

# ANNUAL REPORT 2019/2020

YOUR RELIABLE WATER AND WASTEWATER BUSINESS PARTNER OF CHOICE



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# ABBREVIATIONS

<b>AC</b>	Audit Committee	<b>DWS</b>	Department of Water and Sanitation
<b>ACIP</b>	Accelerated Community Infrastructure Programme	<b>ECSA</b>	Engineering Council of South Africa
<b>AGSA/AG</b>	Auditor-General South Africa	<b>EIA</b>	Environmental Impact Assessment
<b>AMCOW</b>	African Minister Council on Water	<b>EMS</b>	Environmental Management System
<b>ASB</b>	Accounting Standards Board	<b>EPC</b>	Engineering Procurement and Construction
<b>AFWA</b>	African Water Association	<b>ESD</b>	Enterprise and Supplier Development
<b>ASIDI</b>	Accelerated Schools Infrastructure Development Initiative	<b>EWSETA</b>	Energy and Water Sector Education and Training Authority
<b>B-BBEE</b>	Broad-Based Black Economic Empowerment	<b>EXCO</b>	Executive Committee
<b>BCOM</b>	Bachelor of Commerce	<b>FY</b>	Financial Year
<b>BDS</b>	Blue Drop System	<b>GDP</b>	Gross Domestic Product
<b>BSc</b>	Bachelor of Science	<b>GIS</b>	Geographic Information System
<b>CAPEX</b>	Capital Expenditure	<b>GRAP</b>	Generally Recognised Accounting Practices
<b>CEO</b>	Chief Executive Officer	<b>HoD</b>	Head of Department
<b>CFO</b>	Chief Financial Officer	<b>HR</b>	Human Resources
<b>CMA</b>	Catchment Management Agency	<b>IAS</b>	International Accounting Standards
<b>CMF</b>	Catchment Management Forum	<b>IDZ</b>	Industrial Development Zone
<b>CMMS</b>	Computerised Maintenance Management System	<b>IFRS</b>	International Financial Reporting Standards
<b>CoGTA</b>	Cooperative Governance and Traditional Affairs	<b>INCA</b>	Infrastructure Finance Corporation Limited
<b>COO</b>	Chief Operations Officer	<b>ISA</b>	International Standard on Auditing
<b>COVID-19</b>	Corona flu virus declared an international pandemic by the World Health Organization	<b>ISO</b>	International Organisation for Standardisation
<b>CoU</b>	City of uMhlathuze Municipality	<b>KCDM</b>	King Cetshwayo District Municipality
<b>CSD</b>	Central Supplier Database	<b>KZN</b>	KwaZulu-Natal
<b>CSI</b>	Corporate Social Investment	<b>LIMS</b>	Laboratory Information Management System
<b>DBSA</b>	Development Bank of Southern Africa	<b>LM</b>	Local Municipality
<b>DBE</b>	Department of Basic Education	<b>m<sup>3</sup></b>	Cubic metres
<b>DM</b>	District Municipality	<b>m<sup>3</sup>/s</b>	Cubic metres per second
<b>DUT</b>	Durban University of Technology	<b>MI</b>	Megalitre
		<b>MI/day</b>	Megalitres per day
		<b>MANCO</b>	Management Committee

<b>MBA</b>	Master of Business Administration
<b>MBL</b>	Master of Business Leadership
<b>MFMA</b>	Municipal Finance Management Act
<b>MIG</b>	Municipal Infrastructure Grant
<b>MW</b>	Mhlathuze Water
<b>MWIG</b>	Municipal Water Infrastructure Grant
<b>NEMP</b>	National Eutrophication Monitoring Programme
<b>NMMP</b>	National Microbial Monitoring Programme
<b>NT</b>	National Treasury
<b>NQF</b>	National Qualifications Framework
<b>O&amp;M</b>	Operations & Maintenance
<b>OHSAS</b>	Occupational Health and Safety Assessment Series
<b>OPEX</b>	Operational Expenditure
<b>PFMA</b>	Public Finance Management Act
<b>RBM</b>	Richards Bay Minerals
<b>RBIG</b>	Regional Bulk Infrastructure Grant
<b>SA GAAP</b>	South African Statements of Generally Accepted Accounting Practices
<b>SAICA</b>	South African Institute of Chartered Accountants
<b>SAICEE</b>	South African Institute of Electrical Engineers
<b>SANS</b>	South African National Standards
<b>SCADA</b>	Supervisory Control and Data Acquisition
<b>SHC</b>	Shareholders Compact
<b>SHEQ</b>	Safety, Health, Environmental and Quality Management
<b>SCM</b>	Supply Chain Management
<b>SLA</b>	Service Level Agreement
<b>SOE</b>	State-Owned Enterprise
<b>SMME</b>	Small Medium & Micro-Enterprise

<b>TGS</b>	Tugela-Goedertrouw Transfer Scheme
<b>TR</b>	Treasury Regulations
<b>uPVC</b>	Unplasticised Polyvinyl Chloride
<b>UKDM</b>	uMkhanyakude District Municipality
<b>WfW</b>	Working for Water Programme
<b>WISA</b>	Water Institute of South Africa
<b>WMA</b>	Water Management Areas
<b>WSA</b>	Water Services Authority
<b>WSIG</b>	Water Services Infrastructure Grant
<b>WRM</b>	Water Resource Management
<b>WUL</b>	Water Use License
<b>WTP</b>	Water Treatment Plant
<b>WTW</b>	Water Treatment Works
<b>WWDS</b>	Waste Water Disposal Scheme
<b>WWTP</b>	Waste Water Treatment Plant
<b>ZDM</b>	Zululand District Municipality



# FOREWORD BY THE MINISTER DEPARTMENT OF HUMAN SETTLEMENTS, WATER AND SANITATION

MS LINDIWE SISULU, MINISTER OF HUMAN SETTLEMENTS, WATER AND SANITATION

The COVID-19 pandemic has tested the resiliency of our water supply systems in unprecedented and unanticipated ways. It has also concentrated our focus on provision of water security as well as access to dignified sanitation services for all communities.

In order to mitigate against the spread of the COVID-19 virus, we had to ensure that proper hygiene protocols could be followed and this heightened the pressure to respond swiftly to existing water supply security challenges within the shortest possible time. With some parts of our country under severe water stress as a result of prolonged droughts, this was never going to be an easy feat, and would require a careful and equitable allocation of resources to ensure that the well-being of all residing within these areas was not compromised.

The Department responded by dispatching thousands of water tanks and water tankers to the most inaccessible parts of the country to assist our most vulnerable communities. This mammoth task was coordinated by the National Water and Sanitation Command Centre in close partnership with our nine water boards throughout the country, including Mhlathuze Water, which is primarily active in the northern reaches of the province of KwaZulu-Natal.

Mhlathuze Water has, over the years, served as a catalyst for economic activity in the rapidly industrialising town of Richards Bay and its immediate surrounds through the provision of bulk water and wastewater services to large industrial concerns. Now that the Richards Bay area is designated as one of the two Special Economic Zones in KwaZulu-Natal, Mhlathuze Water

is poised to occupy an increasingly pivotal space in the bulk water provision space.

This will be done without losing sight of the equally important and overarching imperative of ensuring that the people in the largely rural region where Mhlathuze Water is anchored have access to adequate and safe drinking water. For this to happen in a sustainable manner, Mhlathuze Water will need to increase its capacity to build and operate new reliable water and effluent infrastructure at the same time as ensuring the maintenance of infrastructure already in place.

As the shareholder representative, we will continue to support Mhlathuze Water in all of its endeavours and acknowledge the ongoing work of the Board and the Management in ensuring that strict governance prescripts are adhered to at all times in ensuring water security for our communities.

While we recognise the high costs associated with the water purification process that necessitates an annual review of bulk water tariffs, it is our duty as the Department of Human Settlements, Water and Sanitation to engage with the policy dynamics to ensure that the constitutional rights of all citizens to clean, safe drinking water are not adversely affected by unreasonable hikes in water tariffs. Despite the pressures and





economic challenges endemic to the bulk water space, I am pleased to note that Mhlathuze Water tariffs are among the most affordable in the country.

I am encouraged that as Mhlathuze Water celebrates 40 years since its founding, it continues to take a thoughtful approach to its business continuity processes through embarking on major infrastructure upgrades in a manner that does not affect the utility's strong balance book. I look forward to seeing

more innovative and progressive approaches in Mhlathuze Water's processes as this utility journeys beyond its 40 years of existence.

**L.N. Sisulu**  
**Minister of Human Settlements, Water and Sanitation**

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“ Despite the pressures and economic challenges endemic to the bulk water space, I am pleased to note that Mhlathuze Water tariffs are among the most affordable in the country. ”

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# FOREWORD BY THE CHAIRPERSON OF THE BOARD

MS THABI SHANGE, CHAIRPERSON OF THE BOARD

This report comes amid extremely challenging times in our country and indeed globally, precipitated by the COVID-19 pandemic that battered the economy, resulting in the closing down of businesses, perhaps never to recover, and massive unemployment as the five tiers of lockdown were implemented to save lives and control the spread of this highly infectious and sometimes fatal disease.

**W**e know that the havoc created by the COVID-19 pandemic has caused dire consequences to the country, as the fiscus, companies, families and individuals will require tightening of belts in the coming years for recovery from the economic hardships as a result of the COVID-19 national lockdown.

As the Mhlathuze Water Board, and taking our cue from the Minister for Human Settlements, Water and Sanitation Honourable Lindiwe Sisulu, we are obliged to contribute to economic recovery and growth after the devastating effects of COVID-19.

Any hopes of investment attraction, infrastructure development and the wholesale improvement of the socio-economic conditions of our country hinges upon the ready and sustained availability of water.

Since its founding 40 years ago, what has always set us apart from our counterparts is our competitive and comparative ability to comfortably meet the demands of both communities and industries alike in the northern reaches of KwaZulu-Natal in a cost-effective manner.

It is for this reason that through our bulk clarified and potable water operations and bulk industrial effluent disposal, we have continued to assist the Province and areas of operation to realise key developmental imperatives such as the Millennium Development Goals and the National Development Plan, which both cite an improved and sustained supply of safe drinking water and basic sanitation as critical ingredients and catalysts for socio-economic development.

Therefore, guided by these goals, the year under review has seen Mhlathuze Water redoubling its efforts to deliver on the expectations of the shareholder.

We have heeded the firm injunction made by His Excellency President Cyril Ramaphosa in his State of the Nation Address for a more frugal management of the public purse through shifting expenditure towards investing in the improvement of our strategic infrastructure assets. This is being done in a bid to ensure water security for our mainly rural stakeholders while ensuring that we meet the demands of our industrial clients who, in turn, continue to be the key drivers of economic activity and job creation in our areas of operation.

## Stakeholder Involvement and Good Corporate Citizenship

Mhlathuze Water, realising the immense benefits of nurturing long-term and mutually beneficial relationships, has dedicated time and effort to understanding the diverse needs of its stakeholders.

In this regard, I would like to appreciate the efforts of our Chief Executive, ably guided by the Social and Ethics Committee of the Board, for continually ensuring that the interests of our diverse stakeholders find expression in our strategic direction.

Closely linked to this imperative of building solid partnerships with the largely impoverished communities in our areas of operation, we are also adopting a strong stance towards community development and corporate social investment (CSI) initiatives.

We do so driven by a moral conviction that the truest measure of any organisation's humanitarian stance lies in how well it strikes a balance between its bottom line and responding to the needs of communities.

To this end, we have reviewed our CSI strategy such that we embrace a deliberate focus towards those initiatives that will leave a better, lasting impact and change in the lives of rural communities.

Through this focused approach, we, therefore, see ourselves playing a complementary role to our government's efforts of uplifting the previously marginalised, being black South Africans in general and women and youth in particular.

Already, through our bursaries, learnerships, and internship programmes that target youths from rural and peri-urban settings exclusively, we have empowered young people to acquire qualifications and experience in scarce and critical skills and competencies such as engineering, among other such disciplines.

## Governance and Leadership

We remain guided by the Public Finance Management Act as well as the King IV principles on good corporate governance. During the 2019/2020 financial period, we continued with our efforts of strengthening accountability, building ethical leadership and prudent financial management.

Through the various Board committees, we have set the tone for rallying behind the common vision of tackling organisational inefficiencies that had in the past served as hindrances to the achievement of our desired effective outcomes.

This also included the strengthening of our monitoring and evaluation systems as well as updating our strategic risk register to help us identify and mitigate against threats before they materialise.

In line with our efforts to further improve our audit outcomes, which have been on a positive trajectory for the past two financial years, we have ensured that we run a tight ship by closely guarding against the occurrence of irregular and fruitless expenditure and generating monthly reports at Executive level. While the adherence to governance prescripts remains the purview of the Board, the Chief Executive has ensured that this is a culture that permeates throughout the Organisation – from his Executive team, to middle management and ultimately to every staff member.

These interventions have paid off handsome dividends because as evinced by the Auditor-General's report on the

affairs of Mhlathuze, we have managed to further improve our performance, moving from an unqualified audit opinion in the prior financial year to a clean audit opinion for the 2019/2020 period.

In order to further build on this momentum and ensure that we achieve more clean audits in years to come, we will continue to focus our energies on upholding the principles of sound governance. Furthermore, we will strive for clear and open lines of communication with all our stakeholders in pursuit of our mandate.

I am happy to report that at Board and Executive levels, our team continues to be constituted by a solid and dedicated team of men and women, and no changes or reconfigurations have occurred to either structure in the reporting period.

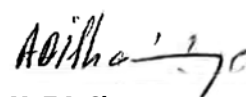
## The Road Ahead

We as an organization, set to deliver on our vision to be the regional water and water provider of choice for all stakeholders in the water value chain, have now bridged those gaps that had previously served as an impediment to discharging our mandate as defined in the Water Services Act.

Looking ahead, we will continue to attract and retain adequately qualified and skilled professionals who will help us to take our grand aspirations forward. With 40 years of experience behind us, including as implementing agents on water projects on behalf of various levels of government, we stand ready and willing to play a complementary role in the overlapping mandates between water boards and water services authorities (WSAs – municipalities) to ensure the reliable availability of water as a trigger for sustainable socio-economic development and improved livelihoods.

In presenting this 2019/2020 Annual Report, I would like to thank the Minister of Human Settlements, Water and Sanitation Honourable Lindiwe Sisulu for her support and guidance on policy issues, the Board of men and women who helps me in the discharge of my duties, the Chief Executive Mr Mthokozisi Pius Duze for his willingness, enthusiasm and dedication to leading the Organisation, as well as his entire Executive, management team and staff for always putting the Organisation first.

I also would like to sincerely thank all our stakeholders for continuing to be our valuable partners.



**Ms T.A. Shange**

**Chairperson: Mhlathuze Water**



# CHIEF EXECUTIVE'S OVERVIEW

MR M.P. DUZE – CHIEF EXECUTIVE, MHLATHUZE WATER

It is my singular honour to present to you Mhlathuze Water's Annual Report for the 2019/2020 period, which illustrates the Utility's shared commitment to advancing our government's vision of extending the provision of water and waste water discharge in our areas of operation.

This report also outlines some of the interventions we have put in place to ensure water resource security amid rapidly diminishing levels of this precious, yet finite resource.

While the period under review was particularly momentous for us as Mhlathuze Water, as it marked 40 years of our existence as a bulk water and waste water utility, there is no denying that the advent of the COVID-19 pandemic towards the end of the financial year also presented its own unique set of challenges.

These forced us to recalibrate our operations and ensure that we truly occupy our unique position as the last port of call for bulk water in our area of supply in order to ensure that the pandemic did not disproportionately impact upon poorer communities due to a scarcity of water.

At the same time, particularly in the rapidly industrialising port city of Richards Bay and its immediacy, we continue to play a pivotal role through our water and waste water management solutions, which have led to long-term economic, social and job creation benefits for the lives of thousands of people in KwaZulu-Natal and beyond.

While our business continuity plans recognise water as a catalyst and an integral part of economic and social development, we remain equally aware that as the demand for water continues to increase, we will need to embrace

newer and more innovative ways of water generation and management if we are to sustain our high standards of supply. The drought from five years ago that ravaged our operational district in KwaZulu-Natal and subsequently led to that part of our Province being declared a disaster area, imparted upon us some valuable lessons about the need to plan ahead. The northern reaches of the province cannot be allowed to suffer much longer the challenges that come with poor water catchment, network and spatial planning.

We have, of course, not only to cope with diminished water sources due to environmental factors, but also with the need to explore new infrastructure.

Due to its age and the hitherto mentioned increased demand, our bulk water resource infrastructure is in desperate need of upgrades to avert the risk of serious operational deficiencies in the foreseeable future.

For this reason, Mhlathuze Water has adopted a preventative approach to its water infrastructure maintenance, embarking on major upgrades to its pipelines, weir operations and treatment plants.

Strategically, and cognisant of the threat posed to water security by derelict infrastructure, Mhlathuze Water has also pushed for more partnerships with municipalities as water service authorities in the maintenance and operations of their water stock as well as the reticulation on a wider scale of water to communities.



Recently, to overcome some of these challenges, Mhlathuze Water, in consultation with the KwaZulu-Natal Department of Cooperative Governance and Traditional Affairs, entered into a working arrangement with the uMkhanyakude District Municipality to provide technical, procurement and project management expertise for the timely completion of a bulk water provision scheme to communities living within that deep rural district.

This we did cognisant of the fact that a lack of capacity at municipal levels where water infrastructure is most frequently operated and maintained, contributes to the mismanagement of water infrastructure and the inability to effectively maintain it, thus leading to constant breakdowns and an interruption of supply of this precious resource.

With the able guidance of the Board, our strategy is that of ensuring that good clean water is available for communities and industries, and that our effluent management is not at odds with environmental sustainability.

## Infrastructure Upgrades for Water Security

Thus, the practical steps we have taken in pursuit of these ideals include: improving the supply of bulk water; maintaining and building new strategic infrastructure, including the proposed construction of a new dam in the north of KwaZulu-Natal,

a total of  
**R15 MILLION**  
was spent on mechanical,  
electrical, electronic and civil  
maintenance and repair work

and working with our industrial stakeholders to abide by the stringent conditions as laid out in our effluent discharge license.

To this end, a total of R15 million was spent on mechanical, electrical, electronic and civil maintenance and repair work on all Mhlathuze Water-owned plants and operations. An additional R20 million was made available to ensure the continuity of our production.

Our unwavering commitment to environmental protection from degradation saw us conducting routine inspections of our effluent pipelines as required of us by the coastal waters discharge permit and, where anomalies were detected, repairs expeditiously effected.

Where warranted, refurbishments and replacements were effected to major and minor components to our C- and A-effluent discharge lines.

Routine and preventative mechanical maintenance was furthermore carried out on pumps and bearings at Nsezi, the Weir Pump Station and the Alkantstrand Pump Station.

“ We have, of course, not only to cope with diminished water sources due to environmental factors but also with the need to explore new infrastructure. ”

## Commitment to Good Governance, Ethical Leadership and Affordable Tariffs

Our vision to be the reliable water and waste water business partner of choice means that we will always strive to keep our bulk tariffs minimal while at the same time delivering quality water to customers through fair, affordable and cost-reflective charges.

In all our undertakings, we have remained mindful of the decree to all water boards by the Honourable Minister for Human Settlements, Water and Sanitation, Lindiwe Sisulu, to effectively tackle all instances of maladministration and to uphold to the letter the prescripts of clean and accountable governance.

During the year under review, and as our clean audit opinion outcomes attest, we maintained a singular focus specifically on conduct and ethical leadership, which is paramount to the sustainability of a state organ our size.

At Board and Executive levels, we led by example and created a shared vision that all employees rallied behind and supported.

The end result, I am happy to report, was an Organisation that stood united behind one common goal; that of entrenching a culture of honesty and ethical conduct across Mhlathuze Water.

Pleasingly, in line with this vision by Minister Sisulu, Mhlathuze Water has for two consecutive years notched up exemplary audits from the Auditor-General.

I must, in this regard, acknowledge with gratitude the strong leadership of our Board as it is their quality decision-making that assisted us to mitigate against and manage risks confidently as they arose. I am confident that they will continue to perform their oversight role as they have diligently done.

As indicated by our strong balance sheet, we are an Institution poised to deliver on our constitutional mandate without looking to the shareholder for financial bailouts.

A financial analysis of the Utility as a whole in relation to the related investments that have been carried out for the period under review shows that we are able to fully cover our operational and financial commitments.

## Challenges

While the lower consumption patterns in bulk water in the region and the current tariff regime that is set to remain unchanged for municipal clients is a cause for concern, our analysis does not indicate major losses in revenue for the utility for the period under review.

However, this should not lull us into complacency: we need to take stock of the financial challenges that we will face in future as our business continuity plans, including the ability to deliver on our planned future bulk water infrastructure maintenance programmes and related capital intensive expenditure programmes, all hinge upon our ability to accordingly adjust the tariffs we charge for bulk water sales.

## Maintenance and Plant Efficiency for Water Security

Our efforts to expand and supplement our existing operations for the year under review have resulted in the following interventions:

### **Thukela-Goedertrouw Transfer Scheme**

Mhlathuze Water is responsible for the operation and maintenance of the Thukela-Goedertrouw Transfer Scheme, with a capacity of 1.2m<sup>3</sup>/s, on behalf of the Department of Water and Sanitation. This scheme is critical for providing water to the region, particularly during the drought. For the reporting period, a total of 4.388 million m<sup>3</sup> of raw water was abstracted by the scheme, and transferred to the Goedertrouw dam.

The operating and maintenance-related cost associated with this scheme for the year under review was R50.8 million. Following a number of challenges, the scheme has been consistently operating at half of its capacity following repairs

conducted on equipment for Line 2 at Madungela and Line 3 at Mkhazazi, as well as the repairs that were conducted on the air valves on the rising main from Madungela to Mkhazazi. All efforts have been put in place to stabilise the system as a post reporting period intervention.

## Primary Infrastructure Development Activities

### Alterations and strengthening of weir structure

In the 2019/2020 financial year, Mhlathuze Water, as part of its core business, made available a budget of R78 million for the alteration and strengthening of weir structure which included, inter alia, the construction of a new mass concrete spillway; bulk earthworks and a new inlet channel to the existing pump station. This project has been completed and capitalised.

### Construction of a 1 500mm Ø raw water pipeline from Mhlathuze River to the shooting range

This project entailed the upgrade of the existing 1 200mm diameter pipeline to a 1 500mm diameter continuously welded mild steel pipeline from the Mhlathuze Weir to the Nsezi offtake at an overall budget of R151 360 909.00. The expenditure to date is R149 279 766.69 and the impact of the project has been the upgrade to maximum abstraction capacity at the weir PS from 205ML/day to 265ML/day. This project has been completed and capitalised.

## Secondary Infrastructure Development Activities (Section 30)

### UMkhanyakude District Municipality

Mhlathuze Water signed a tripartite agreement with uMkhanyakude District Municipality and DWS to implement the Jozini Bulk Water Supply Project in the District. Designs are in place and negotiations between all relevant stakeholders are at an advanced stage to secure additional resources for this initiative.

### Jozini Regional Water Supply Project

Mhlathuze Water successfully commissioned a 40ML/day Water Treatment Plant with associated bulk infrastructure. This project is aimed at servicing rural areas that were not served with potable water, except for limited streams and boreholes. Mhlathuze Water has entered into an agreement with the uMkhanyakude District Municipality and the Department of Water and Sanitation to undertake the operations and maintenance of the scheme until such time as the municipality is fully capacitated to take over the running of the scheme.

The project has reached practical completion with only three pump stations yet to be commissioned due to Eskom power-related challenges.

### Skhemelele-Mtikini Emergency Bulk Water Project

In an effort to help alleviate the water challenges experienced by the deep rural communities of Skhemelele and Mtikini under the uMkhanyakude District, Mhlathuze Water commissioned a R29- million project for the supply and installation of pipelines, special fittings for rising mains, gravity mains, pipework for pumping installations and reservoirs, as well as reticulation. To date, a sum of R8 million has been spent on this ongoing project.

## My Appreciation

I would like to express my appreciation to the Honourable Minister of Human Settlements, Water and Sanitation Ms Lindiwe Sisulu for her strategic leadership and guidance, the Board of Mhlathuze Water led by Miss Thabi Shange for their insightful support and oversight, as well as the Executive team and all staff for rallying behind the Utility's vision and mission.

I would also like to thank the KwaZulu-Natal Provincial Government as well as its leadership in Mhlathuze Water's region of operation for their ongoing support.

I would also like to thank all Mhlathuze Water stakeholders for their patronage and partnership. Finally, I would like to thank organised labour within Mhlathuze Water for always working with us to ensure the welfare of both the Institution and our most important capital – our workforce.



Chief Executive, Mhlathuze Water



# STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF ACCURACY FOR THE ANNUAL REPORT

To the best of my knowledge and belief, I confirm the following:

All information and amounts disclosed in the Annual Report is consistent with the Annual Financial Statements audited by the Auditor-General.

The Annual Report is complete, accurate and free from any omissions.

The Annual Report has been prepared in accordance with the guidelines on the Annual Report as issued by National Treasury.

The Annual Financial Statements have been prepared in accordance with the GRAP standards applicable to the Public Entity.

**Mr M.P. Duze**  
**Chief Executive**

The accounting authority is responsible for the preparation of the Annual Financial Statements and for the judgements made in this information.

The accounting authority is responsible for establishing and implementing a system of internal control has been designed to provide reasonable assurance as to the integrity and reliability of the performance information, the human resources information and the Annual Financial Statements.

The external auditors are engaged to express an independent opinion on the Annual Financial Statements.

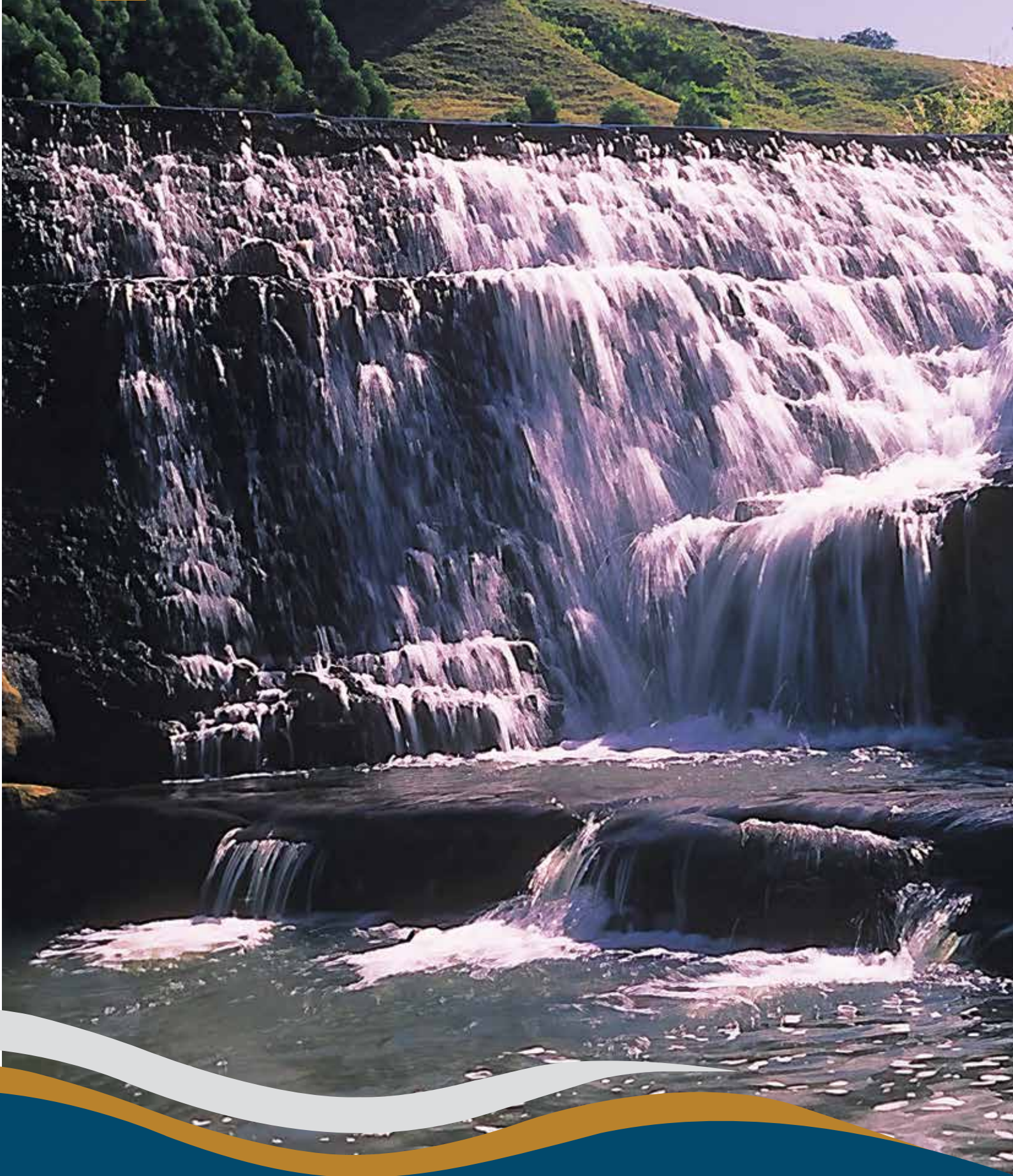
In our opinion, the Annual Report fairly reflects the operations, performance information, human resources information and financial affairs of the Entity for the financial year.

**Ms T.A. Shange**  
**Chairperson of the Board**





# SECTION A PROFILE OF THE ORGANISATION





## 1. INTRODUCTION

**M**hlathuze Water (MW) is a state-owned entity based in Richards Bay and operating in the province of KwaZulu-Natal. However, due to our geographic location in Richards Bay, we predominantly operate in the uMkhanyakude, King Cetshwayo and Zululand District Municipalities. Richards Bay is supplied by three dominant water sources, namely: Mhlathuze River, Lake Mzingazi and Lake Nsezi. Our business activities include a raw (untreated), clarified (partially treated) and purified water supply; disposal of industrial and domestic waste water; and scientific services. We provide these bulk water services in a sustainable and cost-effective manner and major clients include: Foskor, Richards Bay Minerals, the City of uMhlathuze and Mondi.

We strive to achieve our role as a water board by being a responsible bulk water service provider in terms of the Water Services Act, 1997 No. 108 of 1997, and by supporting and assisting local water service authorities with planning, development, operations and maintenance of water services schemes.

Maintaining and expanding good relationships with our existing customers is a key success factor for our sustainability.

As mentioned in the mission statement, we strive to contribute towards economic growth through the provision of efficient management; maintenance of bulk services to new industrial investors; and residential demands and expansions.

Making a meaningful and noticeable contribution to the daily lives of the communities that live within our immediate area of operation is achieved through our corporate social investment and rural development programmes respectively.

In providing these services to customers, we strive to protect the natural and social environmental and water resources.

We are proud to be associated with our employees, which is stated boldly in the mission statement and the core set of values that we promote. We ensure that our most important resource – our employees – are managed, supported, developed and rewarded in a responsible, transparent and unbiased manner by implementing the human resources management and development policies.





Figure 1: Area of operation



## 2. VISION, MISSION, VALUES AND CRITICAL SUCCESS FACTORS

### 2.1. Vision, Mission, Outcomes and Key Strategic Objectives

<p><b>VISION</b></p> <p>Your reliable water and waste water business partner of choice</p>	<p><b>MISSION</b></p> <p>Through good governance, committed and skilled employees, contribute to development by providing quality water and waste water disposal services</p>
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<b>STRATEGIC INTENT</b>	
KEY FOCUS AREAS	STRATEGIC OBJECTIVES
 <p style="background-color: #004a7c; color: white; padding: 2px 5px; text-align: center; margin-top: 5px;"><b>CUSTOMERS</b></p>	<p>SO 1: To grow the provision of water services</p> <p>SO 3: To initiate and build relationships with stakeholders to add value for all</p> <p>SO 7: To improve efficiency through technology and best practices</p>
 <p style="background-color: #004a7c; color: white; padding: 2px 5px; text-align: center; margin-top: 5px;"><b>FINANCIAL</b></p>	<p>SO 2: To ensure long-term financial sustainability of the Organisation</p>
 <p style="background-color: #004a7c; color: white; padding: 2px 5px; text-align: center; margin-top: 5px;"><b>PROCESSES</b></p>	<p>SO 5: To optimise business processes and systems</p> <p>SO 6: To be pro-active on issues relating to health, safety, security and the environment</p>
 <p style="background-color: #004a7c; color: white; padding: 2px 5px; text-align: center; margin-top: 5px;"><b>ORGANISATIONAL CAPACITY</b></p>	<p>SO 4: To resource the Organisation with the required skills and competence to deliver the strategic intent</p>

<b>OUTCOMES</b>	
<ul style="list-style-type: none"> <li>• Increase leadership and operational competence</li> <li>• Unqualified audit</li> <li>• Safe and secure working environment</li> <li>• Meet quality and compliance standards</li> <li>• Complete feasibility studies to reduce waste water discharge into the ocean</li> <li>• Implement technology to reduce cost of sales</li> <li>• Reduce water wastage from abstraction</li> </ul>	<ul style="list-style-type: none"> <li>• Invest effectively in bulk water storage</li> <li>• Invest effectively in bulk water production</li> <li>• Diversify and expand the business footprint</li> <li>• Revenue generation from investment in assets</li> <li>• Maintain quality service to existing customers</li> <li>• Increase in the local/regional economic spend</li> <li>• Local community to feel the presence of Mhlathuze Water</li> </ul>

## 2.2. Values

We will develop a culture of trustworthiness, transparency and loyalty that responds to the needs of customers and employees with honesty and passion.

- **Ethics and integrity**  
To act within high moral and professional principles in a resolute and truthful manner.
- **Excellence and quality**  
To maximise the use of available resources so that we continue to produce work of excellent quality.
- **Fairness and redress**  
To treat customers in a fair and equitable manner and put right what was wrong in order harness good relationships.
- **Creativity and innovation**  
To continually strive for new, different and efficient ways of doing business, challenging the status quo, mindsets and assumptions.
- **Enthusiasm and passion**  
To treat all people with respect, warmth, integrity, passion, courtesy and enthusiasm to make them feel special.

## 2.3. Critical Success Factors

- **Good governance**  
To conduct and present the business in a reliable, transparent, accessible and compliant manner.
- **Customers and communities**  
To cordially consult with customers and communities on the services provided in an open, responsive and transparent manner.
- **Operations**  
To deliver services to customers and communities in a safe, healthy, efficient and environmentally-friendly manner.
- **Skills and competence**  
To attract, develop and retain a diverse, skilled and competent workforce.
- **Financial viability**  
To optimise available resources through sound financial management, asset management and sustainable tariffs.
- **Research and development**  
To continuously strive to create and harness knowledge to advance and find innovative solutions to improve organisational performance and efficiency.





### 3. LEGISLATIVE AND OTHER MANDATES

The Board and Management of Mhlathuze Water have committed to discharge their duties of good corporate citizenship by ensuring compliance to all applicable laws and good corporate governance principles that are inherent in sound business practice.

These are prescribed within a specific, applicable legal and regulatory framework for public entities such as the Public Finance Management Act, 1999 (Act No.1 of 1999), the Water Services Act, 1997(Act No.108 of 1997) and the King IV Report, which are the cornerstones of these prerequisites. Changes to the accounting standards that impacted on the financial reporting have been acknowledged to ensure minimal deviations from the requirements. We realise that compliance is an ongoing process and will, therefore, continue to necessitate sound and innovative ways to ensure full compliance in all the reporting obligations to both customers and stakeholders to maintain transparency, effectiveness and accuracy.

#### 3.1. Legislative Mandates Relevant to Mhlathuze Water

##### 3.1.1. Constitution of the Republic of South Africa

The Constitution of the Republic of South Africa is the supreme law of the Republic. In Chapter 2 in the Bill of Rights, the Constitution forms the legal foundation of a democratic South Africa and sets out the rights and duties of its citizens and defines the structure of government. Section 27 (1) (b) of

the Constitution of the Republic of South Africa states that everyone has the right to have access to sufficient food and water. Section 27 (2) further indicates that the State must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right.

##### 3.1.2. Water Services Act, 1997

The Water Services Act, 1997 (Act No. 108 of 1997) sets out objectives to provide for the:

- Rights of access to basic water supply and basic sanitation
- Setting of national standards and of norms and standards for tariffs
- Water services development plans
- Regulatory framework for water services institutions and water services intermediaries;
- Establishment and disestablishment of water boards and water services committees and their powers and duties
- Monitoring of water services and intervention by the Minister or by the relevant province
- Financial assistance to water services institutions
- Certain general powers of the Minister
- Gathering of information in a national information system and the distribution of that information

Section 40 (1) (2) (a), (b), (c) & (d) of the Water Services Act states that Water Boards must, not later than one month before the commencement of each financial year, prepare and adopt a business plan relating to the following five financial years.

The business plan must at least contain information regarding:

- Each specific primary and other activity to be undertaken and the performance targets for each
- The tariff applicable to each service, its motivation and the estimated tariff income
- Forecasts of capital expenditure for the primary and other activities for the next five years

In addition, Section 30 of the Water Services Act enables us to undertake any other activities, provided these do not impact negatively on our ability to perform our primary activities.

These include:

- Supplying water directly for industrial use, accepting industrial effluent and acting as a water services provider to consumers
- Providing water services in joint venture with water services authorities and other stakeholders

### **3.1.3. National Water Act, 1998 (Act 36 of 1998)**

The National Water Act, 1998 (Act 36 of 1998) recognises that water is a scarce and unevenly distributed national resource that occurs in many different forms. It further states that while water is a natural resource that belongs to all people, the discriminatory laws and practices of the past have prevented equal access to water and use of water resources. This Act acknowledges the National Government's overall responsibility for and authority over the nation's water resources and their use, including the equitable allocation for beneficial use.

### **3.1.4. Public Finance Management Act, Act 1 of 1999 (as amended)**

Section 52 (a) & (b) of the Public Finance Management Act states that the Accounting Authority for a public entity listed in Schedule 2 or a government entity listed in Schedule 3B must submit to the accounting officer of a department designated by the Executive Authority responsible for that public entity and to relevant treasury, at least one month, or another period agreed with the National Treasury, before the start of its financial year:

- A projection of revenue, expenditure and borrowings for that financial year in the prescribed format
- A corporate plan in the prescribed format covering the affairs of that public entity or business enterprise for the following three financial years, and, if it has subsidiaries, also the affairs of the subsidiaries

### **3.1.5. Disaster Management Act, Act 57 of 2002**

During the financial year, Mhlathuze Water was affected by a National State of Disaster declared by the President in March 2020 due to the international COVID-19 pandemic.

The National State of Disaster was followed by a plethora of health and safety, labour relations and other regulations that impacted on our operations. All the referred regulations are available on [www.gov.za/coronavirus/guidelines](http://www.gov.za/coronavirus/guidelines).

Details of the impact and implementation of these regulations and guidelines are contained in the Corporate Services Section of this Annual Report.

### **3.1.6. Other legislative imperatives include, but are not limited to:**

- Companies Act, 2008 (Act 71 of 2008)
- Treasury Regulations (in terms of the PFMA Act 1 of 1999)
- South African Receiver of Revenue Act 34 of 1997
- National Environmental Management Act 107 of 1998
- The National Environmental Management: Integrated Coastal Management Act 24 of 2008
- Occupational Health and Safety Act 85 of 1993
- The Compensation for Occupational Injuries and Diseases Act Treasury Regulations 130 of 1993
- Employment Equity Act 55 of 1998
- Labour Relations Act 66 of 1995
- Basic Conditions of Employment Act 75 of 1997
- Skills Development Act 97 of 1998
- Protection of Personal Information Act 4 of 2013
- Protected Disclosures Act 26 of 2000
- Disaster Management Act 57 of 2002

## **3.2. Other Mandates Relevant to Mhlathuze Water**

### **3.2.1. The Second National Water Resource Strategy (NWRS2), 2014**

Mhlathuze Water activities are aligned to the NWRS2, 2014. The NWRS2 is the legal instrument for implementing or operationalising the National Water Act 1997 (Act No. 108 of 1997) and it is thus binding on all water authorities and institutions implementing the Act. It is the primary mechanism to manage water across all sectors towards achieving National Government's development objectives.

The NWRS2 sets out the vision, principles, goals and strategic actions for achieving effective developmental

water management, with a particular, but not exclusive, focus on the role of the State, specifically the Department of Water and Sanitation (as water sector leader), associated sector departments (impacting water resources and its management), catchment management agencies, water services authorities, water boards, and other organs of State with a responsibility for water management. It also focuses on the importance of water use sectors, communities, civil society, and the private sector becoming involved in and committing to developmental water resource management.

### 3.2.2. United Nation's Sustainable Development Goals

We contribute to the below mentioned SDGs:

**Sustainable Development Goal 6.a:** Expand cooperation and capacity-building support to developing countries in water- and sanitation-related activities and programmes, including water harvesting, desalination, water efficiency, wastewater treatment, recycling and reuse technologies.

**Sustainable Development Goal 6.b:** Support and strengthen the participation of local communities in improving water and sanitation management.

**Sustainable Development Goal 6.1:** Achieve universal and equitable access to safe and affordable drinking water for all.

**Sustainable Development Goal 6.2:** Achieve access to adequate and equitable sanitation and hygiene for all and end defecating in the water, paying special attention to the needs of women, girls and those in vulnerable situations.

**Sustainable Development Goal 6.3:** Improve water quality by reducing pollution, eliminating dumping and minimising the release of hazardous chemicals and materials, halving the proportion of untreated waste water and substantially increasing recycling and safe reuse globally.

**Sustainable Development Goal 6.4:** Substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.

### 3.2.3. National Priority Outcomes

Out of the 14 National Priority Outcomes, we contribute directly to the following outcomes:

**Outcome 5:** A skilled and capable workforce to support an inclusive growth path. Output 2 in relation to this outcome advocates for an increase in the number of learnerships and artisans. We recognise the importance of a technically competent workforce and contribute towards building capacity within the water sector through the skills development programme. We also have trained participants in the learnership programme.

**Outcome 6:** An efficient, competitive and responsive economic infrastructure network. We are entrusted with the responsibility to coordinate regional water infrastructure investment and bulk water supply programmes that will stimulate inclusive economic growth and job creation in the region.

### 3.2.4. National Development Plan

The National Development Plan (NDP), Vision 2030, adopted by Cabinet in 2012, is the visionary blueprint of Government, with business and society as collaborative partners. This long-term plan for the country, which cuts across all sectors of society, identifies the critical challenges to be addressed by the country over the period to 2030. The NDP aims to integrate planning and ensure greater policy coherence in Government, thus building a common vision of South Africa in 2030.

Seeking to eliminate poverty and sharply reduce inequality by 2030, the key elements that relate to water resources and services are the following 2030 milestones and economic infrastructure objectives.

2030 NDP milestones:

- All South Africans will have affordable, reliable access to sufficient safe water and hygienic sanitation
- Effective management of water and the services will support a strong economy and a healthy environment
- Establish a national water-resources infrastructure agency to support implementation of large projects
- The country's development will reflect an understanding of available water resources and effective water planning that cuts across different economic sectors and spheres of government
- All main urban and industrial centres will have a reliable water supply to meet their needs, while increasingly efficient agricultural water use will support productive rural communities
- Natural water sources will be protected to prevent excessive extraction and pollution



# 4. MHLATHUZE WATER'S BUSINESS

Our services:

- Bulk water provision: raw, clarified and purified to industries and water services authorities
- Bulk waste water disposal
- Section 30 additional activities as permitted in the Water Services Act

## 4.1. Section 29 Core Business

### 4.1.1. Bulk water provision

We provide raw, clarified and purified water to industries and water service authorities through our flagship Nsezi Water Treatment Plant, which provides treated water that meets and exceeds the quality standard for drinking water as well as customer-specific requirements for both domestic and industrial purposes. The production capacity is 74 million m<sup>3</sup> per annum.

### 4.1.2. Bulk waste water disposal

Mhlathuze Water collects waste water from all industries and disposes of it through the sea off-shore pipelines in a safe environment. The disposal capacity is 120 million m<sup>3</sup> per annum.

### 4.1.3. Scientific services

We are the proud owner of a state-of-the-art water and waste water testing laboratory facility. The facility is ISO 17025 accredited and offers a variety of water quality testing services in the fields of chemistry, microbiology and hydrobiology.

The laboratory uses a Laboratory Information Management System (LIMS) to support its operations in managing samples, integrating instruments, exchanging electronic data and facilitating reporting.

The service focuses on developing internal research and development expertise in order to deal with current innovation challenges in the sector. The initial approach will be collaborative (with external institutions) while building internal capacity.

### 4.1.4. Section 30 project implementation and management services

We possess a wide range of experience in programme and project implementation as well as management services in both bulk water and sanitation projects. For the year under review; the following municipalities and organisations have been supported:

- uMkhanyakude District Municipality
  - Implementing the Shemula-kemelele Community Water Scheme
  - Operating and maintaining the Jozini Bulk Water Works and bulk network
- City of uMhlathuze
  - Operating and maintaining all bulk water and waste water infrastructure
- Isimangaliso Wetland Park Authority
  - Implementing boreholes. This involved drilling and equipping boreholes at identified sites. Due to COVID-19, the project was delayed and will be completed in the next financial year
- Department Labour: Labour Activation Programme
  - Recruiting and training 2 000 learners on the War on Leaks Programme, which is ongoing
- Department of Water and Sanitation
  - Operating and maintaining the Tugela to Goedertrouw inter-basin bulk Transfer Scheme



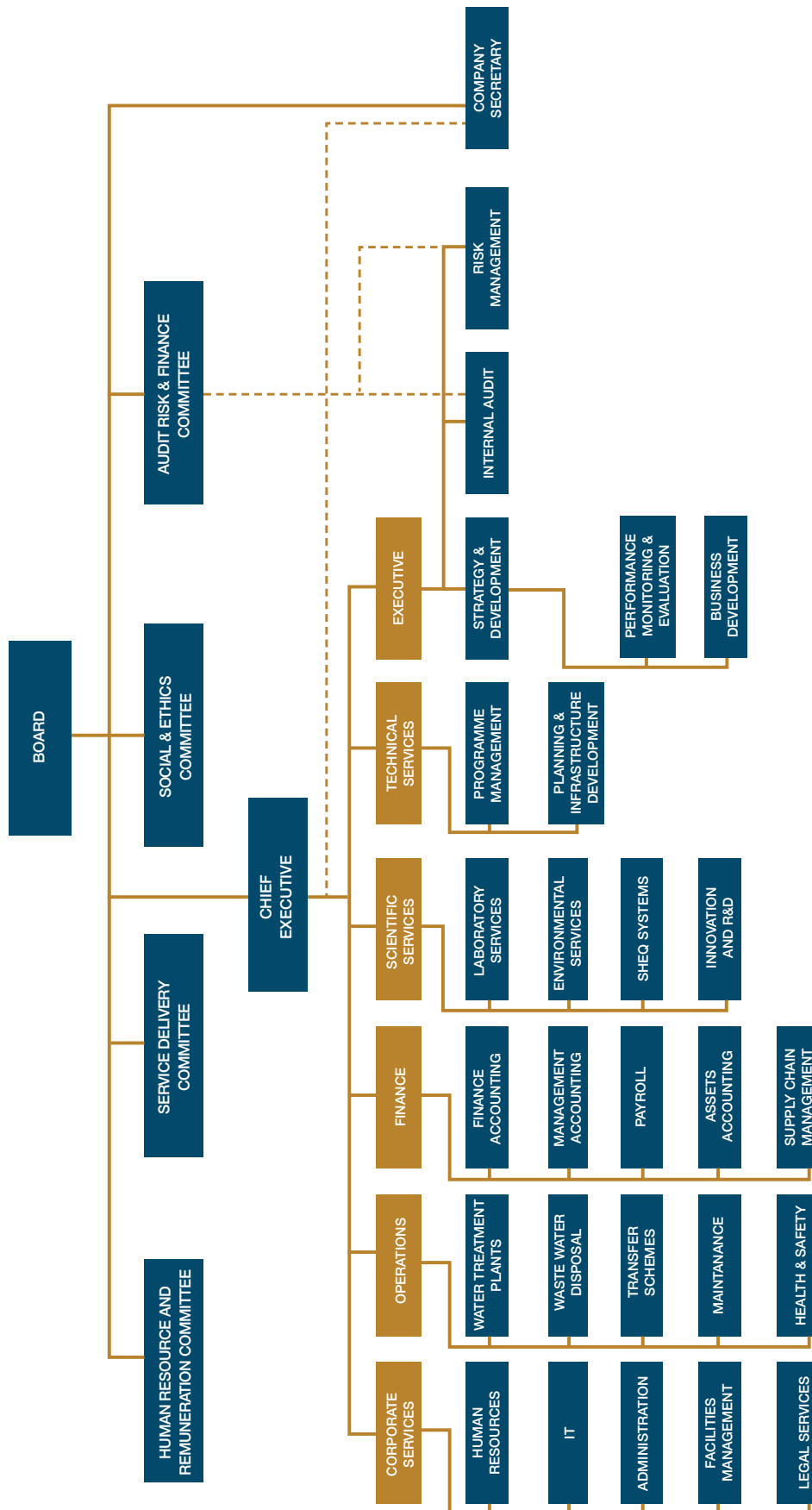


# SECTION B CORPORATE GOVERNANCE



# 5. HIGH-LEVEL ORGANISATIONAL STRUCTURE

Figure 2: Organogram



## 5.1. The Board of Mhlathuze Water

Board members are appointed by the Minister of Water and Sanitation (DWS) in terms of the Water Services Act, 1997 (Act 108 of 1997). The Minister appointed 11 members of the Board on 5 December 2018 for a four-year term. The primary role of the Board is to ensure that we succeed in discharging our mandate as a water board in accordance with the Water Services Act in a manner that complies fully with all relevant legislative requirements. The Board ensures that our overall governance is effective, appropriate and within the bounds of sound corporate governance practices.

Furthermore, the Board is entrusted with a responsibility to provide effective ethical leadership and control based on a foundation of integrity, competence, responsibility, accountability, fairness and transparency. This is achieved through steering the strategic direction (vision and mission), with regards to our strategy and exercising accountability to shareholders.



**Ms T.A. Shange**  
Chairperson

**CORE QUALIFICATIONS:**

- MBA: Public Sector Management
- BA Honours: Development Studies
- BA: Geography & History
- Concurrent Certificate in Education
- UBLS Teachers' Certificate
- Certificate: Directorship – Accelerated Directorship Programme

**AREAS OF EXPERTISE:**

- She has experience and mature insight on leadership
- She has experience in Board and Audit & Risk membership, having served on various Boards over 25 years. She has also served in the public, corporate and social sectors
- Former Regional Land Commissioner – KwaZulu-Natal
- Former General Manager: Strategic Affairs at Richards Bay Minerals
- Good governance, leadership and communications skills and well-rounded development practitioner



**Mr S.Z. Hlophe**  
Deputy Chair

**CORE QUALIFICATIONS:**

- MBL: Business Leadership
- BCom Honours: Accounting
- ND: Cost and Management Accounting

**AREAS OF EXPERTISE:**

- He has vast senior management experience that cuts across the public and private sectors that is more focused on finance, compliance, internal audit, taxation, audit and risk and infrastructure investment as well as general administration and management matters



**Prof. P.S. Reddy**

**CORE QUALIFICATIONS:**

- D Admin: Public Administration
- M Admin: Public Administration
- Honours: Public Administration
- B Admin: Public Administration
- Certificate: Local Govt Studies (UK)

**AREAS OF EXPERTISE:**

- He is a sub-national governance specialist who has distinguished himself in the fields of human/social development, service delivery, planning and human resources through teaching and learning, research, university service and community engagement
- His insight and experience in academic development will contribute positively in administration and organisational development
- He has solid theoretical and practical experience in human capital development



## Mrs N. Gevers

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### CORE QUALIFICATIONS:

- Chartered Accountant of South Africa
- Postgraduate Diploma: Management Accounting
- BCom Degree
- Diploma: Accountancy

### AREAS OF EXPERTISE:

- She has extensive experience in the water sector, corporate and project finance, risk management as well as the PFMA requirements
- She served as a member of the former Mhlathuze Water Board



## Dr M. Makgae

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### CORE QUALIFICATIONS:

- PhD in Environmental Chemistry
- MSc: Chemistry in Membrane Technology
- BSc: Honours in Chemistry
- Certificate: Environmental Management
- Certificate: Project management
- Management Advancement Programme (MAP)

### AREAS OF EXPERTISE:

- She has insight into and experience in scientific services and water quality
- She has worked for several State-Owned Entities, including the Council for Scientific and Industrial Research (CSIR), Pebble Bed Modular Reactor (PBMR), South African Nuclear Energy Corporation (NECSA) and Council for Geoscience (CGS)
- She has now ventured into business. She has a company called Geo-Environmental and Technical Services and Mosidi Leadership Coaching
- She is currently serving as a Board member to the Water Research Commission and Mhlathuze Water and is an Advisor to the National Nuclear Regulator



## Mr M.M. Xulu

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### CORE QUALIFICATIONS:

- Honours Degree: Accounting
- B Com Degree
- Management Development Programme

### AREAS OF EXPERTISE:

- He is a registered member of Associate-General SA
- He has experience in the audit and risk environment through his qualification in Accounting Science
- He has experience in executive management and marketing
- He served as a member of the former Mhlathuze Water Board



## Ms N.N. Mkhize

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### CORE QUALIFICATIONS:

- Candidate for B. Tech-Civil Engineering
- ND: Civil Engineering
- Postgraduate Diploma: Project Management

### AREAS OF EXPERTISE:

- She has experience and knowledge of civil Engineering and construction
- She represents female youth and that will provide a generational mixture for the new Board
- She is exposed to contract documentation, design and has completed and understands water systems



## Ms G.D. Biyela

### CORE QUALIFICATIONS:

- Bachelor of Pedagogics
- Diploma in Public Admin
- Secondary School Teachers' Diploma
- Certificate: Women on Boards
- Certificate: Hazard Analysis and Critical Control Points

### AREAS OF EXPERTISE:

- She has experience in and knowledge of contracts management and networking
- She was an educator
- She has an understanding of business inherent risks and risk mitigating strategies
- She will contribute to the social and ethics committee of the Board



## Mr B.V. Mshengu

### CORE QUALIFICATIONS:

- Bachelor of Arts
- Diploma: Social Work
- Certificate: Labour Law
- Personnel Management Programme
- Programme for Management Development
- Certificate: Integrating Strategy, Budgeting and Reporting

### AREAS OF EXPERTISE:

- President of the Pietermaritzburg Chamber of Business
- He has experience in HR and remuneration, and the Audit and Risk and Finance Committee through serving on various boards and committees
- He served as a member of the former Mhlathuze Water Board
- As a former CEO, he is a well-rounded leader and development champion with project management capabilities



## Mr P.M. Zikalala

### CORE QUALIFICATIONS:

- BSc: Honours in Technology Management
- BTech: Civil Engineering
- ND: Civil Engineering

### AREAS OF EXPERTISE:

- He is professionally registered with Engineering Council of South Africa (ECSA) and registered with the South African Council for Project and Construction Management Professions (SACPCMP)
- He has experience in project and programme management, engineering, construction and contract management, infrastructure maintenance and infrastructure investment models, water re-use and transportation
- He has been exposed to construction projects, creating synergies of economic hubs



## Mrs A. Badul

### CORE QUALIFICATIONS:

- Diploma: Business Admin
- Diploma: Local Government Management
- Diploma: Adult Basic Education and Training
- Certificate: Executive Leadership Development Programme
- Certificate: Executive Course on Good Governance
- Institute of Directors Certificate: Being a Director Part 1, 2 & 3, Finance Management, Corporate Governance

### AREAS OF EXPERTISE:

- She is a former Deputy Mayor of the Ilembe District Municipality
- She has 23 years' experience in local government in an executive capacity
- She was instrumental in setting up the Ilembe District Municipality's Local Development Agency – Enterprise Ilembe
- She served on various portfolio committees, including intergovernmental forums, Economic Development and Planning Committee, Budget and Audit Steering Committee, Finance and Service Delivery Committee
- She has network and community -driven interests to ensure that Mhlathuze Water's hydro strategy is aligned to the Local Government Developmental agenda
- She served as a member of the former Mhlathuze Water Board

### 5.1.1. The Board Charter

The Board Charter provides an overview of duties and responsibilities of the Mhlathuze Water Board as well as procedures and structure that will govern how the Board is to function. The Charter addresses the appointment and composition of the Board, matters reserved for Board decision-making, induction, evaluation and declarations of conflict of interest.

### 5.1.2 Attendance of the Board

**Table 1: Attendance of the Board**

Board meetings held	9
Attendance	
Ms T.A. Shange	9/9
Mr S.Z. Hlophe	7/9
Mr M.M. Xulu	7/9
Mrs A. Badul	9/9
Mrs G.D. Biyela	9/9
Mrs N. Gevers	9/9
Mr B.V. Mshengu	9/9
Dr M. Makgae	7/9
Mr M. Zikalala	7/9
Ms N. Mkhize	9/9
Prof. P.S. Reddy	9/9

## 5.2. Board sub-committees

### 5.2.1. Audit and Risk Committee

The Audit and Risk Committee serves as an objective structure that is entrusted with the responsibility of reviewing and making recommendations on issues relating to improving the effectiveness of organisational governance and managing organisational risks and internal controls. In January 2020, the Audit, Risk and Finance Committee was reconfigured by the Board, and a separate Finance Committee was established from the Audit and Risk Committee. This resulted in the restructuring of all Board committees. The table below, therefore, reflects data up to December 2019.

**Table 2: Attendance of the Audit and Risk Committee**

Audit and Risk meetings			7
	Attendance (Jul 2019 to Dec 2019)	Attendance (Jan 2020 to June 2020)	Total
	5	2	7
Mr S.Z. Hlophe	5/5	2/2	7/7
Mr M.M. Xulu	3/5	1/2	4/7
Mrs A. Badul	5/5	2/2	7/7
Mrs N. Gevers	5/5	2/2	7/7
Ms N. Mkhize		2/2	2/2
Prof. P.S. Reddy	3/5		3/5

### 5.2.2. Finance Committee

The Finance Committee was established in January 2020. It serves as an independent oversight structure that is entrusted with the responsibility of reviewing and making recommendations on issues relating to financial budgeting, including the preparation of annual operating and revenue budgets and periodic budget reviews. This committee further ensures that we maintain the required standards of financial management and reporting. It gives assurance on the availability of funds for both operational and capital budget requirements. The table below, therefore, reflects data from January 2020 till June 2020.

**Table 3: Attendance of the Finance Committee**

Finance meetings held (Jan 2020 to June 2020)	2
Attendance	
Mr M.M. Xulu	2/2
Mrs G.D. Biyela	1/2
Mrs N. Gevers	2/2
Dr M. Makgae	2/2
Mr M. Zikalala	2/2

### 5.2.3. Service Delivery Committee

This committee provides oversight on the implementation of core strategic infrastructure programmes aimed at enhancing the provision of bulk water while developing and maintaining sustainable customer and stakeholder relationships to achieve cost-effective, reliable and sustainable water and related services. The committee is also tasked with the responsibility of ensuring that water produced by Mhlathuze Water complies with water quality and health and safety standards and environmental risks issues.

The committee discharges its duties through recommending capital projects reports to the Board and ensures that capital projects are completed on time and cost effectively to improve service delivery on communities and fulfil the shareholder mandate.

**Table 4: Attendance of the Service Delivery Committee**

Service Delivery Committee			3
	Attendance (Jul 2019 to Dec 2019)	Attendance (Jan 2020 to June 2020)	Total
	2	1	3
Mr S.Z. Hlophe	2/2	1/1	3/3
Mrs A. Badul	2/2		2/2
Mr B.V. Mshengu		1/1	1/1
Dr M. Makgae	2/2		2/2
Mr M. Zikalala	2/2	1/1	3/3
Ms N. Mkhize	2/2	1/1	3/3
Prof. P.S. Reddy		1/1	1/1

#### 5.2.4. Human Resources and Remuneration Committee

The purpose of the Human Resource and Remuneration Committee is to establish and oversee the human resources policies and procedures that govern the areas of recruitment, resignations, retirements and terminations, organisational planning and design, training and development and succession planning.

This committee reports and recommends to the Board issues relating to human resource policies, employment equity, remuneration, the organisational structure and compliance with labour relations matters. The Companies Act, 2008 (Act No. 71 of 2008) requires and the King IV Code recommends to public companies to establish this committee.

**Table 5: Attendance of the Human Resources and Remuneration Committee**

HR & REMCO Meetings			5
	Attendance (Jul 2019 to Dec 2019)	Attendance (Jan 2020 to June 2020)	Total
	3	2	5
Mr S.Z. Hlophe		1/2	1/2
Mrs G.D. Biyela	3/3	0/2	3/5
Mrs N. Gevers	2/3		2/3
Mr B.V. Mshengu	3/3	2/2	5/5
Dr M. Makgae	2/3	2/2	4/5
Mr M. Zikalala		2/2	2/2
Prof. P.S. Reddy	3/3		3/3

#### 5.2.5. Social and Ethics Committee

The Companies Act, 2008 (Act No. 71 of 2008) requires that the boards of all listed public companies, state-owned enterprises (SOEs) and companies with significant public interest should have a social and ethics sub-committee. This emphasises that companies have a significant social impact on the societies in which they operate.

This committee is responsible for oversight and reporting on organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relationships as stated in the King IV Report on Corporate Governance.

**Table 6: Attendance of the Social and Ethics Committee**

Social and Ethics meetings attended per member			4
	Attendance (Jul 2019 to Dec 2019)	Attendance (Jan 2020 to June 2020)	Total
	2	2	4
Mr M.M. Xulu	1/2	2/2	3/4
Mrs A. Badul		2/2	2/2
Mrs G.D. Biyela	1/2		1/2
Mrs N. Gevers		2/2	2/2
Mr B.V. Mshengu	2/2	2/2	4/4
Mr M. Zikalala	1/2		1/2
Ms N. Mkhize	2/2		2/2
Prof. P.S. Reddy		2/2	2/2

### 5.3. Company Secretariat

The Company Secretary is responsible for the secretariat function at a strategic level, governance advisory services and compliance management, and also plays a critical role in legal advisory to the Board and Organisation in relation to King IV. The Company Secretariat attends all Board and Board sub-committee meetings.

The Board and members of the Executive Committee have access to the Company Secretary for guidance on how to perform their duties and responsibilities in our best. The Company Secretary is responsible for the ongoing training of Board members and the scheduling, preparation and administration for Board and Board sub-committee meetings.





## 5.4. Executive Committee (EXCO)

The Board delegates our day-to-day operation to the Chief Executive, who is assisted by the executives, each heading up a unit.



**Mr M.P. Duze**  
**Chief Executive**

**CORE QUALIFICATIONS:**

- Candidate for PhD in Water Management
- Masters in Development Studies (*cum laude*)
- Bachelor of Arts in Human and Social Studies

**AREAS OF EXPERTISE:**

- 19 years' of experience in programme and project management
- Development Planning Practitioner
- Member of The Institute of Directors in Southern Africa
- Non-Executive member: The 911 Fund Foundation (NY)



**Ms B. Mnyandu**  
**Chief Financial Officer**

**CORE QUALIFICATIONS:**

- Chartered Accountant of South Africa
- Bachelor of Commerce Honours: Accounting
- Bachelor of Commerce

**AREAS OF EXPERTISE:**

- Financial management and accounting (14 years)
- Cash flow modelling, business plan projections, process flows and procedure manuals creation (2 years)
- Project management, business process outsourcing and audit readiness (6 years)
- Audit and Risk Advisory (5 years)



**Mr S. Ntlhoro**  
**General Manager: Scientific Services**  
**Acting General Manager: Operations**

**CORE QUALIFICATIONS:**

- Bachelor of Science (Honours): Chemistry
- Postgraduate Diploma: Management
- Registered with SACNASP as a Professional Natural Scientist

**AREAS OF EXPERTISE:**

- Water and wastewater quality monitoring and compliance
- Laboratory accreditation
- Laboratory management



**Mr Mandla Myeni**  
**General Manager: Corporate Services**

**CORE QUALIFICATIONS:**

- Bachelor of Technology Degree: Management
- BCom Degree: Industrial Psychology
- Diploma: Personnel Management

**AREAS OF EXPERTISE:**

- Over 20 years' experience in human resources: HR planning; recruitment and selection; organisational development; policy development; human resources development; performance management; job design; remuneration and employee relations



**Ms S. Mbatha**  
**Company Secretary**

**CORE QUALIFICATIONS:**

- LLB Degree
- Admitted as an attorney of the High Court SA
- Enrolled for ICOSA Programme for corporate governance and strategic management

**AREAS OF EXPERTISE:**

- Legal
- Corporate governance
- Compliance
- Member of the Institute of Directors SA



## Mr N. Ncube

### Acting General Manager: Technical Services

#### CORE QUALIFICATIONS:

- Professional Engineering Technologist (ECSA)
- Master's Degree in Public Administration (UP)
- BTech Degree in Civil Engineering
- National Diploma in Civil Engineering
- Certificate (NQF 7) in Municipal Financial Management

#### AREAS OF EXPERTISE:

- Over 20 years' experience in the built environment from private to public sector
- Over 15 years' experience in water and sanitation engineering infrastructure
- Experience in infrastructure planning, design, capital forecasting, project value chain and operational and maintenance.

## 5.5. Management Committee (MANCO)

This committee comprises managers who report to the respective Executive Heads of Heads of Departments. The Committee meets on a monthly basis and presents reports on our performance and makes recommendations to the Executive Committee for any decision-making affecting us.

## 5.6. Management Operational Committees

### 5.6.1. Bid committees

The purpose of these committees is to approve bid specifications and to evaluate and adjudicate tenders. The three bid committees currently functional at Mhlathuze Water are as follows:

- Bid Adjudication Committee: Consists of Executive Management and a Supply Chain Manager
- Bid Evaluation Committee: Consists of cross-functional teams with different expertise from various departments and the Contracts Specialist
- Bid Specification Committee: Consists of the representative from Supply Chain and specialists from the user departments

### 5.6.2. Risk, Information Technology (IT), Health and Safety Committee

The Risk, IT, Health and Safety Committee is tasked with managing issues of risks, IT governance as well as health and safety. The Committee considers reports from the IT Steering Committee, the Risk Champion Forum and Health and Safety Committee covering matters relating to substantive risk management, information technology as well as health and safety. The Committee reports to the Audit and Risk Committee on all the assigned matters in terms of its Terms of Reference. The table below outlines the activities of the committee during the financial year.

**Table 7: Meetings of the Risk, IT and Health & Safety Committee**

22 January 2020	Committee meeting
28 April 2020	Committee meeting
30 June 2020	Committee meeting

### 5.6.3. Employment Equity Committee

The Employment Equity Committee was established in order to comply with Section 20 of the Employment Equity Act, 1998 (Act No. 55 of 1998). The Committee consists of employees or their nominated representatives who are from designated groups. The Committee was established for the purpose of enabling the employer to consult with employees in terms of Section 17 of this Act and to implement affirmative action measures. The Committee meets on a quarterly basis and reports to the Chief Executive on all the assigned matters in terms of its Terms of Reference. The table below outlines the activities of the committee during the financial year.

**Table 8: Meetings of the Employment Equity Committee**

24 July 2019	Disability Management Workshop attended by EE Committee members
30 July 2019	EE Committee meeting
29 October 2019	EE Committee meeting to plan disability roadshow
10 September 2019	EE Committee meeting
11 September 2019	EE Committee meeting to plan disability roadshow
30 October 2019	EE Committee members attended training in Johannesburg
20 November 2019	Disability awareness in Jozini by Committee members
6 February 2020	EE Committee meeting
29 June 2020	EE Committee members attended a webinar on COVID-19 impact on skills development



#### 5.6.4. Physical Assets Disposal Committee

Paragraph 16A 3.1 (b) of the Treasury Regulations states that the Accounting Officer of an institution must develop and implement an effective and efficient supply chain management system in his or her institution for the disposal and letting of state assets, including the disposal of goods no longer required. The Physical Assets Disposal Committee is responsible for making recommendations regarding the disposal of the assets that have become obsolete or that are no longer required or suitable for service delivery. The Committee meets on a quarterly basis and reports to the Supply Chain Management on all the assigned matters in terms of its Terms of Reference. The table below outline the activities of the committee during the financial year.

**Table 9: Meetings of the Physical Assets Disposal Committee**

26 August 2019	Committee meeting
23 January 2020	Committee meeting
20 May 2020	Committee meeting
21 May 2020	Committee meeting
23 June 2020	Committee meeting
30 June 2020	Committee meeting
23 January 2020	Committee meeting

#### 5.6.5. Bursary and Study Assistance Committee

In terms of the regulations of the Skills Development Act, 1998 (Act No.97 of 1998), we are required to develop the skills of

the South African workforce by improving the quality of life, prospects of work, labour mobility and productivity in the workplace. The Bursary and Study Assistance Committee is responsible for assessing and making recommendations to the Executive Management on review study applications submitted by employees in light of the available budget, applicable policies as well as our current and future operational requirements. The Committee meets annually in the second quarter to consider applications, and reports to the Chief Executive in terms of its Terms of Reference. The table below outlines the activities of the committee during the financial year.

**Table 10: Meetings of the Physical Assets Disposal Committee**

Meeting date	Number of applications approved	Value approved
5 July 2019	1	R 6 390.00
3 December 2019	1	R 17 250.00
8 January 2020	2	R 39 422.00
4 February 2020	1	R 13 577.90
27 February 2020	1	R 16 340
22 June 2020	1	R 8 165.00*
* Paid from 2020/2021 budget		

A total value of R101 144 in study assistance was approved by the committee during the financial year.



## 6. OTHER GOVERNANCE MATTERS

### 6.1. Disclosure of Interest

Members of the Board declare any interests and commit to non-disclosure of information that could unfairly provide an advantage or disadvantage to a party on an annual basis and at every Board and Committee meeting. Disclosure and transparency are the partners of good governance; they demonstrate the quality and reliability of information – financial and non-financial – provided by management to lenders, stakeholders and the public.

### 6.2. Code of Conduct

We have a comprehensive Code of Conduct that applies to directors, management and employees in regulating conditions that constitute or could constitute a conflict.

Objectives of this Code, among others, are to:

- Promote transparency and avoid business-related conflicts of interest
- Ensure fairness in dealing with the interests of all employees, other affected individuals and the Company
- Document the process for disclosure, approval and review of activities that may amount to actual, potential or perceived conflicts of interest
- Provide a mechanism for the objective review of personal outside interests.

By implementing the above, we are in a position to:

- Allow individuals, where appropriate, to acquire and maintain personal interests, provided that these do not interfere with, or have the potential to interfere with, their duties to us, or improperly influence the judgements expected of them when acting on our behalf
- Protect individuals from misplaced charges of any conflict of interest by providing a mechanism for the objective review and approval (including conditional approval) of appropriate personal outside interests held by individuals

### 6.3. Internal Control

Internal control systems, for which the Board is accountable, are designed to provide reasonable assurance that assets are safeguarded and that liabilities and our working capital are efficiently managed. Features of our internal controls are:

- A system of financial planning, budgeting and reporting, which allows continuous monitoring of our performance
- A materiality and significance framework
- Clearly-defined delegations of authority
- The establishment of a short-, medium- and long-term funding strategy
- An effective tariff model
- Established policies and procedures

Internal Audit performs an independent assessment of the internal control systems and business risks and reports to the Board through the Audit, Risk and Finance Committee.

## 6.4. Materiality and Significance Framework

The National Treasury Regulation Section 28.3.1 and Section 55 (2), Section 54 (2) of the Public Finance Management Act specifies that for purposes of materiality the Accounting Authority must develop and agree on a framework of acceptable levels of materiality and significance for the Public Entity with the relevant Executive Authority. The Board reviewed and approved the Materiality and Significance Framework Policy on 22 August 2019. The policy defines both the levels of significance and materiality. The purpose of the framework is to record the levels of materiality and significance for consideration by our governance structures and for submission to, and approval by, the Executive Authority. The framework is in line with our Policy on Materiality and Significance Materiality. The Delegation of Authority Policy is aligned to the framework.

## 6.5. Risk Management

The Board is ultimately accountable for risk management and our system of internal controls. The Board reviewed and approved the Risk Management Policy and Implementation Plan on 25 April 2019 and monitored the implementation thereof.

Risk management is recognised as an integral part of responsible management and good corporate governance, hence we adopt a comprehensive approach to risk management to balance our opportunities and minimise threats. The purpose of the Enterprise Risk Management (ERM) framework is to provide guidance to management and employees regarding the implementation of enterprise risk management within our culture.

An enterprise risk management approach has been rolled out at a strategic level, and across all business units for the identification of strategic, operational, fraudulent and compliance risks. In order to ensure that we achieve our

objectives, the risk management function will be fulfilled the following responsibilities:

- Facilitate organisation-wide risk and opportunity identification and analysis
- Promote the management of risks in line with best practices at all our levels
- Promote training in management of risks within different business units and across our structures
- Ensure enterprise-wide compliance with key regulatory and legal requirements;
- Ensure our resilience of operations through business continuity and disaster management planning
- Provide emerging risk intelligence in respect of service delivery projects and interventions
- Provide support and guidance to business units in managing risks
- Report regularly on our performance with regard to management of risks

We have identified and categorised the key strategic risks of delivering on objectives and mitigation approaches/responses.

The list of the key strategic risks is presented in a table in residual form. Residual risks refer to impact and likelihood, taking into consideration the current mitigation approaches/responses.

The risk might be identified but if no mitigation controls are put in place to prevent, detect or reduce the impact and likelihood, we may choose to discontinue the relevant project or may opt to transfer the impact to a third party as part of the effective risk management process.

For the year under review, the strategic risk assessment identified five strategic risks with a total of 12 mitigation actions identified. At the end of the financial year, 11 of these action items were completed, with one overdue. The action that remains incomplete relates to risk 1 and the action that relates to raw water source development (Nseleni Dam). We are in discussion with the Department of Water and Sanitation, who has resolved to postpone these studies on raw water resource development in view of the upgrade to the Tugela-Goedertrouw inter-basin Transfer Scheme.

**Table 11: Risk descriptions, ratings and mitigations**

Objective	Risk No	Risk name	Root causes	Residual risk	Further actions	Reviewed residual risk
To grow the provision of water services	1	Water unavailability	<ol style="list-style-type: none"> <li>1. Climate change such as altered weather patterns (including droughts or floods)</li> <li>2. Restriction by Government</li> <li>3. Increased pollution</li> <li>4. High water losses</li> <li>5. Alien invasive plants</li> <li>6. Destruction of water catchment areas</li> </ol>	Priority 2	<ol style="list-style-type: none"> <li>1. Water re-use</li> <li>2. Raw water source development (Nseleni dam)</li> </ol>	Priority 2
To resource us with the required skills and competence to deliver the strategic intent	2	Attraction and retention of skills	<ol style="list-style-type: none"> <li>1. High demand for critical skills in the labour market</li> <li>2. Our geographical area</li> <li>3. Shortage of key and critical skills in the region</li> <li>4. Inadequate social and economic developments in the area to attract youth in critical professions</li> <li>5. Stringent job requirements</li> <li>6. Failure to spot conflicts</li> <li>7. Poor communication of the vision</li> </ol>	Priority 3	<ol style="list-style-type: none"> <li>1. Development and implementation of mentoring and coaching programmes within sections</li> </ol>	Priority 4
To grow the provision of water services	3	Limited business growth (section 30 activities)	<ol style="list-style-type: none"> <li>1. Limited funding</li> <li>2. Unstable economic climate</li> <li>3. Competing budget priority</li> </ol>	Priority 3	<ol style="list-style-type: none"> <li>1. Follow ups on the ministerial directive on budget allocation</li> </ol>	Priority 3
To ensure our long-term financial sustainability	4	Vulnerability to fraud and corruption	<ol style="list-style-type: none"> <li>1. Management overriding internal controls</li> <li>2. Collusion</li> <li>3. Unethical culture</li> <li>4. Poor segregation of duties</li> <li>5. Bad tone at the top</li> </ol>	Priority 3		Priority 4
To initiate and build relationships with stakeholders to add value for all	5	Political climate	<ol style="list-style-type: none"> <li>1. Vested interest by politicians</li> <li>2. Instability in the shareholders' office</li> <li>3. Inconsistency in the Board's decision-making</li> <li>4. Lack of political will to assist our business growth</li> </ol>	Priority 3		Priority 4

**6.5.1. Whistle-blower's Report**

The Accounting Authority's objective in approving whistle-blower reporting is to create a positive whistle-blowing culture that is a critical element in the success of any risk management system. We are also committed to complying with the provisions of the Protected Disclosures Act (Act No. 26 of 2000) to ensure that whistle-blowers who make disclosures are protected, are not victimised or subjected to occupational detriment for blowing the whistle on improprieties.

In the period under review, the Board has approved the whistle-blowing policy aiming to eliminate the occurrence of fraud, corruption and theft. It also strives to create a culture that will facilitate the disclosure of information by employees relating to criminal and other irregular conducts in the workplace in a responsible manner by providing clear guidelines for the disclosure of such information and protection against reprisals as a result of such a disclosure.



During the year under review, we received seven whistleblower reports. Of the seven reported cases, all have been, or are in advanced stages of, investigation. Four of the seven cases have been closed. The three remaining cases, due to the complexities involved, are still ongoing and investigations are to be concluded in the next financial year.

## 6.6. Internal and External Audit

### 6.6.1. Internal Audit

The Internal Audit function is an independent assurance provider. The function reports administratively to the Chief Executive and functionally to the Audit and Risk Committee. The function has a specific mandate directly from the Audit and Risk Committee to independently appraise the adequacy and effectiveness of our risk management, internal controls and governance.

The Internal Audit function adheres to a three-year rolling Internal Audit Plan aligned to our Corporate Strategy that seeks to achieve the following objectives:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with relevant laws and regulations

In line with the Institute of Internal Auditors, PFMA and King IV requires internal audit to provide reasonable assurance on the adequacy and effectiveness of risk management, internal controls and governance to management and the Board via the Audit and Risk Committee.

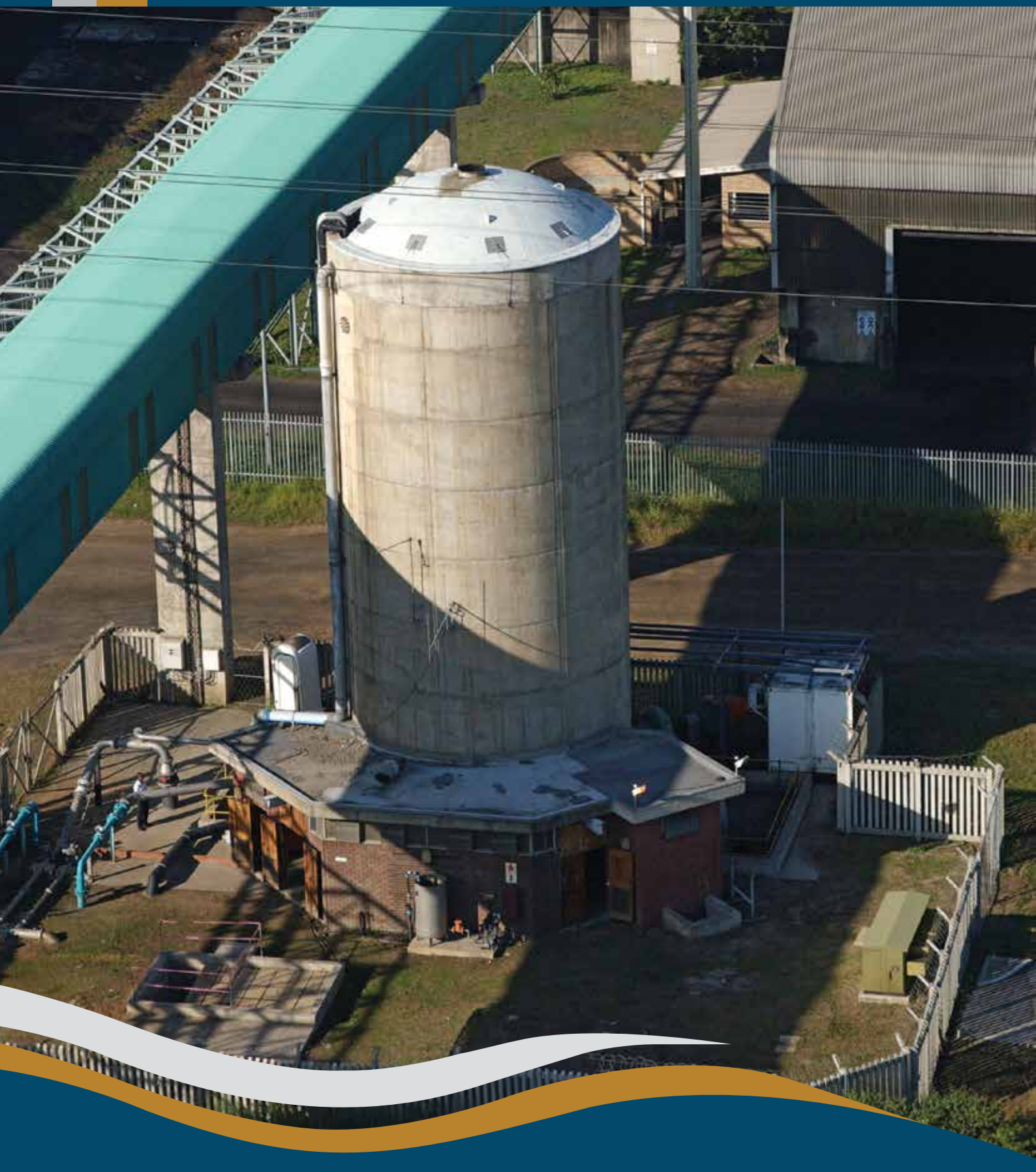
### 6.6.2. External Audit

The Auditor-General of South Africa (AG) is mandated to conduct an independent appraisal. The AG provides independent assurance on our Annual Financial Statements, including a review of predetermined objectives, information, risk management, internal control systems and compliance with legislation and regulations applicable to us.

The audit outcomes are presented as per the Public Finance Management Act (PFMA) and other regulations related to public entities. The audit report is tabled to National Parliament through the Portfolio Committee on Human Settlements, Water and Sanitation.



# SECTION C OVERVIEW OF ORGANISATIONAL PERFORMANCE





# 7. SITUATIONAL ANALYSIS

## 7.1. Organisational Environment

### 7.1.1. Appointment of the Board

The Mhlathuze Water Board was appointed by the Minister of Water and Sanitation in terms of the Water Services Act, 1997 (Act 108 of 1997). The Minister appointed 11 members of the Board on 5 December 2018 for a period of four years.

### 7.1.2. Resignation and appointment of key personnel

The following resignations and terminations were recorded at senior management level.

**Table 12: Key resignations during the year**

Employee terminated	Section	Position	Reason for termination	Date
C.G. Cele	Operations	GM: Operations	Resignation	31 July 2020
A. Luthuli	Technical Services	Programme Manager	Resignation	30 April 2020
Z. Mathenjwa	Operations	H&S Specialist	Dismissal	1 May 2020

At senior management level, we successfully employed the following individuals.

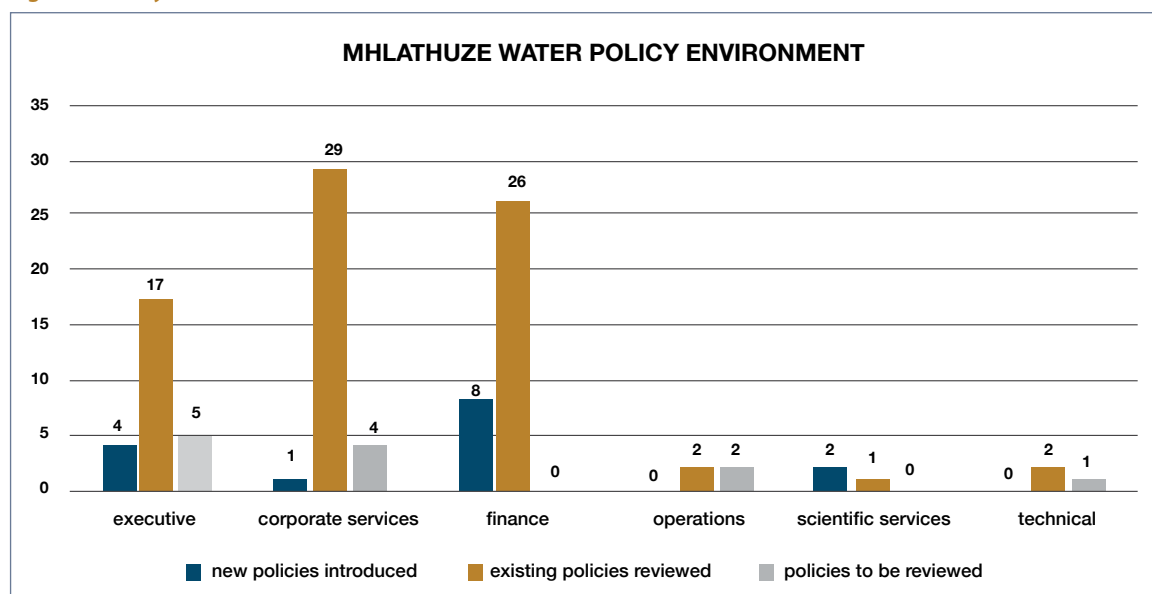
**Table 13: Key appointments during the year**

Employee	Department	Job title	Date of engagement
Mr M.P. Duze	Executive	Chief Executive	1 July 2019
Ms I. Shongwe	Executive	Internal Audit Manager	12 August 2019
Ms N. Mchunu	Executive	Office Manager	1 September 2019
Ms S. Mbatha	Executive	Company Secretary	2 December 2019
Mr S. Biyela	Central Maintenance	Senior Mechanical Engineer	15 August 2019
Ms N. Noyakaza	Corporate Services	Records Manager	1 April 2020
Ms T. Nxumalo	Corporate Services	IT Manager	15 April 2020
Mr N. Ncube	Technical Services	Programme Manager	1 May 2020

## 7.2. Key Policy Developments

The following graph illustrates our policy environment. In total, 104 policies, procedures and plans apply to the working environment in the organisation. Throughout the year, new documents were developed, most of the existing documents were reviewed and some will be due for revision in the year to follow.

**Figure 3: Policy environment**



Key documents developed and introduced into the workplace to strengthen the control environment include.

**Table 14: New policies introduced**

Policy description	Department
Disciplinary Policy Guide for Managers	Corporate Services
Mhlathuze Water Corporate Social Investment Strategy	Company Secretary
Anti-Corruption and Fraud Prevention Plan	Executive
Costing Policy	Finance
Inventory Management Policy	Finance
Procedure for the Establishment, use and review of panels	Finance
Procedure for handling irregular expenditure	Finance
Procedure for handling fruitless and wasteful expenditure	Finance
Research, Development & Innovation (RDI) Strategy	Scientific Services

Key existing policies were reviewed due to a change in circumstances and lessons learned.

**Table 15: Policies reviewed**

Policy description	Department
Ubuntu Policy	Corporate services
Injury on Duty and Disability Policy	Corporate Services
Disciplinary Policy	Corporate Services
Employee Wellness and Disease Management Policy	Corporate Services
External Bursary Policy	Corporate Services
Information Technology Security Policy	Corporate Services
Leave Policy	Corporate Services
Membership to Professional Bodies Policy	Corporate Services
Records Management System Policy	Corporate Services
Records Retention and Disposal Procedure	Corporate Services
Recruitment and Selection Policy	Corporate Services
Staff retention Policy	Corporate Services
Study Assistance Scheme for Employees	Corporate Services
Communication Policy	Executive
Planning, Performance Monitoring and Reporting Policy	Executive
Whistleblowing/Tip-off Policy	Executive
Banking, Cash Management and Investment Policy	Finance
Budget Policy	Finance
Credit Control and Debt Collection Policy	Finance
Delegation and Authority Policy	Finance
Fixed Asset Policy	Finance
Black Economic Empowerment Policy	Finance
Contract Management Policy	Finance
Enterprise and Supplier Development Strategy	Finance
Reserve Application Policy	Finance
Supply Chain Management Policy	Finance
Tariff Policy	Finance
Occupational Health and Safety Policy	Operations
Environmental Sustainability Policy	Operations
Research, Development and Innovation Policy	Scientific Services

### 7.3. Amendments of Planned Targets during the Year Under Review

**Table 16: Amended targets**

Current performance indicator	Current target	Proposed indicator	Proposed 2019/2020 targets	Reason for amendment
Percentage of growth in turnover secondary activities	18% growth in turnover on secondary activities by 30 June 2020	Percentage of growth in turnover secondary activities	0.5% growth in turnover on secondary activities by 30 June 2020	0.5% is aligned to the five-year Business Plan and within the current economic growth forecast for the country
Number of municipalities supported through rural development initiatives	Two municipalities supported through rural development initiatives by 30 June 2020	Number of municipalities supported through projects implemented in terms of agreements	Two municipalities supported through rural development initiatives by 30 June 2020	Due to an A-G finding, there was a need to amend the technical indicator description
Percentage of attendance of Board members at Board meetings	90% attendance of Board members at Board meetings by 30 June 2020	Percentage of attendance of Board members at Board meetings	80% attendance of Board members at Board meetings by 30 June 2020	Considering past performance and practicalities, there was a need to amend the target downwards to a more realistic percentage

**Table 17: Removed targets**

Output	Performance indicator	Target	Reason for removal
Board effectiveness	Percentage of attendance of members at sub-committee meetings	90% attendance of members at sub-committee meetings by 30 June 2020	The Board was appointed on 5 December 2018, and there was no need to measure performance of sub-committees

**Table 18: Amendments to indicator descriptions**

Performance indicator	Target	Reason for amendment
Number of municipalities supported through rural development initiatives	Two municipalities supported through rural development initiatives by 30 June 2020	There was a need to amend the technical indicator description to be more specific on the expected services to be delivered  The indicator description was amended by adding a detailed description of the nature and type of support to be provided to municipalities



## 8. PERFORMANCE INFORMATION BY BUSINESS UNITS

### 8.1. Chief Executive Unit

#### 8.1.1. Mandate of the Chief Executive Unit

The principal mandate of the Chief Executive Unit is to provide executive and administrative support to the Chief Executive and the Board. It performs overall oversight in ensuring the implementation of our strategic objectives through strategy and development, risk management, internal audit, company secretary and corporate communications.

#### 8.1.2. Functions within the Chief Executive Unit

##### *Office of the Chief Executive*

The office of the Chief Executive provides administrative support to the Chief Executive and manages the implementation of corporate social investment and rural development initiatives as well as ensures that we fulfill our social responsibility mandate. The office is also responsible for managing stakeholder relations, which are aimed at positioning us as the reliable regional water and waste water business partner of choice.

##### *Company Secretary*

This function provides corporate governance and legal services support. It is responsible for ensuring that the Board operates effectively and in accordance with the principles of Corporate Governance as provided in the King IV Report on Corporate Governance for South Africa 2016. It is also responsible for statutory compliance with, among others,

the Water Services Act, 1997 (Act No. 108 of 1997), the Public Finance Management Act, 1999 (Act No. 1 of 1999) and the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000).

##### *Strategy and Development*

The Strategy and Development function is entrusted with the responsibility of facilitating and coordinating the organisational strategic planning, monitoring and reporting. The function translates key priorities into actionable plans with clear activities, performance measurements and resource commitments. The function is also responsible for compiling and submitting statutory documents such as our five-year business plan, shareholders compact, annual operational plan, quarterly performance reports and annual reports.

##### *Risk Management*

The purpose of the Risk Management function is to identify potential challenges that we might face and implement appropriate mitigating measures before they occur. This is done so that risk-handling activities may be planned and invoked as needed across the life of our business to mitigate adverse impacts on achieving objectives.

##### *Corporate Communications*

The Corporate Communications function manages our corporate image and identity. It is also in charge of all media

relations, events management, community relations and corporate publications (newsletters, annual reports). Among other things, the function is responsible for procuring and producing all marketing collateral, e.g. company logos, branding, corporate clothing and style of written communication. The function is responsible for website, intranet uploading and all related activities. Marketing activities such as billboard advertising, editorials and exhibitions fall under this function, and it also executes the strategic objectives by building and maintaining relationships with internal and external stakeholders.

#### *Internal Audit*

Internal Audit is an independent and objective function responsible for planning, executing and reporting on operational, financial, non-financial, regulatory and compliance-related internal audits. This function also recommends corrective actions so as to improve operations, enhance internal controls and reduce costs, where possible. The function is also responsible for identification and evaluation of financial and non-financial risks, together with procedures to avoid or minimise their impact.

### **8.1.3. Key performance highlights**

#### *Organisational sustainability*

A significant performance highlight is our sustainability during the COVID-19 lockdown period. Our major customers in bulk water supply and effluent disposal have still been operational during the lockdown period and have not been affected negatively.

We operate on contracted volumes with associated cost-reflective tariffs. A significant portion of revenue is, therefore, fixed. None of our key customers have indicated their intent to decrease contracted volumes substantially or cease to operate as a result of COVID-19.

Notwithstanding this achievement, the full impact and risk of the zero tariff increase approved by the Minister for the 2020 financial year will need to be carefully managed. This must be done to mitigate any possible financial risks that could compromise us as a going concern.

#### *Corporate social investment (CSI)*

During the period under review, the CSI Committee was tasked with the responsibility of reviewing the CSI Strategy. Significant changes made to the strategy related to 'Public Health and Community Development Support'. These relate to support in the following areas: welfare projects (mainly

disaster relief projects), community HIV/AIDS awareness programmes, primary/medical healthcare and environmental awareness campaigns (cleaning of local rivers).

The following CSI initiatives were undertaken:

1. Nondumiso Shining Stars Football Club – this non-profit organisation was provided with soccer kits and soccer balls.
2. Hope School Shoes Campaign – Isigqi Arts Development NPC was given R50 000 for the manufacturing and distribution of 500 pairs of school shoes to different district municipalities.
3. Operation Sukuma Sakhe (OSS) Programme, hosted by Ward 4 and the youth of Mandlanzini, was provided refreshments for the community event attended by 250 people. This event was aimed at addressing issues relating to substance abuse, gender-based violence, HIV/AIDS, youth entrepreneurship and career guidance.
4. Distribution of hand sanitisers in the fight against COVID19 – we procured 7 000 hand sanitisers to augment the government's efforts in curbing the spread of the virus, which were distributed to the following three district municipalities:
  - i. King Cetshwayo, under the leadership of Inkosi Zuma
  - ii. Umkhanyakude, under the leadership of Inkosi Tembe
  - iii. Zululand District, through Mayor Buthelezi

#### *Rural Development Programme*

We actively undertake rural development support programmes alongside our social partners within our operational jurisdiction. One of these investments was the initiative to construct strategic infrastructure for the Mhlabayalingana and Jozini Local Municipalities in the form of community boreholes. Investigations were carried out through geohydrological assessments and the findings gave direction on how communities in five wards in Mhlabayalingana and four wards in Jozini could be provided with portable water. In two wards, essential services such as the Bethesda and Mosvold hospitals will benefit from the project.

The drilling and equipping of these boreholes were based upon the findings of the geohydrology recommendation, and the scope of work included the drilling, installation, equipping and commissioning of boreholes. Boreholes were also tested to determine suitability and disinfected or sterilised from any harmful bacteria.

To date, the project reached 56% completion with the works expected to be completed by September 2020.

#### 8.1.4. Chief Executive Unit 2019/2020 – predetermined objectives

Table 19: Predetermined objectives of the Chief Executive Unit 2019/2020

Alignment to shareholders' compact	Strategic objectives	Performance objective	Output	Performance indicator	Annual target	Actual achievement	Deviation from planned target to actual achievement	Comment on deviation
SC5	To initiate and build relationships with stakeholders to add value for the mutual benefit of all	Financial reporting compliance	Effective governance, compliance with legislation and financial sustainability	Unqualified opinion received	2018/2019 Unqualified audit opinion with no matters of emphasis by 30 October 2020	Unqualified audit opinion with matters of emphasis	Matters of emphases	Restatement of fruitless and wasteful expenditure and usefulness of shareholder compact KPI
SC11	To ensure long term financial sustainability of the organisation	Bulk supply agreements concluded with municipalities/ other customers	Bulk supply agreements concluded with municipalities/ other customers	Number of bulk supply agreements in place	7 Bulk supply service level agreements in place by 30 June 2020	7	None	N/A
SC13	To initiate and build relationships with stakeholders to add value for the mutual benefit of all	Support rural development	Rural Development support	Number of municipalities supported through rural development initiatives	2 Municipalities supported through rural development initiatives by 30 June 2020	0	-2	Project not completed due to technical challenges.
SC14	To optimise business processes and systems	Achieve statutory reporting compliance	Meeting statutory submission deadlines	Number of approved business plans submitted as per compliance requirements	1 Business plan submitted as per compliance requirements by 15 April 2020	1	None	N/A
SC14	To optimise business processes and systems	Achieve statutory reporting compliance	Meeting statutory submission deadlines	Number of approved shareholders compact submitted as per compliance requirements	1 Shareholders compact submitted as per compliance requirements by 15 April 2020	1	None	N/A
SC14	To optimise business processes and systems	Achieve statutory reporting compliance	Meeting statutory submission deadlines	Number of approved quarterly reports submitted as per compliance requirements	4 Quarterly reports submitted as per compliance requirements within 30 days after the end of the financial year	4	None	N/A

Alignment to shareholders' compact	Strategic objectives	Performance objective	Output	Performance indicator	Annual target	Actual achievement	Deviation from planned target to actual achievement	Comment on deviation
SC 14	To optimise business processes and systems	Achieve statutory reporting compliance	Meeting statutory submission deadlines	Number of approved annual reports submitted as per compliance requirements	2018/2019 Annual report submitted as per compliance requirements by 30 October 2020	1	None	N/A
SC18	To optimise business processes and systems	Board effectiveness	Board effectiveness	Percentage of attendance of board members at board meetings	80% attendance of Board members at Board meetings by 30 June 2020	84.27%	4.27%	Board members attend the scheduled meetings
SC18	To optimise business processes and systems	Board effectiveness	Board effectiveness	Percentage of resolutions adopted by the Board	100% of resolutions adopted by the Board by 30 June 2020	100%	None	N/A
SC19	To initiate and build relationships with stakeholders to add value for the mutual benefit of all	Effective internal controls and risk management	Corrective measures for internal audit findings	Number of repeat internal audit findings	0 repeat internal audit findings by 30 June 2020	0	None	N/A
SC19	To initiate and build relationships with stakeholders to add value for the mutual benefit of all	Effective internal controls and risk management	Corrective measures for internal audit findings	Number of unresolved internal audit findings	0 unresolved internal audit findings by 30 June 2020	2	-2	Training could not be conducted due to COVID19
SC21	To initiate and build relationships with stakeholders to add value for the mutual benefit of all	Corporate social responsibility initiatives	Corporate Social Investment (CSI) initiatives	Number of CSI initiatives undertaken	4 CSI initiatives undertaken by 30 June 2020	5	1	An additional application was approved
MW1	To initiate and build relationships with stakeholders to add value for the mutual benefit of all	Board effectiveness	MW positioned as the preferred water service provider	Number of stakeholder engagement sessions held	4 Stakeholder engagement sessions held by 30 June 2020	8	4	More stakeholder engagements were held

Alignment to shareholders' compact	Strategic objectives	Performance objective	Output	Performance indicator	Annual target	Actual achievement	Deviation from planned target to actual achievement	Comment on deviation
MW2	To initiate and build relationships with stakeholders to add value for the mutual benefit of all	Board effectiveness	MW positioned as customer focused organisation	Number of Stakeholder Indaba held	1 Stakeholder indaba held by 30 June 2020	0	-1	Due to the COVID-19, the event was postponed.
MW3	To initiate and build relationships with stakeholders to add value for the mutual benefit of all	Board effectiveness	MW positioned as a brand through Marketing initiatives	Number of marketing initiatives conducted	4 Marketing initiatives conducted by 30 June 2020	4	None	N/A
MW4	To initiate and build relationships with stakeholders to add value for the mutual benefit of all	Board effectiveness	External stakeholders informed on MW programmes, projects and services through media engagements	Number of media initiatives conducted	16 media initiatives conducted by 30 June 2020	22	6	More media initiatives were conducted.
MW5	To optimise business process and systems	Effective internal controls and risk management	Effectiveness of internal controls	Number of strategic three year rolling Internal Audit Plan	Strategic three-year rolling internal audit plan by 30 September 2019	1	None	N/A
MW6	To optimise business process and systems	Effective internal controls and risk management	Effective risk controls and management	Percentage of implementation of fraud risk further action plans	100% Implementation of fraud risk further action plans by 30 June 2020	75%	-25%	Not all action items were completed before year end
MW7	To optimise business process and systems	Effective internal controls and risk management	Effective risk controls and management	Percentage of implementation of strategic risk further action plans	100% Implementation of strategic risk further action plans by 30 June 2020	91%	-9	
MW8	To optimise business process and systems	Effective internal controls and risk management	Effective risk controls and management	Percentage of implementation of operational risk further action plans	100% implementation of operational risk further action plans by 30 June 2020	73%	-27%	
MW9	To optimise business process and systems	Board effectiveness	Effectiveness of Executive Committee	Percentage of resolutions implemented by EXCO	100% resolutions implemented by EXCO by 30 June 2020	100%	None	N/A



### 8.1.5. Corrective measures to address areas of underperformance

Table 20: Chief Executive Unit's corrective measures

Performance indicator	Core reasons for under-achievement	Recovery strategy for 2020/2021
Unqualified opinion received	Restatement of fruitless and wasteful expenditure and usefulness of shareholder compact KPI	The Shareholder Agreement was amended to address usefulness of KPI  More care to be taken in disclosures during the accounting period
Number of municipalities supported through rural development initiatives	Project not completed due to technical challenges	ESKOM committed to provide power to the two sites. The contractor is ready to commission the sites once power is installed
Number of unresolved internal audit findings	Laboratory related training could not be conducted due to COVID-19  Operations are in progress to implement corrective measures as a result of adverse testing results	Priority to be given to compliance-related training needs  The impact of water testing results to be effectively communicated to Operations in order for processes to be adapted in time to respond
Number of Stakeholder Indabas held	Due to COVID-19, the event was postponed	The engagement to be undertaken via virtual platforms should the COVID-19 lockdown regulations still apply in future
Percentage of implementation of fraud risk further action plans	Not all action items were completed before year end	Monthly and Quarterly Risk Champion meetings to drive implementation of actions.
Percentage of implementation of strategic risk further action plans		
Percentage of implementation of operational risk further action plans		



## 8.2. Corporate Services Unit

### 8.2.1. Mandate of the Corporate Services Unit

The Corporate Services Unit provides a range of corporate services functions at strategic and operational levels. The Unit manages information technology, human resources operations, training and development, employee relations, employee wellness, fleet management, document management, legal services and the individual Employee Performance Management System. The unit's strategic intent is driven mainly by Strategic Objective 4 (resource the organisation, the required skills and competence to deliver the strategic intent), and Strategic Objective 5 (optimise business processes and systems).

### 8.2.2. Functions within the Corporate Services Unit

#### *Human resources development*

Human resources development has always been a priority of ours for many years and it is still is. Specific initiatives have included training and development programmes for line managers, technical and administrative staff, general staff as well as learners from the communities within our area of operation. A major focus is on capacity building through bursary schemes, graduate training, artisan training, process controller learnership, in-service training and internship programmes.

#### *Human resource management*

Human resources intends to be a strategic partner that helps us to provide:

- A professional service through accurate, consistent and best employment practices in all our activities, which are aimed at supporting the achievement of our strategic objectives
- Attract and retain employees who share the same organisational vision
- Set and manage standards of performance
- Promote a personal and career development environment for all employees so that they can reach their potential and, therefore, contribute fully to the achievement of the strategic objectives and instil a culture of service excellence

#### *Information technology*

The information technology (IT) function is responsible for the delivery of services that support our strategic plan and individual department's objectives successfully through the effective use of information technology. Its purpose is to ensure that we achieve optimum use of our IT resources.

In addition, the function is tasked with the responsibility of providing cutting-edge IT solutions, including enabling communication tools that will optimise business systems in a reliable and secure manner. This includes the implementation of effective and efficient business systems that meet users' needs, the provision of a reliable IT infrastructure and environment, and creating capacity for proper information management and business intelligence. The function seeks to implement a single-source integrated system as the key business system tool.

#### *Records and document management*

We keep and manage official records to support our business operations, as well as fulfil legal and administrative obligations. These records are managed from date of creation of documents to date of disposal thereof, in terms of the National Archives and Records Service Act 43 of 1996, as amended. The Document Management function, therefore, ensures that institutional records of historical, fiscal and legal value are identified and preserved; and that non-essential records are discarded in a timely manner according to established guidelines and legislation.

#### *Fleet management*

Fleet management is assigned to the Corporate Services Department and the HOD oversees all aspects of this function while the HR Manager and Fleet Administrator performs the various activities related thereto. The current fleet size and shape is adequate for the purposes of service delivery. We operate a fleet of 75 vehicles that comprises a combination of small vans to heavy vehicles. Forty six of the vehicles are owned by us while 29 are held under lease agreements.

#### *Legal services*

The legal services function is responsible for providing us with effective and efficient legal services in order to ensure that our interests are protected against any legal risk. The function provides effective and legally sound contracts in order to ensure that our interests are protected against any legal risk. It is also responsible for drafting and vetting legally sound contracts and further handles and manages litigation matters affecting us.

### 8.2.3. Organisational response to COVID-19

The World Health Organization (WHO) declared a global pandemic on 12 March 2020 over a new coronavirus that causes an illness known as COVID-19, which has spread around the world.

With the number of cases in South Africa increasing to 402 on 23 March 2020, the President addressed the nation and announced a 21-day national lockdown in terms of the National Disaster Management Act. This lockdown came into effect at midnight of 26 March up until 30 April, with the deployment of the South African National Defence Force to support the government.

On 24 April 2020, with the number of cases at 4 220, the President announced a relaxation of the lockdown to a level 4, which allowed a partial re-opening of the economy with strict regulations on operational conditions to be met.

In line with Government's directive and regulated guidelines for South African businesses during a level 4 lockdown we had to implement a response plan and procedure to manage the impact of the disease on business continuity.

The implementation involved a range of services to be provided to prevent and manage the transmission of COVID-19 in the workplace.

We prepared an initial response plan to the pandemic, and presented such to the Board on 26 March 2020. However, as the process unfolded internationally and nationally, there was a need for a more detailed and pragmatic approach. As an essential service, we had the responsibility to ensure that our employees and operations were protected against the impact of this disease.

A COVID-19 Response Team was established and an operational, risk-based plan laid down for us. This plan provides guidance on how to respond to the changing environment in the context of Government's response in the form of regulations issued under the Disaster Management Act.

Key preventative activities that we implemented was the issuing of protective clothing such as face masks and gloves. Further, staff were provided with sanitising services such as disinfecting wipes to disinfect machines or frequently-used workplace areas as well as hand sanitising stations placed throughout. A service was also procured to disinfect administrative and operating sites/plants on a weekly basis. Due to the impact of the initial nationwide lockdown on public transport, we also had to make special arrangements for essential staff to have access to transport services that complied with the lockdown regulations.

Reacting to the impact of the disease in the workplace, we developed a detailed procedure that outlined the steps to be followed in the event of positive COVID-19 cases being reported.

We continuously review the operational, risk-based plan for each business unit.

#### **8.2.4. Key performance highlights**

##### *Advanced Excel training*

Attended by the Finance staff, an Advanced Excel training on Dashboards, PIVOTS, Hlookup, and Vlookup intended to assist users get up to speed on the different features of Excel and to become familiar with its more advanced selection of features. It covered the creation and use of advanced formulas, analysing data, organising worksheet data with tables, visualising data with charts, inserting graphics, and enhancing workbooks. The training was held in July 2019.

##### *AUMA Actuator training*

A two days training on AUMA Actuators was attended by the Maintenance team. The purpose of the training was to familiarise electricians, artisans and millwrights with Aumanat equipment and technology that is used in installations. The training was held in-house in August 2019.

Employment Equity for EE committees

Joint Employment Equity Committee members attended a workshop in September 2019 to fully understand the role of the committee; the workshop allowed them to develop a unique Employment Equity Strategy while also ensuring that it was legally compliant.

##### *Targeted Selection – Interviewer Skills*

Held in November 2019, the Targeted Selection – Interviewers Skills training was attended by managers and staff members who normally sit in interview panels. The intention was to build interviewers with skills and confidence to ask the right questions to accurately select job candidates who are able and willing to perform the job. The training gave interviewers skills to make a positive impression on candidates to increase job acceptance rates, to gather and evaluate data on a candidate's entire profile: experience, knowledge, competencies and motivations, and also to know how to evaluate and integrate all the available data to make better hiring decisions.

#### *Risk Management training for Risk Champions*

Held in November 2019, a two-day Risk Champions training provided a detailed insight into risk management and practical guidance for the application of SANS/ISO 31000 methodologies for undertaking the required risk management activities such as risk assessments, control assessments and risk management reporting. The training focused on Risk Champions' roles and implementing risk management. Risk Champions were equipped with knowledge and practical skills to confidently carry out their duties.

#### *Road to ECSA Registration Workshop*

Technical Services, Operations and Maintenance employees attended a workshop conducted by the Engineering Council of Southern Africa (ECSA) in November 2019. The purpose was to acquaint them with the ECSA registration process, and to encourage working towards their professional registration with the council.

#### *Bid Committee training*

National Treasury conducted Bid Committee training in December 2019. This training was attended by all Bid Committee members, including SCM staff.

#### *Initiating and chairing a disciplinary hearing*

Supervisors attended training on initiating and chairing disciplinary hearings, held in January 2020. The aim was to empower and equip them with skills and knowledge in this field, therefore, ensuring that discipline of staff is handled in a less legalistic and complex manner.

#### *GRAP financial reporting and accounting updates*

Attended by Finance employees, a three-day training was held in June 2020. The purpose of this training was to give a practical implementation of different Accounting Standards as required by the Auditor-General and guide participants with tips and techniques towards attaining an unqualified audit without findings. Another goal of this workshop was to provide guidance on selected issues relating to IFRS, directives and GRAP reporting.

#### *Artisan Development Programme*

The Artisan Development Programme is conducted in compliance with the Skills Development Act No. 97 of 1988. The primary objective of the programme is to build internal capacity in relevant trades as well as to contribute towards the National Skills Development Strategy.

There are two unemployed youth who are participating in this programme on Instrumentation Trade to capacitate the Maintenance Section. The Apprenticeship Training Programme under Instrumentation covers field instruments, basic PLC programming and basic SCADA programming for a person to be a qualified instrument mechanic. This will assist us with the current shortage of instrumentation staff if students can qualify because they can be utilised in daily plant maintenance activities and further SCADA development to suite ever-changing operational requirements.

#### *Graduate Development Programme*

The purpose of this programme is to equip graduates with skills and experience in order to become professionals and be able to register with ECSA. The three-year programme requires graduates to work with us for a period equivalent to the training period to ensure we derive value from our contribution.

Four graduate trainees are currently participating in the programme and three are registered with ECSA as Candidate Engineering Technicians. The training programme is targeting the registration as professional technicians, technologists and engineers. Two graduate trainees are sponsored and registered with UNISA to study a Bachelor of Technology in Mechanical Engineering as per ECSA requirements for professional registration as professional technologists (Pr Tech). The graduate trainees submit quarterly reports and a professionally registered mentor has been appointed to monitor their progress towards meeting ECSA requirements.

The following are the graduate trainees participating in the programme:

**Table 21: Graduate trainees**

Name and surname	Gender	Race	Field of study
Qiniso Mhlongo	Male	African	National Diploma Mechanical Engineering
Kwanele Mtshali	Female	African	National Diploma Mechanical Engineering
Nothando Mhlongo	Female	African	National Diploma Mechanical Engineering
Sandile Mkhabela	Male	African	BSc Degree in Civil Engineering

**Bursary programmes****Internal bursaries**

The Bursary and Study Assistance Committee approved applications for the two employees who have completed their studies on time as part of our long-term skills development strategy.

**Table 22: Completed internal bursaries**

Position	Gender	Race	Section	Institution	Qualification	Duration
Plant Supervisor	Female	African	Pump station	All Connections	National Certificate in Water & Waste Water Treatment NQF level 4	1 year
Artisan Helper	Male	African	Maintenance	UNISA	BTech: Health & Safety Management	1 year

Further, the employees below are currently furthering their studies through the Study Assistance Scheme.

**Table 23: Current internal bursaries**

Position	Gender	Race	Department	Institution	Qualification	Year of study
Pump Attendant	Male	African	Middledrift	All connections	National Certificate in Water & Waste Water Treatment NQF Level 4	1
Graduate Trainee	Male	African	Technical Services	University of South Africa	BTech in Mechanical Engineering	2
Graduate Trainee	Female	African	Technical Services	University of South Africa	BTech. in Mechanical Engineering	2
Contracts Specialist	Female	African	Finance	Chartered Institute of Procurement and Supply	Diploma in Procurement and Supply	2
Pump Attendant	Male	African	Middledrift	All Connections	National Certificate in Water & Waste Water Treatment NQF Level 4	1
GM: Scientific Services	Male	African	Executive	University of Pretoria	BSc Honours (Water Utilisation)	3
Process Controller	Male	African	Operations	University of South Africa	BTech Chemical Engineering	2

**External bursaries**

There are currently three students from needy communities participating in the Amanzi Bursary Programme:

**Table 24: External bursaries**

Name and surname	Gender	Race	Institution	Field of study	Year of study
Samukelisiwe Zungu	Female	African	University of KwaZulu-Natal	BSc Degree in Chemical Engineering	4
Kwanele Nxumalo	Male	African	University of KwaZulu-Natal	BSc Degree in Electrical Engineering	4
Thulani Mafuleka	Male	African	Mangosuthu University of Technology	National Diploma in Civil Engineering	Completed his in-service training on 31 July 2020

### Internship programme

Eight interns listed below were appointed to participate in a one-year internship programme, which will be completed in December 2020. The programme aims to provide work experience to the newly qualified graduates in order to become employable.

**Table 25: Interns' internship programme**

Full name and surname	Department	Race	Gender	Qualification
Sabelo Myeza	Finance	African	Male	Diploma Accounting
Zanele Phindile Dube	Finance	African	Female	BTech Cost and Management Accounting
Lungelo Mathe	Finance	African	Male	National Diploma Accounting
Ziphelele Langa	Finance	African	Female	BCom Supply Chain Management
Thobeka Mzobe	Corporate Services	African	Female	National Diploma Human Resources Management
Sithokoziso Nyawo	Corporate Services	African	Male	National Diploma Information Technology
Siphesihle Sikhumbuzo Chonco	Operations	African	Male	National Diploma Chemical Engineering
Mbuso Kunene	Executive	African	Male	BTech Journalism

### Learnership programme

Furthermore, there was a need to upskill water employees in order for us to provide clean water of high quality at all times. Therefore, a Learnership Programme on Water and Waste Water Treatment was implemented. Learners receive a national qualification accredited by the EWSETA. This programme further equips internal employees to build their capacity for advancement opportunities by assisting them to obtain up to NQF Level 4 qualification.

Listed below are four unemployed youth and four permanent employees who completed the programme in October 2019 and are to be awarded a National Certificate in Water and Wastewater Treatment Process Operations NQF Level 3.

**Table 26: Learners who completed the learnership programme**

Name and surname	Gender	Race	Department
Thamsanqa Sandiso Buthelezi	Male	African	Operations
Thulani Siphelele Bhengu	Male	African	Operations
Dominic Shange	Male	African	Operations
Sibongiseni Shandu	Male	African	Operations
Njabulo Goodman Dlodla	Male	African	Operations
Karabo Sthembiso Thusi	Male	African	Operations
Zakhona Mthethwa	Female	African	Operations
Lungelo Noxolo Mavundla	Female	African	Operations

Tabled below are learners who are currently participating in the Learnership Programme (NQF Level 3) to be completed in October 2020.

**Table 27: Current learners**

Full name and surname	Race	Gender	Department
Xoliswa Gina	African	Female	Operations
Nokwanda Ntuli	African	Female	Operations
Muzi Shandu	African	Male	Operations
Themba Mathenjwa	African	Male	Operations
Xolani Mnculwane	African	Male	Scientific Services

## Professional registration

Mhlathuze Water contributes to 11 employees' statutory professional registrations with the relevant bodies.

**Table 28: Professional registration**

Name and surname	Gender	Race	Designation	Professional registration	Reg. Number
Babongile Mnyandu	Female	African	Chief Financial Officer	SAICA (CA) SA	04907352
Sithembile Mntungwa	Female	African	Operations Manager	ECSA (Pr. Tech Eng.)	2018300030
Dumisani Manqele	Male	African	Electrical Engineer	ECSA (Pr. Cert. Eng.)	2018800011
Sakhile Mthembu	Male	African	Automation Specialist	ECSA (Pr. Tech. Eng.)	2018600049
Zizonke Makulube	Female	African	Management Accountant	SAICA (CA) SA	20045730
Thokozani Hlongwane	Male	African	Finance Manager	SAICA (CA) SA	10007445
Simphiwe Malinga	Male	African	Financial Accountant	SAICA (CA) SA	20034524
Samukele Ntuli	Male	African	Civil Maintenance Technician	ECSA (Pr. Eng. Tech.)	2019600336
Gift Magwanyana	Male	African	Internal Auditor	IIASA (Associate member)	34236171
Siyabonga Lukhele	Male	African	Internal Auditor	IIASA (Fellow member)	38992160
Nkululeko Ncube	Male	African	Programme Manager	Professional Engineering Technologist	201670069

## Compliance Training Programme

The following various compliance training courses were conducted.

**Table 29: Compliance training**

Training	Number of people
First aiders	11
Health and safety representatives	8
Fire fighters	10
Lifting/overhead crane	3
Safe handling of chlorine	15
ISO 45001 shop floor awareness	34
Snake handling and awareness	33
Basic SCADA	10
Emergency preparedness	11
KBC health and safety	1
Total number of people attended	136

## Employee wellness

An occupational health practitioner was appointed during the year under review so as to provide first-line health and wellness expertise to employees on site and to manage the Occupational Health and Wellness Clinic.

Employees undertook voluntarily wellness screenings (i.e. blood pressure, HIV, cholesterol and diabetes testing) at the onsite Occupational Health and Wellness clinic.

The Ubuntu Policy was approved by the Board. The objective of this policy is to provide details on our support for employees and Board members who become a parent, undergo hospitalisation, are booked for at least 10 days' sick leave by a medical practitioner (extended sick leave) or suffer bereavement.

## Long Service Recognition Programme

The Long Service Recognition Programme intends to recognise employees for their contribution in the form of a long service incentive at five-year intervals. The following number of employees qualified in the period under review.

**Table 30: Long service recognition**

Years	Number of employees
5	10
10	8
15	3
20	4
25	1
35	1

## Employment changes

### Employment Report

**Table 31: Number of employees disaggregated by gender and race**

Employment group	Baseline (at start of the financial year)	Total (end of the financial year)	Reasons for variances
African	201	191	Resignations and dismissal
Indian	8	7	Dismissal
Coloured	3	3	
White	6	5	Retirement

### Filled positions

A total of 23 positions were filled during the financial year 2019/2020 as follows:

**Table 32: Filled vacancies disaggregated by gender and race**

Race	Gender	Total	
		Number	Percentages
African	Male	7	30%
	Female	16	70%
Indian	Male	0	0%
	Female	0	0%
Coloured	Male	0	0%
	Female	0	0%
White	Male	0	0%
	Female	0	0%
<b>Total</b>		<b>23</b>	<b>100%</b>

### Staff retention

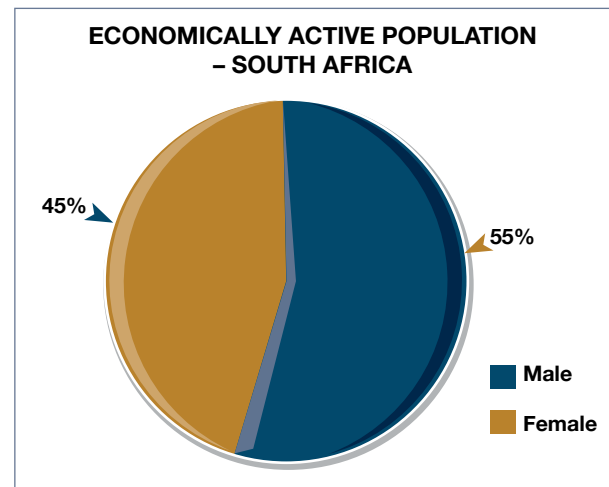
The projected annual staff turnover rate of 5.89% was achieved, which is within the projected rate of 8% as shown in the table below:

**Table 33: Staff retention**

Unplanned attrition	12
Average complement for the period	204
Staff turnover rate	5.89%
Projected annual staff turnover rate	8%

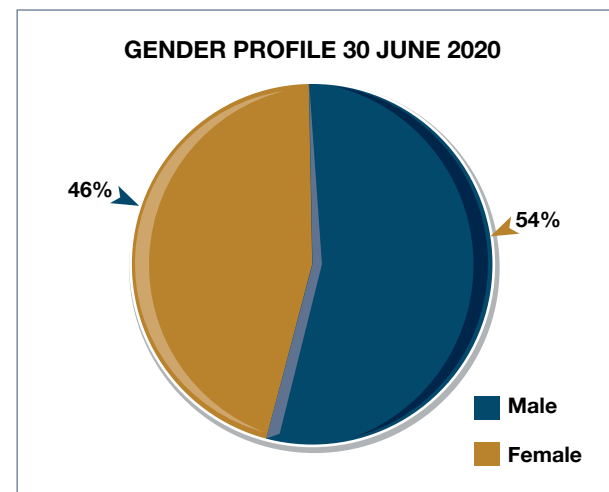
## Workforce profile

**Figure 4: Economically-active population of South Africa**



Source: Commission for Employment Equity 2018/2019 Report

**Figure 5: Gender profile of Mhlathuze Water employees**



We have not met the gender target when compared to the economically-active population for South Africa as at 30 June 2020.

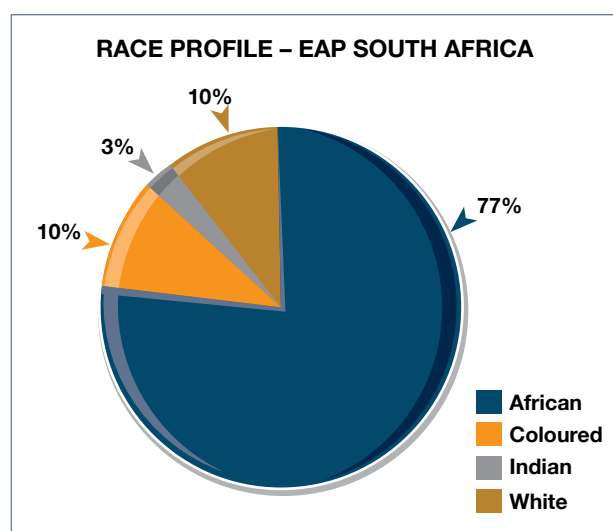


The table below reflects the workforce profile as at 30 June 2020. The total staff complement was 206 employees.

**Table 34: Workforce profile of Mhlathuze Water employees**

Occupational Levels	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top Management	1	0	0	0	0	0	0	0	1
Senior Management	2	0	0	0	1	0	0	0	3
Professionals	10	0	1	1	15	0	1	0	28
Skilled Technical & Academically Qualified Workers	28	0	0	2	40	1	4	1	76
Semi-Skilled	52	0	1	0	21	1	0	1	76
Unskilled & Defined Decision Making	12	1	0	0	9	0	0	0	22
Totals	105	1	2	3	86	2	5	2	206
Percentage	51%	0%	1%	1%	42%	1%	2%	1%	100%
<b>Total Percentage</b>	<b>54%</b>				<b>46%</b>				<b>100%</b>

**Figure 6: Race profile – EAP South Africa**

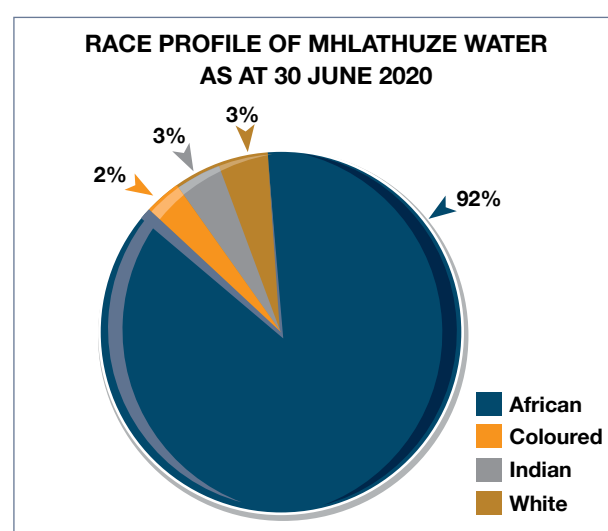


Source: Commission for Employment Equity 2018/2019 Report

While there was a 92% achievement in terms of employment equity as per race groups, more effort should be geared towards recruiting coloureds and whites.

The overall annual target for persons with disabilities was 2%, which was not achieved since there were three employees who declared disabilities, which represented 1.4% of the staff complement.

**Figure 7: Race profile of Mhlathuze Water employees**



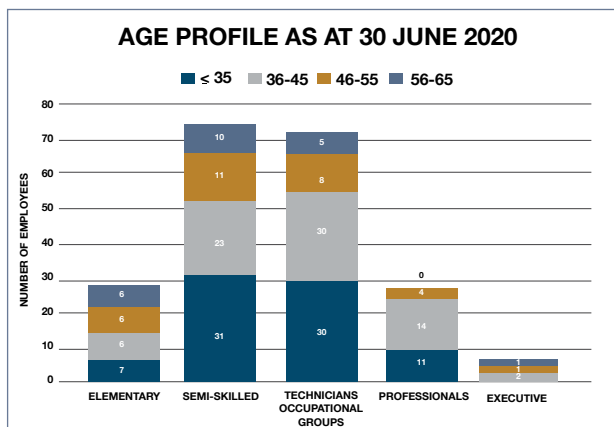
**The age profile of employees**

The highest concentration of employees are in the age bracket ≤35 years in the Elementary Occupational Group, mainly due to the number of interns and in-service trainees.

**Number of employees:**

- > 35 years = 79 employees
- 36-45 years = 75 employees
- 46-55 years = 30 employees
- 56-65 years = 22 employees

Figure 8: Age profile of employees



### Industrial relations

Formal disciplinary hearings were convened as per table below:

Table 35: Disciplinary hearings

Total disciplinary hearings	Verbal warning	Written warning	Final written warning	Dismissals
5	1	1	1	2

Five referrals of unfair labour practice were referred to the Commission for Conciliation, Mediation and Arbitration (CCMA) during the period under review. We successfully defended four cases, one matter was ruled in favour of employees and we elected to review the CCMA decision.

The salary negotiations for the year 2020/2021 under the auspices of the Amanzi Bargaining Council were not yet finalised at the time of submitting this report.

We successfully transferred 96 employees to the City of uMhlathuze in terms of Section 197 of the Labour Relations Act.

Our industrial relations climate was stable during the period under review. Monthly meetings and special consultative meetings were held regularly with labour unions where issues were amicably resolved.

### Information technology

#### ICT governance frameworks

Following extensive consultations with various key stakeholders, an IT strategy was signed off in February 2020 and is in operation. This strategy is a three-year roadmap that is made up of projects that, when completed, will have aligned IT's planning, investments and strategic decisions to our business strategy. The projects have been phased in such

a way that critical business requirements are addressed in the shortest possible timeframe.

Key to IT is the development and adoption of the Cyber Security Framework and for this, we enlist the services of a suitably qualified consultant. We recognised this new threat environment and the fact that appropriate measures have to be taken to significantly improve our security posture and equip us to deal with the next level of information security threats.

### Legal

#### Bulk supply agreements

We have seven bulk supplier agreements in place with customers, listed as follows:

Table 36: Bulk water supply agreements

Nr	Organisation name	Volumes m <sup>3</sup> /day
1	City of uMhlathuze Municipality for Richards Bay	48 000
2	City of uMhlathuze Municipality for Empangeni (NTLC)	37 000
3	City of uMhlathuze Municipality for Esikhwini (RBTLC)	15 000
4	City of uMhlathuze Municipality for Foskop	17 600
5	Tronox	48 840 62 160
6	Richards Bay Minerals	45 000
7	Mondi	100 000

Table 37: Bulk waste water agreements

Nr	Organisation name	Waste requirement	Volumes m <sup>3</sup> /day
1	Mondi	Buoyant	110 000
2	Mpact	Buoyant	8000
3	City of uMhlathuze macerators	Buoyant	20 000
4	South 32	Buoyant	7750
5	Foskop	Dense	44 272
6	Foskop	Buoyant	5000
7	Tronox	Buoyant	2400
8	Isizinda	Buoyant	333

#### Default judgements

We should not have any default judgements made against us to retain our financial viability. There are no default judgements that were made against us in the period under review.

## 8.2.5. Corporate Services Unit 2019/2020 – Predetermined objectives

Table 38: Predetermined objectives for the Corporate Services Unit 2019/2020

Alignment to shareholders compact	Strategic objectives	Performance objective	Output	Performance indicator	Annual target	Actual achievement	Deviation from planned target to actual achievement	Comment on deviation
SC15	To resource us with the required skills and competence to deliver the strategic intent	Staff levels	Optimal staff retention	Percentage of staff turnover	8% staff turnover by 30 June 2020	5.89%	2.1%	More staff were retained than anticipated
SC16		Training and skills development	Learners trained and equipped with skills	Number of learners trained and equipped with skills	5 learners trained and equipped with skills by 30 June 2020	5	N/A	N/A
SC16			Employees trained and equipped with skills	Number of new internal bursaries awarded	3 new internal bursary awarded by 30 June 2020	4	1	Additional bursary applications received and approved
SC16			Graduate trainees participating in the graduate training programme and ultimately be registered with professional bodies	Number of graduate trainees participating in the graduate training programme	2 graduate trainees participating in the graduate training programme by 30 June 2020	4	2	2 additional Amanzi Bursary recipients completed their studies and joined the graduate training programme
MW10			Internship programme that equips youth with the required skills that will assist them	Number of graduates enrolled in the internship programme	8 graduates enrolled in the internship programme by 30 June 2020	8	None	N/A
MW11			Approved vacant positions filled within turnaround time on recruitment	Percentage of average approved vacant positions filled within 90 days	80% approved vacant positions filled within 90 days by 30 June 2020	33%	-47%	Delays and challenges in the recruitment process.
MW12	To optimise business processes and systems	Increased access to services	Alignment of processes and systems	Percentage of identified core IT systems implemented	100% of identified core IT systems implemented by 30 June 2020	100%	None	N/A
MW13		Good governance	Zero default judgements against us	Number of default judgements against us	Zero default judgement against us by 30 June 2020	0	None	N/A

## 8.2.6. Corrective measures to address areas of underperformance

Table 39: Corporate Services Unit corrective measures

Performance indicator	Core reasons for under-achievement	Recovery strategy for 2020/2021
Percentage of average approved vacant positions filled within 90 days	Delays and challenges in the recruitment process	Management accountability procedures relating to recruitment to be implemented

## 8.3. Operations and Maintenance Unit

### 8.3.1. Mandate of the Operations Unit

The Operations Unit is driven by the mandate of ensuring effective and uninterrupted water production and wastewater disposal systems to meet the needs of customers and minimise the impact on the environment.

To meet this, the Unit continuously assesses, develops and actions preventative and troubleshooting plans for maintenance and capital improvements to our assets over the short, medium and long term. The unit continuously evaluates all civil, electrical and mechanical maintenance and commissioning programmes in order to ensure that work is executed and performed to acceptable standards.

### 8.3.2. Functions within the Operations Unit

#### *Operations*

The Operations function is responsible for all operational activities in transfer pump stations, water treatment plants and wastewater systems in order to meet contractual requirements and legislative requirements. This function has the responsibility of ensuring that we meet all customer requirements when delivering services. The function is also responsible for the operations of water and wastewater infrastructure for water services authorities and industries under the operations and maintenance contracts.

#### *Maintenance*

The overall objective of the maintenance function is to ensure that all plant and machinery is maintained and in good working order so that we can supply clients with water and wastewater services as per contract agreements. The maintenance function has implemented IT to improve on the maintenance processes, which assists in computerised monitoring of plant operations to inform our strategy on reliable maintenance and management-related programmes.

The unit is responsible for maintaining our assets to ensure uninterrupted operation of infrastructure in order to service the bulk agreements with customers as outlined below.

#### *Occupational health and safety*

Occupational health and safety provides an effective and efficient support through the provision of safety and security management services. This implies providing a working environment that is:

- Conducive and accommodating to all
- Free from any form of threat or risk to the occupational health of employees,
- Free from any form of threat to our property
- Ensuring compliance with occupational health and safety legislative and other requirements

We have a risk-based medical surveillance programme that was implemented as a preventative measure to protect employees against all sorts of workplace health hazards. All employees are placed under a medical surveillance programme and those who are occupationally exposed undergo annual periodic medical examinations. Employees working at head office and related services undergo a medical examination every three years. In addition to the above, other medical examinations and vaccinations were conducted.

### 8.3.3. Key performance highlights

The effects of the devastating drought experienced in previous years resulted in a number of stakeholder interventions being initiated. We played a pivotal role in ensuring the continued engagements to realising successful implementation of drought alleviation and water conservation initiatives through collaboration with other stakeholders.

#### *Continued consultation with stakeholders regarding water use reduction*

We were an active participant in the Mhlathuze Catchment Joint Operating Committee (JOC) whose role was to develop strategies to mitigate the impact of the drought, including water conservation and demand management activities.

#### *Continued Support to DWS in the upgrade of the Thukela-Goedertrouw Transfer Scheme*

The TGS upgrade is managed and funded by the Department of Water and Sanitation (DWS). Construction activities for the pipeline, pump stations and abstraction works, which includes excavation, pipeline delivery, laying and foundation casting, were underway, however, the project came to a halt during the year.



*Mhlathuze Water: Weir to Nsezi Transfer Scheme*

We continue to abstract water from the Mhlathuze River, which is fed by the Goedertrouw Dam that is augmented by the TGS. The raw water abstraction takes place at the Weir Pump Station, which is about 70km from the discharge of Goedertrouw Dam. The primary beneficiaries are Mhlathuze Water (Nsezi Water Treatment Plant and Lake Nsezi), the City of uMhlathuze (Esikhaleni Water Treatment Works), Tronox (Fairbreeze Mine) and Richards Bay Minerals (via Lake Nsezi).

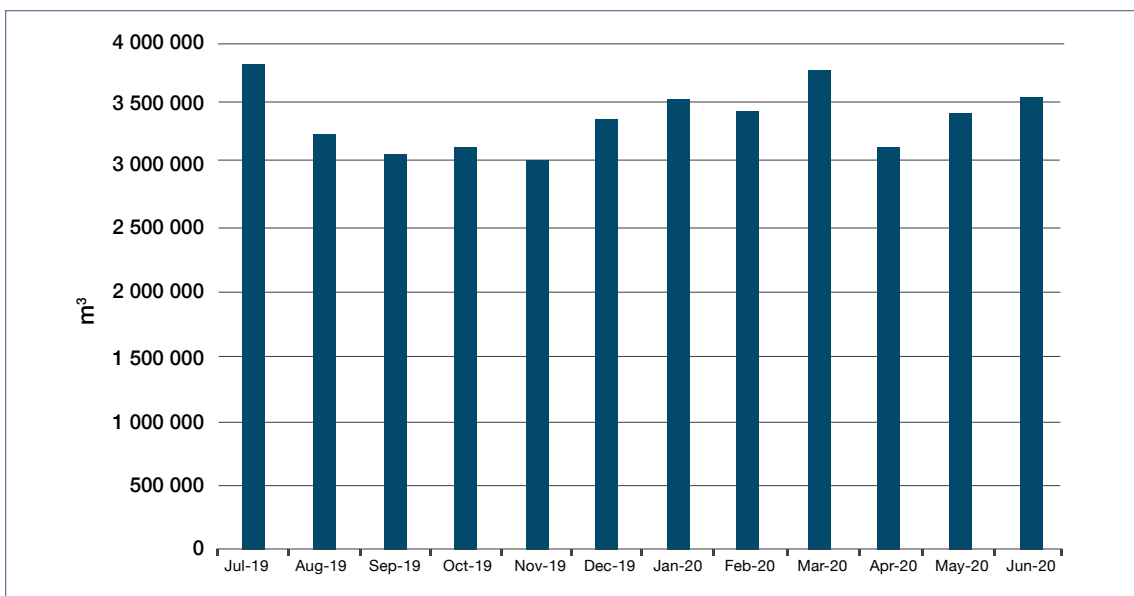
A total volume of 37 297 270m<sup>3</sup> of raw water was pumped from the scheme this financial year, which is 4% lower than in the previous financial year, with 98% being supplied to Nsezi

Water Treatment Plant and the remainder to Tronox. No raw water was supplied to Lake Nsezi during the financial year since the lake was full. No raw water was supplied to the City of uMhlathuze for Esikhaleni owing to Lake Cubhu being full for the entire financial year.

We have embarked on the following initiatives to ensure continuous and reliable supply to customers:

- Supplementing the existing weir with a new weir structure
- Installation of a 1 500mm Ø raw water pipeline from the Mhlathuze River Weir to the shooting range

**Figure 9: Total raw water abstracted from the Mhlathuze River Weir**

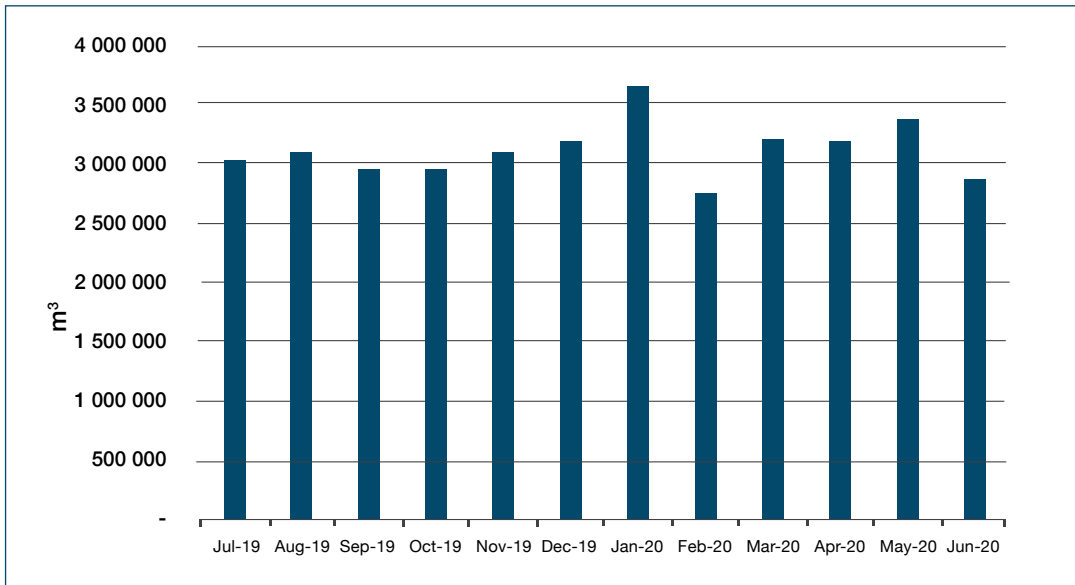


**Mhlathuze Water: Nsezi Water Treatment Plant**

A total of 41 911 939m<sup>3</sup> of raw water was supplied to the Nsezi Water Treatment Plant, with 87% coming from the Mhlathuze River and the remainder from Lake Nsezi. The total volume supplied by Nsezi Water Treatment Plant to customers during the financial year under review decreased by 14% year-on-year

mainly due to less water supplied to the City of uMhlathuze (Richards Bay. The remainder of the customers were supplied as per demand within contracted volumes. Unaccounted water loss during the financial year was 1.53%, and was within the target of 5%.

**Figure 10: Total treated water supplied from Nsezi Water Treatment Plant**

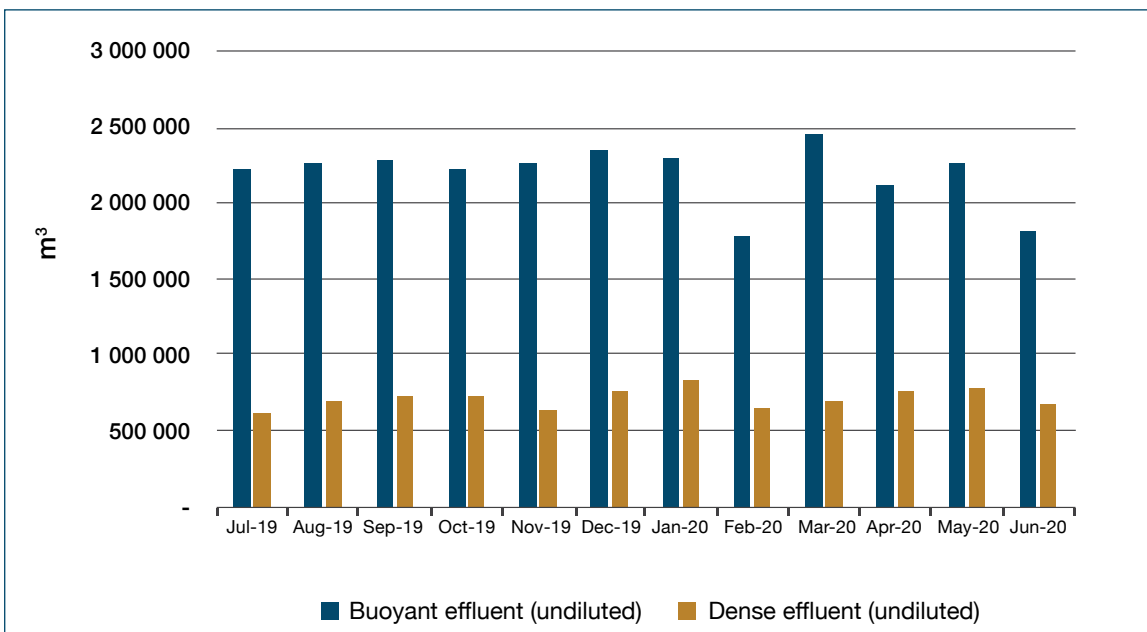


**Mhlathuze Water: Alkantstrand Effluent Disposal Scheme**

A total of 34 830 022m<sup>3</sup> was disposed offshore through the Wastewater Disposal System. Seventy-six percent was discharged through the buoyant line and 24% through the dense line, which contributed to a 3% increase from the previous financial year.

There were planned shutdowns during the year for a number of critical activities to be undertaken, such as the replacement of delivery manifolds for two pumps on the buoyant effluent pump station as well as for repairs to be carried out offshore on the dense effluent pipeline.

**Figure 11: Total effluent disposed of**



**Maintenance, plant efficiency and availability**

A total of R15 million was spent on mechanical, electrical, electronic and civil maintenance and repair work on all Mhlathuze Water owned plants and operations.

Major activities relate to the annual inspection required in terms of the Coastal Waters Discharge Permit on the marine effluent discharge pipelines. Repairs were then made to certain diffusers, bellows as well as rubber linings on the C-line as a result of these inspections. Similarly, the annual inspection was carried out on the entire A-line as well as additional inspection work to certain diffusers. A major repair was undertaken to the A5 stuffer box (joint between 2 sections of pipe).

Routine and preventative mechanical maintenance was furthermore carried out on pumps and bearings at Nsezi, The Weir Pump Station and the Alkantstrand Pump Station. The manual heavy duty crane at the weir was automated in order to expedite the removal, manoeuvring and insertion of pumps and motors during maintenance activities.

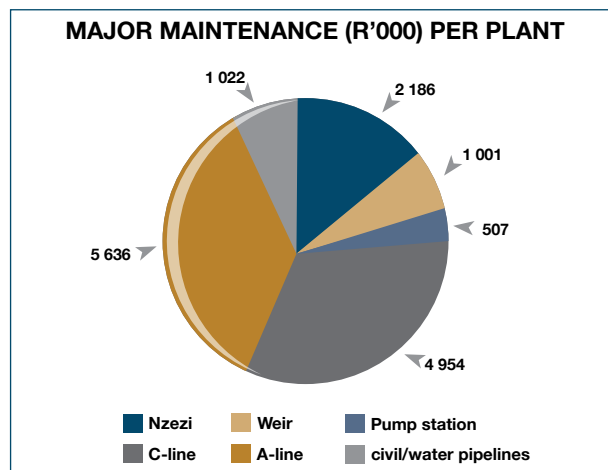
The electrical assets of Mhlathuze Water remains in excellent condition due to planned and preventative maintenance activities. Due to its location off-grid, Surge Tower 2 on the effluent line was equipped with solar panels to provide the necessary electricity to basic activities such as security lightning and operations. Repairs and refurbishment was also undertaken at Nsezi on the security and high mast lights.

Variable Speed Drives, being a device that is used in electro-mechanics to control the speed and torque of pump motors, requires constant inspection and maintenance. More than half of the instrumentation maintenance cost for the year was spent on keeping VSDs in optimal condition and shape. The remainder of instrumentation maintenance expenditure was on actuators, flow meters and chemical sensors.

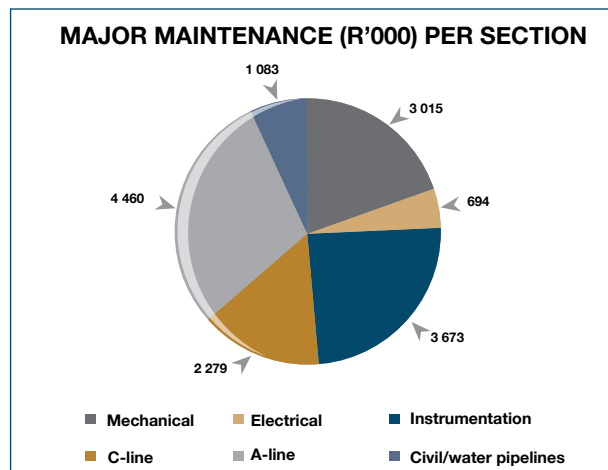
Due to these maintenance activities, Mhlathuze Water did not experience any unplanned water supply interruptions during the financial year. This was achieved through the implementation of well-structured maintenance strategies and the Computerised Maintenance Management System.

Notwithstanding the above reported maintenance and achievements, we did not meet its targeted performance on maintenance-related expenditure on property, plant and equipment. Measures have been put in place to drive this aspect such as closer attention being paid to the high

**Figure 12: Major maintenance per plant**



**Figure 13: Major maintenance per section**



level maintenance plan. This plan indicates the planned expenditure per quarter on the key areas of mechanical, electrical, electronics and civil works for each of our sites (Nsezi, Pump Station, Weir and Head Office).

**External operations and maintenance projects**

As part of its growth strategy, the organisation is involved in a number of external operation and maintenance projects within its area of operation.

**Richards Bay Minerals**

Mhlathuze Water continues with the operation and quality monitoring of the five Water and Waste Water Package Plants at the mining ponds. The contract have been extended for a further 3 years to 2023.

Furthermore, Mhlathuze Water continues to operate the Water and the Waste Water Treatment Works at the smelter for the next 2 years ending 31 January 2022.

### City of uMhlathuze

Mhlathuze Water continued to manage, operate and maintain the CoU's Water and Waste Water Treatment Plants and associated bulk distribution infrastructure up until 31 January 2020 when the CoU took over the management, operation and maintenance of their installations. However, Mhlathuze Water continued providing certain support services as agreed with the CoU up until 30 June 2020.

### Thukela-Goedertrouw Transfer Scheme

Mhlathuze Water is responsible for the operation and maintenance of the Thukela-Goedertrouw Transfer Scheme, with a capacity of 1.2m<sup>3</sup>/s, on behalf of the DWS. This scheme is critical for providing water to the region, particularly during the drought. For the reporting period, a total of 4.388 million m<sup>3</sup> of raw water was abstracted by the scheme, and transferred to the Goedertrouw dam.

The operating and maintenance related cost associated with this scheme for the year under review was R50.8million. Following a number of challenges, the scheme has been

consistently operating at half of its capacity from April following repairs conducted on equipment for Line 2 at Madungela and Line 3 at Mkhazazi as well as the repairs that were conducted on the air valves on the rising main from Madungela to Mkhazazi.

### Jozini Regional Water Treatment Plant and bulk reticulation network

Mhlathuze Water in 2017 completed the 40ml/day Jozini Water Works and regional bulk distribution system. Mhlathuze Water, since the completion of the construction of the Jozini bulk system on behalf of the Umkhanyakude District Municipality, has operated and maintained the system, serving 134 000 households. The operating and maintenance related cost associated with this scheme for the year under review was R12.9million.

The scheme include a 40ml/day water works, 19 reservoirs and numerous pump stations over a bulk reticulation network spanning over 120 kilometres. For the reporting period, a total of 7.68million m<sup>3</sup> of purified water was produced by the scheme and distributed via the bulk network.

## 8.3.4. Operations and Maintenance Unit 2019/2020 – Predetermined objectives

**Table 40: Predetermined objectives of the Operations and Maintenance Unit 2019/2020**

Alignment to shareholders compact	Strategic objectives	Performance objective	Output	Performance indicator	Annual target	Actual achievement	Deviation from planned target to actual achievement	Comment on deviation
<b>SC2</b>	To grow the provision of water services	Manage avoidable water losses	Manage avoidable water losses	Percentage of avoidable water losses on water abstracted	5% avoidable water losses on water abstracted by 30 June 2020	1.52%	3.48%	The process was operated optimally resulting to reduced water loss
<b>SC3</b>	To grow the provision of water services	Reliability of supply	Reliability of supply	Number of instances of unplanned supply interruption exceeding 24 hours (1 day)	3 instances of unplanned supply interruption exceeding 24 hours (1 day) by 30 June 2020	0	None	N/A
<b>SC22</b>	To be proactive on issues relating to health, safety, security and the environment	Health and safety within working environment	Zero disabling injuries on occupational health and safety	Number of disabling injuries on occupational health and safety	No disabling injuries in occupational health and safety by 30 June 2020	0	N/A	N/A
<b>MW14</b>	To grow the provision of water services	Increased access to services	Existing infrastructure maintained to ensure plant availability	Percentage of plant availability based on operating hours	95% plant availability based on the operating hours by 30 June 2020	99.58%	4.58%	Preventive maintenance and operating practices minimise plant downtime.





## 8.4. Scientific Services

### 8.4.1. Mandate of the Scientific Services Unit

The mandate of the Unit is primarily to ensure the provision of reliable and authentic laboratory, quality and environmental management services to ourselves and external stakeholders. It also carries the overall responsibility for our compliance with a range of industry-related SHEQ systems and standards applied to water quality; wastewater discharge permits; quality assurance; health and safety; environmental compliance; and energy efficiency.

The section is also the hub for innovation, research and development. These functions are absolutely necessary for us to grow and provide alternative solutions to the growing regional water challenges.

### 8.4.2. Functions of the Scientific Services Unit

#### *Laboratory Services*

The state-of-the-art laboratory facility provides water quality sampling and testing services to the ourselves, our clients and external clients. The facility is ISO 17025-accredited, and offers a variety of water quality testing services in the fields of chemistry, microbiology and hydrobiology. Previously, the laboratory used manual techniques but over the last few years has transitioned to using modern automated technology. The techniques in use include, among others:

- Inductively coupled plasma (ICP) – mass spectrometry
- Gas chromatography – mass spectrometry
- Ion chromatography
- Microscopy and defined substrate technology

These enable the laboratory to offer an all-inclusive suite of services to test water for an extensive set of quality parameters. The laboratory uses a software-based Laboratory Information Management System (LIMS) to support its operations. The functionality of the LIMS system allows for sample management, instrument integration, electronic data exchange and reporting.

#### *SHEQ systems*

The aim is to integrate all management systems of the business into one coherent system to enable us to achieve our mission. In order to ensure compliance with best practices and international standards, the section ensures that we have certified management systems for safety, health, environment and quality. The specific areas of application are:

- OHSAS 18001: Internal health and safety management to protect the health and safety of our employees
- ISO 14001: Environmental management to limit adverse effects on the environment that may result from our activities
- ISO 9001: Quality management to ensure customer satisfaction. The focus is on compliance with customer needs and requirements
- ISO 17025: Specifies the general requirements for the competence laboratory to carry out tests and/or calibrations, including sampling. It covers testing and calibration performed using standard methods, non-standard methods and laboratory-developed methods

The section is also in the process of obtaining certification for the following system:

- ISO 50001: An energy management system that specifies requirements for establishing, implementing, maintaining and improving an energy management system. The main purpose is to enable us to follow a systematic approach to achieve continual improvement in energy performance, including energy efficiency, energy use and consumption

Certification is a voluntary process but it demonstrates our commitment to transparency and accountability. Through compliance with ISO standards, we have committed to:

- Comply with all legislative requirements and best practices to reduce liability
- Improve environmental performance and prevent pollution
- Prevent product/service defects and meet customer requirements
- Adopt a structured approach in managing OH&S risks, and reduce costs associated with the COID Act

#### Environmental services

We recognise that there are activities that the business is involved in that have a negative impact on the environment. The section focuses on aligning the business activities towards environmental sustainability and promoting a shift towards the state of a green economy through the implementation of carbon footprint reduction initiatives. The core function of environmental services is to ensure that we comply with applicable environmental legislation, regulations and other international best practices to ensure that we avoid and/or minimise the environmental impacts of our activities. This includes the responsibility of ensuring that our waste management practices remain in line with provincial and national legislation and requirements. Water quality status reports for rivers and lakes/dams in the Mhlathuze River system are prepared on a regular basis.

We provide support to the Technical Unit by ensuring that we obtain necessary environmental permits for relevant projects and other business operations e.g. environmental impacts assessments (EIAs), effluent discharge permits, etc. Other spearheaded initiatives are environmental awareness campaigns on the importance of conserving natural resources, as well as the commemoration of special environmental days.

#### Innovation, research and development

The envisaged functions of the section are to:

- Lead, facilitate and promote research and development
- Develop a research agenda
- Facilitate collaborative research with external organisations
- Develop programmes and initiatives to build internal research and development capacity
- Strengthen networks and relationships with other stakeholders
- Review and update our research and development strategy

#### 8.4.3. Key performance highlights

##### Commemoration of environmental days, general awareness and education

We conduct awareness and education campaigns on environmental protection as well as water and energy conservation. These initiatives focus on communities in our areas of operation, and employees participate in most of them.

The table below outlines activities undertaken internally and externally during the reporting period.

**Table 41: Environmental awareness campaigns and events**

Events	Activities
Arbour Day	An article was published in the internal publication (News Splash) about the importance of planting trees and the protection of indigenous vegetation
Wetlands Day	An opinion piece about the importance of protecting and conserving wetlands was published in the Isolezwe newspaper
	The Environmental & Water Quality Manager had a slot in local radio stations (Maputaland, Ikhwezi, Ikwekezi, Icora and North Coast FM) where she interacted with members of the public on the importance of protecting wetlands
Water Week	Water Conservation Awareness Campaign was conducted on 5 March 2020 at a school in Jozini (Ezibukweni High School) as part of the commemoration of the Water Week
World and Environmental Oceans Day	#PlantAHerbChallenge We commemorated both Environmental and Oceans Day by conducting an activity that involved the participation of employees and their families during lockdown. Employees were supplied with small buckets of two herbal plants to grow and nurture with their families.
Mposa River Clean-up	As a Mandela Day initiative, an Mposa River clean-up was conducted by staff and community members from the Nseleni area in collaboration with the uMhlathuze Local Municipality

### Water quality

We are committed to providing our customers with water that is suitable for consumption and to discharge effluent in a manner that does not have a deleterious impact on the environment or downstream users. Rigorous and system-wide water quality management programmes, auditing, compliance testing and reporting, water quality assessments and water safety plans are implemented.

A risk-based water quality monitoring programme is reviewed annually to ensure that it meets legislative requirements, bulk customer supply agreements and water treatment process requirements, as well as to consider new risks that have been identified in the system.

An Incident Management Protocol, which is aligned to the requirements of South African National Standard (SANS241:2015), is in place. The protocol provides a framework for responding to water quality incidents in a structured manner and also includes stakeholder communication during such incidents.

### Potable water quality performance

Water quality at the Nsezi Water Treatment Plant complies with SANS 241, which requires that water quality to be evaluated and reported against six risk categories:

1. Acute health: microbiological
2. Acute health: chemical
3. Chronic health
4. Aesthetic
5. Operational

The current monitoring exceeds the minimum requirements so as to cater for other operational requirements and contractual obligations with certain industrial consumers. Performance is detailed below:

**Table 42: Compliance report – SANS 241:2015 for the Nsezi Water Treatment Plant**

Risk category	Performance	SANS target (for excellent water quality for population > 100 000)	Comment
Aesthetic	100%	≥ 95	Target exceeded
Acute chemical health	100%	≥ 99	Target exceeded
Chronic chemical health	99.9%	≥ 97	Target exceeded
Acute microbiological health	99.7%	≥ 95	Target exceeded
Operational	99.9%	≥ 95	Target exceeded

Overall compliance of 99.92% was achieved for the reporting period. Only four failures were observed. The target was 97%.

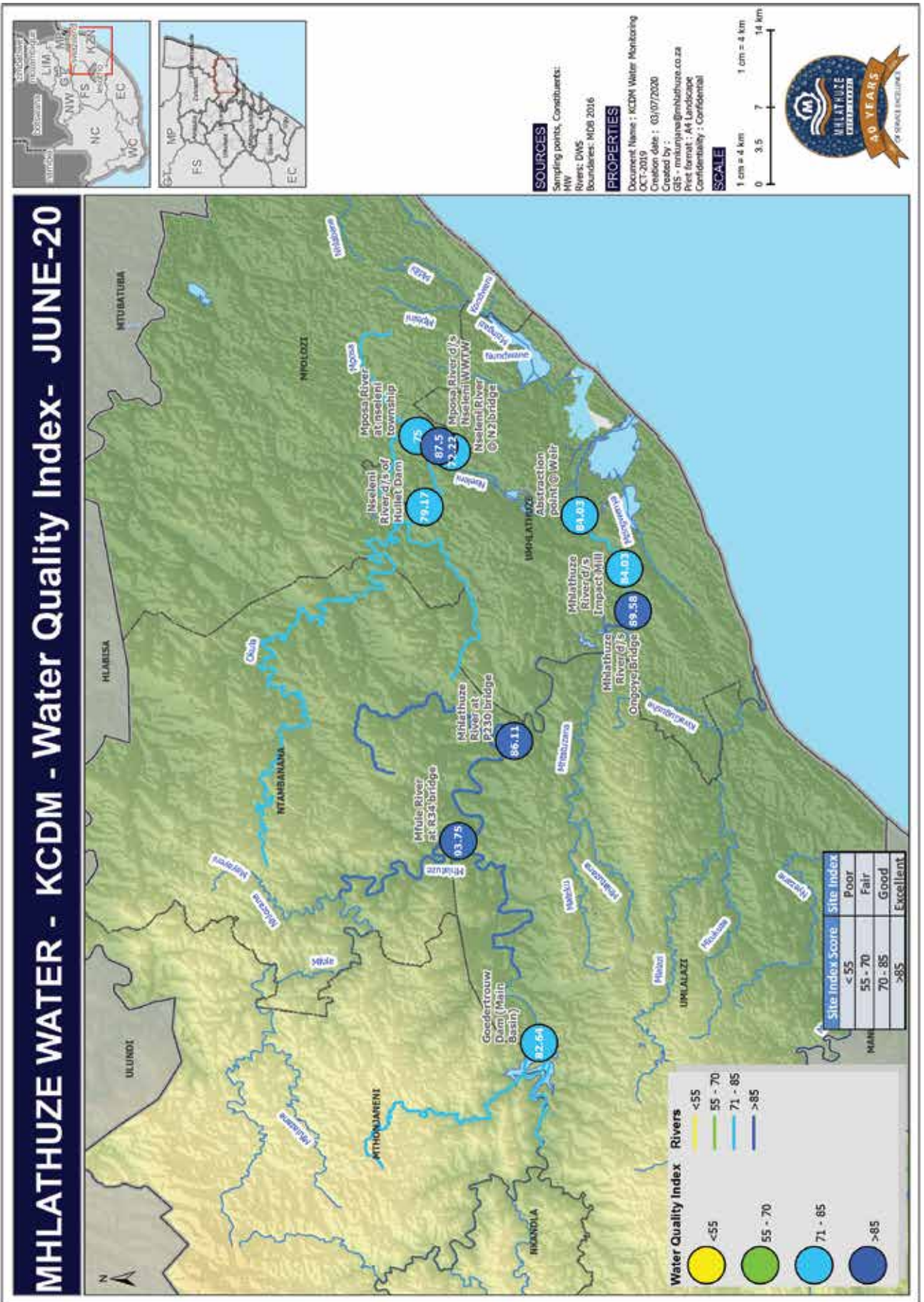
### Catchment water quality monitoring programme

A water quality monitoring programme is in place to monitor rivers and dams in the catchment area on an ongoing basis. The quality of the water resources in our catchment area is shown temporally and spatially with the aid of a Water Quality Index (map). Various water quality parameters were identified and these are weighted and scored to give the overall index, which is related to the water quality in the area.

Catchment quality monitoring indicators used are as follows:

- Very good >85
- Good 71-85
- Fair 55-70
- Poor <55

Figure 14: Water quality index



As at the end of June 2019, there was a slight increase in turbidity due to the rains. Goedertrouw water quality was good and Mfule was excellent. The Nseleni River was fair mainly due to illegal waste dumping in the surroundings areas.

#### Wastewater quality monitoring

##### Wastewater disposal compliance

We own and operate one of the largest offshore wastewater disposal systems in South Africa. The system comprises two pipelines: the A-line, which discharges industrial wastewater, sludge from the Nsezi Water Treatment Plant and macerated sewage from the City of uMhlathuze, and the C-Line, which discharges gypsum effluent from Foskor. We have a permit (which was issued in 2017) to dispose wastewater to sea in terms of Section 69 of the National Environmental Management: Integrated Coastal Management Act, 2008 (Act No. 24 of 2008).

Compliance at the Effluent Pump Station for the period July 2019 and June 2020 was as follows:

Pipeline	% Compliance				Target (%)
	Q 1	Q 2	Q3	Q4	
A-line	99.4	93.8	89.85	92.23	100
C-Line	97.3	88.5	89.14	87.39	
% Combined (A and C combined)	91.2	91.2	89.50	89.82	

Overall compliance for the period was 90.33%. Most failures on the A-Line are due to fluoride and pH, which supposedly are contributed by the Foskor's fluoride line.

##### Environmental forums

We participate in a number of environmental forums such as the Catchment Management Forum (CMF) and the Effluent Pipeline Forum (EPF). The CMF's main objective is to facilitate engagements on water and related matters. The EPF was established in line with the requirements of the Coastal Waters Discharge Permit (effluent disposal permit). The forum serves as a communication tool for customers and interested and affected parties. It is also a platform to transparently deliberate on permit compliance matters with the general public. EPF meetings were held as follows:

Table 43: Environmental forums

Meetings	Dates
1	August 2019
2	January 2020
3	June 2020

##### Environmental management

We are committed to the sustainable use of resources, thus contributing, broadly speaking, towards the Millennium Development Goal of 'ensuring environmental sustainability'. We have developed and are currently implementing an environmental sustainability policy, which aims to achieve the following:

- Foster a culture of sustainability and reducing our ecological footprint
- Incorporate principles and understanding of sustainability into all activities, services, operations and stakeholder engagements
- Incorporate sustainability performance alongside our other key performance indicators

We are committed to protecting, conserving and efficiently using the natural resources in a sound sustainable manner through the implementation of sustainability priorities, i.e. water, energy, waste, biodiversity and conservation.

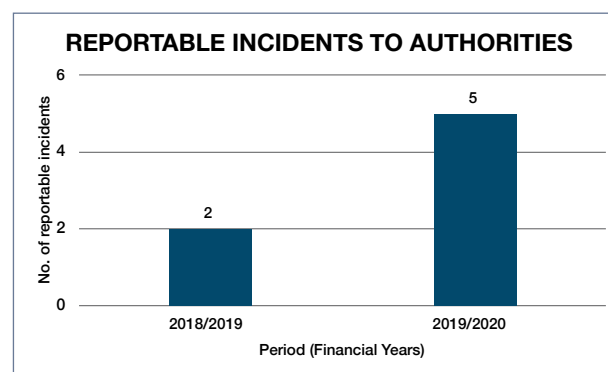
##### Environmental incidents

An incident is an unplanned or undesired event that adversely affects an organisation's operations. Environmental incidents include property damage, water contamination, effluent and chemical spillages, or near miss events that could have resulted in any of these.

Incident management systems with protocols are in place to ensure a proper and timeous response to all incidents. We continually strive to be environmentally sustainable in all our operations.

There was an increase in the number of reportable environmental incidents. Five incidents, all of which were related to the effluent pipeline, were attended to. Only two were reported in the previous period. Reporting protocols in Section 30 of the National Environmental Management Act, 1998 were followed. Details of the incidents are as follows:

Figure 15: Reportable environmental incidents



**Table 44: Reportable environmental incidents**

Date	Incident details	Root cause	Risk to the business	Mitigation/action plans
30/09/19	Offshore spillage on the buoyant line (A-Line)	Effluent discharge through the diversion hole due to the maintenance work that was underway. The repair work was as a result of the inspection, which indicated the need to perform repair work on the pipeline. Mondi had embarked on a water wash shut that also contributed to the quality of the effluent that was discharged during startup	Reputational risk as the matter was publicised in the local media. The matter was cited in the Notice of intent to issue a compliance notice received from DEA in March 2020. Non-compliance to license conditions as effluent discharged closer to shore	Divers engaged immediately to fast-track the repair or diffuser. Service provider engaged to perform marine impact survey. Section 30 Report forwarded to DEA after investigation
6/11/19	Effluent spillage at the seawater intake	Effluent spillage due to power supply failure at the effluent Pump Station. Impact exacerbated by prolonged time it took Foskor to cease discharging	Environmental pollution and non-compliance to Permit conditions	Contributor (Foskor) ceased pumping until power was restored. Section 30 Report forwarded to DEA after investigation
30/12/20	Effluent spillage as a result of a leak from the dense effluent pipeline. Effluent contaminated the nearby wetland and surrounding areas and buildings	Possible attempted theft of PRV to recover stainless steel or possible vandalism as air release valve had signs of being cut	Reputational risk and potential litigation by property owners	Service provider sourced to clean up the discharged effluent onsite and clean the surrounding landscape, roads and nearby buildings Valve chambers were welded to ensure they close completely  Wetland specialist was appointed to assess impact on wetland and design rehabilitation plan  Section 30 Report forwarded to DEA after investigation
19/03/20	A leak occurred inside the air release valve chamber of the effluent pipeline through which Tronox pumps their effluent to the Collecting Chamber, resulting in effluent spillage on the surrounding ground	Pipeline leak inside the valve chamber was caused by the HDPE butt-welding failure on the valve T-piece	Environmental pollution and non-compliance to permit conditions	The welded HDPE T-piece was replaced with a new HDPE moulded T-piece and joined to the existing pipeline with electro-fusion couplings
16/04/20	Mondi effluent foam spillage at the Collecting Chamber	When effluent in the Mondi emergency ponds mixed with the processed effluent from the plant under turbulent conditions caused the effluent to excessively foam	Non-compliance with permit quality conditions. As a result, there was contamination of land surrounding the Collecting Chamber	Defoaming agent was applied to the spillage to reduce foaming Meeting with Mondi held to discuss the incident. They have since provided Mus with a plan to address the foaming of the effluent during shuts Formal communication from the office of the CE on this and other related matter in the past several months Section 30 Report forwarded to DEA after investigation

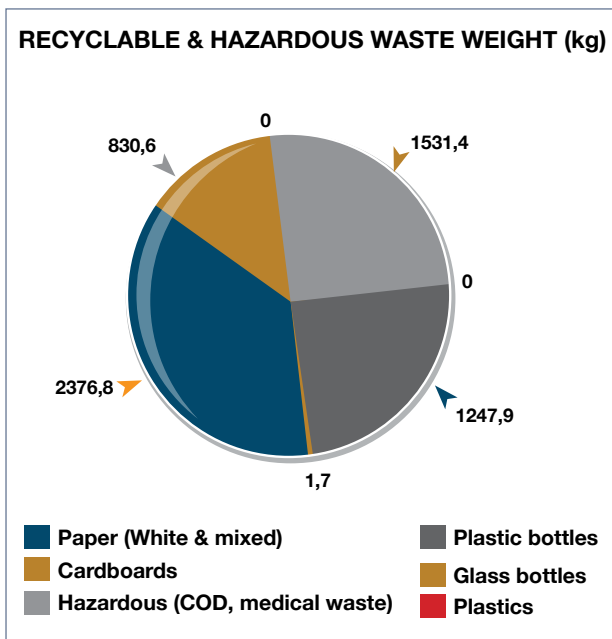
### Waste management

We have developed a Waste Management Plan aimed at reducing waste in line with waste management principles, namely recycle, recover, reuse and/or avoid hazardous waste on all sites of operation. The following principles are followed:

- Waste separation at source
- Recycling of paper, metals, used toner cartridges, glass bottles, wooden pallets

The graph below shows the amount of waste recycled during the reporting period.

Figure 16: Recyclable and hazardous waste (KG)



### Carbon footprint and emissions reduction initiatives

Our direct carbon emissions (scope 1) arise from fuel usage for vehicles and generators, while indirect carbon emissions (scope 2) are primarily due to electricity usage and to a minor extent, flights.

Monitoring of our carbon footprint is undertaken on a monthly basis and data is recorded with the following focus areas: electricity usage, vehicle (fuel usage) as well as water usage at the pump stations/plants.

As indicated on the graph, carbon emissions have been decreasing over the last three years. The reduction is attributed to the implementation of the holistic energy reduction initiatives, e.g. replacement of lights by energy saving bulbs, load shift, etc. (for Scope 2) and improved management of vehicle usage.

### Water conservation

We are currently exploring measures to improve water use efficiency in response to climate change. The following has been undertaken thus far:

- Spreading general awareness to all employees through induction, toolbox talks and an internal magazine
- Conducting water audits to assist in establishing new ways to conserve water in the installations
- Repairing water leaks timeously

Awareness campaigns promoting water conservation are continuously done among our employees and are also conducted to sensitise the community members of uMhlathuze Local Municipality through roadshows and school visits.

Figure 17: CO<sub>2</sub> equivalents

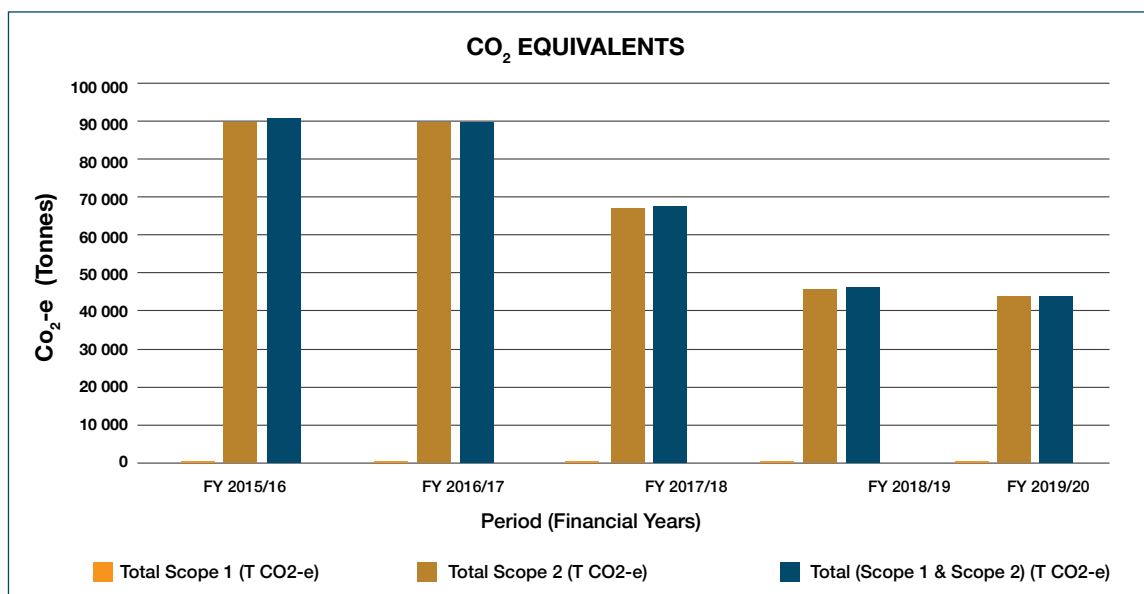


Figure 18: Water consumption at the pump station

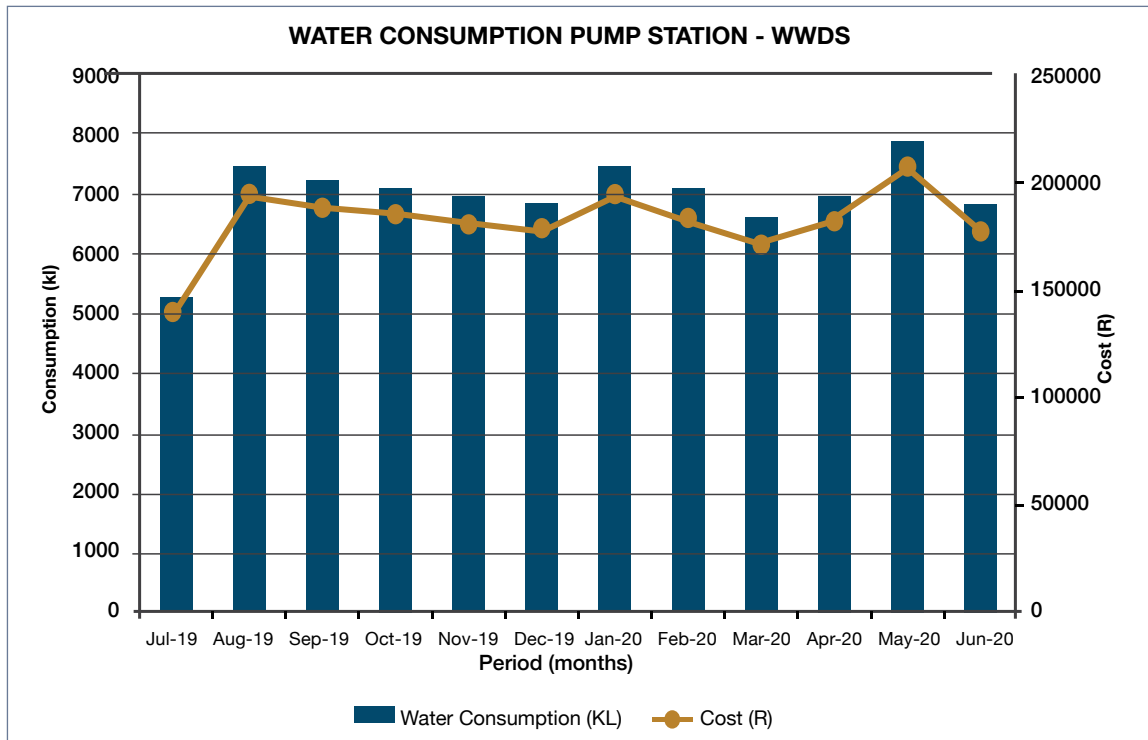
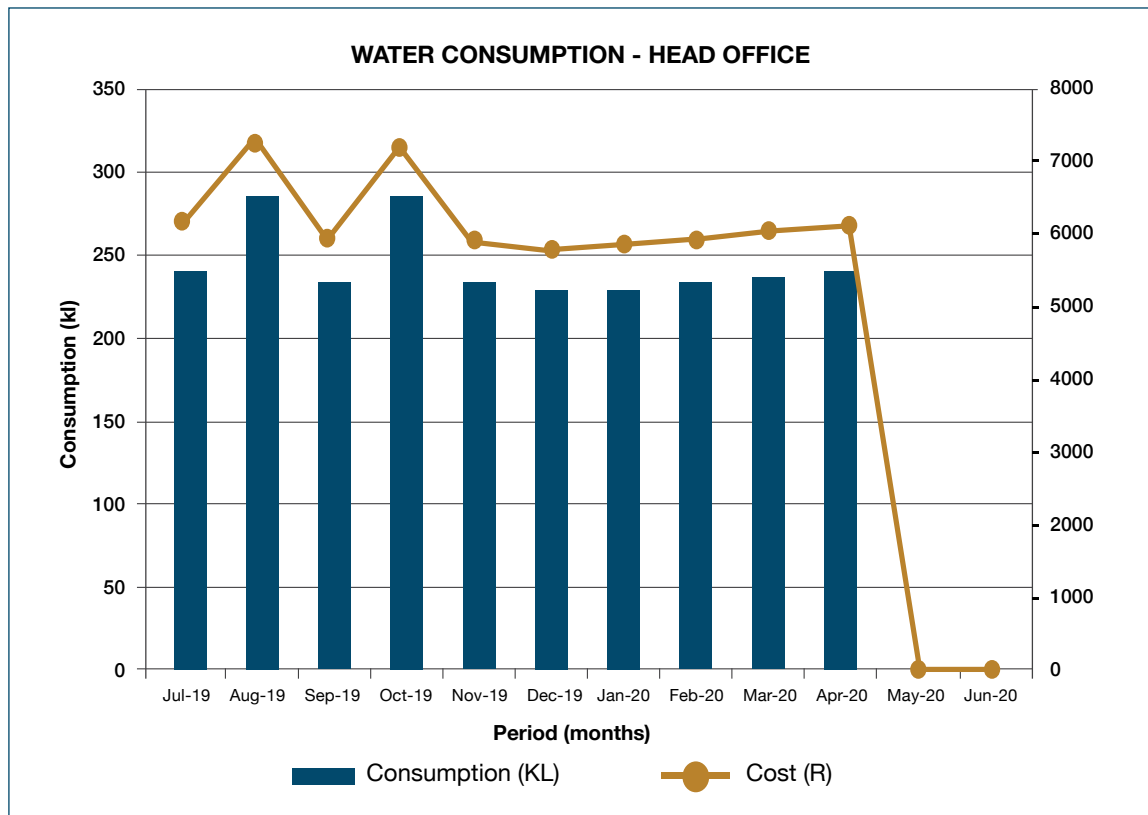


Figure 19: Water consumption at the Head Office complex







#### **Environmental authorisation and compliance monitoring**

Environmental impact assessments are conducted for all construction projects to ensure that environmental impacts are managed. Where environmental impacts are identified, environmental management plans are developed to mitigate the risk. Projects involving a change of land use, construction or upgrading of infrastructure and storage/handling of hazardous substances are among a number of listed activities that are required to follow the environmental impacts assessment process. The service is outsourced to external service providers but we monitor and audit these to ensure compliance with the environmental management plans during project implementation. No permits were applied for or received during the reporting period.

#### *Systems management*

##### **ISO 17025:2005: Laboratory System Accreditation**

We maintained our ISO 17025 accreditation for the Scientific Services Laboratory. The South African National Accreditation System (SANAS) conducted its 18th monthly surveillance assessment in March 2020. The assessment was based on the requirements of the new ISO 17025 Standard. A total of nine findings have been cleared and continual accreditation has been maintained. The current certificate of accreditation is valid until 30 April 2022. Key objectives of the laboratory in support of our primary business are:

- To provide assurance that water produced is suitable for drinking, thereby assuring that public health is protected.

Furthermore, the service gives assurance that the effluent disposed of complies with permit requirements

- To produce scientific data for the development and optimisation of infrastructure
- To assess the status of water resources in the catchment area

#### *Safety, health, environmental and quality management systems (SHEQ)*

In order to ensure compliance with best practices and international standards, we have certified management systems for SHEQ systems, which aim to integrate all components of the business into a coherent system to enable us to achieve our mission.

The specific areas of application are:

- OHSAS 18001: Health and safety management to protect the health and safety of employees
- ISO 14001: Environmental management to limit adverse effects on the environment that may result from our activities
- ISO 9001: Quality management to ensure customer satisfaction. The focus is on compliance with customer needs and requirements

All three certifications are maintained and are valid until November 2021. There were no audits that were required to be conducted during the reporting period.

#### 8.4.4. Scientific Services Unit 2019/2020 – Predetermined objectives

Table 45: Predetermined objectives of the Scientific Services Unit 2019/2020

Alignment to shareholders compact	Strategic objectives	Performance objective	Output	Performance indicator	Annual target	Actual achievement	Deviation from planned target to actual achievement	Comment on deviation
<b>SC1</b>	To be proactive on issues relating to health, safety, security and the environment	Bulk potable water quality compliance	Bulk potable water quality compliance	Percentage compliance to water quality standard	97% water quality compliance with SANS 241: 2015 standard for Nsezi WTP for period 1 July 2019 to 30 June 2020	99.92%	2.92%	Conducted tests comply with the water quality standard
<b>MW17</b>	To optimise business processes and systems	Increased access to services	Compliance with Coastal Water's Discharge Permit (CWDP)	Percentage of quality compliance with CWDP	100% effluent quality compliance CWDP for A and C lines by 30 June 2020	90.08%	(9.92%)	pH and TSS tests were exceeded due to variable effluent concentration from contributors
<b>MW18</b>	To optimise business processes and systems	Good governance	ISO 9001, 14001 & OHSAS 18001 standard certification	Number of compliance certifications maintained	3 compliance certifications maintained (ISO 9001, 14001 and OHSAS 18001) by 30 June 2020	3 ISO 9001, 14001 and OHSAS 18001 certification maintained by 30 June 2020	None	N/A
<b>MW19</b>	To optimise business processes and systems	Good governance	ISO 17025 laboratory management system standard accreditation maintained	Number of accreditations retained on laboratory management system	1 ISO 17025 accreditation maintained by 30 June 2020	1 ISO 17025 accreditation maintained by 30 June 2020	None	N/A
<b>MW20</b>	To grow the provision of water services	Increased access to services	Improve knowledge hub and innovation through R&D	Number of research and development initiative implemented	1 research and development initiative being implemented by 30 June 2020	1	None	N/A
<b>MW21</b>	To grow the provision of water services	Increased access to services	Improve knowledge hub, evidence and innovation through research and development	Number of research papers finalised	1 research paper finalised by 30	0	-1	The paper could not be presented at the National conference by 30 June 2020 because the National Conference was postponed due to COVID19
<b>MW22</b>	To grow the provision of water services	Improve key financial ratios	Engagement in secondary activities	Percentage of growth in laboratory revenue (real growth excluding annual prices increase)	5% growth in laboratory revenue (real growth excluding annual prices increase) by 30 June 2020	(-38.18%)	(33.18%)	There is a decline in the number of Section 30 projects activities secured.

### 8.4.5. Corrective measures to address areas of underperformance

Table 46: Scientific Services Unit corrective measures

Key performance indicators	Core reasons for under-achievement	Recovery strategy for 2020/2021
Percentage of quality compliance with CWDP	Increased non-compliance due to stringent limits in place and some contributors not meeting their contractual obligations	A feasibility study will be conducted in 2020/21 to consider various treatment options for the effluent before disposal to sea
Number of research papers finalised	The two papers that were accepted for the WISA conference could not be presented in May/June as the conference was postponed to December 2020 due to the COVID-19 pandemic	The papers will be presented at the virtual conference to be held in December 2020
Percentage of growth in laboratory revenue (real growth excluding annual price increase)	No additional revenue was received due to a decline in the number of Section 30 projects activities secured	A proposal for R2,9m has been forwarded to prospective customers. If successful, the target set for 2020/2021 will be met

## 8.5. Technical Services Unit

### 8.5.1. Mandate of the Technical Services Unit

The key mandate of the Technical Services Unit is to design, optimise, install and extend the required infrastructure to provide sustainable water and wastewater services that meet the requirements of customers.

One of the key areas of focus of the unit is the conceptualising, planning and managing the construction of expansion-related infrastructure for water and wastewater-related services. This involves the determination of requirements for water services through requests by customers, or as decided by regional consultation with water services authorities and regional water service providers.

### 8.5.2. Functions within the Technical Services Unit

#### *Planning and project management*

The Planning section is responsible for the identification and packaging of projects from the feasibility study stage in line with our business development model (concept and viability), design and procurement documentation. The professional services are either sourced from external service providers or conducted in-house, depending on the nature of the required service.

The Planning section is also tasked with driving business case studies for the exploration and solution option/s analysis of alternative water sources together with wastewater reuse projects. The functions of the section also extend to providing support to the Department of Water and Sanitation in the form of reviewing the water control and water catchment areas within our area of operation.

#### *Project management*

The section is responsible for the implementation and project management (in-year monitoring and reporting) of capital projects for internally- and externally- (implementing agent services in terms of section 30 of the Water Services Act) funded projects. Projects are implemented in line with approved infrastructure implementation plans. The organisational capital budget project implementation plans are informed by the conditional assessment of plant assets, water supply contract agreements, as well as water demands from new customers.

### 8.5.3. Key performance highlights

#### *Bulk Water and Sanitation Infrastructure Master Plan*

We successfully completed the development of the Bulk Water and Sanitation Master Plan, which provides an integrated overview of all actions, initiatives and projects that we must undertake in order to effectively meet current and future bulk water and sanitation demands for our customers. The Bulk Water and Sanitation Infrastructure Master Plan also makes provision for reserves in order to accommodate future demand, resulting from growth and development within Richards Bay and surrounding areas.

#### *Primary infrastructure development activities*

We made a budget available for the implementation of water key multi-year infrastructure project upgrades and expansions as part of our core business in the 2019/2020 financial year. We implemented the following projects to ensure continuous and reliable supply to customers:

- Alterations and strengthening of weir structure:
  - Project scope: Alterations and additions to the existing Mhlathuze weir. The execution of which includes: New

mass concrete ogee spillway; bulk earthworks; new inlet channel to existing pump station; installation of permanent sheet piles; construction of a fish ladder; stabilisation of riverbed and banks with excavation and the placement of riprap.

- Overall budget: R78 480 177.00
  - 2019/2020 budget: R24 939 000.00
  - Expenditure as at 30 June 2020: R13 907 481.00
  - Expenditure to date: R68 377 715.40
  - Planned completion date: The project reached practical completion on 16 October 2019 with the defect liability period ending on 16 October 2020
  - Impact: To strengthen and stabilise the weir structure, thus prolonging useful life
  - Challenges: None
- Construction of a 1 500mm Ø Raw Water Pipeline from Mhlathuze River to the shooting range:
    - Project scope: Upgrade the existing 1 200mm diameter pipeline to a 1 500mm diameter continuously welded mild steel pipeline from the Mhlathuze Weir to the Nsezi offtake.
    - Overall budget: R151 360 909.00
    - 2019/2020 budget: R78 855 000.00
    - Expenditure as at 30 June 2020: R76 484 687.00
    - Expenditure to date: R149 279 766.69
    - Planned completion date: December 2019, revised to March 2020
    - Impact: to upgrade the maximum abstraction capacity at the weir PS from 205MI/day to 265MI/day
    - Challenges: The objection on the raw water pipeline from the weir to the shooting range delayed the implementation of the project MW/22/2017, which was cleared for commencement in January 2019
  - Alternative Water Supply to Head Office Project:
    - Project scope: Provide an approved design drawing for the proposed water storage tank and the detailed design of the slab and concrete plinths:
      - » To supply and install a new 55kl galvanised, pressed steel storage tank; hot pressed, cold-rolled steel plate and square panels with four edges, screwed by bolts, nuts and washer; piece-by-piece assemble the bottom wall side and roof. To include a safety ladder from ground level to the height of the tank
      - » To connect the pipe work to the 110mm Ø existing domestic water main line pipe and 75mm Ø domestic fire main pipe; supply and

install the Booster Pump System with pressure vessel (bladder) to ensure a constant back-up supply pressure (in the event that the Head Office experiences water interruptions, it activates automatically)

- Overall budget: R571 500.00
- 2019/2020 budget: R571 500.00
- Expenditure as at 30 June 2020: R415 000.00
- Expenditure as at 30 June 2020: R415 000.00
- Planned completion date: 25 August 2020
- Impact: To provide storage for the alternative water supply to Head Office during water cut.
- Challenges: As the built drawings provided did not match the water network that is on the ground, the connection to the municipal line was not possible. A variation order is being proposed to complete this project.

#### *Secondary infrastructure development activities (Section 30)*

##### **UMkhanyakude District Municipality**

We signed a tripartite agreement with the uMkhanyakude District Municipality and DWS to implement the Jozini Bulk Water Supply Project in the District.

##### **Jozini Regional Water Supply Project**

We successfully commissioned a 40MI/day Water Treatment Plant with associated bulk infrastructure aimed at servicing rural areas that were not served with potable water, except for limited streams and boreholes. We entered into an agreement with the uMkhanyakude District Municipality and DWS to undertake the operations and maintenance of the scheme until such time as the municipality is fully capacitated to take over the running of the scheme. The project has reached practical completion with only three pump stations yet to be commissioned due to ESKOM power-related challenges. Also, a proposal to upgrade a local pump station is being investigated by the Project Management Unit (Focus) to ensure full scheme modification.

##### **Skhemelele-Mtikini Emergency Bulk Water Project**

- Project scope: Supply and installation of pipelines, specials fittings for rising mains, gravity mains, pipework for pumping installations and reservoirs as well as reticulation.
- Overall budget: R29 000 000.00
- 2019/2020 budget: R29 000 000.00
- Expenditure as at 30 June 2020: R8 023 201.65
- Expenditure to date: R8 023 201.65
- Planned completion date: 16 July 2020, revised to 16 September 2020



- Impact: Community unrest was successfully dealt with, hence the provision of portable water will benefit even neighbouring communities
- Challenges: None

#### Isimangaliso Wetland Park boreholes

We entered into an agreement with iSimangaliso Wetland Park to provide a reliable portable water supply to the field ranger camps as identified in the feasibility study by drilling 13 new boreholes at pre-identified sites. Water quality tests will be done to determine whether the ground water is suitable for human consumption or whether specific in-line treatment will be required or not. The correct yield will also be determined in order to select a suitable submersible pump for installation. Elevated tanks from which water will be distributed to the field ranger's accommodation will also be provided. The installation will be energised preferably with Eskom electricity if infrastructure is available, or solar power if the three canopies allow for it.

Additional ancillary work will be undertaken, which will include the connection of water networks to the accommodation located inside the identified camps.

- Original contract value: R5 171 363.32
- Expenditure as at 30 June 2020: R0.00
- Project commencement: 26 May 2020
- Planned completion date: February 2021

Challenges: Contractor pricing is lower than the market price on some items on the bill of quantities. All 13 boreholes have been drilled, with two boreholes found dry. The service

provider is currently busy with pump and water quality testing. Overall progress on this project is 40% complete.

#### Department of Labour: Learnership Programme

- Programme scope: The overall objective is to reskill the previously employed through learnerships, as well as alleviate poverty, create employability of beneficiaries and also provide them with a nationally-recognised qualification. The programme is being implemented in KwaZulu-Natal and Eastern Cape, within nine district municipalities. The project is implemented in the following KwaZulu-Natal district municipalities: Zululand, King Cetshwayo and Ilembe. The project is also implemented in Buffalo City, Nelson Mandela Bay, Amathole, Raymond Mhlaba and Butterworth, Sarah Baartman district municipalities.
- 2019/2020 budget: R85 200 000.00
- Tranche funds transferred to us: R40 806 000.00
- Expenditure as at 30 June 2020: R37 090 889.76
- Challenges:
  - Late payment of stipends due to the department not processing the tranche on time
  - Unpaid learner stipends due to learners providing incorrect bank accounts
  - Municipalities not responding on time and course delays on some of the sites to commence
  - Double payment of learner stipends
  - Suspension of classes by students on some sites
  - The programme has since been terminated as of 21 August 2020 due to the above challenges

#### 8.5.4. Technical Services Unit 2019/2020 – Predetermined objectives

Table 47: Predetermined objectives of the Technical Services Unit 2019/2020

Alignment to shareholders compact	Strategic objectives	Performance objective	Output	Performance indicator	Annual target	Actual achievement	Deviation from planned target to actual achievement	Comment on deviation
SC9	To grow the provision of water services	Capital expenditure programme	Internally funded capital expenditure programme	Percentage of capital projects completed within targeted dates	100% of capital projects completed within targeted dates by 30 June 2020	66.66%	(33.34%)	The Nsezi Plant Augmentation project (1 of 3 CAPEX projects) did not commence according to plan
SC12	To grow the provision of water services	Implementation of ministerial directives	Ministerial directives implemented	Percentage of ministerial directives implemented against allocated budget	100% ministerial directives implemented against allocated budget by 30 June 2020	100%	None	N/A
SC17	To grow the provision of water services	Training and skills development	Temporary jobs created	Number of temporary jobs created through our external programme	200 temporary jobs created through our external programme by 30 June 2020	224	24	More indirect jobs were created than planned
MW15	To grow the provision of water services	Increased access to services	Feasibility studies completed within targeted dates	Number of feasibility studies completed within targeted dates	4 feasibility studies completed within ??	0	-4	These studies could not be conducted due to financial limitations
MW16	To optimise business processes and systems	Increased access to services	Fixed plant assets GIS mapping	Percentage fixed assets GIS mapped	100% fixed assets GIS mapped by 30 June 2020	100%	None	N/A

#### 8.5.5. Corrective measures to address areas of underperformance

Table 48: Technical Services Unit corrective measures

Key performance indicators	Core reasons for under-achievement	Recovery strategy for 2020/2021
Percentage of capital projects completed within targeted dates	The Nsezi Plant Augmentation project (1 of 3 CAPEX projects) did not commence according to plan	Procurement plan implementation is overseen by management to track status and unblock challenges posing possible delays. The project referred to has already progressed through the initial stages of procurement
Number of feasibility studies completed within targeted dates	These studies could not be conducted due to financial limitations	A comprehensive catchment and water conservation study will be conducted to inform proposals to be subjected to feasibility studies



## 8.6. Finance Unit

### 8.6.1. Mandate of the Finance Unit

The Finance Unit provides efficient and effective financial resources; financial planning and budgeting; financial structures; asset management; financial services; procurement; and financial risk management in line with the requirements of the Public Finance Management Act of South Africa. The Unit's core business is to ensure financial viability and sustainability, thereby contributing to delivery on the our mandate.

### 8.6.2. Functions within the Finance Unit

#### *Financial Accounting*

The function is responsible for maintaining accurate financial records that comply with relevant accounting standards (i.e. GRAP and Treasury regulations). It is also responsible for presentation of complete, valid and accurate financial data to allow better decision-making for management. The function ensures accurate billing and collection of debts, timeous payment of creditors and efficient employee-related remuneration.

#### *Management accounting*

The function is responsible for providing an accurate budget and financial forecasts, determine relevant cost-effective tariffs, provide management and financial information, monitor and report on variances, analyse financial feasibility and meet financial obligations to generate accurate and relevant information and mobilise resources to achieve accurately informed and supported decision-makers and a financially resourced organisation in order to contribute to the sustainable delivery on mandate.

#### *Asset management*

This function monitors and maintains our tangible (property, plant and equipment) and intangible assets (software). It is also responsible for a systematic process of acquisition,

maintenance and disposal of assets in a cost-effective manner. It maintains the Asset Register in compliance with GRAP 17 and all relevant organisational policies. It also reviews the use of assets to ensure a greater return on investment and ensures that assets are adequately insured.

#### *Supply chain management*

The Supply Chain Management Unit is responsible for procurement activities, BEE spending, clinical practice guidelines (CPG) monitoring, contract management, monitoring of non-conformances, deviations, irregular expenditure, bid committees, as well as inventory management. It is responsible for all other supply chain operational activities, including ensuring that procurement of goods, services and construction work is done in a fair, competitive, cost-effective, transparent and equitable manner, as required in terms of the PFMA and applicable Treasury regulations.

The Enterprise and Supplier Development function is responsible for driving business transformation as part of supporting the establishment and participation of black players in the economy in line with the B-BBEE Act, in order to stimulate economic growth and create jobs in communities. It is also responsible for implementing and monitoring the five pillars of the enterprise and supplier development strategy as approved by the Board. The five pillars are as follows:

- Strengthening institutional arrangement – partnering with companies that are operating within the SMME space
- An incubation support system
- Investigating the establishment of the ESD Development Fund
- A structured joint venture
- A targeted payment system

### 8.6.3. Key performance highlights

The overall financial performance indicates a healthy financial year. Although we achieved less revenue compared to the prior year, we managed to grow our operating surplus with the cost controls implemented.

We have shown a steady growth and financial stability in the past few years, thus ensuring continuous execution of the legislated mandate in terms of the Water Services Act.

#### *Accounting framework, legal and legislative requirements*

Consistent with prior years, the Annual Financial Statements for the financial year ended 30 June 2020 were prepared and presented in accordance with Generally Recognised Accounting Practice, the Public Finance Management Act, Act No. 1 of 1999 as amended, and reflect the reporting requirements of the Water Services Act, Act No. 108 of 1997.

Our financial transactions are guided by the following:

- The Water Services Act, Act No. 108 of 1997
- The Public Finance Management Act, Act No. 1 of 1999, as amended
- The Municipal Finance Management Act
- The Preferential Procurement Policy Framework Act
- The Supply Chain Management Framework
- Other related prescripts such as National Treasury Regulations

The following table depicts our financial performance in comparison to the past five years and the FY2019/2020 approved Business Plan.

**Table 49: Summary of financial highlights**

Key financial ratios	Previous financial years					Target	Actual
	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020	2019/2020
Gross profit percentage	73.00%	76.70%	54.58%	52.40%	56.50%	46.00%	64.31%
Debtors collection days	50.26	40.77	60	43.36	44.77	45	38.29
% of staff remuneration	23.23%	30.74%	31.89%	27.37%	23.97%	30.00%	28.26%
Net profit margin	21.06%	18.48%	20.37%	22.33%	20.00%	15.00%	23.95%
% of repairs and maintenance	4.70%	3.00%	5.10%	3.74%	3.74%	3.00%	2.68%
Current ratio	1.88	1.92	2.35	2.78	2.5	3.7	3.12
Debt equity ratio	0.45	0.32	0.26	0.16	0.12	0.15	0.09
Return on assets	9.06	7.75	3.76	6.42	7.79	4.30	10.40%
Asset turnover ratio	0.51	0.45	0.47	0.39	0.48	0.42	0.42
Interest turnover ratio	8	9.35	5.32	15.62	20.01	8.4	16.56
EBIT margin	28.86%	25.05%	20.61%	23.08%	24.38%	19.52%	27.47%

The majority of the above financial ratios reflect an improvement not only from the prior years, but also the FY2019/2020 targets as per the approved Business Plan, which are further analysed.



Table 50: Five-year statement of financial performance

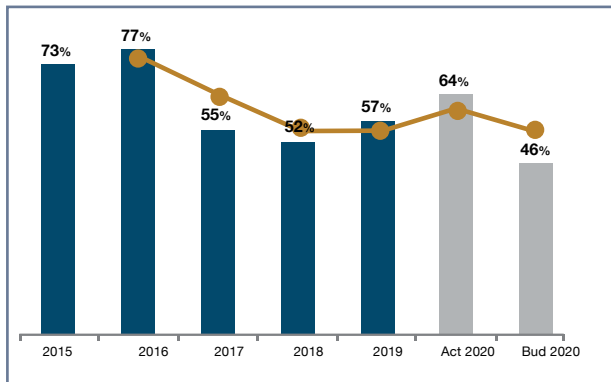
	2016	2017	2018	2019	2020	%
	k'000	k'000	k'000	k'000	k'000	Variance
<b>Volumes</b>	131,295	117,506	123,578	123,578	115,214	(7%)
	R'000	R'000	R'000	R'000	R'000	
<b>Sale of goods and services</b>	527 042	533 617	538 996	712 643	663 941	(7%)
<b>Cost of sales</b>	122 819	242 391	232 440	309 410	240 762	(22%)
Raw water purchases	51 738	44 315	44 378	63 069	58 538	(7%)
Electricity and water	27 654	103 738	81 239	129 147	70 951	(45%)
Chemicals	11 572	16 760	17 551	18 969	21 296	12%
Employee-related costs	10 774	42 160	50 804	51 935	40 561	(22%)
Depreciation and amortisation	21 081	35 418	38 469	46 290	49 416	7%
<b>Gross profit</b>	<b>404 223</b>	<b>291 226</b>	<b>306 554</b>	<b>403 233</b>	<b>423 179</b>	<b>5%</b>
Other income	13 322	14 414	17 400	19 969	18 009	(10%)
<b>Expenditure</b>	327 218	233 386	235 946	315 198	302 314	(4%)
Employee-related costs	106 975	86 920	93 107	95 588	106 740	12%
Remuneration of Board members	3 129	2 679	620	3 274	4 700	44%
Depreciation and amortisation	19 278	6 386	7 851	9 490	5 984	(37%)
Impairment of assets	–	–	–	295	3 267	1 008%
Finance costs	10 205	9 850	6 021	9 770	7 670	(21%)
Lease rentals on operating lease	2 488	2 566	2 805	2 797	4 201	50%
Debt impairment	181	293	–	20	1	(96%)
Repairs and maintenance	45 973	40 748	48 088	81 055	74 008	(9%)
Electricity and water	72 833	2 026	1 914	2 076	2 181	5%
Chemicals	3 239	–	796	829	847	2%
Other expenses	62 917	81 918	74 745	110 004	92 715	(16%)
<b>Operating surplus</b>	<b>90 327</b>	<b>72 254</b>	<b>88 008</b>	<b>108 005</b>	<b>138 474</b>	<b>28%</b>
Gain (loss) on disposal of assets	56 576	(2 815)	(6 058)	(4 014)	(2 547)	(37%)
<b>Surplus for the year</b>	<b>146 903</b>	<b>69 439</b>	<b>81 950</b>	<b>103 991</b>	<b>136 927</b>	<b>32%</b>

Table 52 above depicts a steady increase in the operating surplus in the past four years, thus showing a healthy growth in financial performance.

## Key performance indicators

### Gross profit percentage

Figure 20: Gross profit percentage



The gross profit percentage has generally been maintained above 52% since FY2014/2015, indicating our ability to maintain the cost of production.

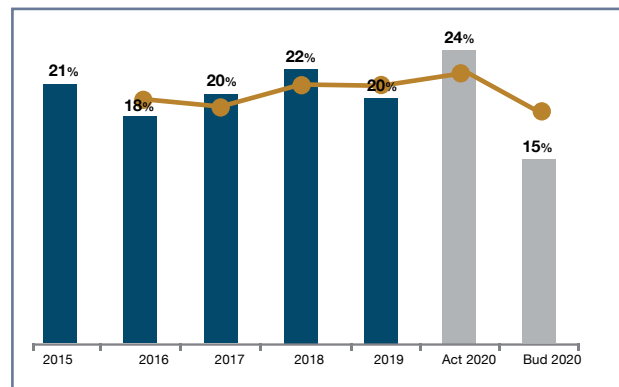
The current year's gross profit percentage is 64%, resulting in a positive variance of 18% against a budget of 46% due to less cost of production, realised mainly due to the following:

- Depreciation and amortisation incurred were less than budgeted due to delays in the capitalisation of infrastructure projects, thus less depreciation was charged during the period. The projects that were commissioned later than targeted were the Weir Project and the Pipeline to the Shooting Range Project
- Employee-related costs reflect an underspending due to vacant employee positions directly involved in production
- Electricity and water reflected lower spend as well due to less water pumping as we did not supply any volume to the City of uMhlathuze (Richards Bay), thus saving on electricity. There was also load-shifting where some pumping activities were done during off-peak hours for customers pumping from the Nsezi Water Treatment Works

Overall, in comparison to previous financial years, the gross profit percentage is a median, which consistently demonstrated profitability and financial health.

### Net profit margin

Figure 21: Net profit margin

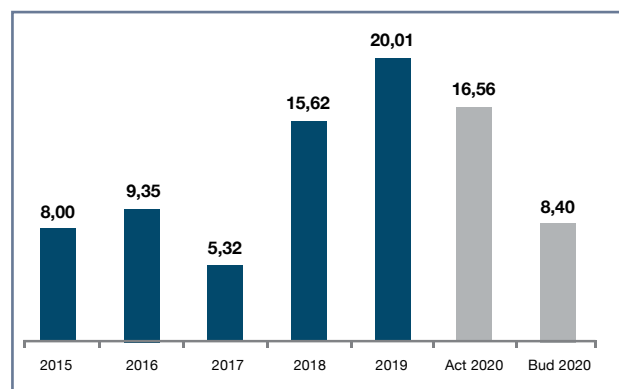


The net profit margin has been increasing over the five-year period. The current financial year ratio is 24% against the projected 15% due to material cost savings and under expenditure in various line items, as follows:

- The depreciation and amortisation incurred was less than budgeted for due to assets that were budgeted but not purchased as different line items such as furniture, fixtures and office equipment
- Repairs and maintenance reflects an underspending due to maintenance work not executed in accordance to the maintenance plan
- Other expenses such as legal expenses and water quality monitoring were not incurred as budgeted
- As a result of the COVID-19 lockdown, some expenditure line items could not be incurred as planned, such as the National Development Plan, regional bulk studies or enterprise and supplier development

### Interest turnover ratio

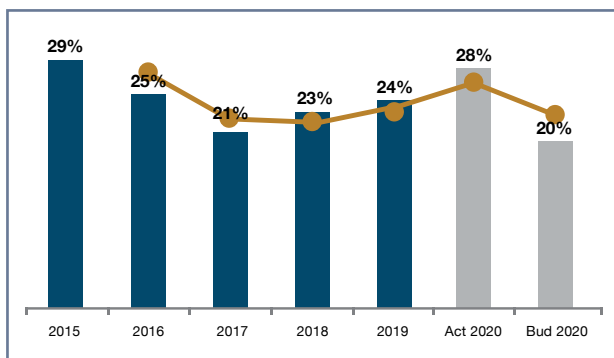
Figure 22: Interest turnover ratio



The current financial year interest turnover ratio is 16.56 times compared to a target of 8.4 times due to the decline in long-term loans as no new loans were obtained and current loans have reduced over the years. Our ratio is well within the current loan covenant requirements of 1.5 times.

**Earnings before interest, taxation, depreciation and amortisation (EBITDA) margin ratio**

**Figure 23: Earnings before interest, taxation, depreciation and amortisation**



The past five financial year trend indicates good financial health; the margin has always been above 20% with the current year's margin being 28%, reflecting a financially viable entity.

**Percentage of staff remuneration**

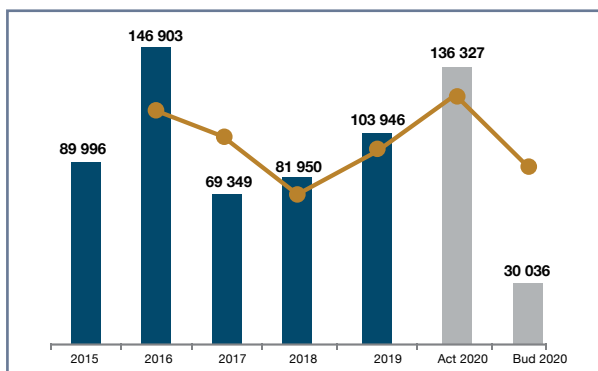
The percentage of staff remuneration over operating expenditure has been fluctuating from 23% to 32% over the five-year period, the current year percentage being 28.26%, which is below the 30% target.

**Percentage of repairs and maintenance**

Percentage of repairs and maintenance over property, plant and equipment achieved is 2.68% against a target of 3% mainly due to maintenance and repairs not carried out in line with the maintenance plan.

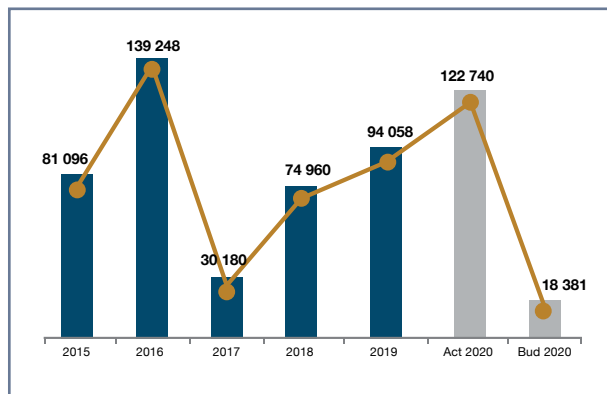
**Profitability analysis**

**Figure 24: Surplus for the year (R'000)**



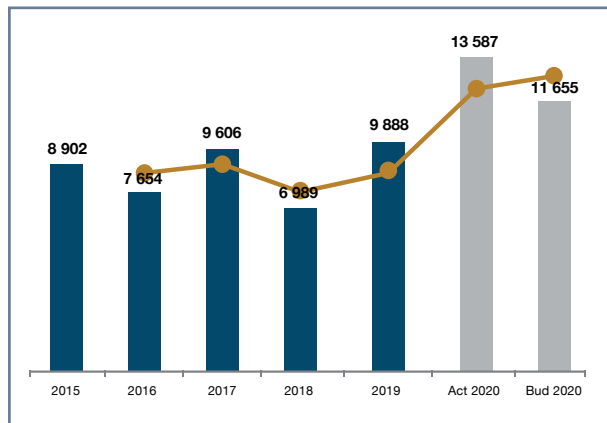
The surplus for the financial year is R136.3 million against a budgeted surplus of R30.0 million, resulting in a positive variance of R106.2 million. This indicates good financial health and an increasing performance growth over the years through a drive to better manage operational costs.

**Figure 25: Surplus for the year for primary activities (R'000)**



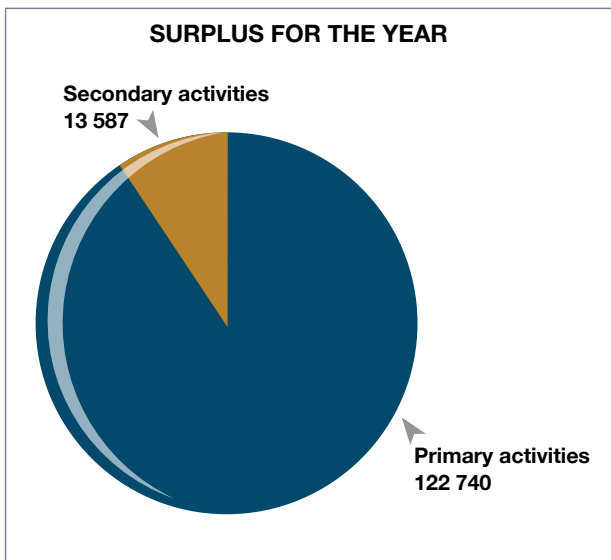
The primary activities surplus for the financial year is R122.7 million against a budgeted surplus of R18.3 million, resulting in a positive variance of R104.4 million. This is due to material cost savings and underspending on some expenditure items such as depreciation and amortisation, employee-related costs, electricity and water, and raw water purchases.

**Figure 26: Surplus for the year for secondary activities (R'000)**



The secondary activities surplus is R13.6 million against a budgeted surplus of R11.7 million for the current financial year, resulting in a positive variance of R1.9 million. This is due to secondary activities that were not budgeted for, which yielded a higher profitability rate with less operational inputs, e.g. the Department of Labour contract.

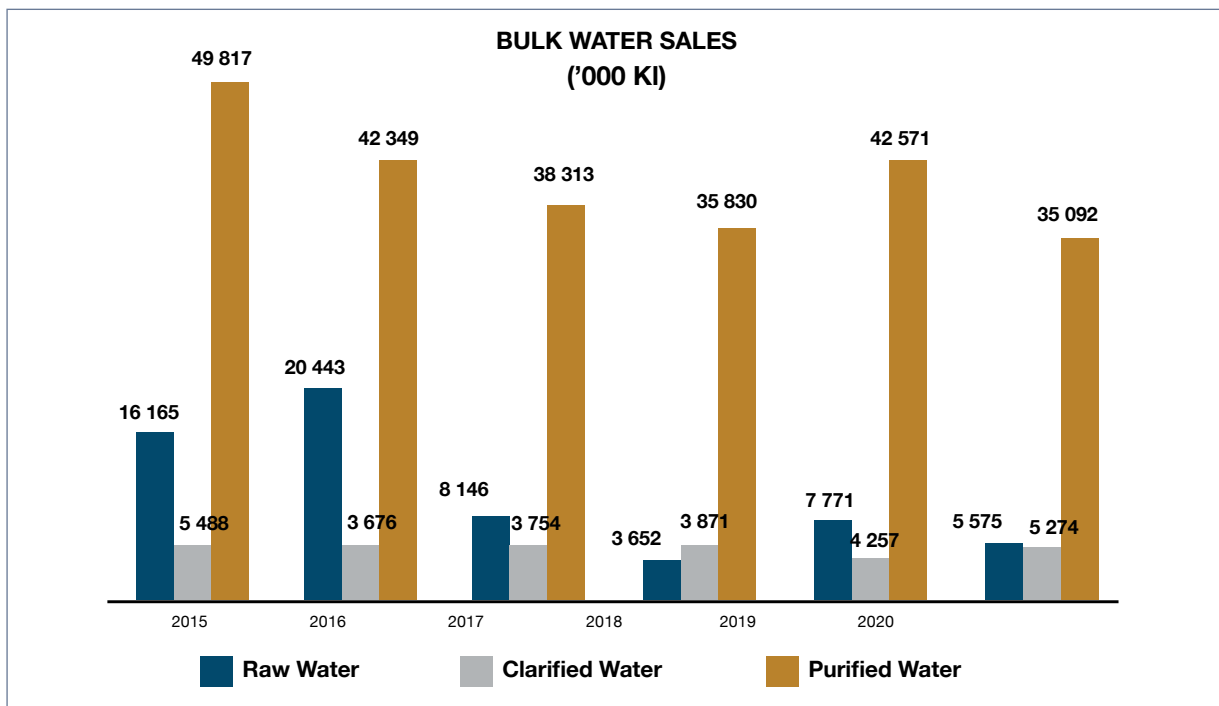
Figure 27: Surplus for the year – primary vs secondary activities



We achieved a 90/10 split between primary and secondary activities surplus in the current year.

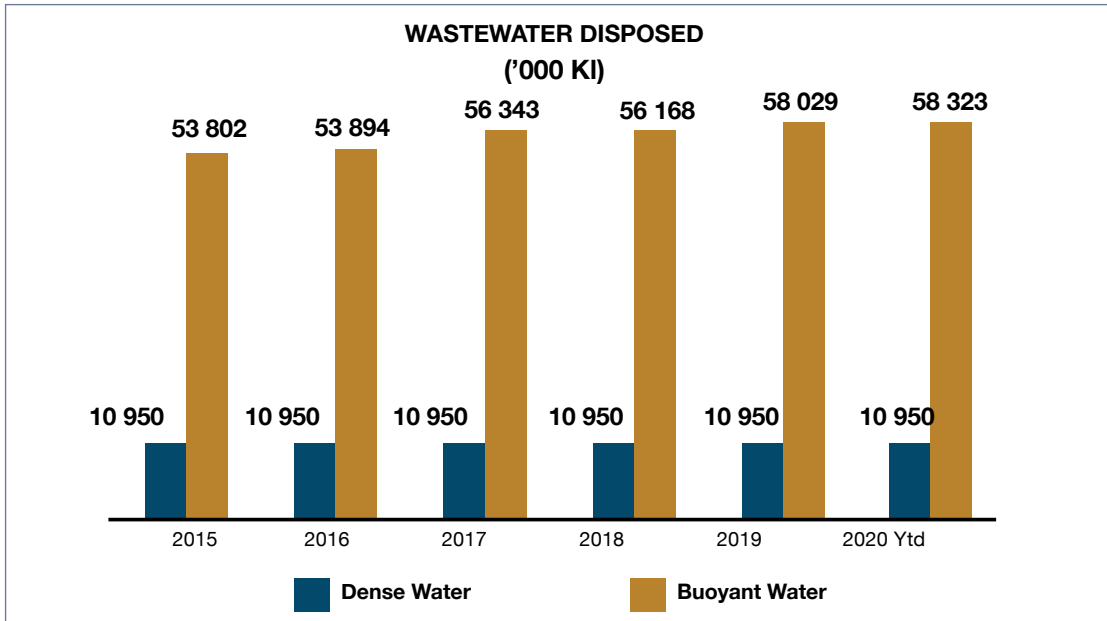
#### Volume analysis

Figure 28: Bulk water sold (in kilolitres)



Overall, all our bulk customers have consumed less water than contracted due to operational efficiencies gained during the drought period.

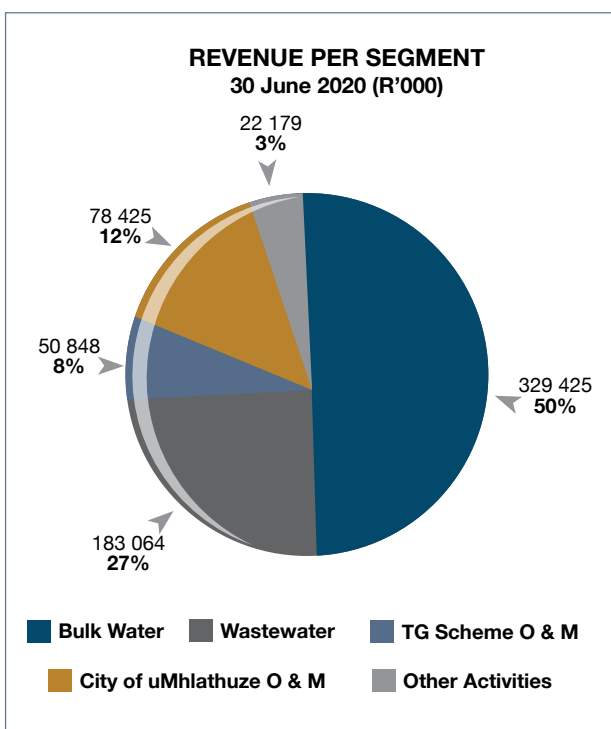
Figure 29: Wastewater volumes disposed (in kilolitres)



The dense effluent disposed for the financial year has not increased in the current year. The buoyant effluent has slightly increased from the prior year due to a customer that increased their contracted volumes.

Revenue management

Figure 30: Revenue per segment



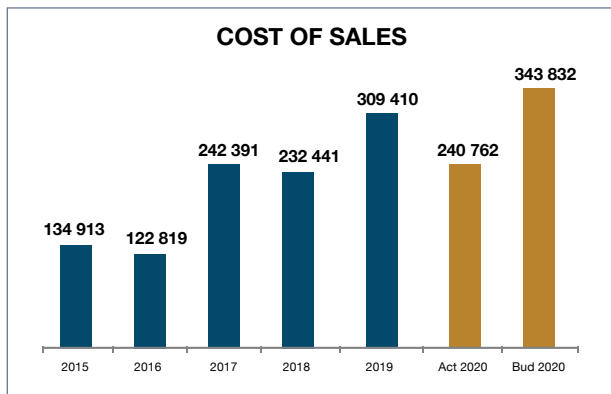
The chart above represents revenue achieved per segment.



Expenditure management

Cost of sales

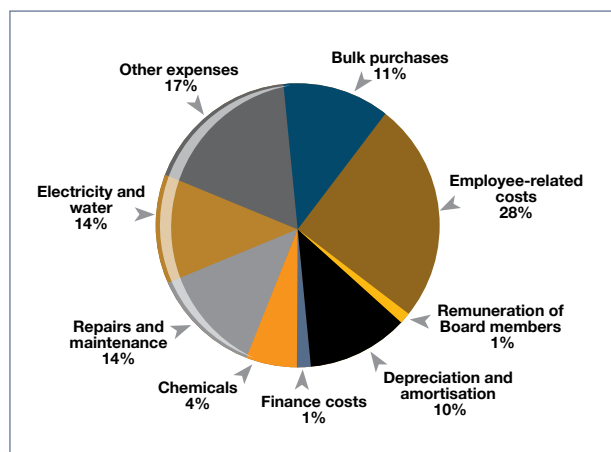
Figure 31: Cost of sales



The decrease in the cost of sales from prior years is mostly due to the following:

- Electricity
  - Reduced pumping, as volumes abstracted were lower than the prior year
  - The TG Scheme was not pumping at full capacity for a significant amount of time during the financial year
  - Raw water purchase
  - Lower volumes abstracted
- Depreciation and amortisation
  - Delays in the capitalisation of infrastructure projects, thus resulting in lower depreciation charges
- Employee-related Costs
  - Vacant positions on employees directly involved in production

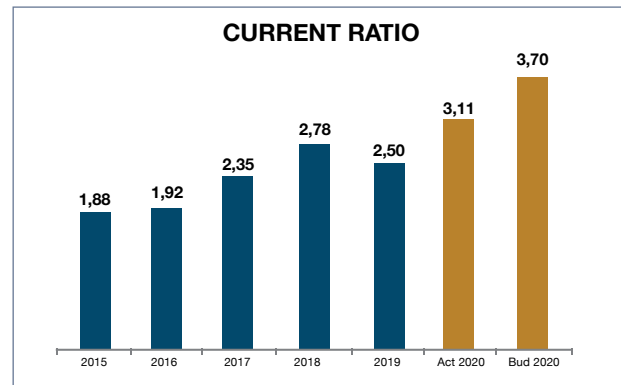
Figure 32: Cost structure: Expenditure



Asset and liability management

Current ratio

Figure 33: Current ratio

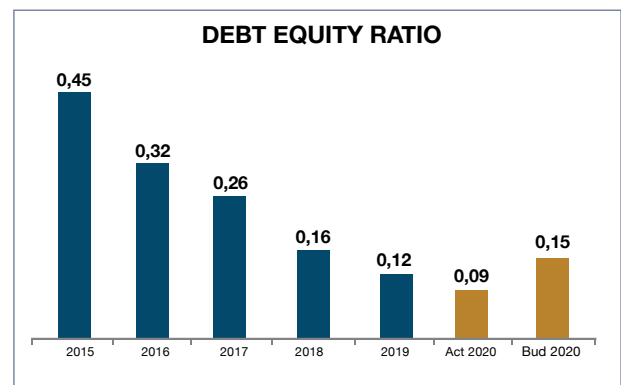


The current ratio has been steadily increasing over a five-year period, indicating a better position of liquidity.

The current financial year ratio is 3.11, compared to a target of 3.70, resulting in a negative variance of 0.59, due to not obtaining new long-term loans that would have increased cash and cash equivalents (current assets) with a significant amount compared to an increase in the short-term liability (current liabilities), causing an increase in current ratio.

Debt-equity ratio

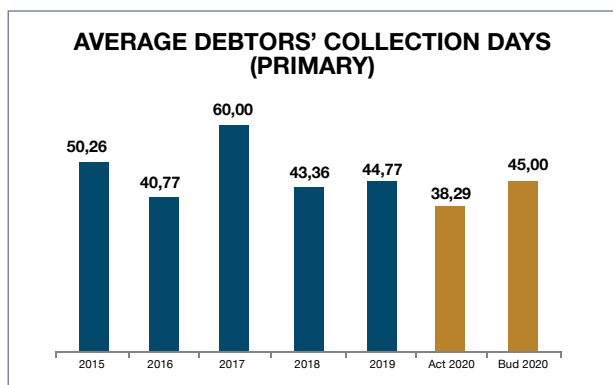
Figure 34: Debt equity ratio



The debt equity ratio has been decreasing over the past five-year period. A debt-to-equity ratio of 0.09 was achieved in the current financial year compared to the target of 0.15. This is due to interest-bearing borrowings that have decreased due to the repayment of loans and no new funding being sought. This low debt-to-equity ratio indicates that we are able to generate enough cash resources to satisfy our short-term debt obligations.

### Primary debtors' collection days

Figure 35: Primary debtors' collection days

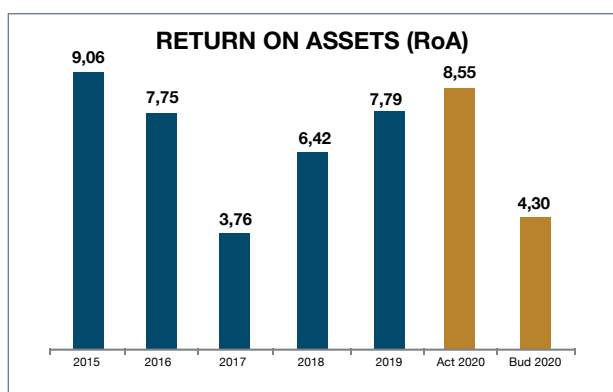


The primary debtors' collection days have been maintained around 45 days over the five-year period except for the 2016/2017 financial year, which recorded the highest recovery rate.

The current year's debtors' collection days are 38.29 days against targeted days of 45. This is the lowest achieved in the past five-year period. This resulted from enhanced debtor's collection processes.

### Return on assets ratio

Figure 36: Return on assets ratio



The asset turnover ratio in Figure 37 reflects our ability to utilise our income-generating assets to generate revenue as per targets, thus proving good financial health due to healthy profitability levels over the years.

### Funding requirements

No new funding was sought in the current financial year due to the late approval of borrowing limits by the Minister of Finance, and a delay in the implementation of the capital programme. We utilised internally-generated funds to implement the current year capital projects. The cash and cash equivalents balance increased by 41.55% from the prior year, closing at R372.4 million.

### Borrowing limits

The borrowing limits for the period ending June 2020 and June 2021 were approved by the Minister of Finance in concurrence with the Minister of Human Settlement, Water and Sanitation, and thereafter published in the Government Gazette no. 43474 on 26 June 2020 as follows:

Table 51: Borrowing limits

Financial year	Authorised limits
	R'000
2019/20	184,000
2020/21	223,000

The outstanding interest-bearing debt of R57.3 million (2019: R79.5 million) remained below the authorised limit of R184 million for the period ending 30 June 2020.

The gearing limit of 4.32% (2019: 6.67%) remained below the threshold of 50% as prescribed in the borrowing limit approval.

The cash interest cover ratio of 25,36 times (2019: 15.80) does not only meet the threshold of three times as prescribed in the borrowing limit approval but also in compliance with the current long-term borrowings contract's financial covenants of 1.5 times.

The debt service cover ratio of 6,53 times (2019: 4.95) met the requirement of at least one times as prescribed in the borrowing limits approval.

### Capital expenditure management

Two major infrastructural projects were completed and capitalised during the year, which are:

- Mhlathuze New Weir
- Pipeline from the Mhlathuze Weir to the shooting range

The completion of these projects, plus the planned Nsezi Plant Augmentation Project, will comfortably respond to the water production demands over the next 10 to 15 years.

Major expansion, augmentation and upgrade projects are scheduled for the financial years 2020/2021 to 2022/2023. These projects will be mostly funded by new long-term borrowings.

Upon completion thereof, a massive decrease in capital expenditure is expected.

#### 8.6.4 Finance Unit 2019/2020 – Predetermined objectives

Table 52: Predetermined objectives of the Finance Unit 2019/2020

Alignment to shareholders compact	Strategic objectives	Performance objective	Output	Performance indicator	Annual target	Actual achievement	Deviation from planned target to actual achievement	Comment on deviation
SC4	To ensure our long-term financial sustainability	Increased access to services	Increased access to services	Percentage of CAPEX budget spend on expansion-related projects	80% expenditure on expansion-related projects by 30 June 2020	43.35%	(34.65%)	Budget amounting to R90 million was rolled over from FY2019/20 to outer years due to internal delays experienced in procuring the required services
SC6	To ensure our long-term financial sustainability	Improve key financial ratios	Effective and efficient mechanisms to ensure financial sustainability and viability  Effective and efficient mechanisms to ensure financial viability	Current ratio	3.7 ratio on assets over current liabilities that measure liquidity by 30 June 2020	3.39	(0.31)	Long-term loans were not yet sought, as well as delays in the approval of borrowing limits
SC6	To ensure our long-term financial sustainability	Improve key financial ratios		Percentage of primary gross profit margin	46% gross profit margin ratio on revenue minus cost of sales over revenue, measures profitability on primary activities by 30 June 2020	64.37%	18.37%	Material cost savings in different cost drivers such as depression, employee costs, electricity and water and raw water purchases
SC6	To ensure our long-term financial sustainability	Improve key financial ratios		Percentage of primary net profit margin	15% net profit margin ratio on gross profit minus expenditure over revenue, measures profitability on primary activities by 30 June 2020	26.29%	11.29%	Material cost saving in different cost drivers such as depression, employee costs, electricity and water and raw water purchases other expenses and repairs and maintenance
SC6	To ensure our long-term financial sustainability	Improve key financial ratios		Debt equity ratio	0.15 debt equity ratio on total debt liabilities over equity, measures financial leverage and long term solvency by 30 June 2020	0.08	0.07	Interest-bearing borrowing have decreased due to the repayment of loans and no new loans have been taken
SC6	To ensure our long-term financial sustainability	Improve key financial ratios	Effective and efficient mechanisms to ensure financial viability	Percentage of return on assets	4.3% return on assets ratio on net income over total assets, measures profitability by 30 June 2020	11.08%	8.57%	Overall savings on expenditure, which contributed positively on the net income for the period, and has a better return on assets



Alignment to shareholders compact	Strategic objectives	Performance objective	Output	Performance indicator	Annual target	Actual achievement	Deviation from planned target to actual achievement	Comment on deviation
SC6	To ensure our long-term financial sustainability	Improve key financial ratios	Effective and efficient mechanisms to ensure financial sustainability and viability	Percentage of repairs and maintenance of PPE	3% repairs and maintenance of PPE by 30 June 2020	2.68%	(1.22%)	Underspending on maintenance, however, all plants are properly maintained in accordance to the maintenance strategy
SC6	To ensure our long-term financial sustainability	Improve key financial ratios	Effective and efficient mechanisms to ensure financial viability	Number of days to collect primary debts	Primary activities debts collected within 45 days by 30 June 2020	38.29 days	6.71 days	All our customers settle their accounts within the target set
SC6	To ensure our long-term financial sustainability	Improve key financial ratios	Effective and efficient mechanisms to ensure financial viability	Percentage of staff remuneration of total operating expenditure	30% staff remuneration of total operating expenditure by 30 June 2020	28.26%	1.74%	Operational expenditure increased and allowing expenditure on employee costs to be within the target
SC7	To initiate and build relationships with stakeholders to add value for the mutual benefit of all	Increase B-BBEE expenditure relative to operational projects	Effective and efficient mechanisms to ensure financial viability	Percentage of total procurement spend on B-BBEE service providers	55% procurement spend on B-BBEE service providers by 30 June 2020	78.65%	23.65%	More orders were placed with black-owned companies
SC8	To ensure long term financial sustainability of the organisation	Manage costs within the approved budget	Effective and efficient mechanisms to ensure financial viability	Percentage of actual expenditure within total budget	Actual expenditure within 10% of total budget by 30 June 2020	(-26.16%)	(16.16%)	Efficiency in cost-saving measures resulted in reduced operational expenditure
SC9	To ensure long term financial sustainability of the organisation	Capital expenditure programme	Capital expenditure programme	Percentage of CAPEX spend on internally funded projects against budget	80% CAPEX spend against budget by 30 June 2020	35.38%	(44.62%)	Budget amounting to R130 million was rolled over from FY2019/20 to outer years due to internal delays experienced in procuring the required services.
SC10	To ensure long term financial sustainability of the organisation	Engagement in secondary activities	Engagement in secondary activities	Percentage of growth in turnover secondary activities	0.5% growth in turnover secondary activities by 30 June 2020	(32.96%)	(32.46%)	There is a decline in the number of Section 30 projects activities secured.

Alignment to shareholders compact	Strategic objectives	Performance objective	Output	Performance indicator	Annual target	Actual achievement	Deviation from planned target to actual achievement	Comment on deviation
<b>SC20</b>	To initiate and build relationships with stakeholders to add value for the mutual benefit of all	Good governance	Improved controls and risk management	Number of breaches of materiality and significant framework	0 breaches of materiality and significant framework for 2018/2019 financial year by 30 June 2020	0	None	N/A
<b>MW23</b>	To grow the provision of water services	Improve key financial ratios	Approved tariff increases	% of approved tariff increases	Approved tariff increase by 30 June 2020 Tariff proposal increases: - 13.77% approved tariff increase: Raw water: City - 14.48% approved tariff increase: Raw water: Industries - 13.24% of approved tariff increase: Potable water: City - 14.17% approved tariff increase: Potable water: Industries - 12.23% approved tariff increase: A-Line - 14.76% approved tariff increase: B-Line	Tariffs approved by DWS	None	N/A
<b>MW24</b>	To initiate and build relationships with stakeholders to add value for the mutual benefit of all	Improve key financial ratios	SMMEs paid within turnaround time	Percentage of SMME suppliers paid within 14 days	100% of SMME suppliers paid within 14 days by 30 June 2020	41%	-59%	Time delays in processing invoices
<b>MW25</b>	To initiate and build relationships with stakeholders to add value for the mutual benefit of all	Improve key financial ratios	Invoices paid within 30 days of receipts	Percentage of invoices paid within 30 days of receipt	100% of invoices paid within 30 days of receipts by 30 June 2020	71.36%	(28.64%)	Time delays in processing invoices

## 8.6.5. Corrective measures to address areas of underperformance

**Table 53: Finance Unit corrective measures**

Key performance indicators	Core reasons for under-achievement	Recovery strategy for 2020/2021
Percentage of CAPEX budget spend on expansion-related projects	Budget was rolled over due to delays in project implementation	The CAPEX budget is linked to a procurement plan to ensure that procurement processes start early. Procurement plan implementation is overseen by management to track status and unblock challenges posing possible delays
Current ratio	The projected target ratio was based on the approved business plan intention to obtain new interest-bearing borrowings, which was going to increase the cash and cash equivalents balance. It was unnecessary to obtain new loans due to delays in project implementation. It must also be noted that the National Treasury approval of borrowing limits was obtained late in the financial year	The target current ratio set for FY2020/21 is 2.31, which is achievable when compared to the performance trends for the past 3 years
Percentage of repairs and maintenance of PPE	Not all preventative maintenance activities were required to be implemented	The Maintenance Unit must continue scheduling the maintenance activities in line with maintenance plans. Close monitoring of planning and procurement process will avoid delays
Percentage of actual expenditure within total budget	Efficiency in cost-saving measures resulted in reduced operational expenditure	Improve budget management processes to better inform operational requirements and expenses
Percentage of CAPEX spend on internally-funded projects against budget	The budget was rolled over due to delays in project implementation	The CAPEX budget is linked to a procurement plan to ensure that procurement processes start early. Procurement plan implementation is overseen by management to track status and unblock challenges that pose possible delays
Percentage of growth in turnover secondary activities	We did not secure new secondary activities contracts to generate additional revenue. Section 30 projects with DWS and municipalities were completed and contracts terminated	We need to intensify strategic partnerships to lead to securing additional Section 30 contracts
Percentage of SMME suppliers paid within 14 days	The target was not achieved due to delays in the invoice tracking and budget management processes	Stricter controls and accountability measures on invoice processing are in place. Specific resources have been allocated to follow up daily on invoices
Percentage of invoices paid within 30 days of receipt		

### Reflections

The analysis in above highlights successes, lowlights and areas of improvements for the financial year ended 2020. Plans to grow both primary and secondary activities are underway in line with our strategic objectives, to ensure future sustainability. The main focus is better management of working capital and maintenance of profitability, while achieving organisational performance targets, improving our customer base and relationship with suppliers.



# REPORT BY THE ACCOUNTING AUTHORITY

The Accounting Authority of Mhlathuze Water hereby presents the report of the entity for the year ended 30 June 2020.

## 1. Review of Activities

### Main business and operations

Mhlathuze Water provides bulk water services in accordance with sections 29 of the Water Services Act No. 108 of 1997. Mhlathuze Water also provides domestic and industrial effluent water disposal. As provided for in Section 30 of the Water Services Act, Mhlathuze Water also engages in other services that complement bulk water service delivery such as water quality monitoring and environmental management, laboratory services and acting as an implementing agent for government entities as well as private industries on water related services. The operating results and state of affairs of the entity are fully set out in the attached annual financial statements. Mhlathuze Water is a self-sustainable and financially viable entity, and was able to meet all its obligations for the financial year.

## 2. Going Concern

The financial statements were prepared based on the expectation that the Accounting Authority of Mhlathuze Water has reasonable grounds to believe that the business has adequate resources to continue as a going concern in operational existence for the foreseeable future. Refer to note 1.2 for more detail on the Going concern.

## 3. Subsequent Events

There were no events after the reporting period requiring adjustment to or disclosure in the financial statements.

## 4. Share Capital and Director's Interests

Mhlathuze Water has no share capital and therefore no member has any equity interest in the organisation.

## 5. Borrowing Limitations

A request for approval of the borrowing limits was resubmitted to the Minister and approval was granted for long term borrowings only as follows:

Financial year	Amount
2019/20- 2020/21	R184 m
2020/21- 2021/22	R223 m

The borrowing limit is based on Mhlathuze Water's borrowing requirements and the funding needed to ensure that infrastructure requirements are aligned to meet the demands from consumers.

## 6. Corporate Governance and Risk Management

### General

Good governance is implemented through a best practice governance framework that aligns to the principles of the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV).

During the year under review, the Board established the Finance Committee as a separate Committee from the previously joint Audit, Risk and Finance Committee. This Committee is responsible for discharging the general responsibilities of Accounting Authorities as stipulated in section 51 of the PFMA.

In order to strengthen internal controls as well as ensure effective risk management, the Audit and Risk Committee remained with the oversight responsibility of Internal Audit and Risk Management.

During the period under review, the Board held a Strategic Risk workshop which culminated in the approval of the Risk Appetite and Risk Tolerance Statements of the entity.

## 7. Bankers

First National Bank was appointed 01 January 2018 for a 3 year term to render banking services.

## 8. Auditors

The Internal Audit function is capacitated by a co-sourced resources, namely Bonakude Consultants and the in-house resources comprising of the Internal Audit Manager and two Internal Auditors.

The Auditor-General renders services of external audit.

## 9. Compliance with Legislation

The Annual Financial Statements are prepared in accordance with Generally Recognised Accounting Practices (GRAP) and the following relevant pieces of legislation:

- Water Services Act, 1997(Act No: 108 of 1997); and
- Public Finance Management Act, 1999(Act No: 1 of 1999).

## 10. Tariff Policy

Mhlathuze Water charges a tariff for services rendered, which ensures that it remains viable and sustainable over the long term. To achieve this, Mhlathuze Water applies a Scheme Specific Tariff for Bulk Services and/or time & material type charges for other services. The policy takes account of the stipulations contained in section 10 of the Water Services Act. The annual tariff review process is in terms of the requirements of Section 42 of the Municipal Finance Management Act and Circular 23 issued by National Treasury.

## 11. Capital Expenditure and Commitments

Commitments for the acquisition of property, plant and equipment are financed from borrowings and internal resources. The capital commitments are set out in Note 29 of the financial statements.

## 12. Addresses

**Business Address** Corner of Battery Bank and South Central Arterial Alton Industrial Area, Richards Bay 3900

**Postal Address** Private Bag x1047, Richards Bay, 3900

## 13. Fruitless and Wasteful Expenditure

There was no new fruitless and wasteful expenditure incurred during the current year.

## 14. Irregular Expenditure

Irregular expenditure totalling R824,329.89 in the current year relates to payments made against a contract that was declared irregular in the 2016/17 financial year due to noncompliance to the supply chain management policy. It must be noted that this irregularity was dealt with in line with the National Treasury Instruction Note 2 of 2019/20, where it was investigated, and subsequently determined that no loss was suffered by the entity. No new irregularity was reported in the year 2018/2019 and in the year under review 2019/2020.

## 15. Unauthorised Expenditure

There were no incidents and reports of unauthorised expenditure during the current financial year as well as the prior year.

## 16. Financial Misconduct

There were no incidents and reports of financial misconduct during the current financial year. The internal control environment has been strengthened with stringent systems being put in place to prevent, detect and correct any instances of financial impropriety.

## 17. Disclosure in terms of Directive 12

There were no directives received during the current financial year. Information required by the Public Finance Management Act No 1 of 1999, as amended in assessing the materiality framework policy, the following is taken into account: In terms of section 28.3.1 of the regulations of the PFMA, for the purposes of materiality and significance, the Accounting Authority has developed and agreed on a framework of acceptable levels of materiality and significance established at 1% of gross revenue which equates to R7 119.000. Management also applies a qualitative aspect to all errors found.



**Ms T.A. Shange**  
**Chairperson of the Board**

29 October 2020



# ACCOUNTING AUTHORITY RESPONSIBILITIES AND APPROVAL

The Accounting Authority is required by the Public Finance Management Act (Act 1 of 1999), to maintain adequate accounting records and is responsible for the content and integrity of the Annual Financial Statements and related financial information included in this report. It is the responsibility of the Chief Executive to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the year ended 30 June 2020.

The Auditor General is engaged to express an independent opinion on the Annual Financial Statements and was given unrestricted access to all financial records and related data. The Annual Financial Statements have been prepared in accordance with Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board and the requirements of the Public Finance Management Act (PFMA).

The Annual Financial Statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates. The Accounting Authority is also responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment.

To enable the Board to meet these responsibilities, the Chief Executive 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 entity and all employees are required to maintain the highest ethical standards in ensuring the entity's


business is conducted in a manner that in all reasonable circumstances is above reproach.

The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Authority 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 Annual Financial Statements. However, any system of internal financial control can provide only reasonable and not absolute assurance against material misstatement or deficit.

The Accounting Authority has reviewed the entity's cash flow forecast for the year ending 30 June 2020 and, in the light of this review and the current financial position, the Accounting Authority is satisfied that the entity has access to adequate resources to continue in operational existence for the foreseeable future.

The Annual Financial Statements set out from page 137 which have been prepared on the going concern basis, were approved by the Accounting Authority on 29 October 2020 and were signed on its behalf by:

  
**Ms T.A. Shange**  
**Chairperson of the Board**  
29 October 2020



# REPORT BY THE AUDIT AND RISK COMMITTEE

FOR THE YEAR ENDED 30 JUNE 2020

## Objective

The audit and risk committee serves as an independent body to assist the Board with its responsibility for safeguarding assets, maintaining effective and efficient internal controls, risk management, reviewing the financial information and overseeing the preparation of the financial statements.

## Audit and Risk Committee Responsibilities

The Audit and Risk Committee reports that it has complied with its responsibilities arising from section 77 of the Public Finance management Act, No.1 of 1999 (PFMA) read with Treasury Regulations 27.1. The Audit and Risk Committee (ARC) also reports that it has adopted formal terms of reference as its audit and risk committee charter and has regulated its affairs in compliance with this charter. The Audit and Risk Committee reviewed its charter during the year and made amendments which were subsequently approved by the Board. During the first half of the year, the Audit and Risk Committee also carried out non statutory functions relating to Financial Management oversight. These matters, as per the Board resolution 2020/01/28-10 are now under the newly formed Finance Committee. The Audit and Risk Committee has accordingly discharged its responsibilities as contained in its Charter.

## Audit and Risk Committee Composition and Attendance

During the period July 2019 to December 2019, the Audit, Risk and Finance Committee (ARFC) comprised of 5 independent members. Upon the re-assignment of its non-statutory functions to the Finance Committee, the ARC membership was reviewed.

The PFMA requires that the Audit and Risk Committee comprise of at least three independent members at any given time, this requirement was accordingly complied with.

The Audit, Risk and Finance Committee held 5 meetings and the Audit and Risk Committee held two meetings during the

2019/2020 financial year and members' attendance was as follows:

No	Name	Positions	Meeting attendance	
			ARFC	ARC
1	Mr S Hlophe	Chairperson (July 2019 to June 2020)	5/5	2/2
2.	Mr M Xulu	Committee Member (July 2019 to June 2020)	3/5	1/2
3.	Mrs N Gevers	Committee Member (July 2019 to June 2020)	5/5	2/2
4.	Mrs A Badul	Committee Member (July 2019 to June 2020)	5/5	2/2
5.	Prof P Reddy	Committee Member (July 2019 to December 2019)	3/5	*
6.	Miss N Mkhize	Committee Member (January 2020 to June 2020)	**	2/2

\* Professor Reddy moved out of Audit and Risk Committee to another Committee of the Board as of January 2020

\*\* Miss Mkhize joined the Audit and Risk Committee as of January 2020

As per table above, the meetings' attendance by all members was satisfactory and the committee was able to discharge its duties and responsibilities.

In the conduct of its duties, the Audit and Risk Committee has performed the following statutory duties and would like to report as follows:

### 1. Efficiency and Effectiveness of Internal Controls

The Committee is satisfied that internal controls and systems have been implemented and that these controls have functioned effectively during the year under review.

Internal Audit provides the Audit and Risk Committee and management with assurance that the internal controls are appropriate and effective. This is achieved through the risk

management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes.

The various reports from Internal Audit, the Audit Report on the annual financial statements and the management report of the Auditor-General South Africa (AGSA), provided the basis on which ARC assessed the effectiveness of internal control. ARC continued to analyse the irregular, fruitless and wasteful expenditure incurred in prior years and are pleased to say that in the current year only one incident of irregular, fruitless and wasteful expenditure was incurred.

Mhlathuze Water has anti-corruption measures that curb the frequency and magnitude of fraud and corruption. The Audit and Risk Committee is satisfied that the prevention of fraud controls has improved and continues to be monitored. Fraud and other irregular activities are reported through the whistle blower hotline that is monitored by an independent service provider.

## 2. Internal Audit

The Audit and Risk Committee reviewed and approved the Internal Audit Charter. The Internal Audit Plan was also approved after considering specific risk areas facing Mhlathuze Water.

The Audit and Risk Committee is satisfied that the Internal Audit function has properly discharged its functions and responsibilities. During the year under review the Internal audit function comprised of internal staff and co-sourced capacity and was thus optimally resourced. The Audit and Risk Committee also reports that out of the planned audits and activities of the Internal Audit, all the audits were concluded with the exception of three engagements which have been carried out to the following financial year.

## 3. Review of Annual Financial Statements

The Audit and Risk Committee reviewed and evaluated the Annual Financial Statements of Mhlathuze Water for the year ended 30 June 2020, before submission to the Office of the Auditor-General.

The Audit and Risk Committee was satisfied with the going concern basis used to prepare the Annual Financial Statements. We are of the view that Mhlathuze Water is a viable business

that it is and will be able to meet its obligations as they fall due.

## 4. Review of the Finance Function

Improvement was noted on planning and quality of financial reports that were submitted to the Committee.

All critical positions have now been filled in the Finance Unit and we are of the view that once the new recruits settle down there will be further improvement in the quality of reports produced. The Audit and Risk Committee will continuously engage management and review the action plans to address the issues raised.

Among other responsibilities allocated to the Audit and Risk Committee, the committee performed the following:

- Reviewed the entity's compliance with legal and regulatory provisions where internal audit reports were discussed with the Audit and Risk Committee and Management in which corrective actions were identified in instances where weakness in the systems of internal controls were identified.
- Reviewed the information on predetermined objectives in which internal audit presented the annual performance report to the Audit and Risk Committee.

## 5. Risk Management

The Audit and Risk Committee considered and approved the Risk Management Framework. The Entity conducted risk assessment workshops during the year addressing both operational and strategic risks. Included in the operational risk register are Information Technology related risks. Management also developed a fraud risk register which was considered by the Audit and Risk Committee.

The assessment of internal controls over financial reporting is risk-based and hence the Audit and Risk Committee is responsible for overseeing management's risk policies and discussing the key risk exposures with management as per its charter.

The Audit and Risk Committee noted and considered the risk registers and the updated risk registers where it was appropriate. The strategic risk register was recommended to the board for their input and consideration. The progress on implementation of the mitigating factors is presented



quarterly to the Audit and Risk Committee through the reports of internal audit and from risk unit to assess and monitor implementation.

The risk unit provided independent assurance concerning the management's assertions surrounding the robustness and effectiveness of risk management. Although there is room for improvement with regards to implementation of mitigating factors, management must be commended for their hard work in this regard. The Audit and Risk Committee was satisfied with the overall risk management process and the entire risk management framework applied by the entity. We however recommend that the risk function needs to be beefed up with at least one additional risk officer in future in order to allow this office to objectively fulfil its responsibilities.

#### 6. Performance Management

As part of the responsibility of the Audit and Risk Committee, the committee amongst other things with regards to performance management:

- Reviewed and commented on the compliance with statutory requirements and performance management best practices and standards.
- Reviewed and commented on the alignment of the performance reports to performance plans and business plans.
- Reviewed and commented on the relevance of indicators to ensure that they are measurable and relate to the services performed by the Mhlathuze Water.

The Audit and Risk Committee reviewed quarterly performance reports and the internal audit reports on performance management for 2019/2020 financial year based on the entity's annual performance plan. The Audit and Risk Committee is satisfied with the effectiveness of internal controls around performance management. As noted in internal audit reports on performance, there is room for improvement in the drive to achieve all set targets. In this regard the entity achieved 66% of the set targets for the 2019/20 financial year which is below the organizational set performance target of 80%.

#### 7. External Auditor's Opinion

The Committee concurs and accepts the audit opinion of the Auditor General on the annual financial statements and recommends that the audited annual financial statements be accepted.

### Conclusion

The Audit and Risk Committee confirms its commitment as mandated by the Board to assist management to achieve a clean audit and clean administration. The Audit and Risk Committee also wishes to thank the Members of the Board and management for their cooperation and support as well as the teams from internal audit and the Auditor-General for their contributions.



**Silas Zwelakhe Hlophe**  
Audit and Risk Committee Chairperson

# REPORT BY THE SOCIAL AND ETHICS COMMITTEE

## Introduction

Businesses in South Africa and globally are to some extent exposed to bribery, fraud, corruption and other unethical behaviour, and Mhlathuze Water is no exception.

As such, we ensure that we conduct our business according to the strictest ethical code and do our utmost to create a strong ethical culture, a safe, transparent working environment and maintain good corporate governance structures. The Mhlathuze Water Social and Ethics Committee (“the Committee”) facilitates Mhlathuze Water’s approach in this regard and offers a structured forum for the monitoring, measuring and reporting on ethics and certain other non-financial aspects of Mhlathuze Water’s business.

The Mhlathuze Water Board, together with the Chief Executive, is responsible for the ethical culture of the organisation, with support and oversight provided by the Committee.

The Committee works within the required framework set out in Public Finance Management Act, 1999 (Act No. 1999) as amended, Regulation 43 of the Companies Act No 71 of 2008, as amended, (“Companies Act”) and the King Report IV Report on Corporate Governance for South Africa 2016 (“King IV”).

## Composition and Terms of Engagement

A full description of the Committee’s composition and a summary of its roles and responsibilities are available on our website at [www.mhlathuzewater.co.za](http://www.mhlathuzewater.co.za) in the 2019/20 Governance Report that details how we govern our business.

In accordance with the requirements of the Companies Act, PFMA, the Committee is the duly appointed social and ethics committee for Mhlathuze Water.

The Committee meets quarterly and during the year under review, the Committee met as follows:

Social and Ethics Meetings attended per member			4
	Attendance (Jul 2019 to Dec 2019)	Attendance (Jan 2020 to June 2020)	Total
	2	2	4
Mr MM Xulu	1/2	2/2	3/4
Mrs A Badul		2/2	2/2
Mrs GD Biyela	1/2		1/2
Mrs N Gevers		2/2	2/2
Mr BV Mshengu	2/2	2/2	4/4
Mr M Zikalala	1/2		1/2
Ms N Mkhize	2/2		2/2
Prof PS Reddy		2/2	2/2

For the period under review, the Committee remained focused on and monitored Mhlathuze Water’s activities in respect of a number of matters including BBBEE, human rights and labour, the workplace environment, environmental safety and protection, sustainability, the social environment including the Mhlathuze Water’s expenditure on Corporate Social Investments and charitable giving, various legislation and codes of good practice, as well as ethics.

During the year Mhlathuze Water implemented ethics awareness campaigns and ethics training programmes. These initiatives included training on the Mhlathuze Water’s Ethics policies. Mhlathuze Water’s businesses and its employees are guided by the Mhlathuze Water Code of Ethics and Corporate Code of Conduct. Ethical conduct declarations are included in all supplier contracts and are obliged to comply with such terms and condition.

Ongoing communication featuring Mhlathuze Water’s ethics-related policies, statistics on the consequences of misconduct is also being used to maintain ethical awareness in Mhlathuze Water. Mhlathuze Water’s zero tolerance policy towards crime and all forms of unethical conduct is clearly communicated.

## Organisational Response to COVID-19

In line with government’s directive and regulated guidelines for South African businesses during the different levels of

national lock down; Mhlathuze Water had to implement a response plan and procedure to manage the impact of the disease on business continuity.

The implementation involved a range of services to be provided to prevent and manage the transmission of COVID-19 in their workplace. For more details, refer to the section 8.2.3 of this report.

## Whistle-blowing

Our whistle-blowing guidelines policy outlines the procedures for reporting suspected instances of corruption and ensures that employees are not penalised for coming forward. Mhlathuze Water subscribes to 'Tip-offs Anonymous' an independently-run whistleblowing service that enables employees to anonymously report illegal actions and ethical misconduct. All tip-offs are actively investigated and dealt with in terms of the relevant resolution structures within the organisation. Any material risks identified are elevated to the Mhlathuze Water Risk Management Committee.

The Committee is satisfied that, in accordance with Mhlathuze Water's best practices, no political donations (whether direct or indirect) were made during the year under review.

## Labour and Human Rights

All Mhlathuze Water employees have the freedom to belong to recognised bargaining councils, in accordance with the Labour Relations Act No. 66 of 1995, as amended, and the UNGC Principles. Mhlathuze Water is confident that human rights in Mhlathuze Water are dealt with in accordance with its policy on human rights and labour. The Committee will continue to monitor this aspect during the next financial year.

## Transformation

The Committee continued to address Broad-Based Black Economic Empowerment during the year under review. The committee notes the Level-8 BBBEE status rating and remains apprehensive about the current state. For the near future, the Board has set a BBBEE target status of below 5 for achievement.

This is a realistic target given our resolve and commitment to our government's broad economic development agenda.

Our payment structure to suppliers, particularly Black owned emerging SMMEs, as well as training programmes and sector specific initiatives targeted at marginalised groups have ensured that we play our part towards the emancipation and support of emerging entrepreneurs.

Transformation, across all occupational levels, has shown meaningful improvement during the year. In line with our BBBEE codes and initiatives, as new positions become available within the organisation, Mhlathuze Water is biased towards the recruitment and promotion of talented black candidates where possible.

## Skills

The pre-existing shortage of relevant skills within the water sector in which Mhlathuze Water operates as well as the retention of current skilled employees remains a concern shared across the organisation. While this has in the past been addressed to a degree through learnership and bursary programmes, the results have been relatively improved. During the year ahead, Mhlathuze Water will continue to invest more on skills improvement, learnerships, bursary programmes and Youth Development programmes, to actively target specific skills and educational initiatives in order to grow and maintain talent pipelines.

## Health and Safety

No major safety, health and environmental ("SHE") impacts on communities, employees and/or customers, in terms of the group's operations, activities and services, were recorded during the health and safety reviews conducted throughout the organisation during the year under review. Mhlathuze Water continues to take all reasonable steps to guard against injuries on duty on an ongoing basis.

## Environment

Environmental reviews are conducted across the organisation, and significant environmental impacts relating to the organisation's activities are mitigated accordingly. During the period under review, the Committee noted with concern a number of incidents with significant environmental impacts. Necessary plans and actions are being undertaken to rectify these so as to prevent recurrence.

The organisation continues to monitor its carbon footprint and key contributors thereof. Due to the nature of MW's business, the biggest contributor is electricity, which is an indirect contributor to the organisation's footprint. Going forward, plans are underway to achieve ISO 50001 certification which will ensure that there are strategies and structured plans to manage electricity use.

For more details on Mhlathuze Water's reported environmental footprint refer to the Performance Summary as part of the 2019/20 Annual Report.

## Customer and Stakeholder Management

For the period under review, various sessions were held with stakeholders in an attempt to solidify and strengthen our relations with our strategic partners across the value chain. These interactions were also aimed at broadening our footprint and reaching out to existing and prospective clients with a view to further expanding our unique value offerings.

As delegated by the Board the Chairperson, these outreach campaigns were spearheaded by Chief Executive. Our stakeholders were classified according to our identified

organisational outcomes, these included, among others: political formations, municipalities, and private sector representatives.

A separate list of these stakeholders was developed, which served as the basis for stakeholder engagement sessions. Each stakeholder, its role and impact is therefore evaluated on its unique needs and in line with our business improvement strategy and plan.

## Conclusion

As chairperson of the Committee I am satisfied that following the review by the Committee for the year ended 30 June 2019/20, that in all material respects, the committee has achieved its objectives for the financial year ended 30 June 2019/20. There were no items reported on that would indicate non-compliance to the requirements of the Committee as set out in PFMA and Regulation 43 of the Companies Act.



**Musa Xulu**

**Chairperson: Social and Ethics Committee**



# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON MHLATHUZE WATER

## Report on the Audit of the Financial Statements

### Opinion

1. I have audited the financial statements of Mhlathuze Water set out on pages 105 to 155, which comprise the statement of financial position as at 30 June 2020, statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of Mhlathuze Water as at 30 June 2020, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of Grap) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the public entity in accordance with sections 290 and 291 of the Code of ethics for professional accountants and parts 1 and 3 of the *International Code of Ethics for Professional Accountants (including International Independence Standards)* of the International Ethics Standards Board for Accountants (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Responsibilities of accounting authority for the financial statements

6. The members of the board, which constitutes the accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of Grap and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
7. In preparing the financial statements, the accounting authority is responsible for assessing the public entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the public entity or to cease operations, or has no realistic alternative but to do so.

### Auditor-General's responsibilities for the audit of the financial statements

8. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
9. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Report on the Audit of the Report of Performance Information by Business Units

### Introduction and scope

10. In accordance with the Public Audit Act of South Africa 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objectives presented in the report of performance information by business units. I performed procedures to identify material findings but not to gather evidence to express assurance.
11. My procedures address the usefulness and reliability of the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators I measures included in the planning documents. My procedures do not examine whether the actions taken by the public entity enabled service delivery. My procedures also do not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information.
12. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the report of performance information by business units of the public entity for the year ended 30 June 2020:

Objectives	Pages in the report of Objectives performance information by business units
Strategic objective 1 – To grow the provision of water services	62 and 86 to 88

13. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
14. I did not identify any material findings on the usefulness and reliability of the reported performance information for this objective.

### Other matter

15. I draw attention to the matter below.

### Achievement of planned targets

16. Refer to the report of performance information by business units on pages 39 to 89 for information on the achievement of planned targets for the year.

## Report on the Audit of Compliance with Legislation

### Introduction and scope

17. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the public entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
18. I did not identify any material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

### Other Information

19. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

20. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
21. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
22. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

### Internal Control Deficiencies

23. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. I did not identify any significant deficiencies in internal control.

### Other Report

24. I draw attention to the following engagement conducted by a party which had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. This report did not form part of my opinion on the financial statements or my audit on the reported performance information or compliance with legislation.
25. An independent consultant investigated an allegation of possible misappropriation of the public entity's assets within the supply chain management section at the request of the board, which covered the period of two months ending February 2020. The investigation was concluded in September 2020 and resulted in disciplinary proceedings against the employee. These proceedings were in progress at the date of this auditor's report.

Auditor - General

Pretoria

30 October 2020



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## Annexure – Auditor-General’s Responsibility for the Audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for selected objectives and on the public entity’s compliance with respect to the selected subject matters.

### Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
  - obtain an understanding of internal control relevant to the audit 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 public entity’s internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority
  - conclude on the appropriateness of the accounting authority’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Mhlathuze Water to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a public entity to cease operating as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### Communication with those charged with governance

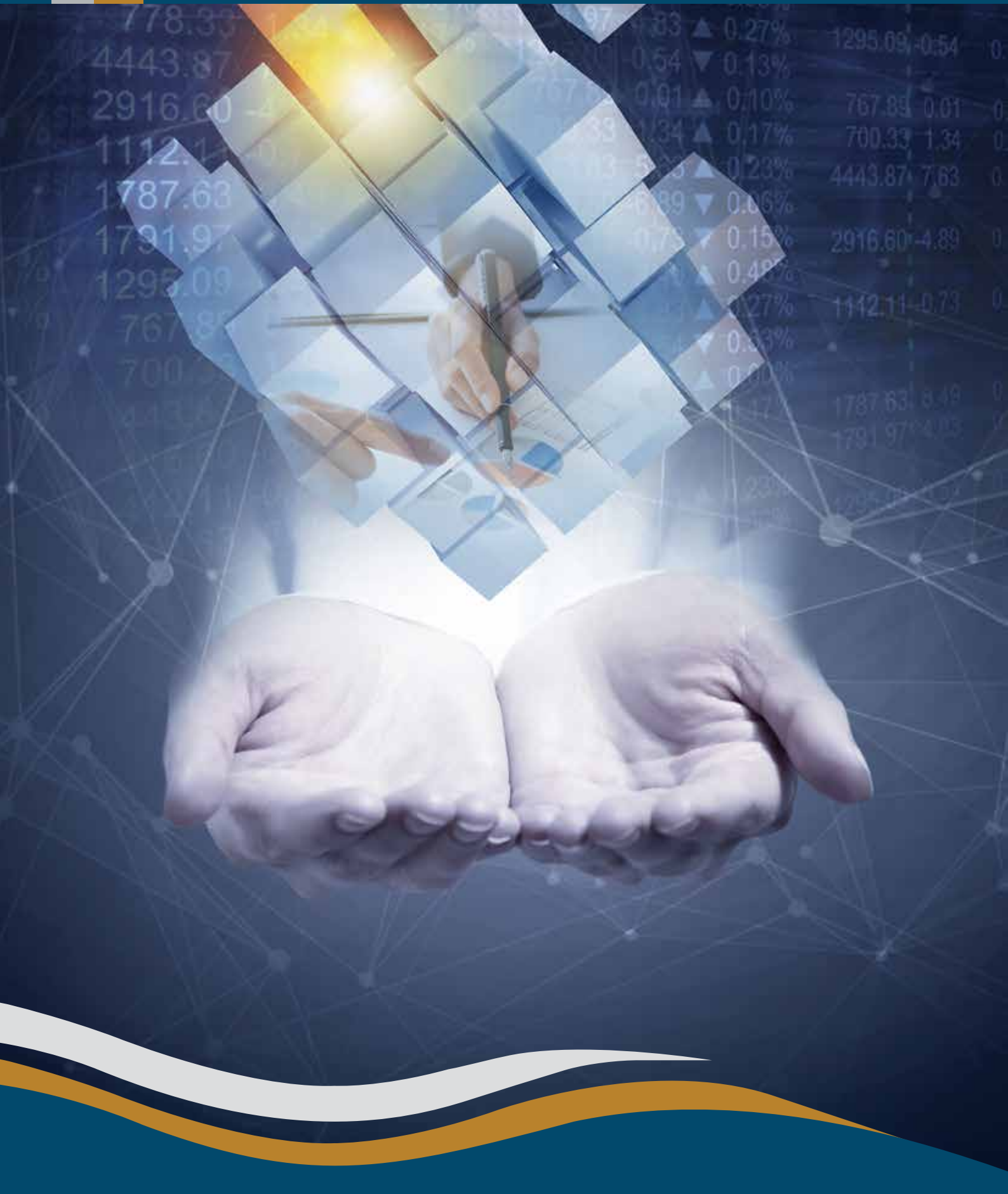
3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.







# SECTION D ANNUAL FINANCIAL STATEMENTS





**MHLATHUZE WATER BOARD**

(Registration Number 1996/17276/08)

Annual Financial Statements for the year ended 30 June 2020

**Statement of Financial Position**

	Note(s)	30-Jun-20	Restated 30-Jun-19
		R'000	R'000
<b>ASSETS</b>			
<b>Current assets</b>			
Inventories	2	32,079	36,565
Receivables from exchange transactions	3	117,345	141,597
VAT Receivable	9	-	3,071
Cash and cash equivalents	4	372,407	263,087
		<b>521,831</b>	<b>444,320</b>
<b>Non-current assets</b>			
Property, plant and equipment	5	1,069,830	1,034,576
Intangible assets	6	1,723	2,463
		<b>1,071,553</b>	<b>1,037,038</b>
<b>Total assets</b>		<b>1,593,384</b>	<b>1,481,359</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Short term interest bearing borrowings	7	10,838	22,692
Payables from exchange transactions	8	129,075	128,217
VAT payable	9	4,819	-
Employee benefit liability	10	15,865	16,825
Income received in advance	11	6,828	7,026
		<b>167,425</b>	<b>174,760</b>
<b>Non-current liabilities</b>			
Long term interest bearing borrowings	7	46,552	56,897
Income received in advance	11	50,480	57,102
		97,032	113,999
<b>Total liabilities</b>		<b>264,457</b>	<b>288,759</b>
<b>Net assets</b>			
<b>Reserves</b>			
Capital replacement reserve		249,675	242,418
Business development reserve		21,775	18,805
Self insurance reserve		5,855	5,475
Maintenance reserve		10,874	10,165
Environmental rehabilitation reserve		1,952	1,605
Loan obligation reserve		7,959	-
Accumulated surplus		1,030,837	914,132
<b>Total net assets</b>		<b>1,328,927</b>	<b>1,192,600</b>
<b>Total net assets and liabilities</b>		<b>1,593,384</b>	<b>1,481,359</b>

**MHLATHUZE WATER BOARD**

(Registration Number 1996/17276/08)

Annual Financial Statements for the year ended 30 June 2020

**Statement of Financial Performance for the Period Ended 30 June 2020**

	Note(s)	30-Jun-20	Restated 30-Jun-19
		R'000	R'000
<b>Revenue from exchange transactions</b>			
Sale of goods and services	12	663,941	712,643
Cost of Sales	13	(240,762)	(309,410)
<b>Gross Profit</b>		<b>423,179</b>	<b>403,233</b>
Other income	15	18,009	19,969
<b>Expenditure</b>		<b>(302,314)</b>	<b>(315,243)</b>
Employee related costs	16	(106,740)	(95,588)
Remuneration of board members	17.1	(4,700)	(3,274)
Depreciation and amortisation	5-6	(5,984)	(9,535)
Impairment of assets	5	(3,267)	(295)
Finance costs	18	(7,670)	(9,770)
Lease rentals on operating lease	22	(4,201)	(2,797)
Bad debts written off	27.7	(1)	(20)
Repairs and maintenance	20	(74,008)	(81,055)
Electricity and water		(2,181)	(2,076)
Chemicals		(847)	(829)
Other expenses	21	(92,715)	(110,004)
<b>Operating surplus</b>	22	<b>138,874</b>	<b>107,960</b>
Loss on disposal of assets	23	(2,547)	(4,014)
<b>Net Surplus</b>		<b>136,327</b>	<b>103,946</b>



## MHLATHUZE WATER BOARD

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### Statement of Changes in Net Assets as at 30 June 2020

	Capital Replacement Reserve	Business Development Reserve	Self Insurance Reserve	Maintenance Reserve	Environmental Rehabilitation Reserve	Loan Obligation Reserve	Total Reserves	Accumulated Surplus	Total Net Assets
	R'000	R'000	R'000	R'000	R'000				R'000
<b>Opening balance as at 1 July 2018</b>	<b>235,802</b>	<b>17,601</b>	<b>5,124</b>	<b>9,514</b>	<b>2,370</b>	-	<b>270,411</b>	<b>816,131</b>	<b>1,086,542</b>
Surplus for the year 1 July 2018 to 30 June 2019, as previously reported	6,616	1,204	351	651	1,637	-	10,458	106,926	106,926
Transfers to reserves	-	-	-	-	(2,402)	-	(2,402)	(10,458)	-
Utilization of reserves	-	-	-	-	-	-	-	2,402	-
<b>Balance as at 30 June 2019</b>	<b>242,418</b>	<b>18,805</b>	<b>5,475</b>	<b>10,165</b>	<b>1,605</b>	-	<b>278,467</b>	<b>915,001</b>	<b>1,193,468</b>
Prior year adjustments, refer to Note 28	-	-	-	-	-	-	-	(869)	(869)
<b>Restated Balance as at 30 June 2019</b>	<b>242,418</b>	<b>18,805</b>	<b>5,475</b>	<b>10,165</b>	<b>1,605</b>	-	<b>278,467</b>	<b>914,132</b>	<b>1,192,599</b>
Surplus for the period 1 July 2019 to 30 June 2020	7,257	2,970	380	710	347	7,959	19,623	136,327	136,327
Transfers to reserves	-	-	-	-	-	-	-	(19,623)	(19,623)
<b>Balance as at 30 June 2020</b>	<b>249,675</b>	<b>21,775</b>	<b>5,855</b>	<b>10,874</b>	<b>1,952</b>	<b>7,959</b>	<b>298,091</b>	<b>1,030,837</b>	<b>1,328,927</b>



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### Statement of Changes in Net Assets as at 30 June 2020 *(continued)*

In accordance with GRAP 1, transfers to the reserves are made from Accumulated Surplus in the Statements of Changes in Net Assets, and not via the statement of Financial Performance.

#### **Capital Replacement Reserve**

This Non-Distributable Reserve was created to fund upgrades and refurbishments of replacement of the ageing infrastructure and plant modernisation. The balance of the Capital replacement reserve at 30 June 2020 was R249.7 million.

#### **Business Development Reserve**

This Non-Distributable Reserve was created to fund and enable the creation of proactive business relationships with other entities.

The balance of the business development reserve at 30 June 2020 was R21.8 million.

#### **Self Insurance Reserve**

This Non-Distributable Reserve was created to fund large deductibles for insurance claims. The balance of the self insurance reserve at 30 June 2020 was R5.9 million.

#### **Maintenance Reserve**

This Non-Distributable Reserve was created to fund future significant unexpected maintenance costs. The balance of the maintenance reserve at 30 June 2020 was R10.8 million.

#### **Environmental Rehabilitation Reserve**

This Non-Distributable Reserve was created to fund expenses incurred to prevent environmental damage that could be caused as a result of factors relating to Mhlathuze Water's operations. The balance of the environmental rehabilitation reserve at 30 June 2020 is R2 million.

#### **Loan Obligation Reserve**

This Non-Distributable Reserve was created to fund future unexpected loan obligations defaults that may be due to factors outside Mhlathuze Water's control. The balance of the loan obligation reserve at 30 June 2020 was R8 million.



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**Cash Flow Statement as at 30 June 2020**

	Note(s)	30-Jun-20	Restated 30-Jun-19
		R'000	R'000
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		683,587	680,164
Interest received	15.2	17,003	17,352
		<b>700,590</b>	<b>697,516</b>
<b>Payments</b>			
Cash paid to employees	16	(147,301)	(147,523)
Cash paid to suppliers		(316,244)	(381,212)
Finance costs	18	(7,670)	(9,770)
		<b>(471,215)</b>	<b>(538,505)</b>
<b>Net cash flows from operating activities</b>	24	<b>229,375</b>	<b>159,011</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(97,950)	(139,661)
Proceeds from sale of property, plant and equipment	23	94	852
Capitalised finance costs	18	-	(289)
Purchase of intangible assets	6	-	(156)
<b>Net cash flows from investing activities</b>		<b>(97,856)</b>	<b>(139,254)</b>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		(22,199)	(22,199)
<b>Net cash flows from financing activities</b>		<b>(22,199)</b>	<b>(22,199)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>109,320</b>	<b>(2,442)</b>
Cash and cash equivalents at beginning of year		263,087	265,529
<b>Cash and cash equivalents at end of year</b>		<b>372,407</b>	<b>263,087</b>



## MHLATHUZE WATER BOARD

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Annual Financial Statements for the year ended 30 June 2020

## ACCOUNTING POLICIES

### 1. Presentation of the Financial Statements

The Financial Statements have been prepared in accordance with the Standards of Generally Recognised Accounting

Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 91(1) of the Public Finance Management Act (Act 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. In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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. Presentation currency

These Financial Statements are presented in South African Rand, which is the functional currency of the entity. All information presented has been rounded to the nearest thousand rand.

#### 1.2. Going concern assumption

These financial statements have been prepared based on the expectation that the Accounting Authority of Mhlathuze Water has reasonable grounds to believe that the business has adequate resources to continue as a going concern in operational existence for the foreseeable future. Refer to note for Going concern for more detail.

#### 1.3. Significant judgments and sources of estimation uncertainty

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

Significant judgements include: provision for doubtful debts, bonus provision, leave provision, determination of useful lives useful lives re-assessments and depreciation methods and asset impairment. Notes relating to the subject are included under the affected areas of the financial statements.

#### Trade receivables

The entity assesses its trade receivables for impairment at the end of each reporting period.

In determining whether an impairment loss should be recorded in surplus or deficit, the entity makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is assessed on significant debtors first, then on portfolio basis, for all trade receivables that are not already impaired as part of the significant trade receivable impairment assessment.

#### 1.4. Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term cash investments and call deposits. Bank overdrafts that are payable on demand and form an integral part of the entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

#### 1.5. Property, plant and equipment

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





## MHLATHUZE WATER BOARD

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Annual Financial Statements for the year ended 30 June 2020

### ACCOUNTING POLICIES (continued)

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 are initially measured at cost.

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

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

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 subsequent to acquisition, improvement and refurbishment. 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.

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

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

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:

The entity uses the straight lined method of depreciation and useful lives are as follows:

Item	Average useful life
Buildings	20-45 years
Plant and machinery	10-20 years
Furniture and fixtures	5-10 years
Motor vehicles	6 years
Office equipment	5-10 years
Library	5 years
Industrial Electronics	5-10 years
Electrical supply	15-20 years
Radio and Communication equipment	5 years
Pipelines	20-40 years
Tools and loose gear	5 years
Lab Equipment	4-10 years
Fire and Safety Equipment	5 years
Electronic Equipment	5 years
Land is not depreciated	

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.

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.

Borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalised on qualifying assets in accordance with the requirements of GRAP 5 Borrowing Costs.



## MHLATHUZE WATER BOARD

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Annual Financial Statements for the year ended 30 June 2020

### ACCOUNTING POLICIES (continued)

#### Capital work in progress

Capital work in progress is non-current assets under construction and is stated at cost less accumulated impairment losses.

Depreciation is not provided on capital work in progress.

#### 1.6. Intangible assets

An asset is identifiable if it either:

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

An intangible asset is recognised when:

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

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

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

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

Item	Useful life
Computer software	3 years

#### 1.7. Financial instruments

##### Initial recognition

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

The entity recognises financial assets on the date of origination.

##### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

##### Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition at amortised cost, which includes receivables from exchange transactions, cash and cash equivalents, income received in advance, long term liabilities and payables from exchange transactions.

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

##### De-recognition of financial instruments

The entity derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the entity is recognised as a separate asset or liability.

The entity derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

##### Offsetting of financial instruments

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

##### Section 30 financial assets and liabilities

All financial assets and liabilities relating to section 30 activities are measured in accordance with the relevant financial instrument account policies listed above.



## MHLATHUZE WATER BOARD

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Annual Financial Statements for the year ended 30 June 2020

### ACCOUNTING POLICIES (continued)

Additional detail on section 30 activities are set out in note 25.

#### 1.8. Leases

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

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

##### *Operating leases – lessor*

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

##### *Operating leases – lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

#### 1.9. Inventories

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

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

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 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 entity.

Inventories held by the entity comprise of strategic stock, rotatable stock, water, maintenance spares, consumables and chemicals.

#### 1.10. Impairment

##### *Financial assets*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired can include: default or delinquency by a debtor, restructuring of an amount due to the entity on terms that the entity would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security.

The entity considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the entity uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Losses are recognised in the statement of financial performance and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. "If, in a subsequent period, the amount can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what



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Annual Financial Statements for the year ended 30 June 2020

### ACCOUNTING POLICIES (continued)

the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit."

#### *Non financial assets*

The carrying amounts of the entity's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the Statement of Financial Performance.

For impairment of a cash generating unit (CGU), GRAP 26 states that "The impairment loss shall be allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit".

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use and are largely independent of the cash flows of other assets or groups of assets (the 'cash-generating unit').

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a risk-free discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation if no impairment loss been recognised.

#### **1.11. Payables from exchange transactions**

Payables from exchange transactions are not interest bearing and are stated at their nominal value.

#### **1.12. Employee benefits**

##### *Short-term employee benefits*

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses and non-monetary 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 non-accumulating 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 contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the Statement of Financial Performance when they are due.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

##### *Post-retirement benefits*

Post-retirement healthcare benefits are provided to certain of the Entity's retirees.

The fair value of the post-retirement plan is arrived at after considering key assumptions, market rates and life expectancy. The retirement benefit obligation recognised in the Statement of Financial Position represents the present value of the defined benefit obligation.



## MHLATHUZE WATER BOARD

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### ACCOUNTING POLICIES (continued)

#### 1.13. Employee benefit liability

Employee benefit liability 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 an Employee benefit liability is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

#### 1.14. Provisions

A provision is recognised if, as a result of a past event, the entity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate.

#### 1.15. Expenditure

Expenditure is recognised when Mhlathuze Water is deemed to have been supplied with the service or has control of the goods supplied.

#### 1.16. Accrued expenses

The accrual basis recognise expenses in the accounting period in which those transactions, events or circumstances occur (goods or services are received) and become measurable.

#### 1.17. Reserves

Reserves are portions of Mhlathuze Water's profits set aside to strengthen the business's financial position. They are also known as retained earnings.

#### 1.18. Revenue from exchange transactions

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

#### Measurement

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

#### Sale of goods and services

Revenue from the sale of goods and services 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.

In respect of the sale of water, these conditions are met when water is consumed by the end user. For practical purposes revenue is recognised upon billing as there is no significant delay between consumption and billing.

Revenue comprises primarily the net invoiced value of water sales, exclusive of VAT, at declared tariffs arising from normal trading activities.

#### Interest income

Revenue arising from the use by others of entity assets yielding interest 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 the statement of financial performance, using the effective interest rate method.

#### Management services

Management services is recognised in the period in which the services are rendered in terms of the agreements with external water services entities.

#### Laboratory services

Laboratory services are recognised in the period in which the services are rendered in terms of the agreements signed with external stakeholders.



## MHLATHUZE WATER BOARD

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Annual Financial Statements for the year ended 30 June 2020

### ACCOUNTING POLICIES (continued)

#### *Implementing agency revenue*

Implementing agency revenue is recognised by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total service to be provided.

#### *Operation and maintenance services (O & M)*

Operation and maintenance services are recognised in the period in which the services are rendered.

O & M revenue relates to bulk water and bulk waste water services operated on behalf of Water Service Authorities.

#### **1.19. Cost of sales**

Cost of sales includes the costs of raw water and all other direct operating costs associated with the production processes. The costs directly attributable to sales as defined in Section 30 of the Water Services Act (Act 108 of 1997), are disclosed as cost of sales.

#### **1.20. Borrowing costs**

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds. Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale where a substantial period of time would usually be in excess of twelve months.

These assets comprise items of plant and equipment which the entity would utilize to facilitate the provision of water and other related services.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits or service potential to the entity, and the costs can be measured reliably. The entity applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the entity. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.

- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets and Inventories as per accounting policy number 1.10. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

#### **1.21. 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 other revenue in the statement of financial performance.



## MHLATHUZE WATER BOARD

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Annual Financial Statements for the year ended 30 June 2020

### ACCOUNTING POLICIES (continued)

#### 1.22. Segment reporting

A segment is a distinguishable component of the entity that is engaged either in providing related products or services (business segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the entity's business segments. The business segments are determined based on the entity's management and internal reporting structure.

Segment results that are reported to the entity's Chief Executive (the chief operating decision-maker) include assets and liabilities and items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

#### 1.23. Related parties

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

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the entity. Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

#### 1.24. Bulk purchases

This represents the cost of raw water purchased from the Thukela/Goedertrouw/Mhlathuze River System scheme.

#### 1.25. Income received in advance

The entity measures income received in advance as a financial liability in the statement of financial position. The income received in advance comprise of funds received for which the

related goods or services have not been provided at the period end. Thus the entity has an obligation to deliver the related goods or services in the future. Once the goods or services have been delivered, the entity will recognize this revenue in accordance with the manner which most accurately reflects the transfer of risks and rewards.

#### 1.26. Events after balance sheet

Events may occur between the end of the reporting period and the date when the annual financial statements are authorised for issue which may present information that should be considered in the preparation of financial statements.

Only events that provide further evidence about conditions that existed at the end of reporting period are adjusted for in the annual financial statements. Non-adjusting events are disclosed in the annual financial statements accordingly.

#### 1.27. Standard and interpretations issued but not yet effective

##### *GRAP 104 (amended) – Financial instruments*

The Accounting Standards Board approved revisions to GRAP 104 on Financial Instruments in March 2019. The revisions were made to align the Standard with IFRS 9 on Financial Instruments. The Board either departed from the principles in IFRS 9, or provided more guidance on its application, to respond to the needs of the local public sector environment.

The objective of this Standard is to establish principles for recognising, measuring, presenting and disclosing financial instruments.

This Standard supersedes the previous Standard of GRAP on Financial Instruments issued in October 2009.

##### *Effective date*

An entity shall apply this Standard of GRAP for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1)(b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.

The effective date of the amendment implementation is not yet set by the Minister of Finance.



## MHLATHUZE WATER BOARD

(Registration Number 1996/17276/08)

Annual Financial Statements for the year ended 30 June 2020

### ACCOUNTING POLICIES (continued)

The amendment will not result to a major impact as Mhlathuze Water's financial instruments are already in compliance with the current applicable GRAP standard and they are not complex.

The amendment will not result in a major impact as Mhlathuze Water's financial instruments are already in compliance with the current applicable GRAP standard and they are not complex.

#### 1.28. Irregular expenditure

Irregular expenditure as defined in section 1 of the Public Finance Management Act (PFMA), 1999 as expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with:

- (a) This Act; or
- (b) The State Tender Entity 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.

#### *Initial and subsequent recognition of irregular expenditure*

Irregular expenditure is initially recognised when a resulting transaction is recognised in the financial records of an entity in accordance with GRAP on accrual basis of accounting.

Initially, irregular expenditure is measured at cost.

Subsequently, irregular expenditure is measured at cost less amount condoned, recovered or written off by the relevant authority.

Where irregular expenditure was incurred in the previous financial years and is only condoned in the current financial year, the register and the disclosure note to the Financial Statements is updated with the amount condoned.

#### 1.29. Commitments

Items are classified as commitments when an entity commits itself to future transactions that will normally result in the outflow of resources for capital and lease expenses. Mhlathuze Water recognises and discloses capital commitments and lease commitments as required by GRAP.

#### *Capital commitments*

Capital commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes where required by GRAP 17: Property, Plant and Equipment and GRAP 31: Intangible Assets.

A contractual amount for each class of capital expenditure committed is disclosed in the financial statements for the acquisition of property, plant and equipment or intangible asset less expenditure recognised in the statement of financial position and financial performance.

#### *Lease commitments*

Committed future minimum lease payments under non-cancellable operating leases are disclosed in accordance with GRAP 13: Leases.





**MHLATHUZE WATER BOARD**

(Registration Number 1996/17276/08)

Annual Financial Statements for the year ended 30 June 2020

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**

Note(s)	30-Jun-20	Restated 30-Jun-19
	R'000	R'000
<b>2. Inventories</b>		
<i>2.1. Stores</i>		
Chemicals	6,433	7,019
Consumables and maintenance spares	6,857	7,861
Strategic stock	13,328	18,119
Rotable Spares	5,073	3,202
	<b>31,691</b>	<b>36,201</b>
Inventory amount of R2,392,326.65 (2019: R0) was written off. This amount has been recognised as an expense in the Statement of Financial Performance.		
<i>2.2. Water Inventory</i>		
Water inventory	388	364
<b>Total Inventories</b>	<b>32,079</b>	<b>36,565</b>
<b>3. Receivables from Exchange Transactions</b>		
Trade receivables – primary activities	111,423	112,505
Trade receivables – secondary activities	3,620	25,687
Sundry receivables – primary activities	1,780	1,911
Prepayments – primary activities	2,000	1,678
Refundable Deposits – primary activities	402	474
Staff receivables – primary activities	10	23
Less: Provision for doubtful debts	(1,890)	(681)
<b>Total Receivables from Exchange Transactions</b>	<b>117,345</b>	<b>141,597</b>
<b>4. Cash and Cash Equivalents</b>		
Cash and cash equivalents comprises of cash on hand and short-term investments that are held with registered banking institutions with maturities of less than twelve months that are subject to insignificant interest rate risk. The carrying amount of these assets approximates their fair values:		
Cash on hand	5	5
Bank balances	2,111	44,671
Short-term deposits	326,262	205,862
Call account – Secondary activities	44,029	12,549
	<b>372,407</b>	<b>263,087</b>



## MHLATHUZE WATER BOARD

(Registration Number 1996/17276/08)

Annual Financial Statements for the year ended 30 June 2020

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	Note(s)	30-Jun-20	Restated 30-Jun-19
		R'000	R'000
<b>4. Cash and Cash Equivalents (continued)</b>			
<b>Bank Accounts – Secondary Activities</b>			
<p>The Department of Water and Sanitation, Department of Education, Department of Affairs, Department of Basic Education and Department of Co-operative Governance and Traditional Affairs approves a budget per annum against which Mhlathuze Water is allowed to incur expenses for the externally funded projects as well as the Working amounts to Mhlathuze Water and reimburse them as and when cash is expended on these projects.</p>			
<p>The unutilised advances are listed below:-</p>			
<p>Advances received from the Department of Water and Sanitation <i>All projects are completed. Advances payable will be paid back once directive from Principal has been received and all retention monies are paid.</i></p>			
		6,622	2,759
<p>Advances received from the Department of Education/Department of Basic Education <i>All projects are completed. Advances payable will be paid back once directive from Principal has been received and all retention monies are paid.</i></p>			
		554	541
<p>Advances received from the Department of Environmental Affairs <i>One project is currently being managed.</i></p>			
		7,634	808
<p>Advances received from the Department of Co-operative Governance and Traditional Affairs <i>One project is currently being managed.</i></p>			
		25,232	77
<p>Advances received from Department of Labour <i>One project is currently being managed.</i></p>			
		3,987	8,364
		<b>44,029</b>	<b>12,549</b>
<p>Cash is invested in separate investment accounts as per Government institution listed above. These funds are restricted for use on the respective projects. Funds are included in cash balances of Mhlathuze Water and recognised as payables from exchange transactions.</p>			



**MHLATHUZE WATER BOARD**

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Annual Financial Statements for the year ended 30 June 2020

*NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)*

	30 June 2020			Restated 30 Jun 2019		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000
<b>5. Property, Plant and Equipment</b>						
Land	1 780	-	1,780	1 780	-	1,780
Buildings/Civil works	447 966	(113,872)	334,094	369 440	(98,853)	270,587
Plant and Machinery	208 506	(73,153)	135,353	201 941	(60,652)	141,290
Furniture and fixtures	3 885	(1,938)	1,947	4 401	(1,921)	2,480
Motor vehicles	14 789	(12,215)	2,573	14 791	(10,985)	3,805
Office equipment	36 357	(17,141)	19,216	36 794	(15,620)	21,174
Library	6	(4)	2	6	(3)	3
Electrical supply	92 730	(26,610)	66,120	90 368	(21,499)	68,869
Industrial Electronics	55 316	(20,121)	35,195	53 806	(16,126)	37,680
Work in progress	11 290	-	11,290	140 381	-	140,381
Pipelines	633 961	(172,028)	461,934	504 432	(158,420)	346,013
Tools and loose gear	1 294	(970)	324	1 353	(838)	515
<b>Total</b>	<b>1 507 881</b>	<b>(438,050)</b>	<b>1 069 830</b>	<b>1,419,493</b>	<b>(384,918)</b>	<b>1,034,576</b>

**Reconciliation of property, plant and equipment 30 June 2020**

	Opening balance	Additions	Disposal	Cost transfers	Borrowing cost capitalised	Impairment loss	Depreciation **	Other adjustments	Closing balance
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Land	1,780	-	-	-	-	-	-	-	1,780
Buildings/Civil works	270,587	233	(77)	78,043	-	(3,267)	(11,424)	-	334,094
Plant and Machinery	141,290	2,444	(3,176)	9,328	-	-	(14,532)	-	135,353
Furniture and fixtures	2,480	95	(284)	166	-	-	(511)	-	1,947
Motor vehicles	3,805	-	-	-	-	-	(1,232)	-	2,573
Office equipment	21,174	4,572	(266)	(2,306)	-	-	(3,958)	-	19,216
Library	3	-	-	-	-	-	(1)	-	2
Electrical supply	68,869	316	(32)	1,799	-	-	(4,831)	-	66,120
Industrial Electronics	37,680	1,367	(895)	1,680	-	-	(4,636)	-	35,195
Work in progress	140,381	88,566	-	(217,657)	-	-	-	-	11,290
Pipelines	346,013	357	(6)	128,969	-	-	(13,400)	-	461,934
Tools and loose gear	515	-	(33)	(22)	-	-	(136)	-	324
<b>Total</b>	<b>1,034,576</b>	<b>97,950</b>	<b>(4,769)</b>	<b>-</b>	<b>-</b>	<b>(3,267)</b>	<b>(54,660)</b>	<b>-</b>	<b>1,069,830</b>



## MHLATHUZE WATER BOARD

(Registration Number 1996/17276/08)

Annual Financial Statements for the year ended 30 June 2020

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

### 5. Property, Plant and Equipment (continued)

#### Reconciliation of property, plant and equipment 30 June 2020

	Opening balance	Additions	Disposal	Cost transfers	Borrowing cost capitalised	Impairment loss	Depreciation **	Other adjustments	Closing balance
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Land	1,780	-	-	-	-	-	-	-	1,780
Buildings/Civil works	292,080	671	(50)	(11,636)	-	(10,477)	-	-	270,587
Plant and Machinery	147,676	4,190	(5,470)	8,707	-	(13,637)	(229)	52	141,290
Furniture and fixtures	2,939	-	(16)	-	-	(443)	-	-	2,480
Motor vehicles	6,736	-	(31)	-	-	(2,900)	-	-	3,805
Office equipment	28,593	4,239	(543)	(5,168)	-	(5,947)	-	-	21,174
Library	3	-	(0)	-	-	(0)	-	-	3
Electrical supply	97,796	1,164	(1,024)	(22,204)	-	(6,863)	-	-	68,869
Industrial Electronics	17	539	(427)	38,366	-	(750)	(65)	-	37,680
Communication equipment	-	-	(3)	-	-	(1)	-	-	-
Work in progress	31,010	128,168	-	(19,086)	289	-	-	-	140,381
Pipelines	346,706	518	(255)	11,021	-	(11,978)	-	-	346,013
Tools and loose gear	583	172	(8)	-	-	(232)	-	-	515
	955,920	139,661	(7,828)	-	289	(53,228)	(295)	52	1,034,576

#### 5.1. Work-In-Progress

Project/Description	Asset category	Total	Within 1 year	Between 1 to 5 years
AC Mitigation System for Empangeni Pipeline	Electrical	185	125	60
Plant Augmentation (Independent 170 MI/D PLANT)	Plant and Machinery	10,343	-	10,343
Alternative Water Supply	Civil Works	415	415	-
Small Items - Laboratory	Equipments	37	37	-
Executive and SCM Stores	Civil Works	310	310	-
<b>Total</b>		<b>11,290</b>	<b>887</b>	<b>10,403</b>

There was no impairment identified for capital work in progress, as projects are proceeding as planned and there are no projects that were halted.

#### Included in other adjustments are the following:

\* Other adjustments relates to the re-assessment of useful lives of PPE not effected in the correct period.

\*\* Portion of depreciation is recognised as Cost of Sales (refer to note 13).

	Note(s)	30-Jun-20	Restated 30-Jun-19
		R'000	R'000
<b>Depreciation***</b>			
Depreciation	5	54,660	53,228
Amortisation	6	740	2,596
<b>Total depreciation and amortisation</b>		55,400	55,824
Cost of sales	13	49,416	46,290
Depreciation and amortisation IS		5,984	9,535
<b>Total</b>		<b>55,400</b>	<b>55,824</b>



**MHLATHUZE WATER BOARD**

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Annual Financial Statements for the year ended 30 June 2020

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

**6. Intangible Assets**

	30 Jun 2020			Restated 30 Jun 2019		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000
Computer software	15,706	(13,982)	1,723	15,706	(13,244)	2,463
<b>Total</b>	<b>15 706</b>	<b>(13,982)</b>	<b>1 723</b>	<b>15,706</b>	<b>(13,244)</b>	<b>2,463</b>

	Opening balance	Additions	Disposal	Transfer	Other adjustments	Reassessment of useful life of intangible assets	Amortisation	Closing balance
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<b>Reconciliation of intangible assets 30 June 2020</b>								
Computer software	2,463	-	-	-	-	-	(740)	1,723
	2,463	-	-	-	-	-	(740)	1,723
<b>Reconciliation of intangible assets 30 June 2019</b>								
Computer software	4,904	156	-	-	-	-	(2,596)	2,463
Under development	-	-	-	-	-	-	-	-
<b>Total</b>	<b>4,904</b>	<b>156</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,596)</b>	<b>2,463</b>



## MHLATHUZE WATER BOARD

(Registration Number 1996/17276/08)

Annual Financial Statements for the year ended 30 June 2020

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	Note(s)	30-Jun-20	Restated 30-Jun-19
		R'000	R'000
<b>7. Interest Bearing Borrowings</b>			
<b>At amortised cost</b>			
Ned bank		-	11,765
Rand Merchant Bank		57,389	67,824
<b>Total interest bearing borrowings</b>		<b>57,389</b>	<b>79,589</b>
<p>Debt consists of unsecured interest-bearing liabilities held at amortised cost.</p> <p>The fixed term loan for Ned bank is repayable in bi-annual capital repayments with a fixed interest rate of 10.89%, that commenced on 30 June 2012, matured and has been paid off as at 30 June 2020</p> <p>The fixed term loan from Rand Merchant Bank is repayable in bi-annual capital repayments, with a fixed interest rate of 10.54%, that commenced on 30 November 2011 and matures on 28 November 2025.</p>			
<b>Non-Current Liabilities</b>			
At amortised cost		46,552	56,897
<b>Current Liabilities</b>			
At amortised cost		10,838	22,692
<b>Total interest bearing borrowings</b>		<b>57,389</b>	<b>79,589</b>
<b>8. Payables from Exchange Transactions</b>			
Trade payables - primary activities		21,932	23,202
Trade payables - secondary activities		133	3,114
Retention - primary activities		6,317	11,379
Retention - secondary activities		6,656	7,975
Accruals - primary activities		42,094	64,508
Accruals - secondary activities		4,077	2,240
SARS - PAYE, UIF and SDL		2,369	2,725
Sundry creditors - primary activities		1,469	524
Accrued interest - secondary activities		4,607	3,331
Advances - secondary activities		39,421	9,219
		<b>129,075</b>	<b>128,217</b>
<b>9. VAT (Receivable)/Payable</b>			
VAT (Receivable)/Payable		4,819	(3,071)
		<b>4,819</b>	<b>(3,071)</b>



## MHLATHUZE WATER BOARD

(Registration Number 1996/17276/08)

Annual Financial Statements for the year ended 30 June 2020

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 11. Income Received in Advance

- Short-term portion of advances
- Long-term portion of advances

#### Total income received in advance

Income received in advance from Foskor relates to the construction of the B-Line Diffuser Replacement Project, which was commissioned at the end of September 2008. The entity received the total amount upfront. The income is recognised over the period of the agreement based on the usage of the waste water disposal line by Foskor. This balance is measured and recognised in terms of the accounting policy relating to income received in advance.

	30-Jun-20	30-Jun-19
	R'000	R'000
- Short-term portion of advances	6,828	7,026
- Long-term portion of advances	50,480	57,102
<b>Total income received in advance</b>	<b>57,308</b>	<b>64,128</b>

	Note(s)	30-Jun-20	Restated 30-Jun-19
		R'000	R'000
<b>12. Revenue – Sale of Goods and Services</b>			
<b>Sale of Goods and Services</b>			
An analysis of tariff income is as follows:			
<b>Primary Activities (Section 29)</b>			
Bulk water		329,425	307,662
Waste water		176,240	164,854
<b>Total Primary Activities</b>		<b>505,665</b>	<b>472,516</b>
<b>Operating lease income</b>			
An analysis of operating lease income is as follows:			
Lease income - waste water		6,824	7,026
		<b>6,824</b>	<b>7,026</b>
<b>Secondary Activities (Section 30)</b>			
<b>Operations and Maintenance Agreements</b>			
Thukela Goedertrouw Scheme		50,848	100,605
City of uMhlathuze		78,425	111,218
<b>Total Operations and Maintenance Agreements</b>		<b>129,273</b>	<b>211,823</b>
<b>Other Activities</b>			
Management fee		16,047	7,707
Laboratory services		3,608	3,645
Implementing Agency Fees		2,524	9,926
<b>Total Other Activities</b>		<b>22,179</b>	<b>21,278</b>
<b>Total Revenue</b>		<b>663,941</b>	<b>712,643</b>





## MHLATHUZE WATER BOARD

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Annual Financial Statements for the year ended 30 June 2020

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	Note(s)	30-Jun-20	Audited 30-Jun-19
		R'000	R'000
<b>15. Other Income (continued)</b>			
<b>15.2. Interest Income</b>			
Bank account		385	282
Interest charged on trade and other receivables		-	21
Interest earned on outstanding debtors		1,277	768
Call accounts/investments		15,341	16,281
		<b>17,003</b>	<b>17,352</b>
<b>Total Other Income</b>		<b>18,009</b>	<b>19,969</b>
<b>16. Employee Related Costs</b>			
Basic		112,277	110,332
Bonus		7,635	6,348
Internship		633	702
Learner ship		108	71
Shift allowance		992	1,210
Standby allowance		2,291	2,120
Responsibility allowance		1,891	2,069
Cell phone allowance		1,109	910
Relocation allowance		14	258
Transport allowance		361	666
Housing allowance		1,057	1,569
Tool allowance		138	157
Secondment allowance		210	232
Leave		5,038	2,614
Overtime		8,075	11,920
Overtime - Normal Shift		2,637	3,011
Medical aid - company contributions		86	75
UIF - company contributions		489	542
WCA - company contributions		953	1,428
Statutory levies - SDL		1,299	1,280
Statutory levies - AMC		8	8
		<b>147,301</b>	<b>147,523</b>
Direct employee related costs	13	40,561	51,935
Indirect employee related costs		106,740	95,588
<b>Total Employee Related Costs</b>		<b>147,301</b>	<b>147,523</b>



## MHLATHUZE WATER BOARD

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Annual Financial Statements for the year ended 30 June 2020

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

## 17. Board Members and Executives Emoluments

### 17.1. Board members emoluments

On the 1st of August 2017, in order to comply with governance requirements, the Accounting Authority appointed an Independent Audit Committee to fulfill an oversight role on all strategic financial and governance matters.

Members of the Independent Audit and Risk Committee	Appointment date	Termination date
MM Xulu (Chairperson)	1st August 2017	4th December 2018
N Gevers	1st August 2017	4th December 2018
BK Rawlins	1st August 2017	4th December 2018
Adv. S Chamane	1st August 2017	4th December 2018

Members of the Independent Audit and Risk Committee	Package earnings	Travel and subsistence allowance	Other allowances	Total
	R'000	R'000	R'000	R'000
MM Xulu (Chairperson)	-	-	1	1
N Gevers	-	-	1	1
BK Rawlins	-	-	2	2
Adv. S Chamane	-	-	2	2
	-	-		
<b>Total Independent Audit and Risk Committee</b>			<b>6</b>	<b>6</b>

The board members hourly rates increases for 2018/19 financial year as approved by the Minister was received in August 2019, this resulted to a back pay for board members earnings for that period.

A new Board of Mhlathuze Water was appointed by the Minister of Water and Sanitation on the 5th of December 2018.

Board members of Mhlathuze Water	Appointment date
TA Shange (Chairperson)	5th December 2018
SZ Hlophe (Deputy Chairperson)	5th December 2018
A Badul	5th December 2018
GD Biyela	5th December 2018
N Gevers	5th December 2018
M Makgae	5th December 2018
N Mkhize	5th December 2018
B Mshengu	5th December 2018
PS Reddy	5th December 2018
MM Xulu	5th December 2018
M Zikalala	5th December 2018



## MHLATHUZE WATER BOARD

(Registration Number 1996/17276/08)

Annual Financial Statements for the year ended 30 June 2020

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 17.1. Board members emoluments (continued)

Non-executive board members	Package earnings	Travel and subsistence allowance	Other allowances	Total
	R'000	R'000	R'000	R'000
TA Shange (Chairperson)	245	41	541	827
S Hlophe (Deputy Chairperson)	207	35	218	460
A Badul	178	30	241	449
GD Biyela	178	20	146	344
N Gevers	178	25	245	448
M Makgae	178	-	179	357
N Mkhize	178	37	187	402
B Mshengu	178	42	253	473
PS Reddy	178	12	179	369
MM Xulu	178	2	152	332
M Zikalala	113	10	110	233
<b>Total Non executive board members</b>	<b>1,989</b>	<b>254</b>	<b>2,451</b>	<b>4,694</b>
<b>Total Non executive board members and Independent Audit and Risk Committee</b>	<b>1,989</b>	<b>254</b>	<b>2,457</b>	<b>4,700</b>

#### 17.2. Executives' Emoluments

Executive staff members	Position	Package earnings	Performance bonus	Post-employment benefit	Travel and subsistence allowance	Other allowances	Total 2020
		R'000	R'000	R'000	R'000	R'000	R'000
MP Duze*	Chief Executive	3,232	639	-	315	349	4,535
GF Allison**	Former Chief Executive	-	-	75	-	-	75
M Myeni	GM: Corporate Services	1,434	137	-	-	89	1,660
B Mnyandu	Chief Financial Officer	1,895	377	-	9	64	2,345
CG Cele ***	GM: Operations and Maintenance	147	-	-	9	306	462
BS Ntlhoro	GM: Scientific Services	1,327	121	-	6	348	1,802
A Luthuli****	Acting GM: Technical Services	1,040	-	-	1	354	1,395
<b>Total executive staff members</b>		<b>9,075</b>	<b>1,274</b>	<b>75</b>	<b>340</b>	<b>1,510</b>	<b>12,274</b>

\* MP Duze was appointed Chief Executive on the 1st of July 2019

\*\* GF Allison Former Chief Executive post medical aid benefit. See Note 10

\*\*\* CG Cele resigned on the 31st of July 2019

\*\*\*\* A Luthuli was appointed Acting GM Technical Services on the 1st of August 2019 until 30 April 2020



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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 17.1. Board members emoluments (continued)

The Mhlathuze Water Board's term of office came to an end on the 26th April 2017, by way of resolution by the former Minister of Water and Sanitation, Nomvula Mankonyane. On the 26th of April 2017 the former Minister of Water and Sanitation appointed Mr MP Duze as an Accounting Authority.

In order to comply with governance requirements, the Accounting Authority appointed an Independent Audit and Risk Committee to fulfill an oversight role on all strategic financial and governance matters.

Members of the Independent Audit and Risk Committee	Appointment date	Termination date
MM Xulu (Chairperson)	1st August 2017	4th December 2018
NR Shezi	24th April 2018	4th December 2018
N Gevers	1st August 2017	4th December 2018
BK Rawlins	1st August 2017	4th December 2018
Adv S Chamane	1st August 2017	4th December 2018

Members of the Independent Audit and Risk Committee	Package earnings	Travel and subsistence allowance	Other allowances	Total
	R'000	R'000	R'000	R'000
MM Xulu (Chairperson)	-	1	33	34
NR Shezi	-	4	-	4
N Gevers	-	5	36	41
BK Rawlins	-	1	32	33
Adv S Chamane	-	5	34	39
<b>Total Independent Audit and Risk Committee</b>	<b>-</b>	<b>16</b>	<b>135</b>	<b>151</b>

A new Board of Mhlathuze Water was appointed by the former Minister of Water and Sanitation, Mr Gugile Nkwinti on the 5th of December 2018.

Board members of Mhlathuze Water	Appointment date
TA Shange (Chairperson)	5th December 2018
SZ Hlophe (Deputy Chairperson)	5th December 2018
A Badul	5th December 2018
GD Biyela	5th December 2018
N Gevers	5th December 2018
M Makgae	5th December 2018
N Mkhize	5th December 2018
B Mshengu	5 December 2018
PS Reddy	5th December 2018
MM Xulu	5th December 2018
M Zikalala	5th December 2018



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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 17.1. Board Members Emoluments (continued)

Non-executive board members	Package earnings	Travel and subsistence allowance	Other allowances	Total
	R'000	R'000	R'000	R'000
TA Shange (Chairperson)	131	43	374	548
S Hlophe (Deputy Chairperson)	108	13	140	261
A Badul	96	22	190	308
GD Biyela	96	15	105	216
N Gevers	96	18	180	294
M Makgae	96	39	110	245
N Mkhize	96	12	150	258
B Mshengu	96	34	224	354
PS Reddy	96	11	149	256
MM Xulu	96	7	147	250
M Zikalala	55	4	74	133
<b>Non executive board members</b>	<b>1,062</b>	<b>218</b>	<b>1,843</b>	<b>3,123</b>
<b>Total Remuneration of board members &amp; Independent Audit and Risk committee</b>	<b>1,062</b>	<b>234</b>	<b>1,978</b>	<b>3,274</b>

#### 17.2. Executives' Emoluments (continued)

Executive staff members	Package earnings	Post-employment benefit	Travel and subsistence allowance	Other allowances	Termination benefits	Total
	R'000	R'000	R'000	R'000	R'000	R'000
MP Duze (Interim Chief Executive)*	964	-	330	268	-	1,562
AS Makhanya (Chief Executive)**	1,194	-	105	-	550	1,849
GF Allison (Former Chief Executive)	-	75	-	-	-	75
*****see note 10						
M Myeni	1,420	-	1	102	-	1,523
B Mnyandu	1,877	-	14	18	-	1,909
CG Cele ***	1,529	-	20	282	-	1,831
BS Ntlhoro ****	571	-	2	276	-	849
<b>Total executive staff members</b>	<b>7,555</b>	<b>75</b>	<b>472</b>	<b>946</b>	<b>550</b>	<b>9,598</b>

\* MP Duze was appointed Interim Chief Executive on the 8th of June 2016

\*\* AS Makhanya was discharged on the 23rd of January 2019

\*\*\* CG Cele was appointed Interim GM: Technical Services on the 14th of November 2017 - 31st of December 2018, and appointed as GM Operations on the 1st of January 2019.

\*\*\*\* BS Ntlhoro was appointed Interim GM: Operations on the 14th of November 2017 - 31st of December 2018

\*\*\*\*\* GF Allison Former Chief Executive post medical aid benefit



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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

Note(s)	30-Jun-20	Restated 30-Jun-19
	R'000	R'000
<b>18. Finance Costs</b>		
Non-current borrowings	7,670	10,059
Less: borrowing cost capitalised	-	(289)
	<b>7,670</b>	<b>9,770</b>
Capitalisation rates of 10.62% was used on specific borrowings for capital projects 10.62% is the weighted average cost of funds borrowed by the entity for the comparative period.		
<b>19. Operating Lease</b>		
<b>19.1. Operating Lease - Income</b>		
Arrangements with the customers that contained deemed leases and qualify as operating leases are recognised in terms of GRAP 13. The following indicates the future lease rentals receivables:		
Within 1 year	6,297	6,312
Between 1 to 5 years	25,190	25,247
<b>Total Operating Lease Receivable in Future</b>	<b>31,487</b>	<b>31,559</b>
Mhlathuze Water leases equipment and a pipeline to various institutions for periods ranging from 1 to 20 years. These leases will conclude at the end of the contracted agreement signed with the relevant stakeholders.		
<b>19.2. Operating Lease Expenditure</b>		
At the statement of Financial Position date Mhlathuze Water had outstanding commitments under non-cancellable operating leases, which fall due as follows:		
Within 1 year	3,461	4,213
Between 1 to 5 years	9,962	9,749
Beyond 5 years	371	2,599
<b>Total Operating Lease Commitments</b>	<b>13,794</b>	<b>16,561</b>
Mhlathuze Water leases ICT equipment, faxes, copiers, computers, land and a pipeline to various institutions for periods ranging from 1 to 20 years. These leases will conclude at the end of the contracted agreement signed with the relevant stakeholders		
<b>20. Repairs and Maintenance</b>		
- Building	5,676	8,949
- Plant and Machinery	35,276	45,776
- Electrical Supply	9,605	6,789
- Industrial Electronics	737	46
- Motor vehicles	1,329	1,095
- Equipment, Furniture and Fixtures	1,219	2,076
- Pipelines	19,944	15,975
- Tools and loose gear	221	350
	<b>74,008</b>	<b>81,055</b>

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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	Note(s)	30-Jun-20	Restated 30-Jun-19
		R'000	R'000
<b>21. Other Expenses</b>			
Assessment rates & municipal charges		642	559
Auditors remuneration - external		1,884	2,876
Auditors remuneration - internal		1,075	722
Bank charges		139	148
Bio monitoring		1,980	1,100
Board members - general expenses		966	1,317
Bursaries		1,126	678
Chemicals Laboratory		790	648
Cleaning		3,965	4,716
Community development and training		2,051	140
Compliance testing		2,396	1,970
Conferences and seminars		232	116
Consulting and professional fees		1,680	780
Consumables		705	650
Corporate social investment		539	508
Debt impairment		1,210	668
Donations		380	536
Fees - special investigation		13,146	35
Fines and penalties		80	78
Fuel and oil		2,578	2,801
General		1,237	41
Ground contractors		4,343	3,336
Insurance		3,161	2,586
IT expenses		6,944	7,776
Learnership		312	339
Legal expenses		6,674	24,085
Strategic Support		735	4,166
Motor vehicle expenses		189	162
Pest control		75	4
Placement fees		671	854
Postage and courier		11	14
Printing and stationary		1,179	706
Protective clothing		1,254	1,317
Public relations		2,244	1,877
Regional bulk studies		4,220	4,959
Sludge removal		407	22,225
Security		9,381	4,500
Staff assessments/grading		49	29
Staff Welfare		2,514	2,255
Stock Write-Off		2,392	-
Subscriptions and membership fees		386	327
Telephone and fax		582	528
Training		975	1,048
Transport and freight		36	16
Travel - local		851	1,216
Travel - overseas		390	-
Uniforms		416	-
Vehicle Hire		3,429	3,814
Water analysis		93	777
		<b>92,715</b>	<b>110,004</b>





**MHLATHUZE WATER BOARD**

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*NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)*

	Note(s)	30-Jun-20	Restated 30-Jun-19
		R'000	R'000
<b>22. Operating Surplus</b>			
Operating surplus for the year is stated after accounting for the following:			
<b>Operating Lease Charges</b>			
<i>Equipment</i>			
Contractual amounts		1,949	545
<i>Printers, copiers, faxes, IT equipment and computers</i>			
<i>Land</i>			
Contractual amounts		25	57
<i>Lease for land</i>			
<i>Pipelines</i>			
Contractual amounts		2,227	2,195
<i>Lease for pipeline</i>			
		4,201	2,797
Amortisation on intangible assets	6	740	2,596
Depreciation on property, plant and equipment	5	54,660	53,228
Employee costs and board remuneration	16,17.1	152,002	150,797
<b>23. Profit/Loss on Disposal of Assets</b>			
Profit on sale of assets		94	852
Loss on sale of assets		(2,641)	(4,867)
		(2,547)	(4,014)
<b>24. Cash Generated from Operations</b>			
Surplus		136,327	103,946
<b>Adjusted for non-cash items:</b>			
Depreciation	5	54,660	53,228
Armotisation	6	740	2,596
Loss/(Profit) on sale of assets	23	2,547	4,014
Net asset impairment	5	3,267	295
Net debt impairment	25	1,210	668
Bad debts written off	27.8	1	20
Inventory written off	21	2,392	-
Interest expense accruals		1,167	1,007
Movement in employee benefit liabilities	10	(961)	148
Movement in income received in advance	11	(6,820)	(7,026)
<b>Changes in Working Capital:</b>			
(Increase)/Decrease in inventories		1,846	(535)
(Increase)/Decrease in receivables from exchange transactions		24,251	(28,738)
Increase/(Decrease) in payables from exchange transactions		858	33,847
Movements in VAT balance		7,890	(4,460)
		<b>229,375</b>	<b>159,011</b>



## MHLATHUZE WATER BOARD

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

### 25. Financial Risk Management

The entity has exposure to the following risks from its use of financial instruments:

- Liquidity risk
- Credit risk
- Market risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

This note presents information about Mhlathuze Water's exposure to each of the above risks, objectives, policies and processes for measuring and managing risk. The methods used to measure risk have been consistently applied in the years presented, unless otherwise stated.

Further quantitative disclosures are included throughout the Financial Statements.

The Board has overall responsibility for the establishment and oversight of the entity's risk management framework. Risk management policies are established to identify and analyse the risks that are faced by Mhlathuze Water, to set appropriate risk limits and controls, and to monitor risks and adherence to these limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the entity's activities.

Presently all risks identified are attended to at departmental level and by a risk management committee. Reports are presented to the Finance Committee, Audit and Risk Committee, the Boards delegated structure tasked with the responsibility of reviewing the risk management process.

The Board reviews its enterprise wide risk profile to ensure that critical risks are addressed adequately and to identify and capitalise on opportunities that may be created from these risks. This provides the Board with the opportunity to re-assess the entity's strengths and weaknesses to determine a strategic alignment to the objectives.

#### Liquidity Risk

Liquidity risk is the risk that Mhlathuze Water will not be able to meet its financial obligations as they fall due. Mhlathuze Water is a self-funding entity and does not receive funding in the form of government subsidies. All funding of income generating and operational assets are obtained by way of loan agreements.

The entity's approach to managing liquidity is to ensure as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the reputation of Mhlathuze Water by managing the monthly cash flow throughout the year.

Mhlathuze Water operates a consolidated loan pool and utilises the positive inflows to redeem external borrowings.

Finance charges are recovered via tariffs levied against consumers. For the purpose of treasury management all long term loans relating to the core business activities are pooled and an average rate of interest calculated and applied to the schemes for tariff purposes. This achieves better control and ensures a fair and flexible recovery of finance charges, which assist in planning the cash flow requirements. Based on assessment, no negative impact have been realised by MW on liquidity risk as a result of Covid-19.

#### Bank Short-Term Funding

Mhlathuze Water's main credit facility is with First National Bank and includes the following:

##### Type of Facility

- Credit Card facility

Amount
R'000
100
<b>100</b>

The overdraft facility is only in place for emergency.



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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

**25. Financial Risk Management (continued)**

**Exposure to Liquidity Risk**

	Carrying amount	Contractual amount	< 1 year	2-5 years	> 5 years
	R'000	R'000	R'000	R'000	R'000
<b>At 30 June 2020</b>					
Interest bearing borrowings	(57,390)	(74,932)	(16,106)	(58,827)	-
Payables from exchange transactions	(129,075)	(129,075)	(129,075)	-	-
<b>Total</b>	<b>(186,466)</b>	<b>(204,009)</b>	<b>(145,182)</b>	<b>(58,827)</b>	<b>-</b>
At 30 June 2019					
Interest bearing borrowings	(79,589)	(104,801)	(29,869)	(69,488)	(5,444)
Payables from exchange transactions	(128,217)	(128,217)	(128,217)	-	-
<b>Total</b>	<b>(207,806)</b>	<b>(233,018)</b>	<b>(158,086)</b>	<b>(69,488)</b>	<b>(5,444)</b>

**Financial Instruments**

**Fair Values**

The carrying values of financial assets and liabilities are presented by class in the tables below, and approximate fair values.

	Financial instruments at amortised cost	Total
	R'000	R'000
<b>30 June 2020</b>		
Financial Assets		
Receivables from exchange transactions	117,345	117,345
Bank and cash implementing agent projects	44,029	44,029
Bank and cash	328,378	328,378
Financial Liabilities		
Interest-bearing borrowing	(57,390)	(57,390)
Payables from exchange transactions	(129,075)	(129,075)
	<b>303,285</b>	<b>303,285</b>
30 June 2019		
Financial Assets		
Receivables from exchange transactions	141,597	141,597
Bank and cash implementing agent projects	12,550	12,550
Bank and cash	250,536	250,536
Financial Liabilities		
Interest-bearing borrowing	(79,590)	(79,590)
Payables from exchange transactions	(128,217)	(128,217)
	196,876	196,876



## MHLATHUZE WATER BOARD

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*NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)*

### Financial Instruments

#### Credit Risk

Credit risk consists mainly of cash deposits, cash equivalents, and trade debtors. The entity only deposits cash with major banks with high quality credit standing approved through the Department of Water and Sanitation by National Treasury.

#### Receivables from Exchange Transactions

The entity's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Board has established a credit policy under which each new customer is analysed individually for creditworthiness before the entity's facilities are offered.

Consideration is given to the external credit ratings, tax clearance certificates and the latest Audited Annual Financial Statements of entities not listed on the Johannesburg Stock Exchange. Credit limits are established for non-contractual customer and these limits are reviewed bi-annually.

The average credit period allowed is 30 days from invoice date. Interest is charged at prime rate +2.5% p.a. on overdue debt from primary activities.

Mhlathuze Water reviews outstanding balances on trade and other receivables on a monthly basis, via a debtors age analysis

A provision is raised for debtors outstanding more than 90 days accounts. The provisions raised are tabled together with the Financial Statements to the Audit and Risk Committee and the Accounting Authority

As a part of financial year assessment of doubtful debts and write-off, the impact of the pandemic Covid-19 was taken in to account. Even though none of our customers have indicated major issues regarding their going concern and inability to outstanding debts, there was those experiencing financial cash flow issues. In our detail assessment, all customers with outstanding balance were assessed in facts regarding Covid-19 and it's impact on businesses and government entities trading with MW.

#### Partnership/Water schemes with external parties

External parties are required to submit guarantees to Mhlathuze Water for all expenses incurred on their behalf. Any amounts outstanding after a period of 30 days will attract interest at the current interest rate as announced by the Minister of Finance.

#### Exposure to credit risk

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

	30 Jun 2020	30 Jun 2019
	R'000	R'000
<b>Financial Instrument</b>		
Receivables from exchange transactions	117,345	141,597
Cash and cash equivalents	372,407	263,087
<b>The maximum exposure to credit risk for receivables from exchange transactions per business segment at reporting date was:</b>		
Water supply	29,489	30,454
Waste water disposal	24,128	24,917
Thukela Transfer Scheme	21,411	9,718
Projects and secondary activities	42,316	76,478
	<b>117,345</b>	<b>141,567</b>



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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### Financial Instruments

	Gross 30 Jun 2020	Impairment 30 Jun 2020	Gross 30 Jun 2019	Impairment 30 Jun 2019
	R'000	R'000	R'000	R'000
<b>Provision for Impairment</b>				
Not past due	88,002	-	86,251	-
Past due 0-30 days	6,699	-	25,474	-
Past due 30-60 days	323	-	2,551	-
Past due 60-90 days	5,808	-	14,565	-
Past due >90 days	16,513	(1,210)	12,726	(668)
	<b>117,345</b>	<b>(1,210)</b>	<b>141,567</b>	<b>(668)</b>

The current debt for all categories on the age analysis comprises of balances of contracted billing which is recovered timeously as per contracts entered with consumers.

	30 Jun 2020	30 Jun 2019
	R'000	R'000
<b>Provision for Impairment</b>		
Opening balance	(681)	(13)
Movement	(1,210)	(668)
Closing balance	<b>(1,890)</b>	<b>(681)</b>

In assessing the provision for impairment, Mhlathuze Water considered the likelihood of receiving payments from its debtors irrespective of the length of time the debt was outstanding.

#### Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risks comprises three types of risk: currency risk, interest rate risk and other price risk. The objective is manage and control market risk within acceptable parameters, while optimising the return on risk.

The entity does not have any exposure to currency risk (that fluctuation in foreign exchange currency) or any equity price risk, and Mhlathuze Water does not hold any equity investments.

#### Interest Rate Risk

Mhlathuze Water adopted a policy of limiting exposure to interest rate fluctuations by arranging borrowings on a fixed rate basis. Cash and short-term investments are invested at variable and fixed interest rates with registered banking institutions.

At the reporting date, the interest rate profile for Mhlathuze's interest-bearing financial instruments was not evidently affected negatively by Covid-19, it was as follows:

	30 June 2020	30 June 2019
	R'000	R'000
<b>Rate Instruments</b>		
Receivables from exchange transactions - variable interest rate	117,345	141,597
Bank and cash - variable interest rate	144,442	102,041
Bank and cash - fixed interest rate	227,965	161,046
	<b>489,751</b>	<b>404,685</b>
<b>Financial Liabilities</b>		
Interest bearing borrowing - fixed interest rate	(57,390)	(79,590)
	<b>(57,390)</b>	<b>(79,590)</b>

## MHLATHUZE WATER BOARD

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Annual Financial Statements for the year ended 30 June 2020

*NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)*

### 26. Segment Information

#### General Information

##### *Identification of Segments*

Information reported about the segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure for information about these segments is also considered appropriate for external reporting purposes.

Mhlathuze Water has two reportable segments:

- (i) The primary activities segment as defined by section 29 of the Water Services Act No. 108 of 1997 which are made up of:

#### **(a) Bulk Water**

This activity covers the bulk supplies and other related water services made under contract in the Richards Bay/Empangeni area from plants owned by Mhlathuze Water.

Revenue generated based on water usage has been reflected under this segment.

#### **(b) Waste Water**

This activity covers buoyant and dense effluent disposal under contract to industries and the Municipality in the Richards Bay area from plants owned by Mhlathuze Water.

- (ii) The other segment activities as defined by section 30 of the Water Services Act No. 108 of 1997. This business segment consists of non-regulated activities which are mainly defined as services that complement bulk water service provision such as water quality monitoring, environmental management, laboratory services and where Mhlathuze Water acts as an implementing agent for any sphere of government for projects related water service delivery.

It also covers bulk supplies made and other related water services under contract to district municipalities, Water Services Institutions and the Department of Water and Sanitation from plants owned by these bodies.



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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

### 26. Segment Information (continued)

#### Segment Surplus or Deficit, Assets and Liabilities

	Primary activities		Secondary activities			Total
	Bulk water	Waste water	TG Scheme O & M	City of uMhlathuze O & M	Other activities	
<b>Volumes ('000 m<sup>3</sup>)</b>	<b>45 941</b>	<b>69 273</b>				<b>115,214</b>
Raw water	5,575					5,575
Clarified water	5,274					5,274
Purified water	35,092					35,092
Dense waste water		10,950				10,950
Buyant waste water		58,323				58,323
The Segmental report is as follows	R'000	R'000	R'000	R'000	R'000	R'000
<b>Revenue from exchange transactions</b>						
Sale of goods and services	329,425	183,064	50,848	78,425	22,179	663,941
Cost of Sales	(141,326)	(41,557)	(28,349)	(25,668)	(3,863)	(240,762)
Bulk purchases	(58,538)	-	-	-	-	(58,538)
Electricity and water	(22,493)	(24,015)	(24,432)	(11)	-	(70,951)
Chemicals	(13,770)	-	(4)	(7,156)	(367)	(21,296)
Employee related costs	(11,615)	(3,035)	(3,913)	(18,501)	(3,497)	(40,561)
Depreciation	(34,909)	(14,507)	-	-	-	(49,416)
<b>Gross Profit</b>	<b>188,099</b>	<b>141,508</b>	<b>22,499</b>	<b>52,758</b>	<b>18,315</b>	<b>423,179</b>
Other income	2,948	15,054	7	-	-	18,009
<b>Expenditure</b>	<b>(129,318)</b>	<b>(93,003)</b>	<b>(22,507)</b>	<b>(41,418)</b>	<b>(16,069)</b>	<b>(302,314)</b>
Employee related costs	(64,705)	(42,035)				(106,740)
Remuneration of board members	(2,985)	(1,715)	-	-	-	(4,700)
Depreciation and amortisation	(3,547)	(2,437)	-	-	-	(5,984)
Impairment of Assets	(3,267)	-				(3,267)
Finance costs	(4,906)	(2,764)	-	-	-	(7,670)
Lease rentals on operating lease	(1,059)	(3,142)	-	-	-	(4,201)
Debt impairment	(1)	(0)	-	-	-	(1)
Repairs and maintenance	(9,535)	(16,025)	(18,006)	(26,953)	(3,488)	(74,008)
Electricity and water	(1,374)	(807)	-	-	-	(2,181)
Chemicals	(460)	(386)	-	-	-	(847)
Other expenses	(37,479)	(23,690)	(4,501)	(14,465)	(12,580)	(92,715)
<b>Operating surplus</b>	<b>61,728</b>	<b>63,559</b>	<b>-</b>	<b>11,340</b>	<b>2,247</b>	<b>138,874</b>
Loss on disposal of assets	(780)	(1,767)	-	-	-	(2,547)
<b>Surplus for the year</b>	<b>60,948</b>	<b>61,792</b>	<b>-</b>	<b>11,340</b>	<b>2,247</b>	<b>136,327</b>

## MHLATHUZE WATER BOARD

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

### 26. Segment Information (continued)

#### Segment Surplus or Deficit, Assets and Liabilities (continued)

	Primary activities		Secondary activities			Total
	Bulk water	Waste water	TG Scheme O & M	City of uMhlathuze O & M	Other activities	
<b>Assets</b>						
Segment assets	814,979	249,892	-	-	47,649	1,112,519
Centralised services						480,864
<b>Total assets as per statement of financial position</b>						<b>1,593,384</b>
<b>Liabilities</b>						
Segment liabilities	32,711	57,243	-	-	15,472	105,426
Centralised services						159,031
<b>Total liabilities as per statement of financial position</b>						<b>264,457</b>
<b>Other information</b>						
Capital expenditure	97,375	122	-	-	-	97,497
Centralised services						453
						<b>97,950</b>

	Primary activities		Secondary activities			Total
	Bulk water	Waste water	TG Scheme O & M	City of uMhlathuze O & M	Other activities	
<b>Volumes ('000 m<sup>3</sup>)</b>	<b>54 599</b>	<b>68 979</b>				
The Segmental report is as follows	R'000	R'000	R'000	R'000	R'000	R'000
Revenue from Exchange Transactions						
Sale of goods and services	307,662	171,880	100,605	111,218	21,278	712,643
<b>Cost of Sales</b>	(145,547)	(38,218)	(87,165)	(34,678)	(3,803)	(309,410)
Bulk purchases	(63,069)	-	-	-	-	(63,069)
Electricity and water	(24,484)	(21,843)	(82,802)	(17)	-	(129,147)
Chemicals	(14,795)	-	-	(3,692)	(482)	(18,969)
Employee related costs	(10,623)	(2,660)	(4,363)	(30,969)	(3,320)	(51,935)
Depreciation	(32,576)	(13,714)	-	-	-	(46,290)
<b>Gross Profit</b>	162,115	133,662	13,440	76,540	17,476	403,233
Other income	10,017	9,945	7	-	-	19,969





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*NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)*

**26. Segment Information (continued)**

**Segment Surplus or Deficit, Assets and Liabilities (continued)**

	Primary activities		Secondary activities			Total
	Bulk water	Waste water	TG Scheme O & M	City of uMhlathuze O & M	Other activities	
<b>Expenditure</b>	(126,669)	(90,997)	(13,448)	(70,560)	(13,570)	(315,242)
Employee related costs	(57,987)	(37,601)				(95,588)
Remuneration of board members	(1,890)	(1,384)	-	-	-	(3,274)
Depreciation and amortisation	(5,639)	(3,896)	-	-	-	(9,535)
Impairment of Assets	(242)	(52)	-	-	-	(295)
Finance costs	(8,147)	(1,623)	-	-	-	(9,770)
Lease rentals on operating lease	(404)	(2,393)	-	-	-	(2,797)
Debt impairment	(12)	(7)	-	-	-	(20)
Repairs and maintenance	(10,946)	(18,915)	(9,745)	(35,352)	(6,096)	(81,055)
Electricity and water	(1,308)	(768)	-	-	-	(2,076)
Chemicals	(451)	(378)	(0)	-	-	(829)
Other expenses	(39,642)	(23,978)	(3,703)	(35,208)	(7,474)	(110,004)
Operating surplus	45,463	52,608	-	5,981	3,907	107,960
Gain (loss) on disposal of assets	(2,467)	(1,547)	-	-	-	(4,014)
Surplus for the year	42,996	51,061	-	5,981	3,907	103,946
<b>Assets</b>						
Segment assets	707,750	280,316	-	-	38,237	1,026,304
Centralised services						455,057
<b>Total Assets as per Statement of Financial Position</b>						<b>1,481,360</b>
<b>Liabilities</b>						
Segment liabilities	12,737	59,028	-	-	16,659	88,424
Centralised services						200,336
<b>Total Liabilities as per Statement of Financial Position</b>						<b>288,760</b>
<b>Other Information</b>						
Capital expenditure	22,569	3,017	-	-	-	25,586
Centralised services						118,510
						144,096



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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	Note(s)	30-Jun-20	30-Jun-19
		R'000	R'000
<b>27. Statutory Information in terms of the Public Finance Management Act No. 1 of 1999 as amended</b>			
<b>27.1. Irregular Expenditure</b>			
Opening balance		236,769	264,763
Less: Non-compliance emanating from Prior Years	28.10	-	(17,926)
Add: Irregular expenditure emanating from Prior Years	27.2	824	16,228
Add: Current Year		-	-
Less: Amounts removed	27.3	-	(26,296)
Less: Amounts condoned	27.4	(2,716)	-
<b>Closing balance 30 June</b>		<b>234,877</b>	<b>236,769</b>
<p>Irregular Expenditure to the value of R17.9 million from prior years up to FY2016/17 has been investigated and deemed to not meet the Irregular Expenditure definition and criteria, and no financial loss has been declared on the entity. This Irregular Expenditure has been declared a non-compliance, as defined, thus removed from the Irregular Expenditure Register and Annual Financial Statements. Note. See Note 28.10 for a detailed explanation.</p> <p>An application to the value of R37.4 million has been submitted to National Treasury for condonation. A response is still pending.</p>			
<b>27.2. Details of Irregular Expenditure</b>			
<b>Incident</b>			
Irregular Expenditure relates to bids not advertised for the prescribed period of twenty-one (21) days.		824	1,890
Irregular Expenditure relates to ceding of work not as per SCM Policy and documents not signed as per the DOA		-	3,594
Irregular expenditure as a result of payments that were made to supplier that exceeded the SCM threshold of R500 thousand and/or payments made post expiry of the contract.		-	693
Irregular expenditure as a result of not adhering to the SCM Policy.		-	7,767
Irregular expenditure resulted in a contract that was taken over from City of uMhlathuze in 2014 without following the correct SCM process.		-	5
Irregular expenditure occurred as a result of payments that were made to suppliers that exceeded contract value.		-	2,161
Irregular expenditure occurred as a result of expenditure that was incurred without a contract being in place.		-	118
		<b>824</b>	<b>16,228</b>



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*NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)*

	Note(s)	30-Jun-20	30-Jun-19
		R'000	R'000
<b>27. Statutory Information in terms of the Public Finance Management Act No. 1 of 1999 as amended (continued)</b>			
<b>27.3. Details of Irregular Expenditure Removed</b>			
<b>Incident</b>			
Irregular Expenditure relating to bids not advertised for the prescribed period of twenty-one (21) days has subsequently been condoned.		-	19,250
<b>Removed by: Board</b>			
<b>Incident</b>			
Irregular expenditure as a result of no evidence to verify that bids were submitted on time has subsequently been condoned.		-	1,764
<b>Removed by: Board</b>			
<b>Incident</b>			
Irregular expenditure as a result of payments that were made to suppliers that exceeded the SCM threshold of R500 thousand and/or payments made post expiry of the contract has been subsequently been condoned.		-	3,757
<b>Removed by: Board</b>			
<b>Incident</b>			
Irregular Expenditure relating to ceding of work not as per SCM Policy and documents not signed as per the DOA.		-	809
<b>Removed by: Board</b>			
<b>Incident</b>			
Irregular expenditure as a result of not adhering to the SCM Policy.		-	716
<b>Removed by: Board</b>			
		-	<b>26,296</b>
<b>27.4. Details of Irregular Expenditure Condoned</b>			
<b>Incident</b>			
Irregular expenditure occurred as a result of payments that were made to suppliers that exceeded contract value.		2,716	-
<b>Removed by: National Treasury</b>			
		<b>2,716</b>	-
<b>27.5. Fruitless and Wasteful Expenditure</b>			
<b>Opening balance</b>		<b>27,479</b>	<b>27,475</b>
Add: Fruitless and Wasteful expenditure - current year	27.6	-	4
Less: Amounts condoned		-	-
Less: Amounts written off		-	-
Less: Amount recovered	27.7	(3)	-
		<b>27,476</b>	<b>27,479</b>
Accounting Officer has instituted investigations on reported Fruitless and Wasteful Expenditure for prior years. This process has not been fully concluded, litigation cases have been opened with the SAPS & the Hawks for the cases where there were apparent criminal intents.			



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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

Note(s)	30-Jun-20	30-Jun-19
	R'000	R'000
<b>27. Statutory Information in terms of the Public Finance Management Act No. 1 of 1999 as amended (continued)</b>		
<b>27.6. Details Fruitless and Wasteful expenditure</b>		
<b>Incident</b>		
Fruitless and wasteful expenditure incurred on interest charges on late payments.	-	4
	-	<b>4</b>
<b>27.7. Fruitless and Wasteful Expenditure recoveries</b>		
Fruitless and wasteful expenditure recovered	(3)	-
<b>Totals</b>	<b>(3)</b>	<b>-</b>
<b>27.8. Bad debts written off</b>		
Bad debts written off	1	20
<b>Totals</b>	<b>1</b>	<b>20</b>
<b>28. Adjustments from prior period errors and changes in accounting policies and estimates</b>		
<b>28.1. Account receivable: Adjustment of revenue accrual</b>		
Adjustments of accounts receivables from accrued revenue on an effluent contract with one of our core customers that was amended in the current year but effectively applied from previous financial year, prior year imbalances and effluent penalty charge relating to previous financial year.		
<b>Accounts Receivables - Primary Activities</b>	-	(683)
2018/19 Audited Financial Statement	-	115,433
Trade receivables - Primary activities	-	111,808
Staff receivables - Primary activities	-	27
Sundry receivables - Primary activities	-	1,915
Prepayments - Primary activities	-	1,683
2018/19 Restated Financial Statement, refer Note 3	-	116,116
Adjustment for revenue accrued from an effluent contract with one of our core customers that was amended in the current year but effectively applied from previous financial year and effluent penalty charge relating to previous financial year.		
<b>Revenue - Primary Activities</b>	-	(701)
2018/19 Audited Financial Statement	-	711,942
2018/19 Restated Financial Statement	-	712,643



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*NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)*

	Note(s)	30-Jun-20	30-Jun-19
		R'000	R'000
<b>28. Adjustments from prior period errors and changes in accounting policies and estimates</b>			
<b>28.2. Accounts payable: Correction of expenditure reversal</b>			
Reversal of expenditure invoices that were processed in the previous financial year and reversed in current year when clearing the system for creditors age analysis and accrual listing.			
The impact of the reversal adjustment is through retained earnings as it has an impact in the previous years' surplus.			
<b>Expenditure - Different expenses</b>		-	(3,173)
2018/19 Audited Financial Statement		-	131,390
2018/19 Restated Financial Statement		-	128,217
		-	(3,173)
Adjustments to 2018/19 comparative figures			(508)
Adjustments to periods before the comparative financial year		-	(2,665)
<b>28.3. Borrowing cost capitalised</b>			
Correction of borrowing costs that were incorrectly capitalised on the work-in-progress projects. The finance costs capitalised were not from the interest bearing borrowings that is related to the project.			
The impact of the correction is on Work-in-progress and finance costs from the previous financial year.			
<b>Property Plant and Equipment: Work in progress</b>		-	4,145
2018/19 Audited Financial Statement		-	144,526
2018/19 Restated Financial Statement		-	140,381
<b>28.4. Correction of Secondary Activities Account Receivables</b>			
Correction of Secondary Activities Accounts Receivable: Projects amount that was previously adjusted to the Retained Earnings. The adjustment is part of GRAP 109 compliance on Principal-Agent transactions.			
		-	654
2018/19 Audited Financial Statement		-	26,341
2018/19 Restated Financial Statement		-	25,687



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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

Note(s)	30-Jun-20	30-Jun-19
	R'000	R'000
<b>28. Adjustments from prior period errors and changes in accounting policies and estimates (continued)</b>		
<b>28.5. Property, plant and equipment: Office equipment and Intangible Assets: Software</b>		
During the 2018/2019 financial year, the Property, Plant and Equipment with a Net Book Value of R68,172.03 and Intangible asset with a Net Book Value of R7,232.62 was incorrectly written off, upon further investigation on these assets it was discovered that the assets are still in use.		
<b>Office equipment</b>		(68)
2018/19 Audited Financial Statement	-	21,106
2018/19 Restated Financial Statement	-	21,174
<b>Intangible Assets: Software</b>		(6)
2018/19 Audited Financial Statement	-	2,457
2018/19 Restated Financial Statement	-	2,463
<b>Total Adjustments to prior period through accumulated surplus</b>	-	869
<b>28.6. Cash Flow Statement</b>		
The Cash Flow Statement was restated due to the remapping of accounts and calculations thereof, however, the net movement and the balance as at 30 June 2019 in cash and cash equivalents was not restated as this represents cash that was in the bank as at 30 June 2019.		
<b>The impact of prior period errors/adjustments is summarised below and the details are as follows:</b>		
Increase/(Decrease) in assets	-	(2,733)
(Increase)/Decrease in liabilities	-	3,173
Increase/(Decrease) in accumulated surplus:	-	(869)
(Increase)/Decrease in revenue	-	(683)
Increase/(Decrease) in expense	-	3,711
<b>28.7. Change in accounting practice: Commitments</b>		
Operational commitments that were disclosed in the previous financial year are no longer disclosed as a comparative figure as a result of change in accounting practice for commitments.	-	31,933
<b>28.8. Summary of prior year adjustment to accumulated surplus</b>	-	<b>(869)</b>
Accounts receivables - Increase in accumulated surplus	-	(683)
Accounts payables - Increase in accumulated surplus	-	(3,173)
PPE: Borrowing costs capitalised - Decrease in accumulated surplus	-	4,145
PPE & Intangible assets: Office equipment & Software - Increase in accumulated surplus	-	(74)
Secondary activities accounts receivables - Decrease in accumulated surplus	-	654



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*NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)*

	Note(s)	30-Jun-20	30-Jun-19
		R'000	R'000
<b>28. Adjustments from prior period errors and changes in accounting policies and estimates (continued)</b>			
<b>28.9. Change in estimate: Property, Plant and Equipment and Intangible assets</b>			
Useful lives of assets were re-assessed during the financial year-ended 30 June 2020, the changes in the accounting estimates resulted to the following impact on depreciation for the current year and for the future periods:			
		<b>3,812</b>	-
Decrease in depreciation and amortisation - current year		1,832	-
Decrease in depreciation and amortisation - periods after current year		1,980	-
<b>28.10. Irregular expenditure</b>			
During the FY2016/17 audit, an item of non-compliance with CIDB Regulations was erroneously classified as irregular expenditure for expenditure incurred in FY2016/17 and prior years. Following a thorough investigation to the transactions, it has been concluded that these transactions do not meet the definition and criteria of irregular expenditure, but rather resulted in a non-compliance. The investigations further concluded that the organization did not suffer a financial loss in these transactions. This irregular expenditure has now been declared as a non-compliance, as defined, thus removed from the Irregular Expenditure Register and Annual Financial Statements Note 27.1			
		-	(17,926)
<b>28.11. Contingent assets</b>			
Correction of a contingent asset relating to a construction penalty that was due to MW, this penalty was successful withheld by MW in 2018, therefore it did not meet the definition of a contingent asset as at 30 June 2019.			
		-	560
<b>29. Commitments</b>			
<b>29.1. Authorised Capital Expenditure</b>			
Already contracted for but not provided for			
- Building		5,277	14,505
- Plant and Machinery		-	1,302
- Equipment		-	-
- Pipelines		2,666	58,646
		<b>7,943</b>	<b>74,453</b>
This committed expenditure relates to Capital Expenditure and will be financed by available bank facilities, retained surpluses and existing cash resources.			
<b>Total Commitments</b>			
Authorised capital expenditure		7,943	74,453
		<b>7,943</b>	<b>74,453</b>



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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	Note(s)	30-Jun-20	30-Jun-19
		R'000	R'000
<b>30. Contingent Assets</b>			
Penalties on Construction Contracts*			
- Reservoir no. 2		1,071	1,071
Provident Fund Claim **		1,247	1,247
Mhlathuze Water/L.B Mjadu ***		29	29
Water Purification Chemical & Plant CC (WPCP) ****		3,192	-
		<b>5,539</b>	<b>2,347</b>
<p>* Penalties due to MW on construction contracts.</p> <p>** Mhlathuze Water is involved in litigation against employees who are no longer in the employ of the organisation. An interdict against the release of the said employees provident fund was successfully granted by the High Court.</p> <p>*** Mhlathuze Water was involved in a Labour Court case in which the ruling was against the Applicant who was ordered to pay legal cost owing to Mhlathuze Water by the Master of court. An investigation of relating to assets to be attached is underway, the matter has been referred to legal representative of MW for further action.</p> <p>**** Mhlathuze Water has filed a Notice of Intention to Enter</p>			

### 31. Related Party Transactions

Relationships	
Controlling Entity	- Department of Water and Sanitation
Water Boards	- Umgeni Water
Interim Chief Executive's Employer	- Department of Co-operative Governance and Traditional Affairs
Board Member's	- Foskor Limited

Board member	Entity	Position held
MM Xulu	Foskor (Pty) Ltd	General Manager: Marketing and Sales
MP Duze*	Department of Co-operative Governance and Traditional Affairs	Deputy Director General: Development Planning

\* This only relates to the comparative figures as from the 1st of July 2019 the Chief Executive was appointed.

For a full list of Board members and Executives, refer to note 17

#### Amounts included in Receivables from Exchange Transactions

Department of Water and Sanitation - Water Services (TG Scheme)

Department of Water and Sanitation - External and implementing

Department of Co-operative Governance and Traditional Affairs External/implementing

Foskor Limited - Effluent/laboratory/advances

#### Total

#### Amounts included in Payables from Exchange Transactions

Department of Water and Sanitation - Water Services (TG Scheme)

Department of Water and Sanitation - External/implementing/laboratory services

Foskor Limited - Effluent/laboratory/advances

#### Total

	30-Jun-20	30-Jun-19
	R'000	R'000
	21,411	9,718
	13,345	37,263
	622	-
	8,051	13,043
<b>Total</b>	<b>43,429</b>	<b>60,024</b>
	21,411	9,718
	26,011	12,222
	55	30
<b>Total</b>	<b>47,477</b>	<b>21,970</b>





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### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

#### 31. Related Party Transactions (continued)

##### Sales of goods/services to related parties

Department of Water and Sanitation – Operations and Maintenance (TG Scheme)	50,848	34,097
Department of Water and Sanitation – External and implementing	14,884	9,627
Department of Co-operative Governance and Traditional Affairs Implementing	541	299
Foskor Limited – Effluent disposal & income received in advance	77,968	70,518

##### Total

**144,241**      **114,541**

##### Purchases from related parties

Department of Water and Sanitation – Implementing/laboratory services	64,161	62,249
Department of Water and Sanitation – TG Scheme	50,848	34,097
Foskor Limited – Electricity and Repairs and Maintenance	358	771
Umgeni Water – Water analysis	63	43

##### Total

**115,430**      **97,160**

##### Remuneration of Management and Board

Refer to note 17 “Board members and executives’ emoluments”

	Note(s)	Actual Mhlathuze Water R'000	Budget Mhlathuze Water R'000	Difference between budget and actual R'000
<b>32. Statement of Comparison of Budget and Actual Amounts for the Year Ended 30 June 2020</b>				
<b>Statement of Financial Performance</b>				
Volumes ('000 m <sup>3</sup> )		<b>115,214</b>	<b>119,159</b>	<b>(3,945)</b>
<b>Revenue from exchange transactions</b>				
Sale of goods and services	32.1	<b>663,941</b>	<b>638,523</b>	<b>25,418</b>
<b>Cost of Sales</b>				
Bulk purchases	32.3	(58,538)	(61,713)	3,175
Electricity and water	32.4	(70,951)	(103,441)	32,490
Chemicals		(21,296)	(19,846)	(1,450)
Employee related costs	32.5	(40,561)	(89,868)	49,307
Depreciation and amortisation	32.6	(49,416)	(68,964)	19,548
<b>Gross Profit</b>				
Other income	32.2	<b>18,009</b>	<b>12,524</b>	<b>5,485</b>
<b>Expenditure</b>				
Employee related costs	32.7	(106,740)	(68,463)	(38,277)
Remuneration of board members	17.1	(4,700)	(4,783)	83
Depreciation and amortisation	32.8	(5,984)	(11,112)	5,128
Finance costs	32.9	(7,670)	(3,227)	(4,443)
Lease rentals on operating lease	32.10	(4,201)	(3,117)	(1,084)
Repairs and maintenance	32.11	(74,008)	(66,930)	(7,078)
Electricity and water	32.12	(2,181)	(2,990)	809
Chemicals		(847)	-	(847)
Other Expenses		(92,715)	(116,557)	23,842
<b>Operating surplus</b>				
Gain (loss) on disposal of assets		<b>(2,547)</b>	-	<b>(2,547)</b>
<b>Surplus for the year</b>				
		<b>136,327</b>	<b>30,036</b>	<b>106,291</b>

## MHLATHUZE WATER BOARD

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

	Note(s)	Actual Mhlathuze Water	Budget Mhlathuze Water	Difference between budget and actual
		R'000	R'000	R'000
<b>32. Statement of Comparison of Budget and Actual Amounts for the Year Ended 30 June 2020 (continued)</b>				
<b>Statement of Financial Position</b>				
<b>Assets</b>				
<b>Current assets</b>				
Total current assets	32.13	521,831	334,805	187,026
<b>Non-current assets</b>				
Total non-current assets	32.14	1,071,553	1,186,280	(114,727)
<b>Total assets</b>		1,593,384	1,521,085	72,299
<b>Liabilities</b>				
<b>Current liabilities</b>				
Total current liabilities	32.15	167,425	104,826	(62,599)
<b>Non-current liabilities</b>				
Total non-current liabilities	32.16	97,032	211,119	114,087
<b>Total liabilities</b>		264,457	315,946	51,489
Net assets	32.17	1,328,927	1,205,139	123,788
<b>Total net assets and liabilities</b>		1,593,384	1,521,085	72,299
<b>Statement of Cash Flows</b>				
Net cash flows from operating activities	32.18	229,375	87,812	141,563
Net cash flows from investing activities	32.19	(97,856)	(216,484)	118,628
Net cash flows from financing activities	32.20	(22,199)	117,890	(140,089)
Net inflow or (outflow) in cash and cash equivalents		109,320	(10,782)	120,102



## MHLATHUZE WATER BOARD

(Registration Number 1996/17276/08)

Annual Financial Statements for the year ended 30 June 2020

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

## 32. Statement of Comparison of Budget and Actual Amounts for the Year Ended 30 June 2020 (continued)

### Notes

- 32.1. **Sale of goods and services** has a positive variance of R25.4 million more than budgeted for, this is mainly due to the Operations & Maintenance charges recovered from one of our main customers which was budgeted to end in July 2019 but it was extended on a month to month contract until June 2020. Furthermore, implementing agency fees also contributed to this variance as projects like Department of Labour: UIF were not budgeted less than realised revenue.
- 32.2. **Other income** has a positive variance of R5.5 million more than budgeted, due to interest realised being higher than what was projected because of better market factors that resulted to MW securing higher interest rates mainly in the first three quarters of the financial year. MW also had more cash available than was projected, due to the slow implementation of capital projects.
- The variance is also due to interest income accrued from long outstanding debtors not paying with terms.
- 32.3. **Bulk purchases** have a variance of R3.2 million spent less than budget, this is due to lower volumes abstracted and purchased from Department of Water and Sanitation during the period. The main contributors are less volumes abstracted for CoU Richards Bay and Tronox which have mainly had less volumes consumed than contracted. This is due to that CoU had not been abstracting volumes for Richards Bay for a significant period during the financial year.
- 32.4. **Electricity and water (COS)** has a positive variance of R32.5 million, this is due to less pumping of water because MW has not been supplying volumes to COU Richards Bay which resulted to less energy costs. There was also load shifting implemented where some pumping activities were done during off peak hours for customers pumping from Nsezi.
- 32.5. **Employee related costs (COS)** have a positive variance of R49.3 million, under been filled yet for employees directly involved in production and cost savings realised in other employee related costs such as overtime and shift allowances. Overall employee related costs has a net positive variance of R11.3 million, the overall budget for employee related costs was not exceeded taking in to account the indirect employees budget in 32.7 below that was misallocated during the budget process.
- 32.6. **Depreciation and amortisation (COS)** has a positive variance of R19.6 million this is due to capital assets budgeted for that have were not capitalised on time as planned as a results of project implementation delays, such as the Weir Project and the Pipeline to the Shooting Range, thus less depreciation charge for the period.
- 32.7. **Employee related costs** reflects a negative variance of R38.3 million, the overspending is due to under-budgeting for indirect employees. Overall employee related costs has a positive variance of R11.3 million, the overall budget for employee related costs was not exceeded taking in to account the direct employees budget in 32.5 above.
- 32.8. **Depreciation and amortisation** reflect a positive variance of R5.1 million due to capital assets budgeted for that have not been purchased yet in different line items such as furniture and fixtures and office equipment. This is due delays in implementation of capital expenditure plans and an impact of Covid-19 in the last quarter of the financial year.
- 32.9. **Finance costs** have a negative variance of R4.4 million this is due interest costs being higher than what was budgeted since no interest capitalised as borrowing costs as it was budgeted. The projects that were work in progress were funded internally and not through interest bearing borrowings.
- 32.10. **Lease rentals on operating leases** has a negative variance of R1.1 million spent more than budget, due to that a portion of IT equipment lease rentals is budgeted under Other Expenses – IT expenses while for presentation purposes in the Annual Financial Statements it is reported under lease rentals. Overall, taking into account the budget for IT expenses, the variance is positive.
- 32.11. **Repairs and maintenance** has a negative variance of R7 million spent more than budgeted, due to more maintenance work carried over for Section 30 operations and maintenance contracts that were not budgeted for. A significant portion of Repairs and Maintenance expenses was realised for secondary activities contracts.
- 32.12. **Electricity and water reflects** a positive variance of R0.8 million, due to a reduction in electricity consumption at the Head Office as a result of load shedding in the third quarter of the financial year and adjusted working schedule as some of our employees were working from home in the last quarter of the financial year during the national lockdown for Covid-19.



## MHLATHUZE WATER BOARD

(Registration Number 1996/17276/08)

Annual Financial Statements for the year ended 30 June 2020

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

### 32. Statement of Comparison of Budget and Actual Amounts for the Year Ended 30 June 2020 (continued)

#### Notes

- 32.13 **Current assets** have a positive variance of R187.4 million above budget, this due to the increase in trade receivables under the secondary activities that were not budgeted for such as City of uMhlathuze operations and maintenance contract extension on a month-to-month contract until June 2020. MW also have more cash in the bank than what it was projected due to delays in spending for capital related expenditure.
- 32.14 **Non-current assets** have a negative variance of R114.7 million below budget, this is due to delays in implementation of some major capital projects. These projects includes Plant Augmentation project and MW Alternative Waster Supply project which has which has not yet been implemented.
- 32.15 **Current liabilities** have a negative variance of R62.6 million above budget due to the increase in cash advances and their accrued interest by Principal Agent.
- 32.16 **Non-Current liabilities** have a positive variance of R114.1 million below budget due to the repayment of interest bearing borrowings, furthermore there was no new loan agreements entered to by Mhlathuze Water as was projected.
- 32.17 **Net assets** have a positive variance of R123.8 million more than budget due to positive surpluses made as well as interest earned on cash invested for reserves.
- 32.18 **Net cash flow from operating activities** have a positive variance of R141.6 million due to more revenue realised from sale of services in Section 30 activities and less expenses incurred and paid compared to due in different cost drivers and also due to Covid-19.
- 32.19 **Net cash flows from investing activities** have a positive variance of R118.6 million due to capital projects that were budgeted for but could not materialised due to due to delays in implementation of some major capital projects. The contribution was also low spending in capital expenditure as result of Covid-19 in the last quarter of the financial year.
- 32.20 **Net cash flows from financing activities** have a negative variance of R140.1 million due to the fact that an interest bearing borrowing that was budgeted for was not acquired. The net outflow is due to current loans that were paid during the financial year.

### 33. Events After the Reporting Date

None reported

### 34. Taxation

Mhlathuze Water is exempt from taxation in terms of section 10(1)(t) (ix) read with the definition of Water Services Provider in Section 1 of the Income Tax Act, 1962 (Act No. 58 of 1962).

### 35. Going concern

In 2018/19, the Minister of Human Settlements, Water and Sanitation resolved to put the implementation of the Institutional Reform and Rehabilitation (IRR) Program on hold in order to allow for proper consultation with all stakeholders.

The Board of Mhlathuze Water was appointed for a 4 year term period commencing on the 5th of December 2018.

National Treasury has approved borrowing limits of up to R223 million (2020/21 financial year) for Mhlathuze Water.

As at reporting date, Mhlathuze Water made an assessment of the COVID-19 pandemic on its own operations, suppliers and customers as follows:

- Mhlathuze Water's major customers are in essential goods and services, their operations were still on-going during the lockdown periods and the bulk water supply and effluent disposal was not affected negatively;
- Mhlathuze Water's customers have not indicated severe financial difficulties that may provide reasonable doubt and that may significantly affect their credit risk;
- Mhlathuze Water is operating on contracted volumes and a significant portion of revenue is fixed and none of the key customers have indicated intent to decrease contracted volumes or cease operating;
- There was no significant decrease in either the water volumes sold or the effluent disposal during the 2019/20 financial year as a result of the COVID-19 pandemic;
- None of Mhlathuze Water's customers have indicated major.

Based on the above assessment, 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.



**MHLATHUZE WATER BOARD**

(Registration Number 1996/17276/08)

Annual Financial Statements for the year ended 30 June 2020

*NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)*

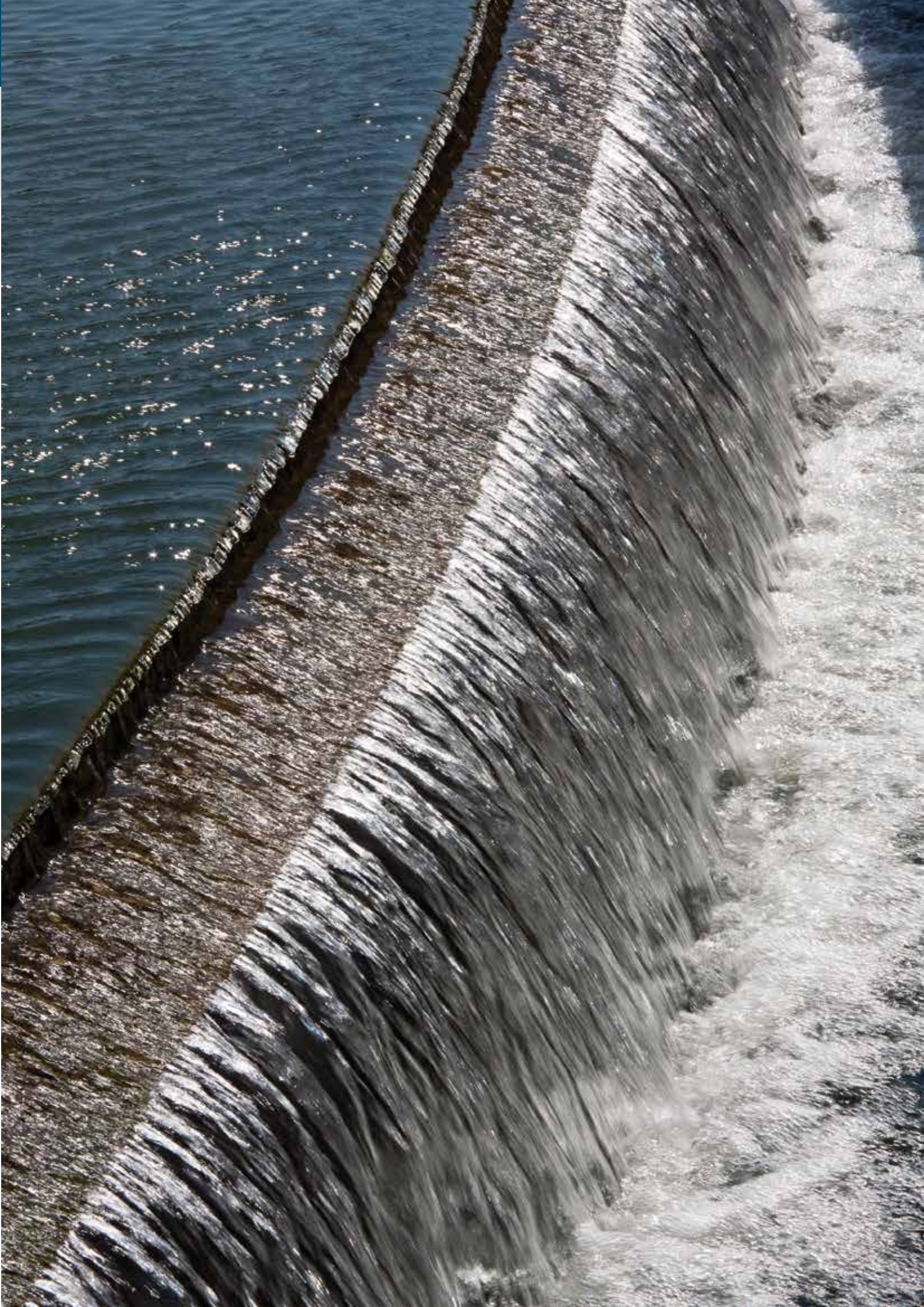
	Note(s)	30-Jun-20	30-Jun-19
		R'000	R'000
<b>36. Contingent Liabilities</b>			
<b>36.1. ENDECON UBUNTU/THUTSE Civils Joint Venture</b>			
Ref: MW/000232			
On 5 February 2019 Mhlathuze Water was served with summons where Endecon Ubuntu is claiming the payment of R1.5 million together with interest calculated from 22 September 2015. This was as a result of an unpaid invoice for professional services on the Dukuduku resettlement project in terms of the agreement entered into on 18 November 2013. Mhlathuze Water appointed attorneys to defend this matter. The notice to defend was filed on 12 February 2019. The applicant filed the summary judgment application which was subsequently dismissed with costs. The matter will proceed with normal proceedings. The notice of set down is still awaited.			
		1,527	1,527
<b>36.2. Water Purification Chemical and Plant CC (WPCP)</b>			
On 18 March 2019 Mhlathuze Water was served with provisional sentence summons where WPCP is claiming a payment of R3.2 million together with interest calculated from 8 March 2019. Mhlathuze Water has filed the opposing papers. The claim has been settled in the 2019/20 financial year.			
		–	3,192
<b>36.3. CCMA Referral Case</b>			
An employee was dismissed for misconduct on 31 July 2018. The matter was referred to the CCMA on 16 August 2018 and was set down for conciliation on 4 September 2018. The parties did not reach a settlement and the matter was referred to arbitration.			
Mhlathuze Water took the matter on review with the Labour Court in May 2019 and is pending finalisation.			
		794	794
		<b>2,321</b>	<b>5,513</b>





# SECTION E GENERAL INFORMATION

<b>Country of incorporation and domicile</b>	South Africa
<b>Legal form of entity</b>	Schedule 3B Public Entity
<b>Nature of business and principal activities</b>	<ul style="list-style-type: none"> <li>• Provision of raw, clarified and purified water to industries and water service authorities.</li> <li>• Collection of waste water from all industries and dispose it offshore pipelines in a safe environment.</li> <li>• Programme, project implementation and management services in both bulk water and sanitation projects.</li> <li>• Water and waste water laboratory testing services.</li> </ul>
<b>Compliance with legislation</b>	<p>The annual financial statements are prepared in accordance with Generally Recognised Accounting Practices (GRAP) and the following relevant pieces of legislation:</p> <ol style="list-style-type: none"> <li>1. Water Service Act, 1997 (Act 108 of 1997), and</li> <li>2. Public Finance Management Act, 1999 (Act No: 1 of 1999)</li> </ol>
<b>Business and registered office</b>	<p>Corner of Battery Bank and South Central Arterial Alton Richards Bay, 3900</p>
<b>Postal address</b>	Private Bag x1047, Richards Bay, 3900
<b>External Auditors</b>	Auditor General of South Africa
<b>Company Secretary</b>	Ms. S Mbatha
<b>Bankers</b>	First National Bank
<b>Reporting Period</b>	30 June
<b>Presentation Currency</b>	South African Rand





## **MHLATHUZE WATER**

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Richards Bay**

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YOUR RELIABLE WATER AND WASTEWATER BUSINESS PARTNER OF CHOICE