275,047 | 428,191 |
| Ms. S.J. Corfield (Appointed: 01 January 2013) | 15,408 | 5,232 | 3,186 | 16,080 | 39,906 |

| Figures in Rand | | | | | |
|---|---|---|---|---|---|
| Mr. B.M. Nsibande (Appointed: 01 January 2013) | 18,896 | 5,232 | 997 | 288 | 25,413 |
| Dr. M.F.R. Randera (Appointed: 01 January 2013) | 11,480 | 21,336 | 1,582 | 42,904 | 77,302 |
| Mr. E. R. Marivate (Vacated Office: 30 July 2014) | - | 4,944 | - | 288 | 5,232 |
| Ms. S.P. Lebenya-Ntanzi (Appointed: 01 January 2013) | 33,696 | 212,592 | 4,615 | 89,242 | 340,145 |
| Mr. M.B. Damane (Appointed: 01 January 2013) | 16,872 | 41,488 | 4,255 | 30,432 | 93,047 |
| | **218,104** | **587,608** | **81,043** | **985,569** | **1,872,324** |

**2014**

| | Members' fees | Total |
|---|---|---|
| Prof. KM Kondlo (Chairperson - Appointed: 01 January 2013) | 277,299 | 277,299 |
| Mr. A.B. Mazwi (Vacated Office: 30/07/2014) | 184,299 | 184,299 |
| Mr. S.A. Kajee (Appointed: 01 January 2013) | 142,457 | 142,457 |
| Adv. T.C. Maake (Appointed: 01 January 2013) | 258,294 | 258,294 |
| Mr. L. Mlambo (Vacated Office: 30 July 2014) | 232,301 | 232,301 |
| Ms. S.E. Porteous (Resigned: 09 January 2014) | 112,504 | 112,504 |
| Ms. M.N. Wotini (Deputy Chairperson - Appointed: 01 January 2013) | 341,425 | 341,425 |
| Ms. S.J. Corfield (Appointed: 01 January 2013) | 86,110 | 86,110 |
| Mr. B.M. Nsibande (Appointed: 01 January 2013) | 65,390 | 65,390 |
| Dr. M.F.R. Randera (Appointed: 01 January 2013) | 72,062 | 72,062 |
| Mr. E. R. Marivate (Vacated Office: 30 July 2014) | 11,536 | 11,536 |
| Ms. S.P. Lebenya-Ntanzi (Appointed: 01 January 2013) | 241,010 | 241,010 |
| Ms. D. Molomo (Vacated Office: 30 July 2014) | 87,213 | 87,213 |
| Mr. M.B. Damane (Appointed: 01 January 2013) | 80,616 | 80,616 |
| | **2,192,516** | **2,192,516** |

Figures in Rand

**Independent non-executive Audit & Risk Committee members remuneration**

**2015**

| | Emoluments | Total |
|---|---|---|
| Ms. K. Vundla (Chairperson) | 53,760 | 53,760 |
| Mr. M.M. Mphahlele | 25,509 | 25,509 |
| Mr. D.K. Bosa | 40,928 | 40,928 |
| Mr. P.I. Madisha | 5,232 | 5,232 |
| | **125,429** | **125,429** |

**2014**

| | Emoluments | Total |
|---|---|---|
| Ms. K. Vundla (Chairperson) | 40,004 | 40,004 |
| Mr. M.M. Mphahlele | 30,159 | 30,159 |
| Mr. P. Madisha | 52,746 | 52,746 |
| Mr. D.K. Bosa | 33,866 | 33,866 |
| | **156,775** | **156,775** |

| | Group | | Board | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | R | R | R | R |

## 23. Risk management

### Capital risk management

The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going concern in order to provide returns for owners and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the entity consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in note 5, cash and cash equivalents disclosed in note 10, and equity as disclosed in the statement of financial position.

There are no externally imposed capital requirements.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

### Financial risk management

The entity's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

### Liquidity risk

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments.

### Business continuity risk

The entity is exposed to risks associated with business continuity such as natural disasters, systems failure, etc. Management evaluates business continuity risk on an ongoing basis. The Business Continuity and Disaster Recovery plan is reviewed on annual basis in response to the related risks identified.

### Credit risk

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

### Interest rate risk

The Group is exposed to interest rate risk as both the Estate Agency Affairs Board and the Estate Agents Fidelity Fund have investments in various banking institutions.

The Group's exposures to interest rates on financial assets is limited to the effect of changes in the repo rate to the interest income generated from these investments. Capital is not affected as the all portfolio offers guaranteed safety of capital amount.

The sensitivity analysis is performed from time to time to determine the the impact of possible increases/(decreases) in repo rate on the interest revenue. This information is used to determine the length term of the investments, also taking into account the short and long term cash flow requirements. The risk is managed by maintaining and appropriate mix of short-term to medium term investments.

The Board's sensitivity to interest rates has decreased during the current period mainly due to the reduction in investments following the purchase of the new buildings.

| | Group | | Board | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| | R | R | R | R |

***Sensitivity Analysis***

At 31 March 2015, if interest rate at that date had been 50 basis points lower with all other variables held constant, surplus for the period would have been R2.9 million lower, arising mainly as a result of lower interest income on investments. If interest rate at that date had been 50 basis points higher with all other variables held constant, surplus for the period would have been R2.9 million higher, arising mainly as a result of higher interest income on investments. Surplus is therefore less sensitive to the interest rate decreases and increases because most investments are fixed for a longer term and do not change immediately with the change in repo rate .

## 24. Going concern

The consolidated and separate financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## 25. Events after the reporting date

There are no events after the reporting date.

## 26. Irregular expenditure

| | | | | |
|---|---|---|---|---|
| Opening balance | 3,445,715 | 2,930,999 | 3,445,715 | 2,930,999 |
| Add: Irregular Expenditure - current year | 216,183 | 514,716 | 216,183 | 514,716 |
| | **3,661,898** | **3,445,715** | **3,661,898** | **3,445,715** |

**Details of irregular expenditure – current year**

| | Disciplinary steps taken/criminal proceedings | |
|---|---|---|
| Remuneration of board members disqualified in terms of the Estate Agency Affairs Act. Four board members failed to comply with Estate Agency Affairs Act . | The matter has been reported to the Executive Authority and the board members concerned have since vacated their offices as required by the Estate Agency Affairs Act. | 216,183 |

# ESTATE AGENTS FIDELITY FUND

## Annual Financial Statements
*for the year ended 31 March 2015*

# INDEX

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

# STATEMENT OF RESPONSIBILITY

The Board of the Estate Agency Affairs Board (the Board) is required by the Public Finance Management Act, 1 of 1999 (PFMA) , to maintain adequate accounting records and is responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the Board to ensure that the financial statements fairly present the state of affairs of the Estate Agents Fidelity Fund ( the Fund) 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 are engaged to express an independent opinion on the financial statements and were given unrestricted access to all financial records and related data.

The 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.

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

The Board acknowledges that it is ultimately responsible for the system of internal financial control established by the Fund and place considerable importance on maintaining a strong control environment. To enable it to meet these responsibilities, the Board sets 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 an acceptable level of risk. These controls are monitored throughout the year and all employees are required to maintain the highest ethical standards in ensuring the Estate Agents Fidelity Fund's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Fund is on identifying, assessing, managing and monitoring all known forms of risk across the Fund. While operating risk cannot be fully eliminated, the Fund endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The Board has reviewed the Fund's cash flow forecast for the year to 31 March 2016 and, in the light of this review and the current financial position, it is satisfied that the Fund has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the Fund's annual financial statements. The annual financial statements have been examined by the Fund's external auditors and their report is presented on page 124 to 125.

The financial statements set out on pages 126 to 143, which have been prepared on the going concern basis, were approved by the Board on 31 July 2015 and were signed on its behalf by:

**PROFESSOR KWANDIWE KONDLO**
**CHAIRMAN**

**B S CHAPLOG**
**CHIEF EXECUTIVE OFFICER**

# INDEPENDENT AUDITORS' REPORT

NGUBANE & CO.
CHARTERED ACCOUNTANTS | AUDITORS

## REPORT ON THE SEPARATE FINANCIAL STATEMENTS

### Introduction

We have audited the separate financial statements of the Estate Agents Fidelity Fund of South Africa set out on pages 126 to 143, which comprise the statement of financial position as at 31 March 2015, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### Accounting authority's responsibility for the financial statements

The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of these separate financial statements in accordance with Generally Recognised Accounting Practices and the requirements of the Public Finance Management Act, 1 of 1999 of South Africa, and for such internal control as the accounting authority determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these separate financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the separate financial statements present fairly, in all material respects, the financial position of the Estate Agents Fidelity Fund as at 31 March 2015 and financial performance and cash flows for the year then ended, in accordance with Generally Recognised Accounting Practices and the requirements of the Public Finance Management Act, 1 of 1999 of South Africa.

### Emphasis of Matter

We draw attention to the matter below. My opinion is not modified in respect of this matter to indicate that the opinion is not modified in respect of the matter emphasised.

### Material losses impairments

As disclosed in note 4 to the financial statements, material losses to the amount of R7 233 500 were incurred as a result of the impairment of trade debtors.

### Additional matters

The Estate Agents Fidelity Fund provided supplementary information in the financial statements on whether resources were obtained and used according to the legally adopted budget, in accordance with GRAP 1, Presentation of financial statements. The supplementary budget information set out on pages 130 to 131 does not form part of the financial statements and is presented as additional information. Accordingly, we do not express an opinion thereon.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, we have a responsibility to report findings on the reported performance information against predetermined objectives for the selected objectives presented in the annual report, non-compliance with legislation and internal control. We performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

**Compliance with laws and legislation**

We performed procedures to obtain evidence that the entity had complied with applicable laws and legislations regarding financial matters, financial management and other related matters. Our findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the Public Audit Act, are as follows:

***Public Finance Management Act , 1 of 1999***

Debtors collection process was ineffective and contravene PFMA 51(1)(b)(i) TR 31.1.2(a) & (e) regarding revenue collection.

**Internal control**

We considered internal control relevant to our audit of the separate financial statements, and compliance with laws and legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the findings on non-compliance with laws and legislation included in this report.

**Leadership**

Limited oversight over the financial reporting and compliance with related internal controls.

**Financial and performance management**

Reviewing and monitoring of compliance with laws and regulations was not adequate.

Preparation of regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information was not adequate.

Ngubane & Co

**Ngubane & Co. (Jhb) Inc.**
**Registered Auditors**
**Director: Ephraem Sibanda**
**Registered auditor**
**31 July 2015**

# STATEMENT OF FINANCIAL POSITION

| | Notes | 2015<br>R | 2014<br>R |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Investments | 3 | 508,651,315 | 472,814,412 |
| Trade and other receivables from exchange transactions | 4 | 3,118,521 | 4,696,451 |
| Cash and cash equivalents | 5 | 85,406,997 | 127,493,974 |
| **Total Assets** | | **597,176,833** | **605,004,837** |
| | | | |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Loan Fund - Estate Agency Affairs Board | 8 | 12,497,298 | 21,868,156 |
| Provisions | 6 | 1,336,475 | 1,257,445 |
| Other liabilities | 7 | 9,108,436 | 10,666,173 |
| **Total Liabilities** | | **22,942,209** | **33,791,774** |
| **Net Assets** | | **574,234,624** | **571,213,063** |
| | | | |
| **Net Assets** | | | |
| Accumulated surplus | | 574,234,624 | 571,213,063 |

# STATEMENT OF FINANCIAL PERFORMANCE

| | Notes | 2015<br>R | 2014<br>R |
|---|---|---|---|
| Revenue from exchange transactions | 9 | 69,082,335 | 57,731,251 |
| Other income | 10 | 3,843,006 | 4,608,005 |
| Operating expenses | 11 | (69,903,780) | (71,711,344) |
| **Operating surplus (deficit)** | | **3,021,561** | **(9,372,088)** |
| **Surplus (deficit) for the year** | | **3,021,561** | **(9,372,088)** |

# STATEMENT OF CHANGES IN NET ASSETS

| | Accumulated surplus R | Total net assets R |
|---|---|---|
| **Balance at 01 April 2013** | **580,585,151** | **580,585,151** |
| Deficit for the year | (9,372,088) | (9,372,088) |
| **Balance at 01 April 2014** | **571,213,063** | **571,213,063** |
| Deficit for the year | 3,021,561 | 3,021,561 |
| **Balance at 31 March 2015** | **574,234,624** | **574,234,624** |

# CASH FLOW STATEMENT

| | Notes | 2015<br>R | 2014<br>R |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Cash receipts from estate agents | | 64,158,565 | 58,345,501 |
| **Payments** | | | |
| Cash payments to suppliers and EAAB | | (80,617,156) | (65,637,649) |
| **Net cash flows from operating activities** | 12 | **(16,458,591)** | **(7,292,148)** |
| **Cash flows from investing activities** | | | |
| Movements in financial assets | | (25,628,386) | 47,977,460 |
| **Net cash flows from investing activities** | | **(25,628,386)** | **47,977,460** |
| **Net increase/(decrease) in cash and cash equivalents** | | **(42,086,977)** | **40,685,312** |
| Cash and cash equivalents at the beginning of the year | | 127,493,974 | 86,808,662 |
| **Cash and cash equivalents at the end of the year** | 5 | **85,406,997** | **127,493,974** |

# STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on Accrual Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| | R | R | R | R | R | |
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Interest on trust funds | 23,245,717 | - | **23,245,717** | 27,796,440 | **4,550,723** | Note 1 |
| Contributions | 1,541,192 | - | **1,541,192** | 1,560,906 | **19,714** | Note 2 |
| Interest on investments | 30,776,491 | - | **30,776,491** | 29,516,471 | **(1,260,020)** | Note 3 |
| Claims recoveries | 4,494,000 | - | **4,494,000** | 3,549,305 | **(944,695)** | Note 4 |
| Fair value adjustments | 8,141,927 | - | **8,141,927** | 10,208,518 | **2,066,591** | Note 5 |
| Interest Other | - | - | **-** | 293,701 | **293,701** | |
| **Total revenue from exchange transactions** | **68,199,327** | **-** | **68,199,327** | **72,925,341** | **4,726,014** | |
| **Expenditure** | | | | | | |
| Legal costs | (2,851,209) | - | **(2,851,209)** | (3,122,201) | **(270,992)** | Note 6 |
| Transformation initiaves | (650,000) | - | **(650,000)** | - | **650,000** | Note 7 |
| Bank charges | (21,400) | - | **(21,400)** | (10,067) | **11,333** | |
| Claims expenses | (5,617,500) | - | **(5,617,500)** | (4,497,259) | **1,120,241** | Note 4 |
| Provision for bad debts | - | - | **-** | (7,233,500) | **(7,233,500)** | Note 8 |
| Interest expense | - | - | **-** | (610,371) | **(610,371)** | Note 9 |
| Insurance | (145,000) | - | **(145,000)** | (5,625) | **139,375** | Note 10 |
| Administration fees | (52,343,919) | - | **(52,343,919)** | (51,409,176) | **934,743** | Note 11 |
| Consumer Education and Awareness | (3,600,000) | - | **(3,600,000)** | (629,791) | **2,970,209** | Note 12 |
| Stakeholder Relations | (1,200,000) | - | **(1,200,000)** | (1,957,953) | **(757,953)** | Note 13 |
| Publication - Agent Magazine | (1,200,000) | - | **(1,200,000)** | (427,837) | **772,163** | Note 14 |
| **Total expenditure** | **(67,629,028)** | **-** | **(67,629,028)** | **(69,903,780)** | **(2,251,465)** | |
| **Surplus (Deficit)** | **570,299** | **-** | **570,299** | **3,021,561** | **2,451,262** | |

## Notes

**Note 1: Interest on trust funds**
Interest on trust funds received was more than budgeted due to more estate agencies submitting prior year outstanding audit reports and declaring interests.

**Note 2: Contributions**
FFC Contributions was less than budget due to unexpected delays in the finalisation of increase in levies. It is envisaged that the increased levies would be finalised and gazzetted during the first quarter of the next financial year.

**Note 3: Interest on Investment**
Interest on Investment is less than budgeted due to decline of interest rate.

**Note 4: Claims recoverable and claims expense**
Claims recoverable were less than budgeted for due to less claims paid and recoverable during the year under review.

**Note 5: Fair value adjustments**
Fair value value of the Liberty Life property fund was more than envisaged due to higher than expected performance of unlisted property investments and underlying assets.

**Note 6: Legal costs**
Legal cost increased due to high profile cases dealt with during the year.

**Note 7: Transformation initiatives**
Initiatives were not undertaken during the period under review due to capacity challenges and financial constraints. Trainers have been instructed to source additional funding for the estate agents learners.Training Institutions have also been instructed to register with SETA and once funding has been secured training of estate agents learners will be trained against the program.

**Note 8: Provision for doubtful debts**
More provision was provided during the year as a results of long outstanding claims as well as interest on trust funds.

**Note 9: Interest expenses**
This represent interest charged on the loan fund and were not budgeted for.

**Note 10: Insurance**
Insurance were reduced during the year due to cost benefit analysis performed.

**Note 11: Administration fees**
Budget for administration fees is based on the projected growth of the net asset value of the Fidelity Fund. The variance is directly attributable to the budgeted growth not being achieved in the Fidelity Fund.

**Note 12: Consumer Education**
Expenditure on consumer awareness was less than budgeted for due to the delays in the rollout of new education awareness programmes.

**Note 13: Stakeholder Awareness**
Expenditure on stakeholder awareness was more than budgeted for due to more awareness campaigns launched as a result of the need to urgently implement the Continued Professional Development programme.

**Note 14: Agent Magazine**
Expenditure on Agent magazine was less due to the insourcing of the design of the magazine. Only printing and distribution of the copies is outsources

# ACCOUNTING POLICIES

## 1. Basis of preparation

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 122(3) of the Public Finance Management Act, 1 of 1999 (PFMA) .

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.

These accounting policies are consistent with the previous period.

### 1.1 Going concern assumption

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

### 1.2 Significant judgements and estimates

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual finacial 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.

#### Impairment of receivables / Allowance of doubful debts

An impairment is recognised for estimated losses firstly on an individually significant trade receivable and, secondly, on a group of trade receivables with similar credit risk that are assessed to be impaired based on objective evidence as a result of one or more events that occurred during the reporting period. For estate agents who have defaulted, management makes judgments based on the assessment of their ability to make payments based on credit worthiness and historical write off experience. Should the financial condition of the estate agent change, actual write offs could differ from impairment

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

The entity assesses whether there are any indicators of impairment for all non financial assets at each reporting date. Other non financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

#### Use of estimates

The preparation of the entity's financial statements in conformity with Generally Recognised Accounting Practice requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the entity's accounting policies.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on the management's best knowledge of the current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

#### Provisions

Provisions are measured as the present value of the estimated future outflow required to settle the obligations. In the process of determining the best estimate of the amounts that will be required in the future to settle the provision management consideres the weighted avarage probability of the potential outcomes of the provision raised.

Provisions were raised and management determined an estimate based on the information available.

Additional disclosure of these estimates of provisions are included in note 6.

### Fair value estimation

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs. Where nterest is not accrued, estimates and judgments is required for interest rate to be used.

## 1.3 Financial instruments

### Classification

The entity classifies financial assets and financial liabilities into the following categories:

- Financial instruments at fair value;
- Financial instruments at cost
- Financial instruments at amortised cost;

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

### Initial recognition and measurement

**Intial recognition**

The entity recognises a financial asset or a financial liability in its Statement of Financial Position when, and only when, the entity becomes a party to the contractual provisions of the instrument.

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of a financial liability, a financial asset or a residual interest.

Financial instruments are evaluated, based on their terms, to determine if those instruments contain both liability and residual interest components (i.e. to assess if the instruments are compound financial instruments). To the extent that an instrument is in fact a compound instrument, the components are classified separately as financial liabilities and residual interests as the case may be.

**Initial measurement**

Financial instruments are measured initially at fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

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

Transaction costs on financial instruments at fair value through surplus or deficit are recognised in surplus or deficit.

### Subsequent measurement

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

All financial assets and financial liabilities are measured after initial recognition using the following categories:

**Financial Instrument at fair value.**

Financial instruments at fair value are subsequently measured at fair value, based on the quoted prices in an active market, unless the market for a financial instrument is not active, in which case the entity establishes a fair value using a valuation techniques.

-Derivatives.
-Compound instruments that are designated at fair value i.e. an instrument that includes a derivative and a non-derivative host contract.
-Instruments held for trading.
-Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition.
-An investment in a residual interest for which fair value can be measured reliably.

Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

**Financial instruments at amortised cost**

Non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that the entity designates at fair value at initial recognition or are held for trading.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method

**Financial instruments at cost**

Investments in residual interests, which do not have quoted market prices and for which fair value cannot be determined reliably.The entity assesses which instruments should be subsequently measured at fair value, amortised cost or cost, based on the definitions of financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost as set out above.

Financial instruments at cost are subsequently measured at cost.

Trade and other receivables are carried at fair value less provisional made for impairment of these receivables. Such provision for impairment of account receivable is established if there is objective evidence that the fund will not be able to collect all amounts due according to the original terms of the receivables.

**Fair Value determination**

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

**Impairment of financial assets**

At each end of the reporting period the entity assesses all financial assets ( amortised / cost ) other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

The entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

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

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

### Gain and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit. For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired or through the amortisation process.

### Offsetting

The entity does not offset financial assets and financial liabilities in the Statement of Financial Position unless a legal right of set-off exists and the parties intend to settle on a net basis.

### Loans to (from) economic entities

These include loans to and from controlling entities, follow controlled entities, controlled entities, joint ventures and associates and are recognised initially at fair value plus direct transaction costs.

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortised cost.

### Derecognition

A financial asset is derecognised at trade date, when: The cash flows from the asset expire, are settled or waived; a) Significant risks and rewards are transferred to another party; or b) Despite having retained significant risks and rewards, the entity has transferred control of the asset to another entity.

### Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value plus transaction costs that are directly attributable to the acquisition, subsequently stated at amortised cost using the effective interest rate method, less provision for impairment. 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.

Trade and other receivables are classified as loans and receivables.

### Payables from exchange transactions

Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition, 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 , cash with the banks and demand deposits. Cash equivalents are short term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

### 1.4 Tax

**Tax expenses**

Estate Agency Affairs Board is a schedule 3, Part A Public Entity and is therefore, exempt from VAT and Income tax

### 1.5 Provisions and contingencies

Provisions are recognised when:

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

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

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 provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 13.

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; and
- 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 using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- 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.

### 1.6 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrues to the entity directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable, excluding indirect taxes, rebates and discounts.

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.

**Recognition**

Revenue from exchange transactions is only recognised once all of the following criteria have been satisfied:

a) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
b) The amount of revenue can be measured reliably; and
c) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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.

Revenue from contributions received from estate agents is recognised when the certificates are issued to the agents.

Interest on the agents's trust fund is recognised, in profit or loss, when auditors reports on the trust funds are received. Interest on investments is recognised on accrual on a monthly basis.

Claims recoverable are recognised upon the payment of the claim to the claimants.

**Measurement**

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

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.

**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 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.

**Interest and royalties**

Revenue arising from the use by others of entity assets yielding interest and royalties 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.

### 1.7 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.

**1.8 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.

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.

**1.9 Standards, amendments to standards and interpretations issued but not yet effective**

The standards of GRAP and / or amendments disclosed in the notes of the annual financial statements which have been issued by the Accounting Standards Board will only become effective in future periods or have not been given an effective date by the Minister of Finance. The entity has not early-adopted any of these new Standards or amendments thereto, but has referred to them for guidance in the development of accounting policies in accordance with GRAP 3 as read with Directive 5.

**1.10 Budget information**

EAFF is 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 EAFF 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 programmes linked to performance outcome objectives.
The approved budget covers the fiscal period from 2014/04/01 to 2015/03/31.

The 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.

**1.11 Related parties**

The EAFF operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government.
Management are those persons responsible for planning, directing and controlling the activities of the EAFF, including those charged with the governance of the EAFF 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 EAFF.

| | 2015 | 2014 |
|---|---|---|
| | R | R |

## 2. New standards and interpretations

### 2.1 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 April 2015 or later periods:

GRAP 20: Related Party Disclosure. No effective date has been determined and no impact.
GRAP 32: Standard of GRAP on Service Concession Arrangements: Grantor. No effective date has been determined and no impact.
GRAP 108: Statutory Receivables.No effective date has been determined and no impact.
GRAP 105: Transfer of Functions Between Entities Under Common Control. No effective date has been determined and no impact.
GRAP 106: Transfer of Functions Between Entities Under Common Control. No effective date has been determined and no impact.
GRAP 107: Merges. No effective date has been determined and no impact.

## 3. Investments

| | 2015 R | 2014 R |
|---|---|---|
| **At fair value** | | |
| Liberty Life | 127,634,465 | 117,425,947 |
| This investments consist of Liberty Life's unlisted property fund, with returns derived from rental and capital appreciation generated from the underlying assets. This investment is renewable on a monthly basis and has an everage return of 10.60% per annum. | | |
| **At amortised cost** | | |
| Nedbank | 166,605,794 | 156,630,846 |
| Fixed deposit for twenty four months, interest payable monthly at an average interest rate of 6.50% per annum. | | |
| Absa | 84,955,917 | 29,278,334 |
| Fixed deposit for twelve months, interest payable monthly at an average interest rate of 6.27% per annum. | | |
| Investec | 104,719,669 | 144,743,815 |
| Fixed deposit for twenty four months, interest payable monthly at an average interest rate of 6.75% per annum. | | |
| Standard Bank | 24,735,470 | 24,735,470 |
| Fixed deposit for twenty four months, interest payable monthly at an average interest rate of 6.86% per annum. | | |
| | **381,016,850** | **355,388,465** |
| **Total other financial assets** | **508,651,315** | **472,814,412** |
| **Current assets** | | |
| At fair value | 127,634,465 | 117,425,947 |
| Held to maturity | 381,016,850 | 355,388,465 |
| | **508,651,315** | **472,814,412** |

| | 2015 | 2014 |
|---|---|---|
| | R | R |
| **4. Trade and other receivables from exchange transactions** | | |
| Trade debtors | 468,819 | 238,073 |
| Accrued Interest on the investments | 2,614,267 | 4,458,378 |
| Prepaid expenses | 35,435 | - |
| | **3,118,521** | **4,696,451** |

**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 unless the recoverability is uncertain. At 31 March 2015, R 119,587 (2014: R 95,441) were past due but not impaired.

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

| | 2015 | 2014 |
|---|---|---|
| 1 month past due | 70,317 | 55,598 |
| 2 months past due | 49,270 | - |
| 3 months past due | - | 39,843 |

**Trade and other receivables impaired**

| | 2015 | 2014 |
|---|---|---|
| Movements in impairment of trade and other receivables | 7,233,500 | 4,973,978 |

**Reconciliation of provision for impairment of trade and other receivables**

| | 2015 | 2014 |
|---|---|---|
| Opening balance | 17,635,446 | 12,661,468 |
| Provision for impairment | 7,233,500 | 4,973,978 |
| | **24,868,946** | **17,635,446** |

### 5. Cash and cash equivalents

Cash and cash equivalents consist of:

| | 2015 | 2014 |
|---|---|---|
| Bank balances | 2,644,039 | 6,521,386 |
| Other cash and cash equivalents | 82,762,958 | 120,972,588 |
| | **85,406,997** | **127,493,974** |

### 6. Provisions

**Reconciliation of provisions - 2015**

| | Opening Balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Provision for claims | 1,257,445 | 1,336,475 | (1,257,445) | 1,336,475 |

| | 2015 | 2014 |
|---|---|---|
| | R | R |

**Reconciliation of provisions - 2014**

| | Opening Balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Provision for claims | 2,717,461 | 1,257,445 | (2,717,461) | 1,257,445 |

## 7. Other liabilities

| | 2015 | 2014 |
|---|---|---|
| Agent interest received in advance | 7,213,464 | 7,263,801 |
| Unallocated agent interest | 949,854 | 395,699 |
| Accruals | 945,118 | 3,006,673 |
| | **9,108,436** | **10,666,173** |

## 8. Loan Fund - Estate Agency Affairs Board

| | 2015 | 2014 |
|---|---|---|
| Estate Agency Affairs Board | 12,497,298 | 21,868,156 |

This represents the outstanding balances resulting from the transactions between the Estate Agency Affairs Board and the Estate Agents Fidelity Fund. These balances are payable monthly and the interest is charged on the outstanding balance at the average interest rate earned by the Estate Agents Fidelity Fund from its investments.

## 9. Revenue from exchange transactions

| | 2015 | 2014 |
|---|---|---|
| Interest on trust funds | 27,796,440 | 17,749,167 |
| Contributions from estate agents | 1,560,906 | 1,987,953 |
| Fair value adjustment | 10,208,518 | 9,703,109 |
| Interest on investments | 29,516,471 | 28,291,022 |
| | **69,082,335** | **57,731,251** |

## 10. Other income

| | 2015 | 2014 |
|---|---|---|
| Claims recoveries | 3,549,305 | 3,470,924 |
| Interest receivable | 293,701 | 158,142 |
| Distribution dividend | - | 978,939 |
| | **3,843,006** | **4,608,005** |

## 11. Operating expenses

| | 2015 | 2014 |
|---|---|---|
| Legal expenses | 3,122,202 | 8,691,702 |
| Claims expenses | 4,497,259 | 2,010,908 |
| Awareness Campaigns | 2,587,744 | 2,709,763 |
| Publications | 427,837 | 376,660 |
| Insurance, bank charges and interest expenses | 626,062 | 695,669 |
| Provision for doubtful debts | 7,233,500 | 4,973,978 |
| Administration Fees | 51,409,176 | 52,252,664 |
| | **69,903,780** | **71,711,344** |

| | 2015 | 2014 |
|---|---|---|
| | R | R |

Administration fee represents a management fee charged by the EAAB for administering the affairs of the Fidelity Fund

## 12. Cash flows from operating activities

| | | |
|---|---|---|
| Surplus (deficit) | 3,021,561 | (9,372,088) |
| **Adjustments for:** | | |
| Fair value adjustments | (10,208,518) | (9,703,109) |
| Movements in provisions | 79,030 | (1,460,016) |
| **Changes in working capital:** | | |
| Trade and other receivables from exchange transactions | 1,577,930 | 5,709,354 |
| Loan Fund - Estate Agency Affairs Board | (9,370,859) | 4,287,933 |
| Other liabilities | (1,557,735) | 3,245,778 |
| | **(16,458,591)** | **(7,292,148)** |

## 13. Contingencies

**Claims against the Fidelity Fund**

As at year end, the claims lodged against the Fidelity Fund which have not yet been considered amounted to R457 882. These claims will be assessed by the Board subsequent to year end the outcome of such consideration is unknown.

**Civil Claims against the Fidelity Fund**

A number of civil claims have been instituted against the Fidelity Fund. The total estimated value of the claims are R7 096 904 and the likely outcome of these cases is unknown.

## 14. Related parties

| | | |
|---|---|---|
| Relationships | | |
| Controlling entity | | Estate Agency Affairs Board |
| **Related party balances** | | |
| **Loan accounts - Owing to related parties** | | |
| Estate Agency Affairs Board | (12,497,297) | (21,868,156) |
| **Related party transactions** | | |
| **Interest paid to related parties** | | |
| Estate Agency Affairs Boar | 610,371 | 674,417 |
| **Administration fees payable to related parties** | | |
| Estate Agency Affairs Board | 51,409,176 | 52,252,664 |

## 15. Risk management

**Capital risk management**

The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going concern in order to provide returns for owner and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the entity consists of debt, which includes the borrowings disclosed in note 8, cash and cash equivalents disclosed in note 5, and equity as disclosed in the statement of financial position.

There are no externally imposed capital requirements.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

### Financial risk management

The entity's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

### Liquidity risk

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

### Interest rate risk

The Estate Agents Fidelity Fund is exposed to interest rate risk as it has investments in various banking institutions.

The EAFF exposure to interest rates on financial assets is limited to the effect of changes in the repo rate to the interest income generated from these investments. Capital is not affected as all portfolio's offers guaranteed safety of capital amount.

#### Sensitivity Analysis

The sensitivity analysis is performed from time to time to determine the impact of possible increases/(decreases) in repo rate on interest revenue. This information is used to determine the length term of the investments, also taking into account the short and long term cash flow requirements. The risk is managed by maintaining an appropriate mix of short-term to medium term investments.

At 31 March 2015, if interest rate at that date had been 50 basis points lower with all other variables held constant, surplus for the period would have been R2.9 million lower, arising mainly as a result of lower interest income on investments. If interest rate at that date had been 50 basis points higher with all other variables held constant, surplus for the period would have been R2.9 million higher, arising mainly as a result of higher interest income on investments. Surplus is therefore less sensitive to the interest rate decreases and increases because most investments are fixed for a longer term and do not change immediately with the change in repo rate .

### Credit risk

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

### 16. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 17. Events after the reporting date

There are no material events after the reporting date.


Estate Agency Affairs Board

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