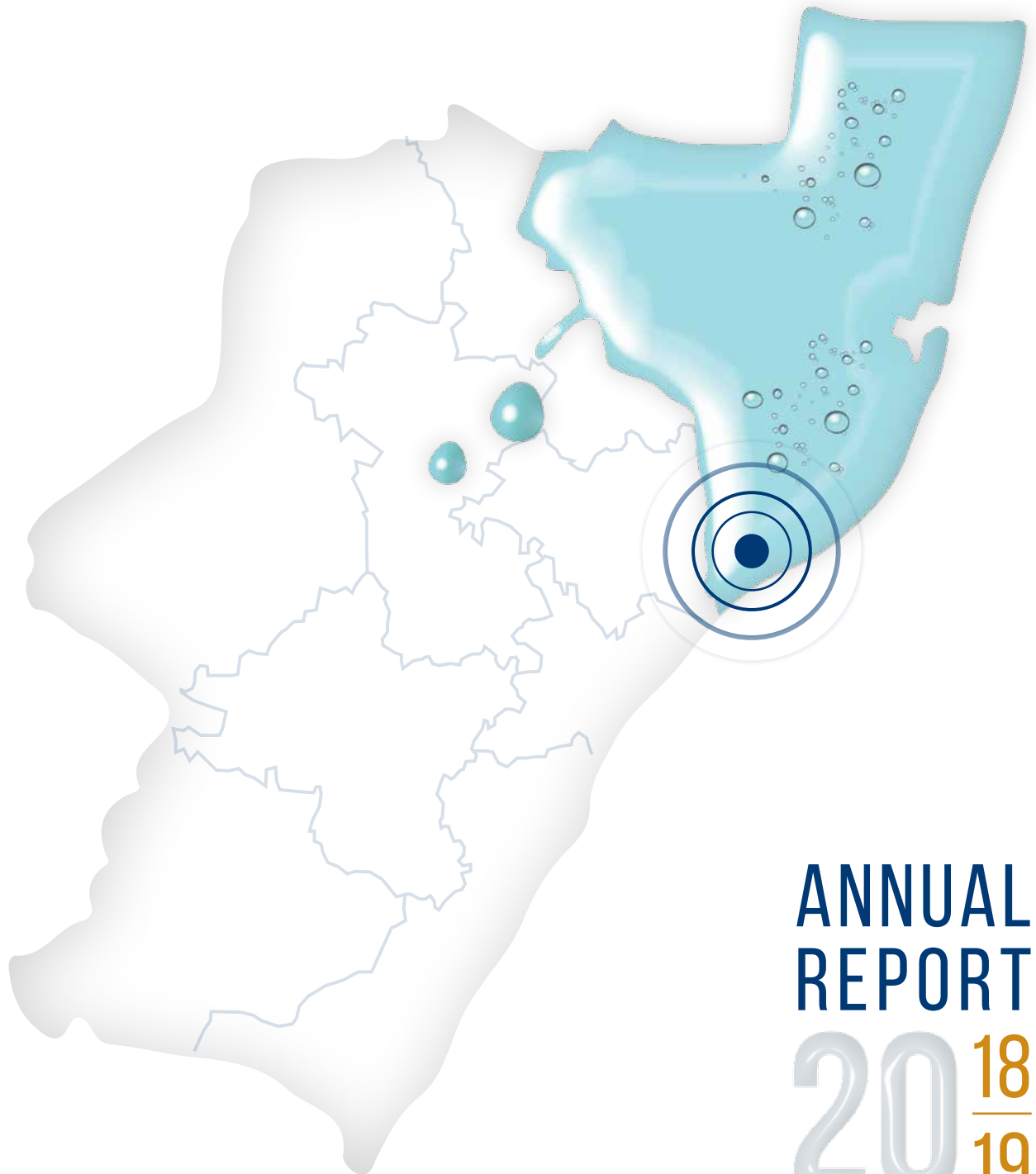


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**ANNUAL
REPORT**
20¹⁸₁₉



MHLATHUZE WATER EMPLOYEES
PERFORMING ROUTINE MAINTANANCE
AT NSEZI WATER TREATMENT PLANT

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ABBREVIATIONS

AC	Audit Committee
ACIP	Accelerated Community Infrastructure Programme
AGSA	Auditor-General South Africa
AMCOW	African Minister Council on Water
ASB	Accounting Standards Board
AFWA	African Water Association
ASIDI	Accelerated Schools Infrastructure Development Initiative
BBBEE	Broad-Based Black Economic Empowerment
BCOM	Bachelor of Commerce
BDS	Blue Drop System
BSc	Bachelor of Science
CAPEX	Capital Expenditure
CE	Chief Executive
CFO	Chief Financial Officer
CMA	Catchment Management Agency
CMF	Catchment Management Forum
CMMS	Computerised Maintenance Management System
CoGTA	Cooperative Governance and Traditional Affairs
COO	Chief Operations Officer
CoU	City of uMhlathuze Municipality
CSD	Central Supplier Database
CSI	Corporate Social Investment
DBSA	Development Bank of Southern Africa
DBE	Department of Basic Education
DM	District Municipality

DUT	Durban University of Technology
DWS	Department of Water and Sanitation
ECSA	Engineering Council of South Africa
EIA	Environmental Impact Assessment
EMS	Environmental Management System
EPC	Engineering Procurement and Construction
ESD	Enterprise and Supplier Development
EWSETA	Energy and Water Sector Education and Training Authority
EXCO	Executive Committee
FY	Financial Year
GDP	Gross Domestic Product
GIS	Geographic Information System
GRAP	Generally Recognised Accounting Practices
HoD	Head of Department
HR	Human Resources
IAS	International Accounting Standards
IDZ	Industrial Development Zone
IFRS	International Financial Reporting Standards
INCA	Infrastructure Finance Corporation Limited
ISA	International Standard on Auditing
ISO	International Organisation for Standardisation
KZN	KwaZulu-Natal
LIMS	Laboratory Information Management System
LM	Local Municipality
m ³	Cubic Metres
m ³ /s	Cubic Metres per second

MI	Megalitre
MI/day	Megalitres per day
MANCO	Management Committee
MBA	Master of Business Administration
MBL	Master of Business Leadership
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MW	Mhlathuze Water
MWIG	Municipal Water Infrastructure Grant
NEMP	National Eutrophication Monitoring Programme
NMMP	National Microbial Monitoring Programme
NT	National Treasury
NQF	National Qualifications Framework
O&M	Operations & Maintenance
OHSAS	Occupational Health and Safety Assessment Series
PFMA	Public Finance Management Act
RBM	Richards Bay Minerals
RBIG	Regional Bulk Infrastructure Grant
SA GAAP	South African Statements of Generally Accepted Accounting Practices
SAICA	South African Institute of Chartered Accountants
SAICEE	South African Institute of Electrical Engineers
SANS	South African National Standards

SCADA	Supervisory Control and Data Acquisition
SHC	Shareholders Compact
SHEQ	Safety, Health, Environmental and Quality Management
SCM	Supply Chain Management
SLA	Service Level Agreement
SOE	State Owned Enterprise
SMME	Small Medium Micro Enterprise
TGS	Tugela-Goedertrouw Transfer Scheme
TR	Treasury Regulations
uPVC	Unplasticized Polyvinyl Chloride
UTDM	uThungulu District Municipality
UKDM	uMkhanyakude District Municipality
WFW	Work for Water
WISA	Water Institute of South Africa
WMA	Water Management Areas
WSA	Water Services Authority
WSIG	Water Services Infrastructure Grant
WRM	Water Resource Management
WUL	Water Use License
WTP	Water Treatment Plant
WTW	Water Treatment Works
WWDS	Waste Water Disposal Scheme
WWTP	Waste Water Treatment Plant
ZDM	Zululand District Municipality

FOREWORD BY THE MINISTER



Our country is seized with a water scarcity crisis which calls upon all of us to take decisive action and seek innovative ways of ensuring an adequate and equitable water supply for all. While this is a challenge faced by both rural and urban communities alike, the hard truth is that it is among those who are disadvantaged, Black and living in rural areas that this problem is most pronounced.

Notwithstanding the devastations of climate change which have aggravated our susceptibility to droughts and led to increased competition for water resources, it is unacceptable that, a quarter of a century into our democratic dispensation, there are communities who live adjacent to dams and other water infrastructure but yet cannot access clean water.

In a bid to address this perpetuation of inequality, our National Water and Sanitation Master Plan places particular emphasis on ensuring the equitable use of water for productive purposes, ensuring that the governance of water is broadly representative and that there is access to decent water and sanitation services for all.

Through our water utilities in the various provinces, we have sought to effectively address the question of equitable allocation

of water resources and effective infrastructure management, operation and maintenance in line with our 2030 National Development Plan. This is an imperative that also finds mention in the United Nation's Sustainable Development Goals which, among other factors, link the sustained provision of safe water and sanitation to the eradication of poverty, improved livelihoods and the promotion of gender equality. We have called upon our water sector stakeholders to come up with forward looking strategies that will boost our nation's water management capacity.

Central to this task is the need to ensure that we not only build new water infrastructure but also maintain what is already in existence. There are strengths that we can build on, many of which we have already started leveraging on. However, achieving the target of expanding our water provision aggregate will require that our water boards shift up a gear and operate in new, inventive ways.

Within this context of sustainable water management, we expect a renewed vigour and dedication from Mhlathuze Water to growing its footprint beyond its traditional areas of operation in the northern reaches of KwaZulu-Natal.

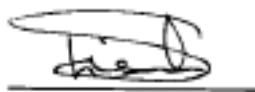
As a utility with nearly four decades experience, that is financially independent and self-sustaining, without looking to the shareholder for subsidies in order meet its operational and capital budget obligations, Mhlathuze Water is ideally posed to expand its primary business activities of the sale and supply of untreated, purified and clarified bulk water supply, and the disposal of industrial and domestic waste water to uncharted territories in KwaZulu-Natal.

Moreover, we expect the utility to continue to execute its secondary activities of implementing bulk water related projects either under Ministerial Directive, or by agreement with other government institutions. As per the directive by President Cyril Ramaphosa to prioritise the provision of water infrastructure, it is gratifying to note that Mhlathuze Water has successfully executed a number of large scale infrastructure initiatives that have not only brought relief to communities but also translated to skills transfer and the creation of employment opportunities and thus local economic development.

We also note with extreme pride that Mhlathuze Water has received an unqualified audit report from the Auditor-General.

This is the surest indication yet that Mhlathuze Water has truly turned the corner, and further confirms the utility's adherence to the highest ethical, integrity and governance standards.

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



Ms Lindiwe Sisulu, MP

**Minister of Human Settlements, Water
and Sanitation**

30 October 2019

FOREWORD BY THE CHAIRPERSON OF THE BOARD



Mhlathuze Water has the unique mandate of providing reliable bulk potable water to Water Authorities for on-delivery to communities, bulk clarified water to industries as well as the disposal of effluent water in a manner that is compliant to set environmental standards. Mhlathuze Water commits to ensuring that we, at all times, live up to our vision of being the reliable water and waste water business partner to all our customers.

Further, Mhlathuze Water has an externally monitored scientific services that concerns itself with water quality testing as well as with exploring of possible solutions such as the conversion of wastewater for alternate uses, which demands employment of new innovative treatment methods in the water reclamation process. This is in recognition of the imminent fourth Industrial Revolution (FIR).

Mhlathuze Water also provides Operations and Maintenance (O&M) agency services to its water infrastructure to customers.

The Mhlathuze Water Board was appointed by the Minister of the Department of Water and Sanitation (DWS) with the approval of National Cabinet at the end of the second quarter of 2018/2019 financial year.

The newly appointed Board had the immediate charge to lead a turnaround and repositioning of Mhlathuze Water and ensure that the long overdue matter of leadership stability in the organisation was dealt with decisively. However, this undertaking could not be realised without the appointment of a fixed term Chief Executive which process was finalised towards the end of the 2018/2019 financial year.

In line with this, the Board was further aware that procurement, retention and the development of a robust, appropriately skilled and experienced human resource commensurate to the Mhlathuze Water business was vital. Nurturing a Board that is appropriately poised to provide strategic direction, effective oversight and sound governance became the focus during 2019/2020 financial year.

Given the prevailing circumstances, we were given the unequivocal directive by the Minister of Water and Sanitation, the Shareholder on behalf of the Nation, to hasten our infrastructure programmes, bring about leadership certainty and gear our focus on critical business imperatives to mitigate against any exposure to operational, financial, environmental, reputational and governance risks.

As the Board we remain acutely aware of the water scarcity challenges that characterise mainly the northern parts of the province and which continue to undermine our best efforts to ensure the availability of bulk water for all, hence our support for initiatives that seek to mitigate against this very pronounced threat to livelihoods and economic activities.

Cognisant of the National Development Plan (NDP) which recognises water as the fundamental enabling ingredient for investment attraction, economic activities trigger, industrial development and sustained poverty reduction, Mhlathuze Water's strategic thrust over the next four years is to ensure that we work towards attracting and retaining adequately skilled and qualified personnel to the organisation, particularly in the scarce skills of engineering and its related disciplines.

These imperatives therefore demand a farsightedness that will enable us to prudently and diligently manage our water infrastructure, grow our revenue and maintain a strong balance sheet without compromising the delivery on our mandate and the expectations of our stakeholders.

The vastly improved 2018/2019 report by the Auditor-General on Mhlathuze Water is indicative of corrective measures that were taken internally to curb those issues flagged in prior financial years which included among others, irregular expenditure due to understatement in Annual Financial Statements.

The current strained economic climate calls for greater austerity and a reduced spending on certain undertakings without compromising

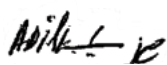
the improvement or upgrading of critical infrastructure which guarantees water access and security.

This includes the delivery of bulk water interventions to communities severely affected by droughts in the Zululand District Municipality, the augmentation of our treatment plant and embarking on the next phase of the Jozini water supply project in UMkhanyakude District Municipality.

Mhlathuze Water is poised to spread its wings beyond the District Municipalities north of Thukela River and KwaZulu-Natal in general.

Sincere appreciation goes out to the Board members who in the first 180 days of their tenure have shown great energy and commitment to achieving urgent milestones. Credit is also due to the Chief Executive who for almost 36 months, prudently and diligently carried out the heavy responsibilities of steering the ship as both the Accounting Authority and an Accounting Officer. This was a task undertaken within the prescripts of the law until the appointment of the Board on the 5th December 2018.

We remain diligent and alive to the challenges that had, in the past, been an encumbrance to Mhlathuze Water realising unqualified audits, growing our business, sustained financial viability and sound governance.



Ms Thabi Shange

Chairperson of the Board

30 October 2019

CHIEF EXECUTIVE'S OVERVIEW



It is with the utmost pleasure and a sense of fulfilment that we present to you the Mhlathuze Water Annual Report for the 2018/2019 financial year. This has been a period marked by a number of exciting developments within Mhlathuze, all geared towards putting the organisation on a solid growth trajectory which, in turn, has helped us continue to discharge with aplomb our primary role of delivering bulk water and waste water services.

As an organ of the State, whose founding mandate is premised on various legislative and constitutional decrees that uphold the right of access to water supply for all, Mhlathuze Water has not shifted its focus from the strategic goal of ensuring that this precious yet finite natural resource is managed and distributed in a manner that is biased towards the development of all stakeholders in the value chain, particularly those resident in deep rural areas and the private sector.

For this stated reason, in all our endeavors, we have remained mindful of the need to support and complement our government's stated ideals of accelerated economic

growth and transformation, job creation, poverty alleviation and investment attraction in line with the United Nation's Sustainable Development Goals and the National Development Plan (NDP). The latter remains our touchstone document, serving as our lodestar as we traverse towards our 2030 vision.

As Water Boards, we have our work cut out in terms of effectively managing water resources in a manner that is in harmony with the country's economic and environmental situation as envisioned in the NDP.

As an actor in the bulk water space with four decades of experience, Mhlathuze remains poised to continue occupying a critically important role in the economic and social development of KwaZulu-Natal.

Furthermore, and notwithstanding our historical configuration of servicing mainly those geographies situated in the northern reaches of the province, our intentions are to expand into new, uncharted territories, spreading even beyond the province of KwaZulu-Natal.

A necessary precondition for this expansion to occur is the availability of adequate infrastructure that is able to both deal with the anticipated growth in demand for water and ensure the proper catchment and preservation of fresh water.

Already, owing to the radical shifts in weather patterns which have in recent years manifested themselves in extreme droughts in the Zululand District and flash floods elsewhere, we have witnessed the first glimpses of how poorly managed water supplies and a dearth of adequate infrastructure can lead to water deficits and ultimately the devastation of livelihoods.

In realising this, and cognisant of the need to act against this identified threat, the year under review has seen Mhlathuze Water embarking on ambitious upgrades and rehabilitation of its water infrastructure.

In all of the above, we were guided by our Bulk Water and Sanitation Master Plan, which gave us a bird's eye view 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.

Our broad and impactful renewal projects undertaken in the period under review were premised on the attainment of the grand target of increasing our output and ensuring water security well into the future.

In total, for our primary infrastructure services, we invested an amount in excess of R122 million over the past financial year to make provision for reserves in order to accommodate for future demand resulting from growth and development within Richards Bay and surrounding areas. Among some of the projects successfully undertaken can be counted:

INSTALLATION OF A STANDBY DIESEL GENERATOR AS A BACK-UP POWER SUPPLY

This project entailed the construction of a standby generator building and the installation and commissioning of a new standby generator to serve as a backup power supply for the 22kVa line from the Eskom grid. This project was successfully completed in June 2019.

ALTERATIONS AND STRENGTHENING OF WEIR STRUCTURE

Mhlathuze Water undertook major alterations and additions to the existing Weir. The execution of this undertaking included the overall strengthening of the Weir structure through a new mass concrete ogee spillway; bulk earthworks; new inlet channel to the existing pump station and the installation of permanent sheet piles and the stabilisation of riverbed and banks. This project was undertaken over a period of 65 weeks and will prolong the lifespan of the Weir.

REPLACEMENT OF 1 500MM Ø RAW WATER PIPELINE FROM MHLATHUZE RIVER TO SHOOTING

Mhlathuze Water also embarked on an upgrade of the existing 1 200mm diameter pipeline to a larger 1 500mm diameter continuously welded mild steel pipeline from the Mhlathuze Weir to the Nsezi offtake. In order to meet the growing demand for water, it has become necessary to upgrade the maximum abstraction capacity at the weir Pump Station from 205ml per day to 265ml per day.

SECONDARY INFRASTRUCTURE DEVELOPMENT ACTIVITIES

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 the Municipality is fully capacitated to take over the running of the scheme. The project has reached practical completion with only 3 pump stations yet to be commissioned.

NONGOMA WATER SUPPLY PROJECT

Mhlathuze Water has moved with speed in the implementation of a Ministerial Directive for provision of water services within Nongoma. The scope of work included the installation of boreholes, storage tanks, reticulation and standpipes within Nongoma wards 5, 10 and 11, to supply water to communities without access to basic water. The Nongoma Water Supply project is a multi-year project, with the scope (implemented by Mhlathuze Water) for wards 5, 10 and 11 completed in December 2018. A total of 1 537 households are benefitting from this scheme.

A further 1 583 households in wards 14 and 17 received clean running water thanks to an intervention by Mhlathuze Water to install boreholes, storage tanks, reticulation and standpipes.

ABAUQULUSI

Abaqulusi water supply project; wards 5, 6 and 7 was for the protection of springs. 9 springs were successfully protected and the project is complete. A total of 259 households are benefitting from this project.

In both the Nongoma and Abaqulusi projects, Mhlathuze Water is in the process of handing over the completed projects to the Zululand District Municipality (ZDM).

As attested to by the outcomes of the Auditor-General's final report on Mhlathuze Water's bill of fiscal health for the 2018/2019 period, we have managed to balance the equally important imperatives of delivering on our stakeholders' expectations without falling foul of the relevant financial prescripts as demanded of us by the Public Finance Management Act.

With the able guidance, assistance and leadership from the front of our Board, I am happy to report that Mhlathuze Water has, in the period under review, dealt, once and for all, with instances of financial misconduct and irregular expenditure which had in the past been a blight for the organisation.

It is pleasing that we have been able to get an unqualified financial audit, one of the many which we hope to attain in coming years.

Most notably, we have strengthened our internal accounting controls in accordance with the dictates of GRAP and the PFMA, thereby clearing the matter of exchange transactions which had in the last financial year served as the basis for a qualified opinion.

The specter of the prevailing sluggish economic growth and droughts have posed some challenges for Mhlathuze Water, most notably a nominal increase in debtors' days and a reduction in demand volumes for water.

As a means of navigating around these challenges, Mhlathuze Water has adopted an open and strong stakeholder engagement stance in line with its business and risk management plans.

These external risks have not significantly hampered our ability to conduct our business and the utility remains in a financially sound position to fund its operational obligations in the foreseeable future, without looking to the shareholder representative for financial intervention.

We also remain acutely aware of the need to intervene – as we have done in certain part of the Zululand District and Abaqulusi – and lend our expertise to communities that are still deprived of water. In this regard, using our already existing infrastructure on the ground, we are confident that, working hand in glove with the uMkhanyakude District, we can bring a lasting solution to the water challenges experienced by communities resident within that Municipality.

Over the past year, we have pursued a clear and consistent long-term plan focused on good governance and oversight which has culminated in the formation of a number of Board committees that had, in the recent past, not been constituted.

The dividends of this action have been immediate – Mhlathuze Water, as noted by Parliament's Committee on Water and Sanitation, is an institution poised to serve as a citadel of governance excellence.

I would like to thank the Minister of Human Settlements, Water and Sanitation, Honourable Lindiwe Sisulu and the Board for the support and guidance they continue to give Mhlathuze Water as it seeks to fulfil its mission of contributing to development by providing quality water and waste water disposal services.

I also acknowledge with gratitude all Mhlathuze Water employees and the management team for their continued efforts in assisting the organisation achieve its goals.



Mr Mthokozisi P Duze

Chief Executive

30 October 2019

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 is 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 (Section E) have been prepared in accordance with the GRAP standards applicable to the public entity.

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.

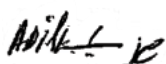
In our opinion, the Annual Report fairly reflects the Operations, Performance Information, Human Resources Information and Financial affairs of the entity for the financial year ended 30 June 2019.



Mr Mthokozisi P Duze

Chief Executive

30 October 2019

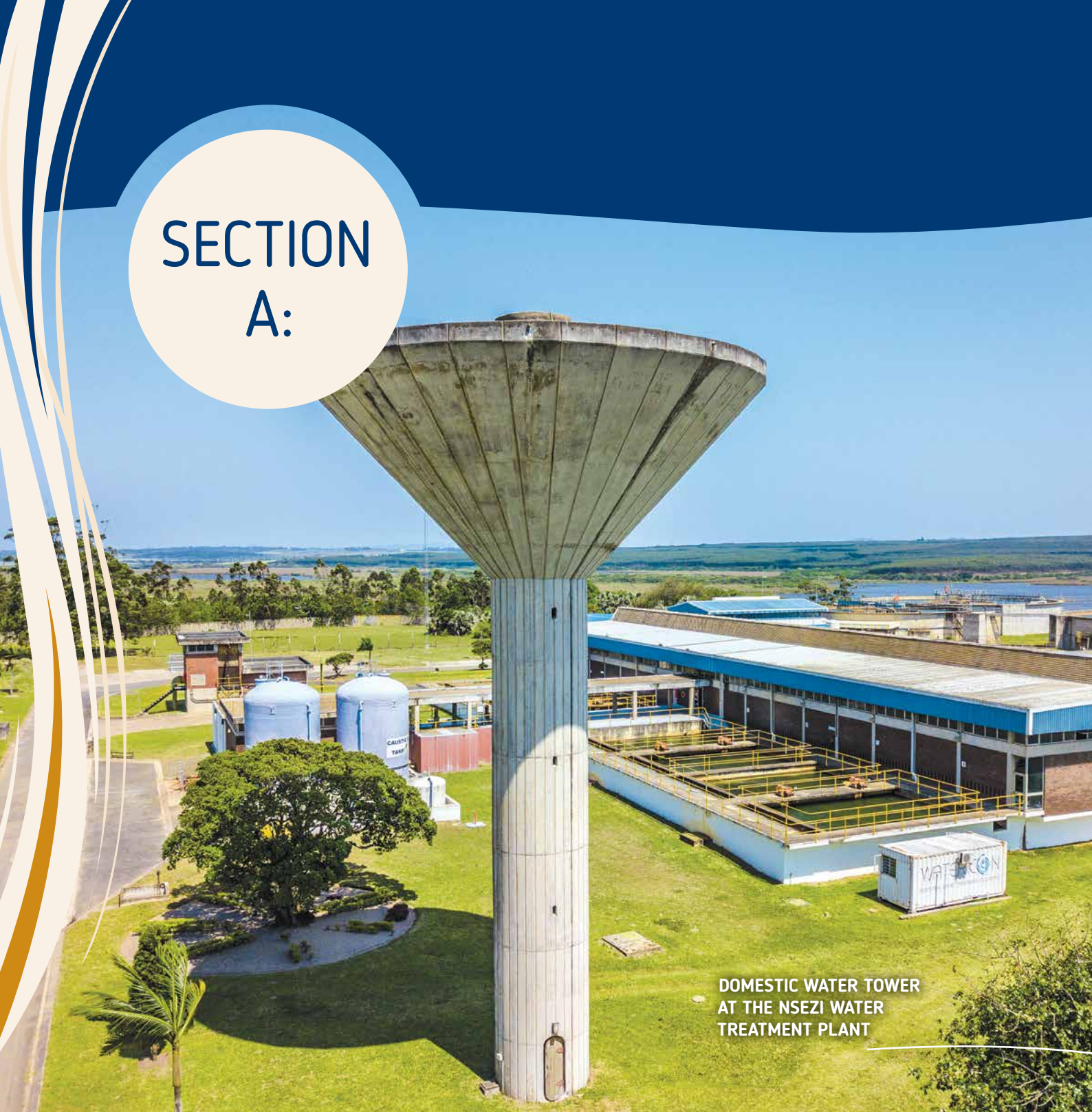


Ms T A Shange

Chairperson of the Board

30 October 2019

SECTION A:



DOMESTIC WATER TOWER
AT THE NSEZI WATER
TREATMENT PLANT

PROFILE OF THE ORGANISATION

1. INTRODUCTION

Mhlathuze Water is a state-owned entity based in Richards Bay and operating in the Province of KwaZulu-Natal. However, due to its geographic location in Richards Bay, the entity predominantly operates 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. The organisation's business activities include raw (untreated), clarified (partially treated) and purified water supply; disposal of industrial and domestic waste water; and scientific services. The organisation provides these bulk water services in a sustainable and cost-effective manner. The organisation's major clients include: Foskor, Richards Bay Minerals, City of uMhlathuze and Mondi.

“Mhlathuze Water strives to achieve its 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.”

Mhlathuze Water strives to achieve its 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 its existing customers is a key success factor for sustainability of the organisation.

As mentioned in the mission statement, Mhlathuze Water strives to contribute towards economic growth through the provision and efficient management; and 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 its immediate area of operation is achieved through the organisation's Corporate Social Investment and Rural Development Programmes respectively.

In providing these services to customers, Mhlathuze Water strives to protect the natural and social environmental and water resources.

Mhlathuze Water is proud to be associated with its employees. It is stated boldly in the organisation's mission statement and in the core set of values that the organisation promotes. The organisation ensures that its most important resource; the employees, are managed, supported, developed and rewarded in a responsible, transparent and unbiased manner by implementing the human resources management and development policies.

MHLATHUZE WATER OPERATIONAL AREA



SOURCES

Boundaries: MDB
Rivers: OSM
Cities: StatsSA
WSA: DSW

PROPERTIES

Document Name :
Mhlathuze Water Operational Areas
Creation date : 06/03/2019

Created by :
Mhlathuze GIS
Print format : A4 Potrait
Confidentiality : Public

SCALE

1:2 280 000 1 cm = 22 800 m
0 20 40 60 80 100 km



2. VISION, MISSION, VALUES AND CRITICAL SUCCESS FACTORS

2.1 VISION, MISSION AND VALUES

VISION

Your reliable water and waste water business partner of choice.

MISSION

Through good governance, committed and skilled employees, contribute to development by providing quality water and waste water disposal services.

STRATEGIC INTENT

KEY FOCUS AREAS

STRATEGIC OBJECTIVES

CUSTOMERS

SO 1: To grow the provision of water services;
SO 3: To initiate and build relationships with stakeholders to add value for all; and
SO 7: To improve efficiency through technology and best practices.

FINANCIAL

SO 2: To ensure long-term financial sustainability of the Organisation.

PROCESSES

SO 5: To optimise business processes and systems; and
SO 6: To be pro-active on issues relating to health, safety, security, and the environment.

ORGANISATIONAL CAPACITY

SO 4: To resource the Organisation with the required skills and competence to deliver the strategic intent.

OUTCOMES

- > Increase Leadership and Operational competence;
- > Unqualified Audit;
- > Safe and Secure working environment;
- > Meet quality and compliance standards;
- > Complete feasibility studies to reduce waste water discharge into the ocean;
- > Implement technology to reduce cost of sales; and
- > Reduce water wastage from abstraction.

OUTCOMES

- > Invest effectively in bulk water storage;
- > Invest effectively in bulk water production;
- > Diversify and Expand the business footprint;
- > Revenue generation from investment in assets;
- > Maintain quality service to existing customers;
- > Increase in the Local/Regional economic spend; and
- > Local community to feel the presence of Mhlathuze Water.

2.2 VALUES

Mhlathuze Water 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 Mhlathuze Water continues 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, mind-sets 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 the organisation 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. Mhlathuze Water realises that compliance is an ongoing process and will, therefore, continue to seek sound and innovative ways to ensure full compliance in all the reporting obligations to both its 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; and
- > 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

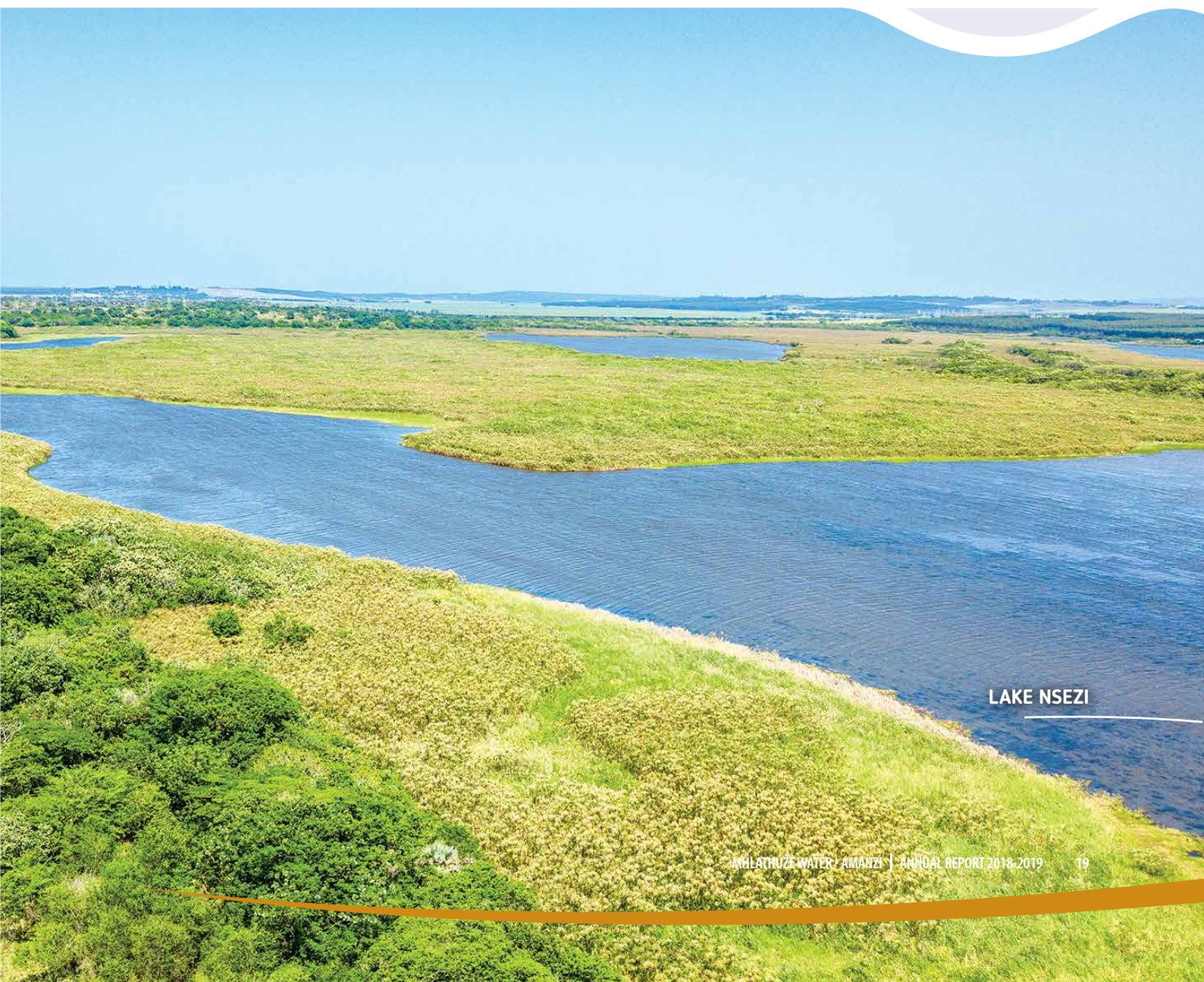
the commencement of each financial year prepare and adopt a business plan relating to the following five financial years.

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; and
- > 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 Mhlathuze Water to undertake any other activities, provided these do not impact negatively on the entity's ability to perform its primary activities. These include:

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



LAKE NSEZI

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 which 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) and (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; and
- > 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 OTHER LEGISLATIVE IMPERATIVES INCLUDE, BUT ARE NOT LIMITED TO:

- > Treasury Regulations (in terms of the Public Finance Management Act, 1999 (Act No.1 of 1999);
- > South African Receiver of Revenue Act, 1997 (Act No. 34 of 1997);
- > National Environmental Management Act, 1998 (Act No. 107 of 1998);
- > The National Environmental Management: Integrated Coastal Management Act, 2008 (Act No. 24 of 2008);

- > Occupational Health and Safety, 1993 (Act No. 85 of 1993);
- > The Compensation for Occupational Injuries and Diseases Act, 1993 (Act No. 130 of 1993);
- > Treasury Regulations 130 of 1993;
- > Employment Equity Act, 1998 (Act No. 55 of 1998);
- > Labour Relations Act, 1995 (Act No. 66 of 1995);
- > Basic Conditions of Employment Act, 1997 (Act No. 75 of 1997);
- > Skills Development Act, 1998 (Act No. 97 of 1998);
- > Protection of Personal Information Act, 2013 (Act No. 4 of 2013); and
- > Protected Disclosures Act, 2000 (Act No. 26 of 2000).

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

Mhlathuze Water contributes 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 defecation, 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 wastewater 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, Mhlathuze Water contributes 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. Mhlathuze Water recognises the importance of a technically competent workforce and contributes in building capacity within the water sector through the skills development programme. The organisation has trained participants in the learnership programme.

Outcome 6: An efficient, competitive and responsive economic infrastructure network. Mhlathuze Water is 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; and
- > Natural water sources will be protected to prevent excessive extraction and pollution.



CLARIFIER FOR SETTLING
SOLIDS DURING THE WATER
TREATMENT PROCESS

4. MHLATHUZE WATER'S BUSINESS

Our services:

- > Bulk Water provision: raw, clarified and purified to industries; and Water Services Authorities;
- > Bulk waste water disposal; and
- > Section 30 Activities as permitted in the Water Services Act.

4.1 CORE BUSINESS

4.1.1 BULK WATER PROVISION

Mhlathuze Water provides raw, clarified and purified water to industries and water service authorities through its 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.

4.1.2 BULK WASTE WATER DISPOSAL

Mhlathuze Water collects waste water from all industries and disposes off through the sea's offshore pipelines in a safe environment. The disposal capacity is 120mil m³ per annum.

4.2 SECTION 30 ACTIVITIES

4.2.1 PROJECT IMPLEMENTATION AND MANAGEMENT SERVICES

Mhlathuze Water possess a wide range of experience in programme and project implementation; as well as management services in both bulk water and sanitation projects. Over the years, the organisation supported numerous government departments in implementing projects within the following Municipalities:

- > Harry Gwala District Municipality;
- > Zululand District Municipality;
- > uMkhanyakude District Municipality;
- > King Cetshwayo District Municipality; and
- > City of uMhlathuze.

4.2.2 SCIENTIFIC SERVICES

The organisation is 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 services focus 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) whilst building internal capacity.



MHLATHUZE WATER UNDERTAKES
WATER QUALITY TESTS IN LINE
WITH INTERNATIONAL STANDARDS

SECTION B:

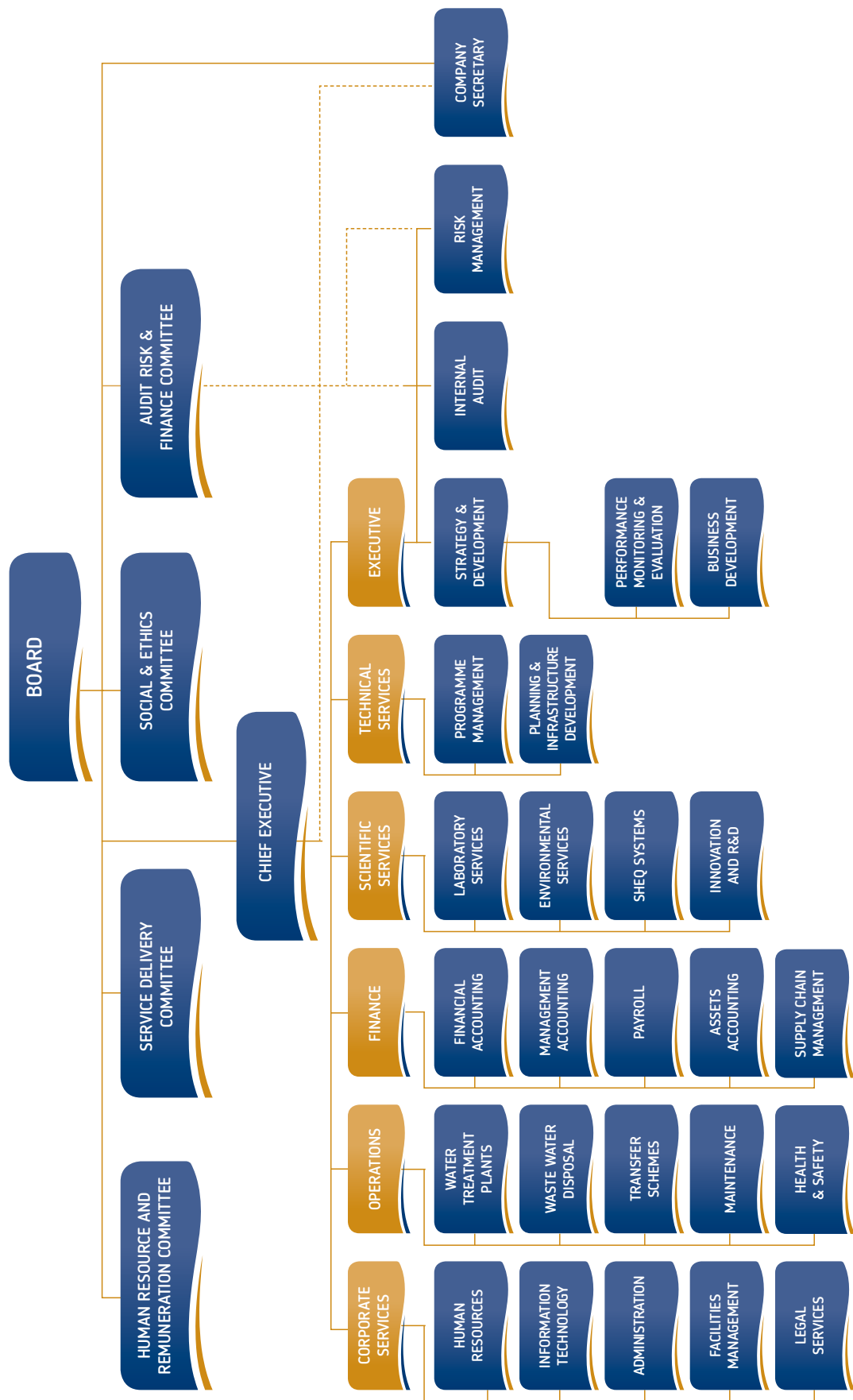


FEMALE BOARD
MEMBERS

CORPORATE GOVERNANCE

5. HIGH LEVEL ORGANISATIONAL STRUCTURE

Figure 2: High Level Organisational Structure



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 05 December 2018. The Primary role of the Board is to ensure that Mhlathuze Water succeeds in discharging its 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 Mhlathuze Water's 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 the organisation's strategy and exercising accountability to the 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 in various Boards over 25 years. She has also served in the Public, Corporate, & Social Sectors;
- > A former Regional Land Commissioner – KwaZulu-Natal;
- > Former General Manager Strategic Affairs at Richards Bay Minerals; and
- > Good Governance, Leadership and Communications skills and well-rounded Development Practitioner.



MR S. Z. HLOPHE DEPUTY CHAIR

CORE QUALIFICATIONS

- > MBL: Business Leadership;
- > B. Com. Honours: Accounting; and
- > ND: Cost and Management Accounting.

AREAS OF EXPERTISE

- > He has vast senior management experience which cuts across the public and private sectors; and
- > His experience across the private and public sectors are 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

- > M Admin: Public Admin;
- > Honours: Public Admin;
- > Bachelor of Admin Degree; and
- > ND: Public Admin.

AREAS OF EXPERTISE

- > He is a subnational 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; and
- > He has solid theoretical and practical experience in Human Capital Development.



MRS N. GEVERS

CORE QUALIFICATIONS

- > Chartered Accountant of South Africa;
- > Postgraduate Diploma: Management Accounting;
- > BCom. Degree; and
- > 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; and
- > She served as a member of the former Mhlathuze Water Board.



DR M. MAKGAE

CORE QUALIFICATIONS

- > PhD in Environmental Chemistry;
- > M Sc: Chemistry in Membrane Technology;
- > B Sc: Honours in Chemistry;
- > Certificate: Environmental Management;
- > Certificate: Project management; and
- > Management Advancement Programme (MAP).

AREAS OF EXPERTISE

- > She has insight and experience in scientific services and water quality;
- > She has worked for several State-Owned Entities, including 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; and
- > She is currently serving as a Board member to Water Research Commission, and Mhlathuze Water, and an Advisor to the National Nuclear Regulator.

5.1 THE BOARD OF MHLATHUZE WATER ...continued



MR M. M. XULU

CORE QUALIFICATIONS

- > Honours Degree: Accounting;
- > B Com. Degree; and
- > 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; and
- > He served as a member of the former Mhlathuze Water Board.



MS N. N. MKHIZE

CORE QUALIFICATIONS

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

AREAS OF EXPERTISE

- > She has experience and knowledge of Civil Engineering and Construction;
- > She represents female youth which provides a generational mix for the board; and
- > She is exposed to contract documentation and design; She understands water systems.



MS G. D. BIYELA

CORE QUALIFICATIONS

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

AREAS OF EXPERTISE

- > She has experience and knowledge of Contracts Management and networking;
- > She was an educator;
- > She has an understanding of business inherent risks and risk mitigation strategies;
- > She will contribute in the social and ethics committee of the Board.



MR B. V. MSHENGU

CORE QUALIFICATIONS

- > Bachelor of Arts;
- > ND: Social Work;
- > Certificate: Labour Law;
- > Certificate: Personnel Management Program;
- > Certificate: Programme for Management Development; and
- > Certificate: Integrating Strategy, Budgeting and Reporting.

AREAS OF EXPERTISE

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



MR P. M. ZIKALALA

CORE QUALIFICATIONS

- > B Sc: Honours in Technology Management;
- > B-Tech: Civil Engineering; and
- > ND: Civil Engineering.

AREAS OF EXPERTISE

- > He is professionally registered with Engineering Council of South Africa (ECSA), and registered with South African Council for Project and Construction Management Professions (SACPCMP);
- > He has experience in Project & Programme Management, Engineering, Construction and Contract Management, Infrastructure Maintenance & Infrastructure Investment Models; water re-use and transportation; and
- > He is 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;
- > Certificates: Executive Leadership Development Programme;
- > Certificates: Executive Course on Good Governance; and
- > 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 ILembe District Municipality;
- > She has 23 years experience in Local Government in an executive capacity;
- > She was instrumental in setting up ILembe Economic Development Agency;
- > She served on various Portfolio Committees including Intergovernmental Forums, Economic Development and Planning Committee, Budget & 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; and
- > She served as a member of the former Mhlathuze Water Board.

5.1.1 THE BOARD CHARTER

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, Board induction, Board evaluation and declarations of conflict of interest.

5.1.2 ATTENDANCE OF THE BOARD

Table 1: Board meetings

QUARTERLY SCHEDULED BOARD MEETINGS		QUARTERLY SPECIAL BOARD MEETINGS	
SCHEDULED BOARD MEETINGS	BOARD MEMBERS IN ATTENDANCE	SPECIAL BOARD MEETINGS	BOARD MEMBERS IN ATTENDANCE
30 August 2018	1 (Accounting Authority)	N/A	N/A
12 December 2018	10	N/A	N/A
14 December 2018	5 (in attendance) 5 (available via teleconference)	N/A	N/A
20 December 2018	9	N/A	N/A
26 January 2019	10	17 January 2019	11
25 April 2019	9	N/A	N/A
03 April 2019	10	N/A	N/A

5.2 BOARD SUB-COMMITTEES

5.2.1 AUDIT, RISK AND FINANCE COMMITTEE

The Audit, Risk and Finance Committee serves as an objective 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. It is responsible for improving the effectiveness of organisational governance, manage organisational risks and internal controls. This committee further ensures that the organisation maintains the required standards of financial management and reporting. It gives assurance on the availability of funds for both operational and capital budget requirements.

5.2.2 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 standards, 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.

5.2.3 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, which 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 and the King Code requires public companies to establish this committee.

5.2.4 SOCIAL AND ETHICS COMMITTEE

The Companies Act 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.

5.3 COMPANY SECRETARIAT

The Company Secretary is responsible for the secretariat function at a strategic level, governance advisory services, 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 the best interests of the Organisation. 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 the day-to-day operation of the Organisation to the CE, who is assisted by the executives, each heading up a Unit.



MR M.P. DUZE
CHIEF EXECUTIVE

CORE QUALIFICATIONS

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

AREAS OF EXPERTISE

- > 19 years' of experience in Programme & Project Management;
- > Development Planning Practitioner;
- > Member of The Institute of Directors in Southern Africa; and
- > 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; and
- > Bachelor of Commerce.

AREAS OF EXPERTISE

- > Financial Management and Accounting (13 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); and
- > Audit & Risk Advisory (5 years).



MR S. NTLHORO
GENERAL MANAGER: SCIENTIFIC SERVICES

CORE QUALIFICATIONS

- > Bachelor of Science (Honours): Chemistry;
- > Postgraduate Diploma: Management; and
- > Registered with SACNASP as Professional Natural Scientist.

AREAS OF EXPERTISE

- > Water & Wastewater Quality Monitoring & Compliance;
- > Laboratory Accreditation; and
- > Laboratory Management.

5.4 EXECUTIVE COMMITTEE (EXCO) ...continued



MR C. CELE

GENERAL MANAGER: OPERATIONS AND MAINTENANCE

CORE QUALIFICATIONS

- > B Sc Degree in Mechanical Engineering Registered with ECSA as a Professional Engineer; and
- > Certified Engineer – Department of Labour (Mechanical Engineer's Certificate of Competency).

AREAS OF EXPERTISE

- > Maintenance Engineering;
- > Project Management; and
- > Infrastructure Planning.



MR M. MYENI

GENERAL MANAGER: CORPORATE SERVICES

CORE QUALIFICATIONS

- > Bachelor of Technology Degree: Management;
- > BCom Degree: Industrial Psychology; and
- > Diploma: Personnel Management.

AREAS OF EXPERTISE

- > Over 20 years of experience in Human Resources: HR Planning; Recruitment and Selection; Organisational Development; Policy Development; Human Resources Development; Performance Management; Job Design; and Remuneration and Employee Relations.



MS D. MATHENJWA

ACTING COMPANY SECRETARY

CORE QUALIFICATIONS

- > LLB Degree (Admitted Attorney);
- > Candidate for Master of Commerce in Maritime Studies;
- > Postgraduate Diploma in Contract Drafting;
- > Certificate in Legislative Drafting; and
- > Secondary Teachers' Diploma.

AREAS OF EXPERTISE

- > Post experience in Family Law, Litigation, and Contract Drafting;
- > Member of KwaZulu Regional Christian Council; and
- > Acting Company Secretary.

5.5 MANAGEMENT COMMITTEE (MANCO)

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

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 Supply Chain Manager;
- > Bid Evaluation Committee: Consists of cross-functional teams with different expertise from various departments and the Contracts Specialist; and
- > Bid Specification Committee: Consists of the representative from Supply Chain, and specialists from the user departments.

The Accounting Officer may:

- > Appoint a technical person to serve in any committee as and when the need arises; and
- > Appoint a secondee to temporarily replace members that are absent from meetings due to illness, leave, etc. The secondee will have the same powers as all other members.

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 meets quarterly to discuss reports on risk, IT governance, and health and safety. The Committee reports to the Finance, Audit, and

Risk Committee on all the assigned matters in terms of its Terms of Reference.

5.6.3 EMPLOYMENT EQUITY COMMITTEE

The Employment Equity Committee was established in order to comply with Section 20 of the Employment Equity 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 the employees in terms of Section 17 of the 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.

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.

5.6.5 BURSARY AND STUDY ASSISTANCE COMMITTEE

In terms of the regulations of the Skills Development Act No. (97 of 1998 as amended), the organisation is 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 current and future operational requirements of the organisation. The Committee meets annually in the 2nd quarter to consider applications, and reports to the Chief Executive in terms of its Terms of Reference.

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 advantage or disadvantage a party on an annual basis, and at every Board and Committee meetings. 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

Mhlathuze Water has 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; and
- > Provide a mechanism for the objective review of personal outside interests.

By implementing the above, the Organisation is 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 the Company, or improperly influence the judgements expected of them when acting on behalf of the Company; and
- > 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 working capital of the Organisation are efficiently managed.

Features of Mhlathuze Water's internal controls are:

- > A system of financial planning, budgeting, and reporting, which allows continuous monitoring of the Organisation's 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; and
- > 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 Finance, Audit, and Risk 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; specify 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 approved a Materiality and Significance Framework Policy on 26 May 2016. 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 the governance structures of Mhlathuze Water, and for submission to, and approval by, the Executive Authority. The framework is in line with the Mhlathuze Water 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 the system of internal controls at Mhlathuze Water. The Accounting Authority reviewed and approved the Risk Management Policy and Implementation Plan in 2017/2018, and monitored the implementation thereof.

Risk management is recognised as an integral part of responsible management and good corporate governance, hence Mhlathuze Water adopts a comprehensive approach to risk management to balance its 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 the culture of Mhlathuze Water.

Enterprise Risk Management approach has been rolled out at a strategic level, and across all business units for identification of strategic, operational, fraudulent, and compliance risks. In order to ensure that Mhlathuze Water achieves its objectives, the Risk Management Function will fulfil the following responsibilities:

- > Facilitate organisation-wide risk and opportunity identification and analysis;
- > Promote the management of risks in line with best practices at all levels of the organisation;
- > Promote training in management of risks within different business units and across the organisation;
- > Ensure enterprise-wide compliance with key regulatory and legal requirements;
- > Ensure resilience of Mhlathuze Water 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; and
- > Report regularly on the performance of the organisation with regards to management of risks.

Mhlathuze Water has identified and categorised the key strategic risks of delivering on objectives and mitigation approaches/responses.

The list of the key strategic risks are presented in the table below in residual form. Residual risks refers to the impact and likelihood, taking into consideration the current mitigation approaches/ responses. The risk might be identified in the organisation, but if no mitigation controls are put in place to prevent, detect, or reduce the impact

and likelihood. The business 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.

6.5.1 WHISTLEBLOWER'S REPORT

The Accounting Authority's objective in approving whistleblower reporting is to create a positive whistleblowing culture which is a critical element in the success of any risk management system. The organisation is also committed to comply with the provisions of the Protected Disclosures Act (Act No. 26 of 2000) in ensuring that whistleblowers who make disclosures are protected and are not victimised and subjected to occupational detriment for blowing the whistle on improprieties.

In the period under review, the Board has approved the whistleblowing Policy aiming to eliminate the occurrence of fraud, corruption and theft at the Institution. It also strives to create a culture which 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 disclosure.

In 2018/2019 Financial Year the institution received two whistleblower reports. One was investigated, upon thorough investigations conducted by the external service provider the allegations were concluded as unfounded; and closed off accordingly. The second matter is still under consultation and will be reported once finalised.



Table 2: Risk descriptions, ratings and mitigations

RISK NO	RISK DESCRIPTION	RESIDUAL RATING	MITIGATION
1	Delays in implementation of infrastructure projects The threat that Mhlathuze Water's infrastructure will not have the required capacity and capability to deliver a reliable service on a sustained basis – in line with demand levels and Mhlathuze Water strategic objectives. This may be as a result of: a) Projects may be withdrawn by the Minister due to budget constraints; b) Department's delay payment affecting cash flow; c) Delays in approval of environmental permits; d) Poor project management; e) High turnover rate of project management staff; f) Infrastructure vandalism; and g) Community protests.	13.0	a) Progress reports on Ministerial projects; b) Letters of award includes a clause that commencement of projects is subject to the budget availability; c) Implementation of directives is subject to the confirmation of budget allocation by the Department of Water and Sanitation; d) Community engagements during project delays (through progress meetings); e) Fencing and Security personnel on site; f) Handover process approved by HOD to ensure continuity of projects; and g) Contract Management Policy.
2	Non-compliance with effluent discharge permit The risk of non-compliance exists due to the fact that effluent discharge contributors may not comply to set limits, resulting in Mhlathuze Water not complying. This may occur due to: a) Power failure leading to discharge of undiluted effluent to the marine environment; b) Pipe leaks & breakages in the system leading to spillages; c) Failure of major equipment; and d) Failure to adhere to permit conditions.	13.0	a) Quarterly effluent pipeline stakeholder meetings; b) Annual diving surveys to check the integrity of pipeline and associated infrastructure; c) Annual marine impact assessment to determine impact from effluent discharge; d) Environmental Contingency Plan to effectively respond to emergencies; e) Mhlathuze Water and contributors have effluent discharge agreements; and f) Effluent penalty system in place for non-complying contributors.
3	Unavailability of water (in terms of quantity and quality) The threat that water stress has materialised exist are linked to difficulty in obtaining sources of freshwater for use during a period of time and may result in further depletion and deterioration of available water resources. Water shortages are a result of: a) Altered weather patterns; b) Non-functional sewerage industry in our catchment area; c) Theft of water (due to illegal abstraction); d) Pollution (Non-Compliance of sewerage effluent, mining and farming activities); e) Emerging contaminants; f) Global warming; and g) Alien plants.	8.0	a) Interbasin Transfer Scheme from Middledrift into the Goedetrouw dam; b) Removal of alien invasive plants in the catchment area; c) Quarterly reporting of water quality; d) Alternative raw water abstraction sources (Nsezi vs Weir); e) Implementation and enforcement of DWS water restrictions as and when required; and f) Contracts are reviewed in consideration of restriction applied.
4	Interruption of water supply The risk of Unplanned Emergency interruptions impacting on water supply, due to: a) Burst main water pipes and blockages; b) Design weakness (wrong material for the part or inappropriate, bad or over complicated design); c) Delays in procurement; d) Poorly-maintained infrastructure; and e) Vandalism.	13.0	a) 24 hour security guards to prevent sabotage and vandalism; b) Effective planned maintenance programme for critical plant assets; c) Increased storage capacity for potable water; d) Use of consolidated infrastructure master plan; e) Backup power supply for Nsezi treatment plant; f) Strategic spares kept in stock; g) SCADA system is used to ensure live monitoring of plant while in operation; and h) Backup generator for weir-Power Station.
5	Shortage of appropriate skills The risk of inability to attract and retain critical staff based on high turnover rate, and other factors such as: a) Inadequate social and economic developments in the area to attract youth in critical professions; b) Perceptions of high pollution levels in the area; c) Unethical conduct resulting to disciplinary processes and potential dismissals; and d) Demand for skills requirement.	10.0	a) Staff retention policy; b) Succession plan policy; c) Appointment of interns; d) Market-related salaries; e) Relocation policy; f) Bursary scheme is in place; g) Remedial action from exit interviews; h) Skills audit to develop plan; i) Shortlisting panel has been established; j) Conflict of interest declaration by employees and recruitment team; k) Job descriptions include both minimum and added advantage requirements to attract relevant skills and experience; and l) There is a concurrent recruitment processes for key and critical positions (i.e. advertisement and recruitment agencies).

Table 2: Risk descriptions, ratings and mitigations ...continued

RISK NO	RISK DESCRIPTION	RESIDUAL RATING	MITIGATION
6	Cyber attacks The threat that Mhlathuze Water may be a target of cyber-attacks due to: a) Cyber-attacks with financial demands; b) Attacks to perpetrate direct fraud on a business; c) To make a political or social point; d) Non-adherence to IT security policy and procedures; and e) Sabotage.	8.0	a) Signing of IT security policy by employees; b) Segregation of duties in all systems; c) Anti-Virus is installed on all servers and equipment; d) Automated reports that email administrators on affected servers and equipment; e) Firewall is in place; f) Backup Disaster Recovery System is in place; g) User awareness on system controls and procedures is communicated during induction for new and existing employees; h) Employees are work shopped on changes to IT Security policy and acknowledge understanding of the policy by signing a declaration forms; i) Employees have been work shopped on PoPI Act and implications thereof by signing the declaration forms; and j) Two yearly Independent Testing of the systems for vulnerability is performed.
7	Inability to sustain revenue, cash flow and financial management The threat that Mhlathuze Water may not be financial sustainable in the medium to long-term, mainly due to: a) Drought (water restrictions); b) Businesses down scaling; c) Increasing bad debts; d) Misalignment between the issue of directives and receipt of funds to implement projects; e) Cancellation of ministerial directives; and f) Increasing cost of sales.	10.0	a) Portion of the bulk water tariff is based on contracted volumes; b) Wastewater tariffs are based on contracted volumes; c) Accounts Receivable Policy allows for charging interest on late payments; d) Projects are not implemented before budget is approved; and e) Compliance checklist has been developed.
8	Non-compliance with legislation, regulations and best practice The risk always exists that there might be a possibility for non-compliance, which can result in serious consequences for the institution, as a result of: a) Lack of awareness of legislation and/or amendments; b) Management failure to comply due to negligence; c) Inadequate governance structures; d) Inadequate performance of oversight structures; e) Inadequate monitoring of performance against statutory obligations and best practice; f) Inaccurate reporting; and g) Poor performance/negligence.	10.0	a) Subscription with Lexis and Nexis (Alert on legislative amendments); b) Approved policies and procedures; c) Annual assessments of oversight structures; d) Quarterly and annual performance reporting; e) Performance agreements; f) Bi-annual performance evaluations; g) Training based on identified gaps; and h) Policy Matrix.
9	Vulnerability to fraud and corruption The risk of fraud and corruption due to: a) Weak Internal Controls; b) Collusion; c) Unethical culture; d) Bad tone at the top; and e) Management override.	10.0	a) Fraud prevention policy; b) Whistle-blower line; c) Fraud awareness; d) Declaration of interest; e) Organisational restructuring (review clear reporting line and segregation duties); f) Disciplinary Policy and Procedure (Consequence Management); g) Whistle-blower response process; h) Fraud annual awareness program; and i) Anti-corruption strategy and fraud prevention plan.

Table 2: Risk descriptions, ratings and mitigations ...continued

RISK NO	RISK DESCRIPTION	RESIDUAL RATING	MITIGATION
10	Employee safety The risk always exists that employees may be injured or their health negatively impacted by Mhlathuze Water infrastructure or due to the hazardous chemicals/ gases that Mhlathuze Water handles. This may also occur due to: a) Failure to maintain chlorine cylinders; b) Inadequate skills; c) Incompetent drivers; d) Non-compliance with safety policies and procedures; e) Unsafe working conditions; f) Failure to observe safety working operating standards; g) Failure to conduct periodic medical examinations; and h) Substance abuse.	8.0	a) Five yearly Risk Assessments by approved inspection authority (i.e. ISHECON); b) As part of the selection process i.e. chemical companies must produce HAZCHEM evidence of qualification to handle chemicals; c) Every two years, Mhlathuze Water trains employees who handle chemicals; d) Approved chlorine leak response procedure; e) Chlorine detectors are installed; f) Occupational Health and Safety Policy; g) Safety induction on new and existing employees; h) Constant training as and when required; i) Intoxication and substance abuse policy; j) Annual emergency drills; and k) Annual Safety awareness.
11	Reputational impairment The threat to reputational damage stems from a breakdown of trust. It challenges the perceived strength of the institution and its management, and undermines relationships with key stakeholders. This could be: a) Disregard of stipulated laws and regulations; b) Unfulfilled promises; and c) High expectations from Mhlathuze Water stakeholders.	10.0	a) Policies and procedures that govern how Mhlathuze Water business is run; b) Annual Stakeholder engagements; c) Pro-active communications of Mhlathuze programmes; and d) Communications Policy.

6.6 INTERNAL AND EXTERNAL AUDIT

6.6.1 INTERNAL AUDIT

Internal audit uses a risk based combined assurance approach, and periodically reviews the adequacy of control design, to ensure that risks are effectively managed. Key controls are tested to ensure effectiveness thereof.

Internal audit operates in adherence to a 3 year rolling Internal Audit Plan aligned to Mhlathuze Water's Corporate Strategy, that seeks to achieve the following objectives:

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

In line with the Institute of Internal Auditors, the PFMA and the King IV requirements, internal audit provides assurance on the

state of governance, risk & financial management and control effectiveness and processes, to management and the Board via the Audit, Risk, & Finance Committee.

6.6.2 EXTERNAL AUDIT

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

The AG annually produces audit reports on Mhlathuze Water as a Section 3B public entity. The audit outcomes are presented in a report, as per the Public Finance Management Act (PFMA) and other regulations related to public entities. These reports are tabled to the legislature (National Parliament) through the Portfolio Committee on Water and Sanitation.



FILTER INLET CHANNEL
AT NSEZI TREATMENT PLANT

SECTION C:



RAPID GRAVITY SAND FILTERS AT
NSEZI WATER TREATMENT WORKS

OVERVIEW OF ORGANISATIONAL PERFORMANCE

7. SITUATIONAL ANALYSIS

7.1 ORGANISATIONAL ENVIRONMENT

7.1.1 APPOINTMENT OF THE BOARD

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 05 December 2018 for a period of 4 years.

7.1.2 RESIGNATION AND APPOINTMENT OF KEY PERSONNEL

Mr M.P. Duze performed the duties of Interim Chief Executive from June 2016 up until April 2019 when he was appointed as Chief Executive by the board for a period of 5 years.

Mr C. Cele performed the duties of Interim General Manager: Technical Services effective from 01 December 2017 and was responsible for Technical Services, the Operations and Maintenance Units. On 10 October 2018, Mr Cele was appointed as the General Manager:

Operations and Maintenance, responsible for Technical Services as well as the Operations and Maintenance Units.

The Company Secretary, Ms N. Miya, resigned from her position on 28 March 2019 and Ms D. Chiliza was appointed to act as Company Secretary effective from 01 April 2019.

7.2 KEY POLICY DEVELOPMENTS

The following policies and procedures were developed, reviewed and approved during the 2018/2019 financial year:

- > Performance Management System Policy;
- > Training Policy;
- > Communication Policy;
- > Planning, Performance Monitoring and Reporting Policy;
- > Monthly, Quarterly and Annual Reporting standard operating procedure;
- > Social Media Policy;
- > Statement Objective Policy;
- > Fixed Asset Policy;
- > Physical Asset Disposal Procedure;
- > Section 30 Procedures;
- > Work in Progress Procedure; and
- > Standard Operating procedure for the generation and approval of variation orders, Engineers ruling, Professional fee adjustments and the extension of works.

7.3 AMENDMENTS OF PLANNED TARGETS DURING THE YEAR UNDER REVIEW

Table 3: 2018/2019 Amended targets

INDICATOR	TARGET	REVISED INDICATOR	REVISED TARGET
Number of internal audit findings	0	Number of repeat internal audit findings	≤10
Number of unresolved internal audit findings	0	Number of resolved internal audit findings	4
Percentage of staff retained	≥ 95%	Percentage of staff retained	≥92%
Number of graduates registered with professional bodies	0	Number of graduates participating in the graduate programme	2

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 Mhlathuze Water 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 CE and manages the implementation of Corporate Social Investment initiatives as well as ensures that the organisation fulfils its social responsibility mandate. The office is also responsible for managing stakeholder relations, which are aimed at positioning the organisation as the reliable regional water and wastewater business partner of choice.

COMPANY SECRETARY

This function provides corporate governance and legal services support to the organisation. 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 amongst 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 the organisation's 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 the organisation 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 the business to mitigate adverse impacts on achieving objectives.

Risk management is a continuous, forward-looking process that is an important part of business and management processes. Risk management addresses issues that could endanger achievement of the organisation's objectives. A continuous risk management approach is applied to effectively anticipate and mitigate the risks that have critical impacts on the business of Mhlathuze Water.

Effective risk management includes early and aggressive risk identification through the collaboration and involvement of relevant stakeholders. Strong leadership across all relevant stakeholders is needed to establish an environment for free and open disclosure and discussion of risk. Risk management can be divided into three parts: defining a risk management strategy; identifying and analysing risks; and handling identified risks, including the implementation of risk mitigation plans.

CORPORATE COMMUNICATIONS

The Corporate Communications function manages the corporate image and identity of Mhlathuze Water. It is also in charge of all media relations, events management, community relations and corporate publications (newsletters, Annual Reports). Amongst 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 billboards advertising, editorials and exhibitions fall under this wing. The function 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

CORPORATE SOCIAL INVESTMENT

Mhlathuze Water is passionate about community and youth development within its area of operation.

The focus areas of the CSI strategy are as follows:

- > Education;
- > Supply of potable water and sanitation facilities;
- > Economic development;
- > Skills development training advocacy; and
- > Sports development.

Four CSI initiatives were conducted during the 2018/2019 financial year:

- > Exhaphozini Primary School – R15 000.00;
- > Primary School – new ablution facilities and donation of R5 000.00 to maintain the new ablution facilities;
- > Eskhaleni Soccer League – soccer kit to the value of R4 939.00; and
- > Ushalom Community Development Soccer League – soccer kit to the value of R9 878.00.

INSTITUTIONALISATION OF THE PLANNING, MONITORING AND REPORTING SYSTEM

Mhlathuze Water introduced a planning, monitoring and reporting system that assists the organisation in monitoring its performance and initiatives which contribute to service delivery outcomes. The planning, monitoring and reporting system was developed in compliance with the Framework for Managing Programme Performance Information, 2007 and applicable National Treasury Regulations. The reporting system involves collecting, analysing, and assessing the validity and accuracy of performance information; and reporting on performance information. The Planning, Monitoring and Reporting Policy was approved by the Accounting Authority in August 2018; and the Monthly, Quarterly and Annual Reporting Procedures was approved by EXCO in August 2018.

REPORTING CYCLE

The first drafts 2019/2020–2023/2024 Business Plan and 2019/2020 Shareholders Compact were submitted to DWS on 31 January 2019. The final 2019/2020–2023/2024 Business Plan and 2019/2020 Shareholders Compact were submitted to DWS on 15 April 2019. All quarterly reports were submitted by the 30th day after the end of the quarter.

8.1.4 CHIEF EXECUTIVE UNIT 2018/2019 PRE-DETERMINED OBJECTIVES

Table 4: Chief Executive Unit 2018/2019 pre-determined objectives

ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVES	TO INITIATE AND BUILD RELATIONSHIPS WITH STAKEHOLDERS TO ADD VALUE FOR THE MUTUAL BENEFIT OF ALL				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
SC10	Bulk supply agreements concluded with Municipalities/other customers	Number of signed service level agreements in place	9 Bulk supply service level agreements in place by 30 June 2019	7	(2) Bulk Supply Service level agreements	Seven service level agreements are in place
ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVE	TO INITIATE AND BUILD RELATIONSHIPS WITH STAKEHOLDERS TO ADD VALUE FOR THE MUTUAL BENEFIT OF ALL				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
SC12	Support rural development	Number of Municipalities supported through rural development initiatives	2 Municipalities supported through rural development initiatives by 30 June 2019	2	None	N/A
SC13	Meeting statutory submission deadlines	Number of statutory documents submitted	7 Statutory documents submitted as per compliance requirements by 30 October 2019	1 Shareholders Compact submitted on 15 April 2019	None	N/A
				1 Business Plan submitted on 15 April 2019	None	N/A
				4 Quarterly reports submitted to the DWS by the 30 th day after the end of the quarter	None	N/A
				1 Annual Report submitted on 30 October 2019	None	N/A

Table 4: Chief Executive Unit 2018/2019 predetermined objectives...continued

ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVES	TO BE PRO-ACTIVE IN COMPLIANCE TO STATUTORY OBLIGATIONS AND BEST PRACTICES				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
SC5	Unqualified report with no matters of emphasis	External audit report	Unqualified 2018/2019 audit opinion with no matters of emphasis by 30 September 2019	Unqualified audit opinion with matters of emphasis	Matters of emphasis	Restatement of fruitless and wasteful expenditure Usefulness of shareholders compact performance target on rural development
SC16	Board effectiveness	Percentage of attendance rate of Board members	80% attendance of Board members at Board meetings by 30 June 2019	95%	15%	Acceptable attendance rate of Board members
SC16	Board effectiveness	Percentage of Board members' attendance at sub-committee meetings	80% attendance of members at Board sub-committee meetings by 30 June 2019	94%	14%	Acceptable attendance rate of sub-committee members
SC16	Board effectiveness	Percentage of resolutions adopted by the Board	100% of resolutions adopted by the Board by 30 June 2019	100%	None	N/A
SC17	Effective internal controls	Number of repeat internal audit findings	≤10 repeat internal audit findings for quarters 1, 2, 3 by 30 June 2019	2	8	N/A
SC18	Corrective measures for internal audit findings	Number of unresolved internal audit findings	4 unresolved internal audit findings for quarters 1, 2, 3 by 30 June 2019	9	(5)	Management is in progress of resolving the findings. Head of Units to develop, review and monitor finding register
ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVE	TO INITIATE AND BUILD RELATIONSHIPS WITH STAKEHOLDERS TO ADD VALUE FOR THE MUTUAL BENEFIT OF ALL				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
SC20	Corporate Social Investment (CSI) initiatives	Number of CSI initiatives undertaken	4 CSI initiatives undertaken by 30 June 2019	4	None	N/A
ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVE	TO BE PROACTIVE TO STATUTORY OBLIGATIONS AND BEST PRACTICES				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
N/A	Effective operation of governance structures	Number of strategic management meetings held	12 MANCO meetings held by 30 June 2019	12	None	N/A
N/A	Effective operation of governance structures	Number of strategic management meetings held	12 EXCO meetings held by 30 June 2019	16	4	4 Special EXCO meetings were convened
N/A	Effective strategic planning	Strategic planning	MANCO EXCO strategic planning session held by 31 December 2018	MANCO EXCO strategic planning session was held in November 2018	None	N/A
N/A	Effective Mhlathuze Water planning document	Approved Mhlathuze Water operational plan	EXCO approved 2019/2020 Mhlathuze Water Operational Plan by 30 June 2019	The 2019/2020 Operation Plan was approved by the EXCO meeting of 29 May 2019	None	N/A
N/A	Departmental performance reports	Number of submitted quarterly performance reports	Mhlathuze Water 2018/19 quarterly performance reports submitted to the Office of the CEO within 9 days after the end of the quarter (30 June 2019)	Quarter 3 and 4 reports were submitted within 9 days after the end of the quarter. However, Quarter 1 and Quarter 2 reports were not submitted on time	2 (Quarter 1 and Quarter 2)	Non-compliance with reporting timelines from various business units

Table 4: Chief Executive Unit 2018/2019 predetermined objectives...continued

ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVE	TO BE PROACTIVE TO STATUTORY OBLIGATIONS AND BEST PRACTICES				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
N/A	Departmental performance reports	Number of submitted quarterly performance reports	Mhlathuze Water 2018/19 quarterly performance reports submitted to the Office of the CEO within 9 days after the end of the quarter (30 June 2019)	Quarter 3 and 4 reports were submitted within 9 days after the end of the quarter. However, Quarter 1 and Quarter 2 reports were not submitted on time	2 (Quarter 1 and Quarter 2)	Non-compliance with reporting timelines from various business units
N/A	Mhlathuze Water positioned as the preferred water service provider	Number of stakeholder engagement	4 stakeholder engagement sessions held by 30 June 2019	4	None	N/A
N/A	Mhlathuze Water positioned as customer focused organisation	Number of Stakeholder engagement	1 Stakeholder indaba held by 30 June 2019	1	None	N/A
N/A	External stakeholders informed on Mhlathuze Water programmes, projects and services through media engagements	Number of media activities	16 media activities published by 30 June 2019	35	19	Appointment of the Board and finalisation of the previous CEO matter attracted more media interest
N/A	Mhlathuze Water positioned as a brand through Marketing initiatives	Number of awareness campaigns conducted	4 Marketing initiatives conducted by 30 June 2019	11	7	N/A

8.1.5 CORRECTIVE MEASURES TO ADDRESS AREAS OF UNDERPERFORMANCE

MHLATHUZE WATER 2018/19 QUARTERLY PERFORMANCE REPORTS SUBMITTED TO THE OFFICE OF THE CEO WITHIN 9 DAYS AFTER THE END OF THE QUARTER (30 JUNE 2019)

The target was not achieved due non-compliance with reporting timelines from various business units. A memorandum was drafted to revise the target for reports to be submitted on the 9th working day after the end of the quarter. The CE approved the memorandum. Subsequent to the amendment, the target was achieved during the third and fourth quarter.

INTERNAL AUDIT REPORT FOR QUARTERS 1, 2, 3 PRESENTED AT THE AUDIT AND RISK COMMITTEE BY 30 JUNE 2019

The target was not achieved due to lack of capacity to perform internal audits as per the approved Internal Audit Plan. The service provider was appointed to assist with the execution of the plan. This is a co-sourced arrangement for the period of three years; therefore, internal audits will be conducted as planned.

FOUR UNRESOLVED INTERNAL AUDIT FINDINGS FOR QUARTERS 1, 2, 3 BY 30 JUNE 2019

The target was not achieved due to ineffective internal controls in place. The target of unresolved internal audit findings should be incorporated into performance agreements of all Heads of Units. Furthermore, unit internal audit findings register will be developed and monitored.



**HUMAN RESOURCES STAFF CONDUCTING
A WORKSHOP ON WORK OPPORTUNITIES
AT MHLATHUZE WATER**

8.2 CORPORATE SERVICES UNIT

8.2.1 MANDATE OF 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 Mhlathuze Water for many years and it is still a priority to date. Specific initiatives include training and development programmes for line managers, technical and administrative staff, general staff as well as learners from the communities within Mhlathuze Water's area of operation. 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 Mhlathuze Water to provide:

- > A professional service through accurate, consistent and best employment practices in all its activities, which are aimed at supporting the achievement of the organisation's strategic objectives;
- > Attract and retain employees who share the same organisational vision;
- > Set and manage standards of performance; and
- > 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 the Organisation's strategic plan and individual department's objectives successfully through the effective use of information technology. Its purpose is to ensure that the Organisation achieves optimum use of its IT resources. In addition, the function is tasked with the responsibility of providing cutting-edge information technology 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 within the organisation.

DOCUMENT MANAGEMENT

Mhlathuze Water keeps and manages official records to support its business operations, as well as to 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. Mhlathuze Water operates a fleet of seventy five (75) vehicles which comprises a combination of small vans to heavy vehicles. Forty six (46) of the vehicles are owned by Mhlathuze Water while twenty nine (29) are held under lease agreements.

LEGAL SERVICES

Legal Services function is responsible for providing effective and efficient legal services to the organisation in order to ensure that the interests of the organisation are protected against any legal risk. The function provides effective and legally sound contracts in order to ensure that the interests of the organisation 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 the organisation.

8.2.3 KEY PERFORMANCE HIGHLIGHTS

LOG FRAME TRAINING

All MANCO and EXCO members attended the Log Frame training. This training programme utilises the principles on results Based Management and logical frame Analysis. The log frame training equipped managers with skills in programme/project planning, monitoring and evaluation.

Since Mhlathuze Water places significant emphasis on team work, the training also served as a point to increase interpersonal relations and cohesion amongst management of the organisation.

FINANCE FOR NON-FINANCIAL MANAGERS

MANCO and EXCO members attended the Finance for Non-Financial Managers training in May 2019. The purpose of the training was to create financial literacy and create better understanding and interpretation of financial statements.

ARTISAN DEVELOPMENT PROGRAMME

The Artisan Development Programme is conducted in compliance with the Skills Development Act, 1988 (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. One employee from the Maintenance section completed Phase 3 in Boilermaking during the year under review. Twenty unemployed youth participated in this programme and were trained to be Electrical Artisans. They acquired Electrical Trade Test Certificates in August 2018.

GRADUATE DEVELOPMENT PROGRAM

The purpose of this programme is to equip graduates with skills and experience in order for graduates to become professionals and are able to register with ECSA. The three year programme requires graduates to work at Mhlathuze Water for a period equivalent to the training period to ensure Mhlathuze Water derives value from its contribution.

Three graduate trainees are currently participating in the programme. Two graduate trainees are sponsored and registered with UNISA to study Bachelor of Technology in Mechanical Engineering as per ECSA requirements for professional registration as a Professional Technologist (Pr. Tech.). The graduate trainees submit quarterly reports which are used to monitor progress towards meeting ECSA requirements. The third trainee will enrol for BTech studies in January 2020.

BURSARY PROGRAMME

INTERNAL BURSARY

The below employees completed their studies during the 2018/2019 financial year.

Table 5: Internal bursary holders who completed their studies in 2018/2019 financial year

JOB TITLE	QUALIFICATION
Operations Manager	Masters in Business Administration
Instrument Technician	BTech in Electrical Engineering :Instrumentation
Artisan Helper	National Diploma: Health & Safety Management
Receivables Administrator	Bachelor of Business Administration

The table below shows employees that are currently studying through the study assistance scheme.

Table 6: Study assistance scheme

POSITION	GENDER	RACE	DEPARTMENT	INSTITUTION	QUALIFICATION	YEAR OF STUDY
Graduate Trainee	Male	African	Technical Services	University of South Africa	BTech. in Mechanical Engineering	1
Graduate Trainee	Female	African	Technical Services	University of South Africa	BTech. in Mechanical Engineering	1
Contracts Specialist	Female	African	Finance	Chartered Institute of Procurement and Supply	Diploma in Procurement and Supply	1
Supervisor	Female	African	Operations	All Connections	National Certificate in Water & Waste Water Treatment NQF level 4	1
Process Controller	Male	African	Operations	University of South Africa	BTech. Chemical Engineering	1
Artisan Helper	Male	African	Maintenance	University of South Africa	BTech Safety Management	1

EXTERNAL BURSARY PROGRAMME

Two Amanzi Bursary students completed their studies in Mechanical Engineering Diploma and Civil Engineering Degree. They both joined the graduate trainee programme.

The current Amanzi bursary holders are as follows:

Table 7: Amanzi bursary holders

GENDER	RACE	INSTITUTION	FIELD OF STUDY	YEAR OF STUDY
Female	African	University of KwaZulu Natal	BSc. Degree in Chemical Engineering	3
Male	African	University of KwaZulu Natal	BSc. Degree in Electrical Engineering	3
Male	African	University of KwaZulu Natal	BSc. Degree in Civil Engineering	3
Male	African	Mangosuthu University of Technology	National Diploma in Civil Engineering	In-service training

INTERNSHIP PROGRAMME

Eight interns were recruited and will complete the one year internship programme in December 2019. This programme aims to provide work experience to the newly qualified graduates in order to become employable.

Table 8: Internship programme

GENDER	RACE	PLACE OF RESIDENCE	INSTITUTION	HIGHEST QUALIFICATION	PLACEMENT
Male	African	Esikhawini	Mangosuthu University of Technology	ND. in Information Technology	Information Technology
Female	African	Esikhawini	University of Zululand	ND. in Public Relations Management	Public Relations
Male	African	Mtubatuba	Durban University of Technology	BTech in Taxation	Finance
Female	African	Ulundi	Durban University of Technology	ND. in Cost And Management Accounting	Supply Chain Management
Male	African	Hluhluwe	Durban University of Technology	ND. in Cost And Management Accounting	Finance
Male	African	eMpingeni	University of Johannesburg	ND. in Chemical Engineering	Operations – Nsezi
Male	African	Hluhluwe	Durban University of Technology	ND. in Cost And Management Accounting	Supply Chain Management
Female	African	Mtubatuba	Mangosuthu University of Technology	ND in Human Resources Management	Human Resource



MHLATHUZE WATER, IN LINE WITH GOVERNMENT'S CALL FOR YOUTH SKILLS DEVELOPMENT, HAS A ROBUST LEARNERSHIP AND INTERNSHIP PROGRAMME AIMED AT EXPOSING YOUNG, UNEMPLOYED YOUTH TO CAREER ADVANCEMENT OPPORTUNITIES

LEARNERSHIP PROGRAMME

Furthermore, in order for Mhlathuze Water to provide clean water of high quality at all times, a need to upskill water employees was identified. 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 in the organisation by assisting them to obtain up to NQF level 4 qualification.

During the year under review; four employees completed the programme and were awarded a National Certificate: Water and Wastewater Treatment Process Operations NQF Level 2

Below are learners who are currently in the Learnership Programme (NQF Level 3) to be completed in November 2019.

Table 9: Learnership programme

GENDER	RACE	DEPARTMENT
Male	African	Operations
Male	African	Operations
Male	African	Operations
Male	African	Operations
Male	African	Operations
Male	African	Operations
Female	African	Operations
Female	African	Operations

PROFESSIONAL REGISTRATION

Mhlathuze Water pays for statutory professional registration for the following officials.

Table 10: Professional registration

GENDER	RACE	DESIGNATION	PROFESSIONAL REGISTRATION	REGISTRATION NUMBER
Female	African	Chief Financial Officer	SAICA (CA) SA	04907352
Female	African	Operations Manager	ECSA (Pr. Tech. Eng.)	2018300030
Male	African	Electrical Engineer	ECSA (Pr. Cert. Eng.)	2018800011
Male	African	Automation Specialist	ECSA (Pr. Tech. Eng.)	2018600049
Female	African	Management Accountant	SAICA (CA) SA	20045730
Male	African	Finance Manager	SAICA (CA) SA	10007445
Male	African	Financial Accountant	SAICA (CA) SA	20034524
Male	African	Civil Maintenance Technician	ECSA (Pr. Eng. Tech.)	2019600336
Male	African	Internal Auditor	IIASA (Associate member)	34236171
Male	African	Internal Auditor	IIASA (Fellow member)	38992160

COMPLIANCE TRAINING PROGRAMME

Various compliance training courses were conducted in the areas of chlorine handling, asbestos handling, isolation and permit, First Aid, Health and Safety ISO14001 environmental management, ISO9001 Quality, ISO 45001 Health and Safety, with 187 employees attending.

EMPLOYEE WELLNESS

The initiatives undertaken to promote the employees' Health and Wellness in 2018/2019 financial included:

- > Wellness day in partnership with CareWorks and Old Mutual;
 - Informative presentations and discussions were held on various topics such as Financial Wellness, Voluntary Medical Male Circumcision (VMMC),
 - TB and Sexually Transmitted Infections (STIs);
 - Employees undertook voluntary wellness screenings and testing on HIV Counselling and Testing, Cholesterol, Blood Pressure (BP) and Diabetics on the day;
- > Voluntarily undertook wellness screenings; and
 - Employees undertook voluntarily wellness screenings in onsite Occupational Health and Wellness clinic.

EMPLOYEE ENGAGEMENTS WITH THE BOARD AND CE

To improve communication, build trust and transparent relationships within the organisation, the Board and CE had engagements with Mhlathuze Water employees. The CE had an engagement with employees on 28 November 2018. The Board had an engagement with employees on 21 February 2019.

LONG SERVICE RECOGNITION PROGRAMME

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

Table 11: Long service recognition

YEARS	NUMBER OF EMPLOYEES
5	10
10	8
15	3
20	4
25	1
35	1

EMPLOYMENT CHANGES

2018/2019 EMPLOYMENT REPORT

Table 12: 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	201	N/A
Indian	10	8	Early retirement, Resignation
Coloured	4	3	Dismissal
White	7	6	Resignation

FILLED POSITIONS

A total of 36 positions were filled during the financial year 2018/2019 as follows:

Table 13: Filled vacancies disaggregated by gender and race

RACE	GENDER	TOTAL	
		NUMBER	PERCENTAGES
African	Male	16	44%
	Female	18	50%
Indian	Male	0	0%
	Female	0	0%
Coloured	Male	1	3%
	Female	0	0%
White	Male	1	3%
	Female	0	0%
Total		36	100%

STAFF RETENTION

The projected annual staff retention rate of $\geq 92\%$ was not achieved due to unplanned terminations, as shown in the table below:

Table 14: Staff Retention

Unplanned attrition	24
Average complement for the period	218
Staff retention rate	88.83%
Projected annual staff retention rate	$\geq 92\%$

WORKFORCE PROFILE

Figure 1: Economically Active Population of South Africa



Source: Commission for Employment Equity 2017/2018 Report

Figure 2: Gender Profile of Mhlathuze Water Employees



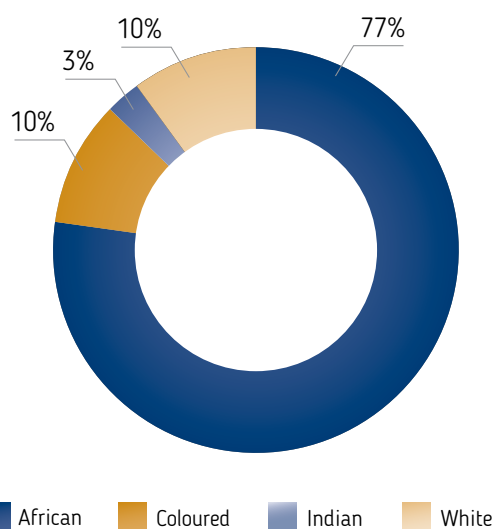
Mhlathuze Water as at the 30 June 2019 has not met the Gender Target when compared to the Economically Active Population for South Africa.

The table below reflects the workforce profile as at 30 June 2019. The total staff complement was 204 employees.

Table 15: Workforce profile

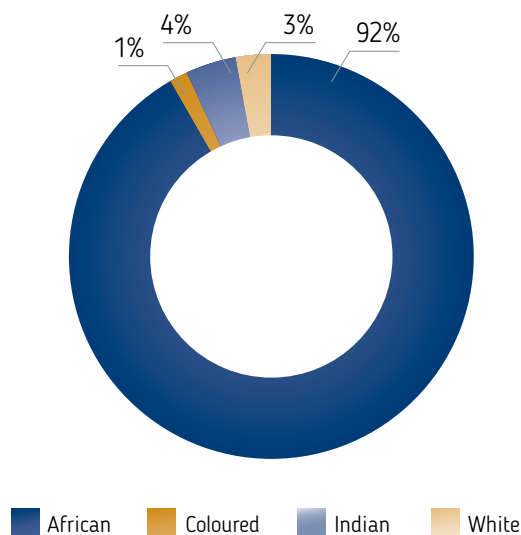
OCCUPATIONAL LEVELS	MALE				FEMALE				TOTAL
	AFRICAN	COLOURED	INDIAN	WHITE	AFRICAN	COLOURED	INDIAN	WHITE	
TOP MANAGEMENT	1	0	0	0	0	0	0	0	1
SENIOR MANAGEMENT	3	0	0	0	1	0	0	0	4
PROFESSIONALS	13	0	1	1	11	0	1	0	27
SKILLED TECHNICAL & ACADEMICALLY QUALIFIED WORKERS	27	0	0	2	38	1	5	1	74
SEMI-SKILLED	50	0	1	0	25	1	0	2	79
UNSKILLED & DEFINED DECISION MAKING	13	1	0	0	5	0	0	0	19
TOTALS	107	1	2	3	80	2	6	3	204
PERCENTAGE	52.45%	0.49%	0.98%	1.47%	39.22%	0.98%	2.94%	1.47%	100%
TOTAL PERCENTAGE	56%				44%				100%

Figure 3: Race Profile - EAP South Africa



Source: Commission for Employment Equity 2017/2018 Report

Figure 4: Race Profile of Mhlathuze Water employees as at 30 June 2019



There was a 92% achievement in terms of Employment Equity as per Race Groups. The overall annual target for persons with disabilities was 2%. The target was not achieved since there were only 3 employees who declared disabilities, which represents 1.4% of the staff complement.

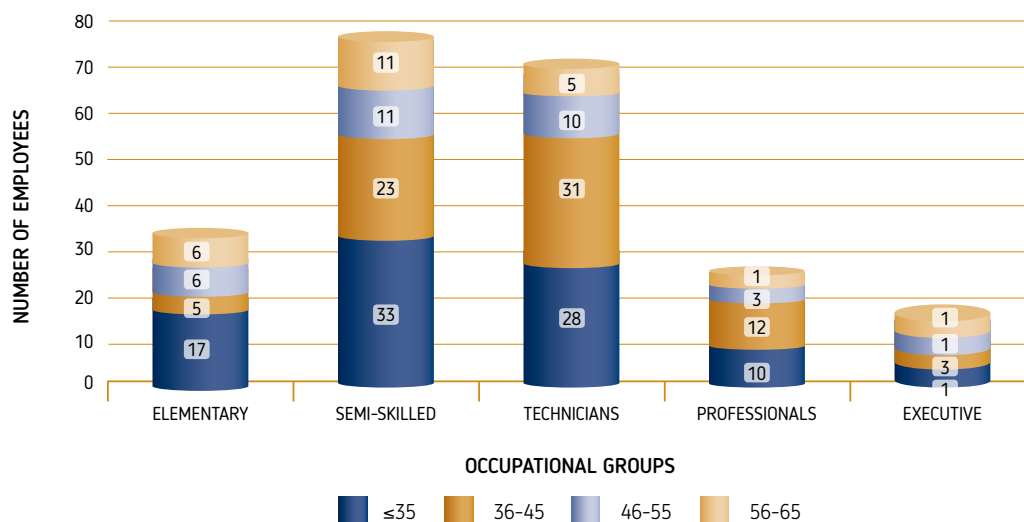
THE AGE PROFILE OF MHLATHUZE WATER EMPLOYEES

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.

No. of employees:

- > ≤ 35 years = 89 employees
- > 36 – 45 years = 74 employees
- > 46 – 55 years = 31 employees
- > 56 – 65 years = 24 employees

Figure 5: Age Profile as at 30 June 2019



INDUSTRIAL RELATIONS

A total of 12 disciplinary hearings were convened. Three employees were dismissed, three employees decided to resign before disciplinary hearings were finalised. One employee took early retirement and five employees were issued with final written warnings.

The salary negotiations for the year 2019/2020 under the auspices of the Amanzi Bargaining Council were implemented accordingly.

Mhlathuze Water signed a Minimum Services Collective Agreement with NEHAWU on 19 February 2019. This agreement provides for minimum services to be maintained in the event of a strike.

Mhlathuze Water Industrial Relations climate was stable during the period under review. Monthly meetings and special consultative meetings were held regularly with employees and labour unions where issues were amicably resolved.

ICT REPORTING FRAMEWORKS

Due to the critical nature of IT, and the intellectual and other information resources that are exposed through technology and communication channels, IT governance now represents an essential component in ensuring the efficient and secure operation of the business.

Mhlathuze Water takes guidance on its Information, Communication and Technology operations and reporting on Governance and aligns its reporting with the King IV principles on IT governance.

The following Reporting Frameworks, Policies and Procedures have been adopted during the period under review:

- > IT Charter;
- > IT Security Policy; and
- > IT Change Control Procedure.

BULK SUPPLY AGREEMENTS

Mhlathuze Water has seven bulk supplier agreements in place with the customers listed as follows:

Figure 6: Bulk supply agreements

NR	ORGANISATION NAME	VOLUMES M ³ /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 Esikhawini (RBTLIC)	15 000
4	City of uMhlathuze Municipality for Foskor	17 600
5	Tronox	48 840
		62 160
6	Richards Bay Minerals	45 000
7	Mondi	100 000

DEFAULT JUDGEMENTS

Mhlathuze Water should not have any default judgements made against it to retain its financial viability. There were no default judgements that were made against Mhlathuze Water in the period under review.

8.2.4 CORPORATE SERVICES UNIT 2018/2019 PRE-DETERMINED OBJECTIVES

Table 16: Corporate Services Unit 2018/2019 predetermined objectives

ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVE	TO RESOURCE THE ORGANISATION WITH THE REQUIRED SKILLS AND COMPETENCE IN ORDER TO DELIVER THE STRATEGIC INTENT				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
SC14	Optimal staff retention	Percentage of staff retention	≥92% staff retention by 30 June 2019	88.83%	(3.17%)	24 staff were terminated during the year under review.
SC15	Learners trained and equipped with skills	Number of learners trained and equipped with skills	5 Learners trained and equipped with skills by 30 June 2019	8	3	Three learners are Mhlathuze Water officials and were identified to participate in the learnership programme
SC15	Mhlathuze Water employees trained and equipped with skills	Number of new internal bursaries awarded	1 new internal bursary awarded by 30 June 2019	6	5	There was a high number of bursary applications received by the bursary committee
SC15	Graduate trainees participating in the graduate training programme	Number of graduate trainees participating in the graduate training programme	2 Graduate trainees participating in the graduate training programme by 30 June 2019	2	None	N/A
N/A	Vacant positions filled within average turnaround time	Percentage of approved vacant positions filled within average 90 days	100% Approved vacant positions filled within average of 90 days by 30 June 2019	92%	(8%)	Some positions were placed on hold during the year under review
N/A	Mhlathuze Water internship programme that equips youth with the required skills that will assist them to be professionals	Number of graduates enrolled in the Mhlathuze Water internship programme	8 Graduates enrolled in the Mhlathuze Water internship programme by 30 June 2019	8	None	N/A
ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVE	TO OPTIMISE BUSINESS PROCESSES AND SYSTEMS				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
N/A	Business system availability	Percentage of system availability	≥95% system availability by 30 June 2019	98.33%	3.33%	N/A

8.2.5 CORRECTIVE MEASURES TO ADDRESS AREAS OF UNDERPERFORMANCE

≥92% STAFF RETENTION BY 30 JUNE 2019

Exit interviews were conducted with employees who resigned from the organisation. The findings of the exit interviews were reported to management and the Board. The main reason for employees leaving the organisation has been for personal reasons and not job or salary related dissatisfaction.

100% APPROVED VACANT POSITIONS FILLED WITHIN AVERAGE OF 90 DAYS BY 30 JUNE 2019

Some positions were not filled within average 90 days because they were placed on hold which resulted in delays in the recruitment process.



**TWIN CLARIFIERS AT THE NSEZI
WATER TREATMENT PLANT**

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 waste water 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 the organisation's 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

Operations function is responsible for all operational activities in transfer pumps stations, water treatment plants and waste water systems in order to meet contractual requirements and legislative requirements. This function has the responsibility of ensuring that the organisation meets 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 the organisation can supply clients with water and waste water services as per contract agreements. The Maintenance function has implemented Information Technology to improve on the maintenance processes. This technology assists in computerised monitoring of plant operations to inform the organisations strategy on reliable maintenance and management related programmes.

The unit is responsible for maintaining Mhlathuze Water 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 to the organisation 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 the organisation's property; and
- > Ensuring compliance with Occupational Health and Safety Legislative requirements and other requirements.

Mhlathuze Water has 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. Employees who are occupationally exposed undergo periodic medical examinations annually. Employees working at head office and related services undergo medical examination every three years. In addition to the above, other medical examinations and vaccinations were conducted at Mhlathuze Water.

8.3.3 KEY PERFORMANCE HIGHLIGHTS

DROUGHT INTERVENTIONS

The effects of the devastating drought experienced in prior years resulted in a number of stakeholder interventions being initiated. Mhlathuze Water played a pivotal role in ensuring the continued engagements to realising successful implementation of drought alleviation initiatives. Initiatives developed in the prior financial year have been successfully managed to a level that drought alleviation objectives have been realised. The realisation of these initiatives was through the collaboration with other stakeholders as follows:

- > Continued consultation with stakeholders regarding water use reduction Mhlathuze Water was an active participant in the Mhlathuze Catchment Joint Operating Committee (JOC). The role of the committee was to develop strategies to mitigate the impact of the drought;
- > Continued support to DWS in the upgrade of the Thukela Goedertrouw Transfer Scheme. The TGS upgrade is managed and funded by DWS. Construction activities for the pipeline, pump stations, abstraction works which includes, excavation, pipeline delivery and laying, foundation casting are ongoing; and
- > Working together with the CoU on the investigation into effluent reuse Mhlathuze Water is working together with the CoU in investigating the feasibility of re-using waste water and associated by-products. The project is advancing well with investigating industrial/domestic effluent re-use options as a potential Public Private Partnership (PPP). The project aims at treating industrial and domestic effluent for reuse as water supply to industries. The proposed re-use plant is rated 75 Ml/d to be situated between Empangeni and Richards Bay. The CoU commenced with land negotiations with the landowner and has also made significance progress on concluding the terms of contract with targeted off-takers.

MHLATHUZE TRANSFER SCHEME

Mhlathuze Water continues 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 from this Pump Station are Mhlathuze Water (Nsezi Water Treatment Plant and Lake Nsezi), CoU (Esikhaleni Water Treatment Works), Tronox (Fairbreeze Mine) and Richards Bay Minerals (via Lake Nsezi).

A total volume of 38 871 365 m³ of raw water was pumped from the scheme this financial year, which is 6% lower than the volume supplied in the previous financial year, with 95% being supplied to Nsezi WTP 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 CoU for Esikhaleni owing to Lake Cubhu being full for the entire financial year.

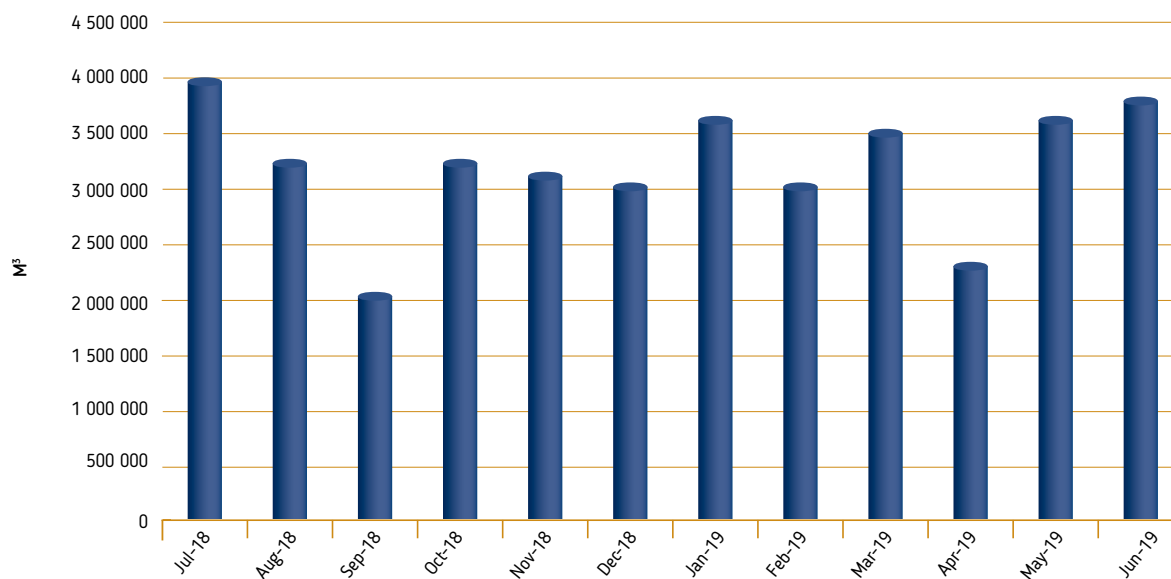
To ensure continuous and reliable supply to customers, Mhlathuze Water has embarked on the following initiatives:

- > Installation of a standby diesel generator as back-up power supply;
- > Supplementing the existing Weir with a new Weir structure; and
- > Implementation of the Supervisory Control and Data Acquisition system phase II.



UPGRADES TO THE MHLATHUZE WATER WIER

Figure 7: Total raw water abstracted from Mhlathuze river



NSEZI WATER TREATMENT PLANT

A total of 48 300 274 m³ was supplied to Nsezi Water Treatment Plant, with 78% of this volume from Mhlathuze River and the remainder from Lake Nsezi. The increase in the amount of water abstracted from the Lake this financial year was due to the Weir upgrade project which required for the river level to be kept at low levels and hence unable to abstract adequate amounts of water at times. The total volume supplied by Nsezi WTP to customers during the financial year under review increased by 18% year-on-year mainly due to more water supplied to Mondi and the CoU (Richards Bay). The remainder of the customers were supplied as per demand within contracted volumes. Unaccounted water loss during the financial year was 1.41%, and was within the target of 5%.

To ensure continuous and reliable supply to customers, Mhlathuze Water completed the following projects:

- > Upgrade of Mondi Pump Station; and
- > Implementation of the Supervisory Control And Data Acquisition system phase II.

Figure 8: Total treated water supplied from Nsezi WTP

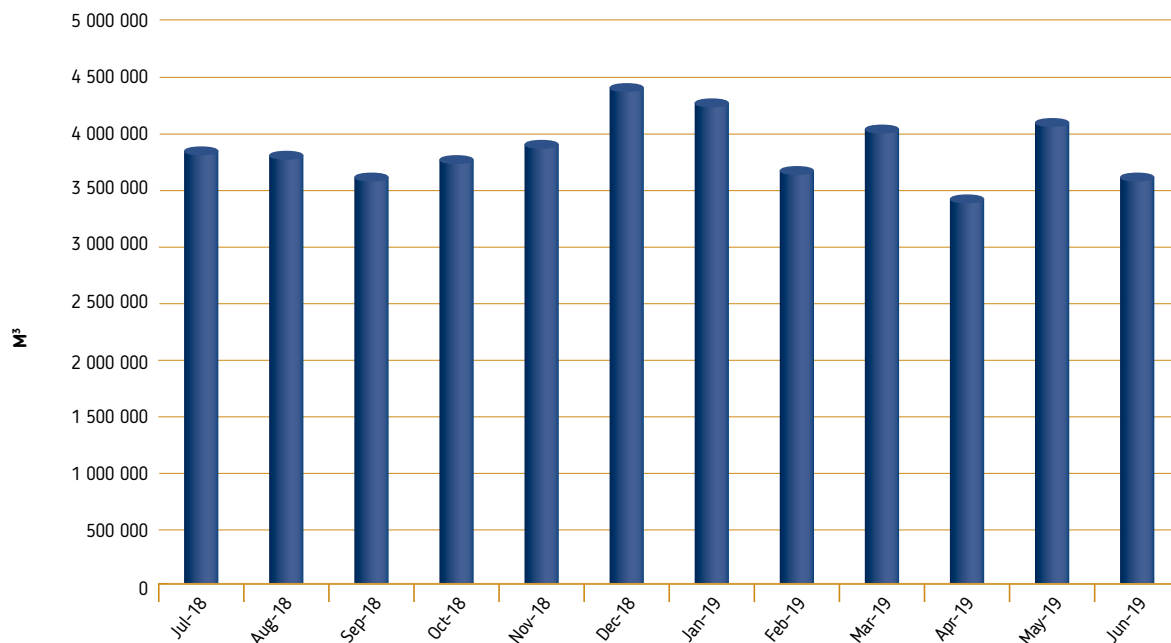
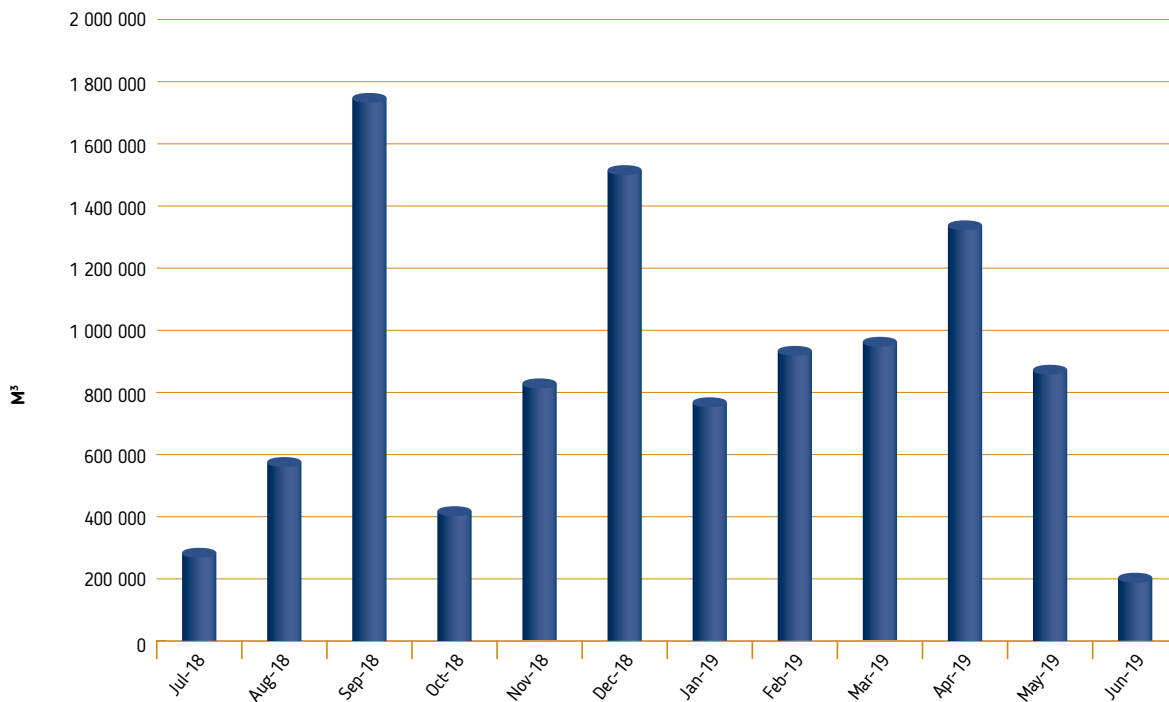


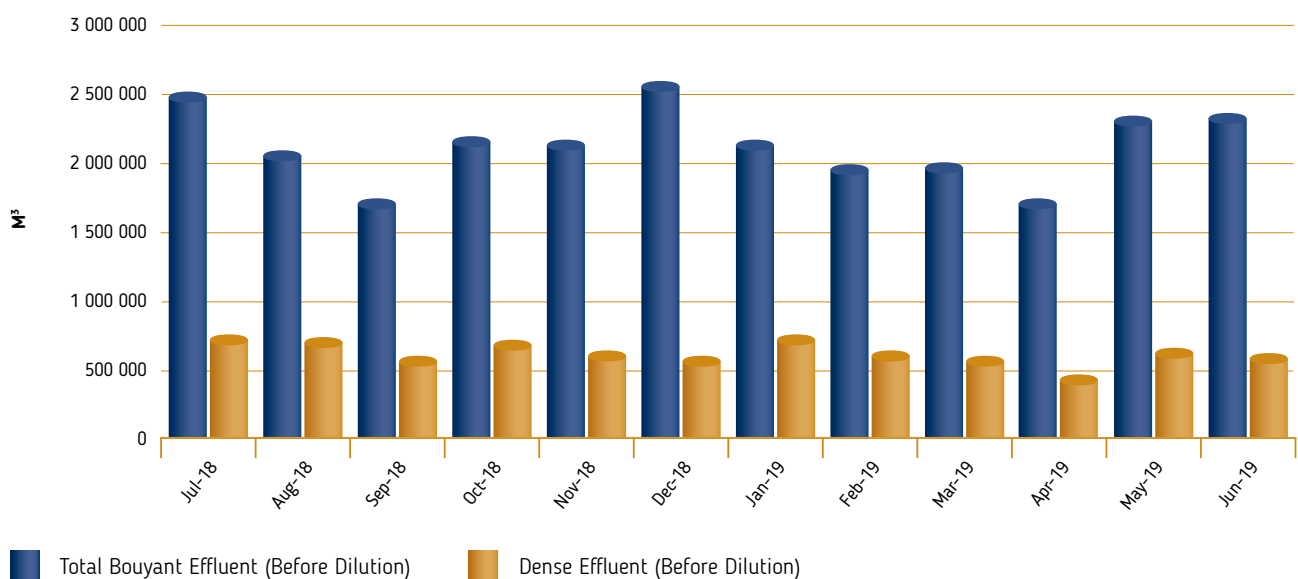
Figure 9: Total raw water abstracted from Lake Nsezi



EFFLUENT SCHEME

A total of 33 890 028 m³ was disposed offshore through the Waste Water Disposal System. 73% of this volume was discharged through the buoyant line and 27% through the dense line which contributed to a 6% increase from the previous financial year. During the months of December and January, there were major breakdowns experienced in the buoyant effluent collecting system wherein the pipeline downstream of the Collecting Chamber was blocked following an ingress of settleable matter into the system.

Figure 10: Total effluent disposed



EXTERNAL O&M PROJECTS

As part of its growth strategy, the organisation is involved in a number of 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 five year contract expired in June 2017 and a 3 year contract extension was finalised ending in June 2020.

Furthermore, Mhlathuze Water continues to operate the Water and the Waste Water Treatment Works at the Smelter on a month-to-month basis while RBM is in the process of finalising a tender process.

CITY OF UMHLATHUZE

Mhlathuze Water continues to manage, operate and maintain the CoU's Water and Waste Water Treatment Plants and associated bulk distribution infrastructure. The contract which commenced in June 2014 on a month-to-month basis later developed into a full 3 year engagement and thereafter continued through multiple extensions of the short-term engagements.

Mhlathuze Water has undertaken major refurbishment on the water and waste water treatment works to ensure continuous and uninterrupted service delivery to the CoU community. These include the refurbishment of the filtration systems at both Mzingazi and Esikhaleni Water Treatment Plants. There were also major repairs undertaken on the sludge handling facilities at all the waste water treatment plants.

THUKELA-GOEDERTROUW TRANSFER SCHEME

Mhlathuze Water is responsible for the operation and maintenance of the Thukela-Goedertrouw Transfer Scheme, with a capacity of 1.2m³/s, on behalf of the DWS. This scheme is critical for providing water to the region, particularly during the drought.

MAINTENANCE, PLANT EFFICIENCY AND AVAILABILITY

Mhlathuze Water spent in excess of R32.6 million in infrastructure maintenance related projects.

> WEIR STANDBY DIESEL GENERATOR

The provision of the 2.5 MVA generator to augment power supply in an event of an Eskom power outage. The entity has made provision for the development of this infrastructure to ensure reliability of water supply to its customers. The project was successfully completed.

Mhlathuze Water did not experience any unplanned water supply interruptions in Mhlathuze Water Plants during the 2018/2019 financial year. This was achieved through the implementation of well-structured maintenance strategies and the Computerised Maintenance Management System with 97.54% Plant Availability being achieved.

NSEZI REFURBISHMENT

- > Project scope: Nsezi Refurbishment. The upgrade of switch gear
- > 2018/2019 Budget: R985 710.00;
- > Expenditure as at 30 June 2019: R568 427.00;
- > Planned completion date: June 2019;
- > Impact: Optimal electrical supply; and
- > Challenges: None.

8.3.4 OPERATIONS AND MAINTENANCE UNIT 2018/2019

PRE-DETERMINED OBJECTIVES

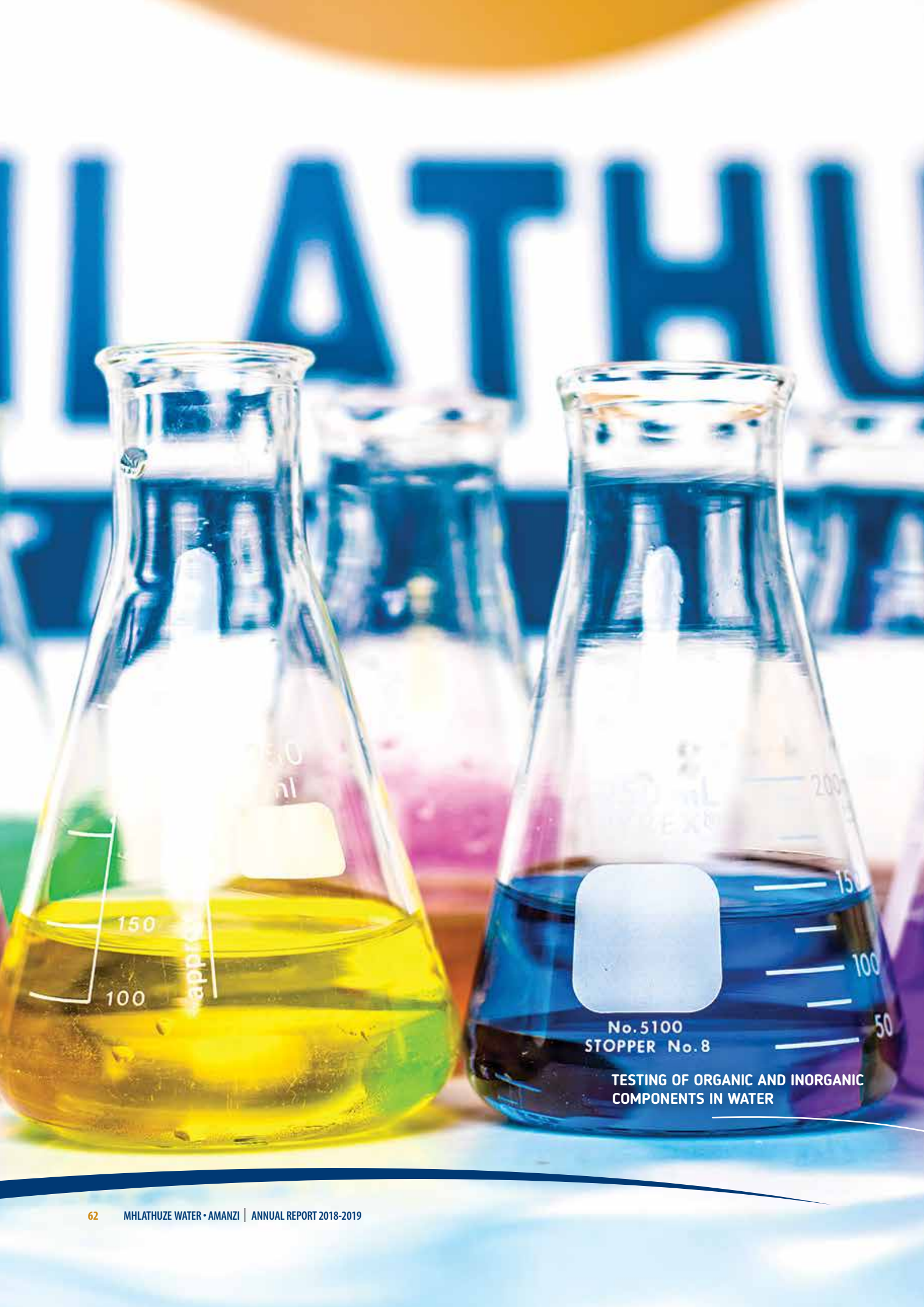
Table 17: Operations and maintenance Unit 2018/2019 pre-determine objectives

ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVES	TO GROW THE PROVISION OF WATER SERVICES				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
SC2	Manage avoidable water losses	Percentage of water losses on water abstracted	≤5% avoidable water losses on water abstracted by 30 June 2019	1.41%	3.59%	The process was operated optimally resulting to reduced water loss
SC3	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 2019	0	None	N/A
ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVE	TO BE PRO-ACTIVE IN ISSUES RELATED TO ENVIRONMENTAL COMPLIANCE AND STEWARDSHIP				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
SC21	Zero incidents on Occupational Health & Safety	Number of incidents on Occupational Health & Safety	Zero incidents on Occupational Health & Safety by 30 June 2019	5	(5)	Five incidents occurred during the reporting period
ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVE	TO GROW THE PROVISION OF WATER SERVICES				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
N/A	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 2019	97.54%	2.54%	N/A
N/A	Effective internal controls	Maintenance cost analysis against PPE	Maintenance cost analysis against PPE presented at EXCO by 30 June 2019	Maintenance cost analysis against PPE report presented at EXCO on 29 May 2019	None	N/A

8.3.5 CORRECTIVE MEASURES TO ADDRESS AREAS OF UNDERPERFORMANCE

ZERO INCIDENTS ON OCCUPATIONAL HEALTH & SAFETY BY 30 JUNE 2019

In an effort to minimize the occupational health and safety incidents, Mhlathuze Water hosted a health and safety awareness workshop on 28 June 2019. The purpose of the workshop was twofold, one to conscientise employees about the importance of keeping safe at work and two, to educate employees about the role of Federated Employers Mutual Assurance (FEM). Furthermore all drivers who were involved in the motor vehicle accidents were sent to driver training assessment by a TETA approved assessment centre.



No. 5100
STOPPER No. 8

TESTING OF ORGANIC AND INORGANIC
COMPONENTS IN WATER

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 Mhlathuze Water and external stakeholders. It also carries the overall responsibility for the organisation's compliance with a range of industry related SHEQ Systems and standards applied to water quality; waste water 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 the organisation 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 organisation, its 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 amongst others:

- > ICP – Mass Spectrometry;
- > Gas Chromatography – Mass spectrometry;
- > Ion chromatography; and
- > 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 the organisation to achieve its mission. In order to ensure compliance with best practices and international standards, the section ensures that the organisation has certified management systems for Safety, Health, Environment and Quality. The specific areas of application are:

- > OHSAS 18001: Health and safety management within the organisation to protect the health and safety of the workers;
- > ISO 14001: Environmental management to limit adverse effects on the environment that may result from Mhlathuze Water's activities;
- > ISO 9001: Quality management to ensure customer satisfaction. The focus is on compliance with customer needs and requirements; and
- > 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 which specifies requirements for establishing, implementing, maintaining and improving an energy management system. The main purpose is to enable the organisation to follow a systematic approach in achieving continual improvement of energy performance, including energy efficiency, energy use and consumption.

Certification is a voluntary process but it demonstrates the organisation's commitment to transparency and accountability. Through compliance with ISO standards Mhlathuze Water has committed:

- > To comply with all legislative requirements, and best practices to reduce liability;
- > To improve environmental performance, and prevent pollution;
- > Prevent product/service defects and meet customer requirements; and
- > A structured approach in managing OH&S risks, and reduce costs associated with the COID Act.

ENVIRONMENTAL SERVICES

The organisation recognises that there are activities that the business is involved in which 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 green economy through the implementation of the carbon footprint reduction initiatives.

The core function of Environmental Services is to ensure that the organisation complies with applicable environmental legislation, regulations and other international best practices to ensure that the business avoids and/or minimises the environmental impacts of its activities. This includes the responsibility of ensuring that the organisation's 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.

Support to the Technical Unit is also provided by ensuring that the business obtains necessary environmental permits for relevant projects and other business operations e.g. Environmental Impacts Assessments (EIAs), Effluent Discharge Permit, etc. Other initiatives spearheaded are environmental awareness campaigns on the importance of conserving natural resources, as well as the commemoration of special environmental days.

INNOVATION, RESEARCH & DEVELOPMENT

The envisaged functions of the section are:

- > Lead, facilitate and promote research and development within Mhlathuze Water;

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

Table 18: 2018/2019 Environmental awareness campaigns and events

EVENTS	ACTIVITIES
Arbour Day	An article was published in the news splash about the importance of planting trees and protection of indigenous vegetation.
Wetlands Day	An article was published in the Newsplash (internal newsletter) about the importance of protecting and conserving wetlands.
World and Environmental Oceans Day	Mhlathuze Water commemorated both Environmental and Oceans Day by conducting visits to all Mhlathuze Water installations to sensitise all staff members on the importance of conserving the environment as well as energy and water conservation. It was also emphasized that waste needs to be managed by ensuring that most of it is recycled as much as possible.
Water Week	Water week was celebrated by visiting Boardwalk Mall in Richards Bay. This initiative provided an opportunity for staff to engage with shoppers on water conservation and environmental conservation issues.
Mposha River Clean-up	As a Mandela Day initiative, Mposha river clean-up was conducted by staff and community members from the Nseleni area.

- > Develop a research agenda for the organisation;
- > Facilitate collaborative research with external organizations;
- > Develop programmes and initiatives to build internal R&D capacity;
- > Strengthen networks and relationships with other stakeholders; and
- > Review and update Mhlathuze Water's R&D strategy.

8.4.3 KEY PERFORMANCE HIGHLIGHTS

COMMEMORATION OF ENVIRONMENTAL DAYS, GENERAL AWARENESS AND EDUCATION

The organisation conducts awareness and education campaigns on environmental protection as well as water and energy conservation. The employees of Mhlathuze Water participate in most of these initiatives.



DISTILLATION PROCESS TO REMOVE IMPURITIES

WATER QUALITY

Mhlathuze Water is committed to providing its customers with a sustainable supply of potable water and to ensure that wastewater discharges do not have deleterious effects to the environment or downstream users. This is achieved through implementing rigorous and system-wide water quality management programmes, auditing, compliance reporting, water quality assessments and the implementation of water safety plans.

Each year, water quality monitoring programmes are reviewed for all operational sites to ensure they continue to provide sufficient information that meets legislative requirements, customer bulk supply agreements and water treatment process requirements, as well as, to take into account the risks that have previously 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 Nsezi Water Treatment Plant complies with SANS 241, which requires water quality to be evaluated and reported against six risk categories:

- (1) Acute Health: Microbiological;
- (2) Acute Health: Chemical;
- (3) Chronic Health;
- (4) Aesthetic; and
- (5) Operational;

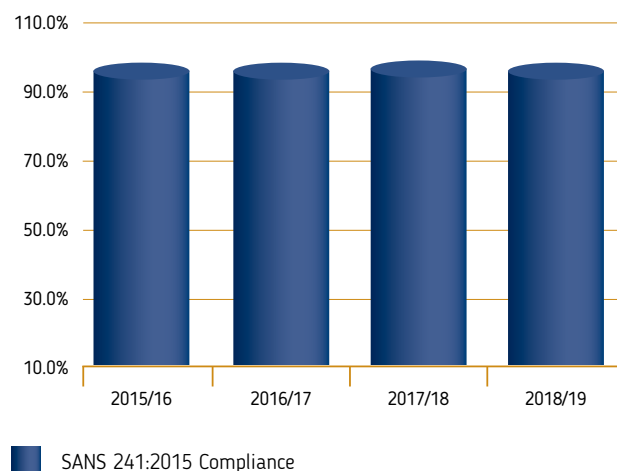
The current monitoring exceeds the minimum requirements so as to cater for other operational requirements and contractual obligations with certain industrial consumers. Performance is detailed below.

Table 19: Compliance report – SANS 241:2015 for Nsezi Water Treatment Plant

RISK CATEGORY	PERFORMANCE	SANS TARGET (FOR EXCELLENT WATER QUALITY FOR POPULATION > 100 000)	COMMENT
Aesthetic	100.0%	≥ 95	Target exceeded
Acute Chemical Health	100.0%	≥ 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 was 99.95%, with only three failures observed during the period under review. The target was 97%.

Figure 11: Compliance on SANS 241 for Nsezi Water Treatment Plan, 2015-2019



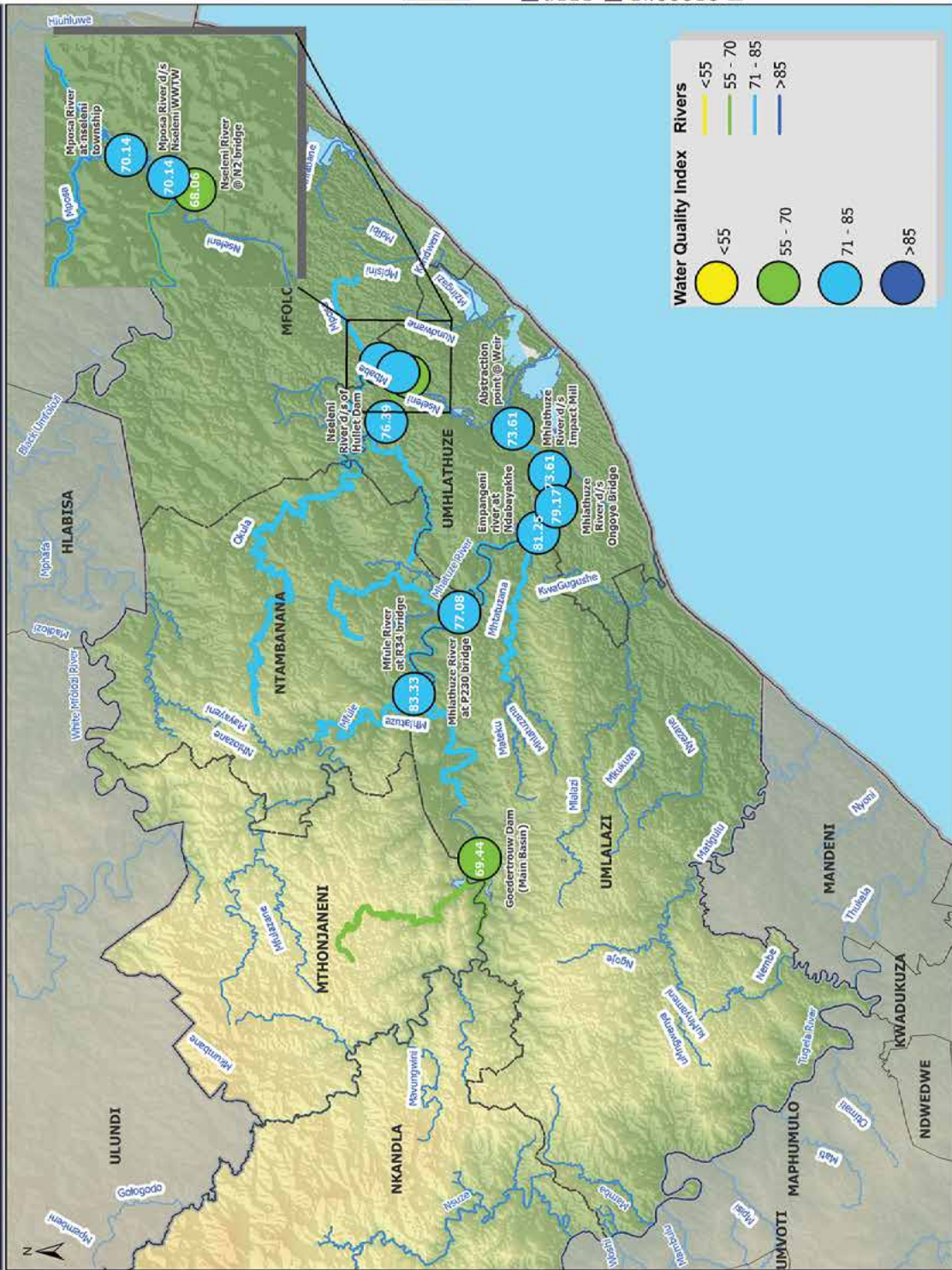
WATER QUALITY MONITORING PROGRAMME

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 the Mhlathuze Water catchment area is shown temporally and spatially with the aid of 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

MHLATHUZE WATER - KCDM - Water Quality Index- Year 18/19



Site Index Score	Site Index Category
85	Excellent
70 - 85	Good
55 - 70	Fair
<55	Poor

SOURCES

Sampling points, Constituents:
Rivers: DWS
Boundaries: M08 2016

PROPERTIES

Document Name : KCDM Water Monitoring
2018/2019
Creation date : 25/10/2019
Created by :
GIS - mthlathuze@kcdm.co.za
Print format : A4 Landscape
Confidentiality : Confidential

SCALE

1 cm = 5.65 km
0 5 10 20 km
1 cm = 6 km



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

WASTE WATER QUALITY MONITORING

WASTE WATER DISPOSAL COMPLIANCE

Mhlathuze Water owns and operates one of the largest offshore wastewater disposal system in South Africa. The system comprises of two pipelines (buoyant A-line and dense C-line). These pipes extend about four kilometers out to sea, discharging industrial wastewater from neighbouring industries in Richards Bay as well as surrounding areas, sludge from Nsezi Water Treatment Plant and macerated sewage from the City of uMhlathuze. The organisation has a permit to dispose wastewater in terms of Section 69 of the National Environmental Management: Integrated Coastal Management Act, 2008 (Act No. 24 of 2008).

ENVIRONMENTAL MANAGEMENT

Mhlathuze Water is committed to the sustainable use of resources, thus contributing broadly speaking, towards the Millennium Development Goal of "ensuring environmental sustainability." The organisation has developed and is currently implementing an environmental

sustainability policy which is aimed at achieving the following:

- > Foster a culture of sustainability and reducing Mhlathuze Water's ecological footprint;
- > Incorporate principles and understanding of sustainability into all activities, services, operations and stakeholder engagements; and
- > Incorporate sustainability performance alongside other key performance indicators of the organisation.

The organisation is 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 conservation.

ENVIRONMENTAL INCIDENTS

An incident is an unplanned or undesired event that adversely affects the 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 proper and timeous response to all incidents. Mhlathuze Water continually strives to be environmentally sustainable in all its operations. There has been a decrease in the number of reportable environmental incidents for the reporting period as compared to previous years.



STAFF MEMBERS EMBARKING ON A CLEAN UP CAMPAIGN AS PART OF THE ORGANISATION'S COMMITMENT TO SUSTAINABLE DEVELOPMENT

There were two incidents in April 2019. Both incidents were reported to local and national authorities in terms of Section 30 of the National Environmental Management Act, 1998. The details of the two incidents are as follows:

SURGE TOWER

DETAILS OF INCIDENT

Corrosion in the sealing rubber, bolts and clamps on the Fluoride Line caused clamp failure resulting in effluent leak.

MITIGATION MEASURES

The pipe and damaged clamp were removed and new pipe and cascade clamp installed.

MONDI COLLECTING CHAMBER INCIDENT

DETAILS OF INCIDENT

On 25 March 2019 Mondi Richards Bay, the biggest contributor to the A-Line embarked on a planned annual shut down. Prior to the start up on 4 April 2019, they emptied their Emergency Impoundment Ponds to ensure they would be able to contain any effluent that did not meet the effluent quality requirements. This resulted in the line blocking as there were high suspended solids in the effluent.

MITIGATION MEASURES

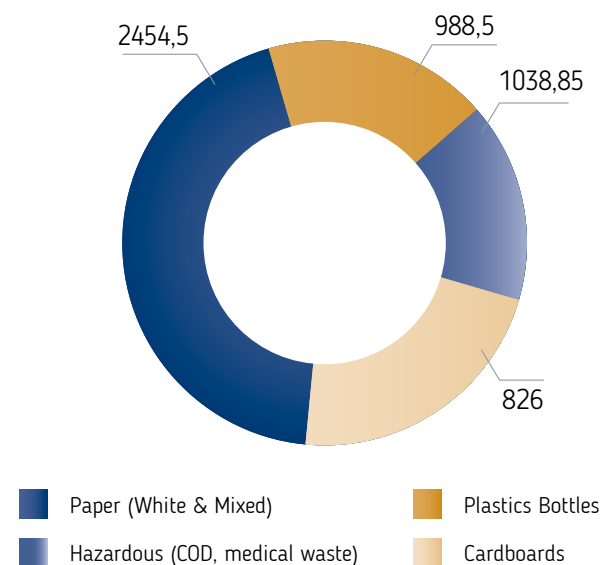
Several days were required to unblock the line and resume operations.

WASTE MANAGEMENT

Mhlathuze Water has developed a Waste Management Plan which is aimed at reducing waste in line with waste management principles, viz. recycle, recover, reuse and/or avoid on all sites of operation. A baseline study was undertaken in order to determine how much waste is being generated and recycled in order to reduce waste disposed as much as possible, which resulted in the following recommendations:

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

Figure 12: Recyclable and hazardous waste (KG)

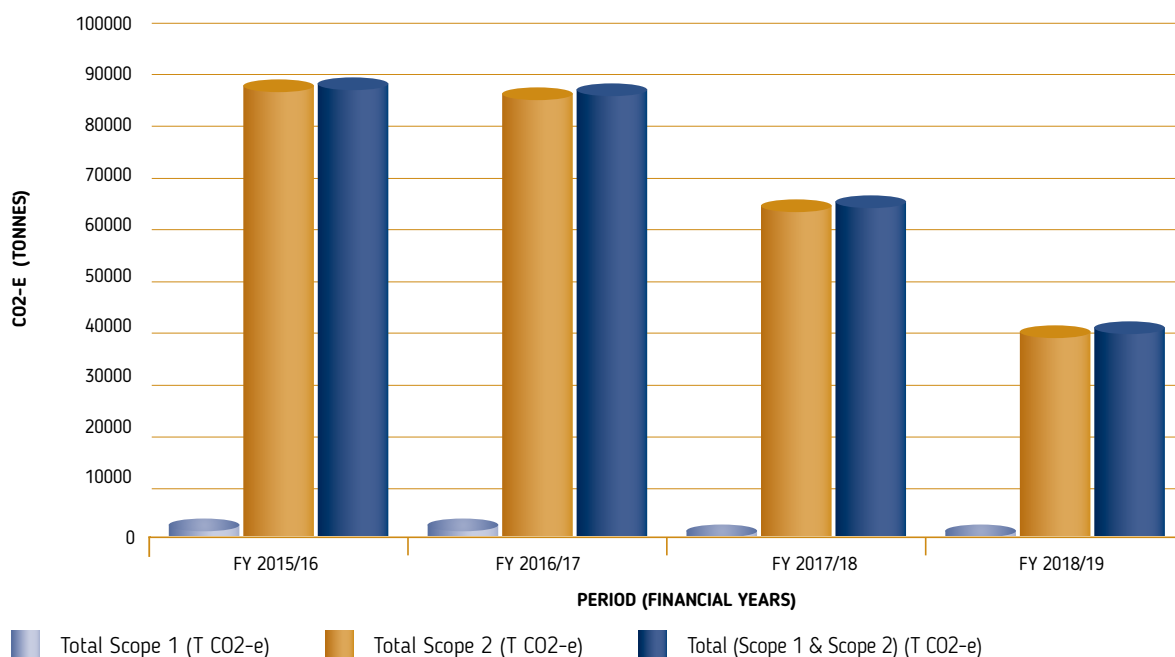


The graph above shows the percentage of the volumes of waste recycled in the 2018/19 financial year.

CARBON FOOTPRINT AND EMISSIONS REDUCTION INITIATIVES

The organisation has determined its Carbon Footprint and developed a Carbon Management Plan. The exercise provided an improved understanding of the organisation's Carbon Footprint with a view to transition to a more environmentally sustainable entity in the face of global climate change risk. Mhlathuze Water's 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.

Figure 13: CO₂ Equivalents



The above graph shows the organisation's carbon emissions over a period of 4 Financial Years. The reduction from FY2018/19 can be attributed to the implementation of the holistic energy reduction initiatives for Scope 2 and improved management of vehicle usage by different departments (Scope 1).

ELECTRICITY CONSUMPTION PER AREA/INSTALLATION

Monitoring of 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.

Figure 14: Water consumption from July 2018 to June 2019 at the Pump Station

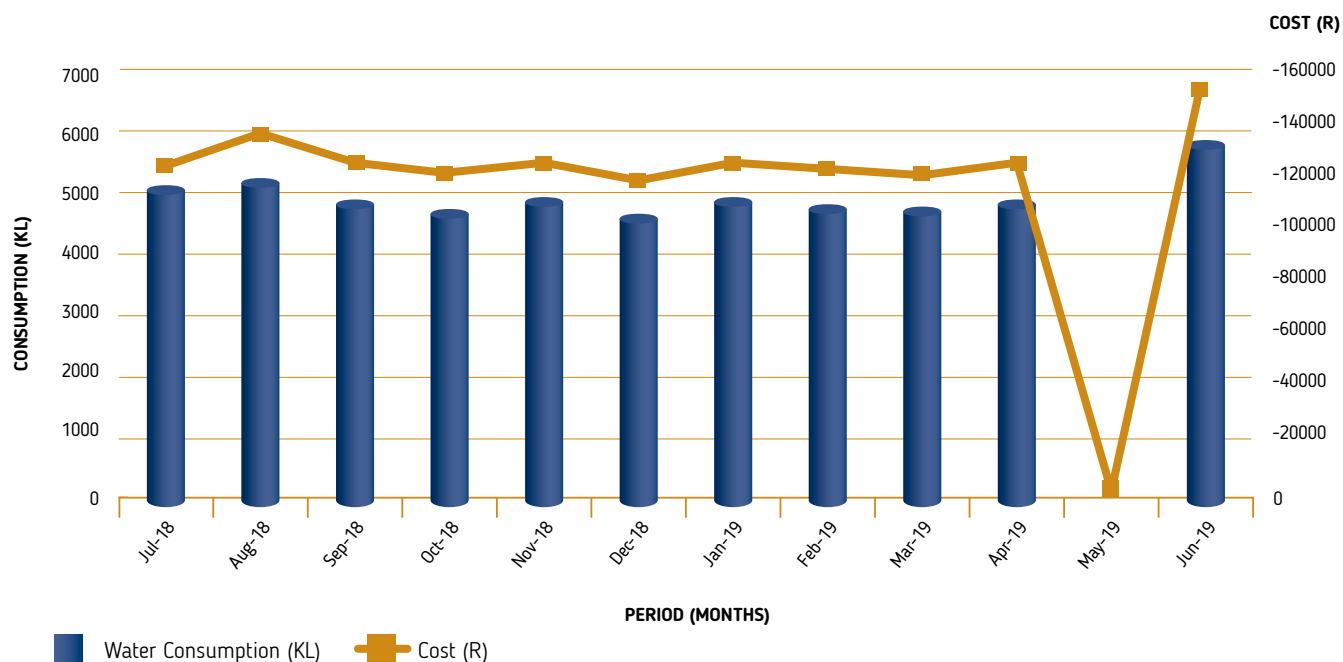
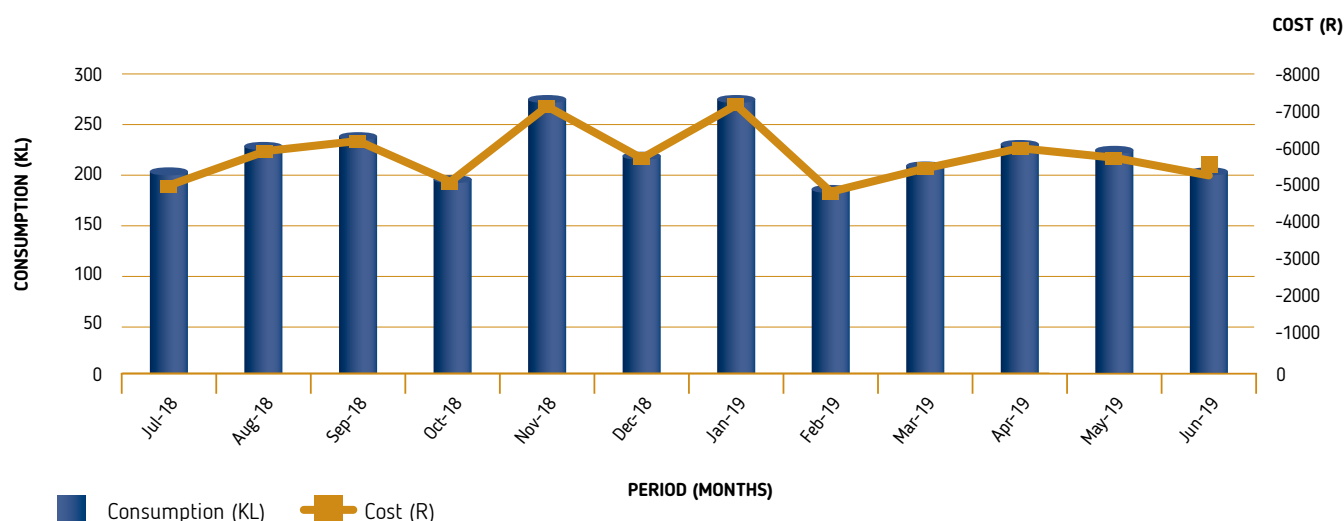


Figure 15: Water consumption from July 2018 to June 2019 at the Head office complex



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 amongst a number of listed activities that are required to follow the Environmental Impacts Assessment process. The service is outsourced to external service providers but the organisation monitors and audits these to ensure compliance with the Environmental Management Plans during project implementation.

Table 20: 2018/2019 Status of environmental permits

PROJECT NAME	DATE OF AUTHORISATION - EA	DATE OF AUTHORISATION - WUL
Construction of the Mhlathuze Weir	March 2018	August 2018

WATER CONSERVATION

In response to climate change, Mhlathuze Water is currently exploring measures to improve water use efficiency. The following has been undertaken thus far:

- > General awareness to all staff through induction, toolbox talks and internal magazine;
- > Conducting water audits to assist in establishing new ways to conserve water in the installations; and
- > Water leaks are timeously repaired.

Awareness campaigns promoting water conservation are continuously done amongst Mhlathuze water's employees. These

are also conducted to sensitise the community members of uMhlathuze Local Municipality, through roadshows and school visits.

ENVIRONMENTAL FORUMS

Mhlathuze Water participates in number of relevant environmental forums such as Catchment Management Forum (CMF). The forum's main objectives is to have engagements on water related matters as well as other associated topics of interest.

The organisation established an Effluent Pipeline Forum 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.

Meetings were held as follows:

Table 21: Environmental forums

MEETING	DATE
1	August 2018
2	November 2018
3	February 2019
4	May 2019

SYSTEMS MANAGEMENT

ISO 17025:2005: LABORATORY SYSTEM ACCREDITATION

Mhlathuze Water maintained its ISO 17025 accreditation for the Scientific Services Laboratory. The current certificate of accreditation is valid until 30 April 2022. Key objectives of the laboratory in support of Mhlathuze Water's 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 complies with permit requirements;
- > To produce scientific data for the development and optimisation of infrastructure; and
- > To assess the status of water resources in the catchment area.

There were no audits that were required to be conducted during the reporting period.

SAFETY, HEALTH, ENVIRONMENTAL AND QUALITY MANAGEMENT SYSTEMS (SHEQ)

In order to ensure compliance with best practices and international standards, the organisation has certified management systems for Safety, Health, Environment and Quality. SHEQ systems aim to integrate all components of the business into a coherent system to enable the organisation to achieve its mission.

The specific areas of application are:

- > OHSAS 18001: Health and safety management within the organisation to protect the health and safety of the workers;
- > ISO 14001: Environmental management to limit adverse effects

on the environment that may result from Mhlathuze Water's activities; and

- > 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.

MAJOR CAPEX PROJECTS: SECTION 29 PROJECTS

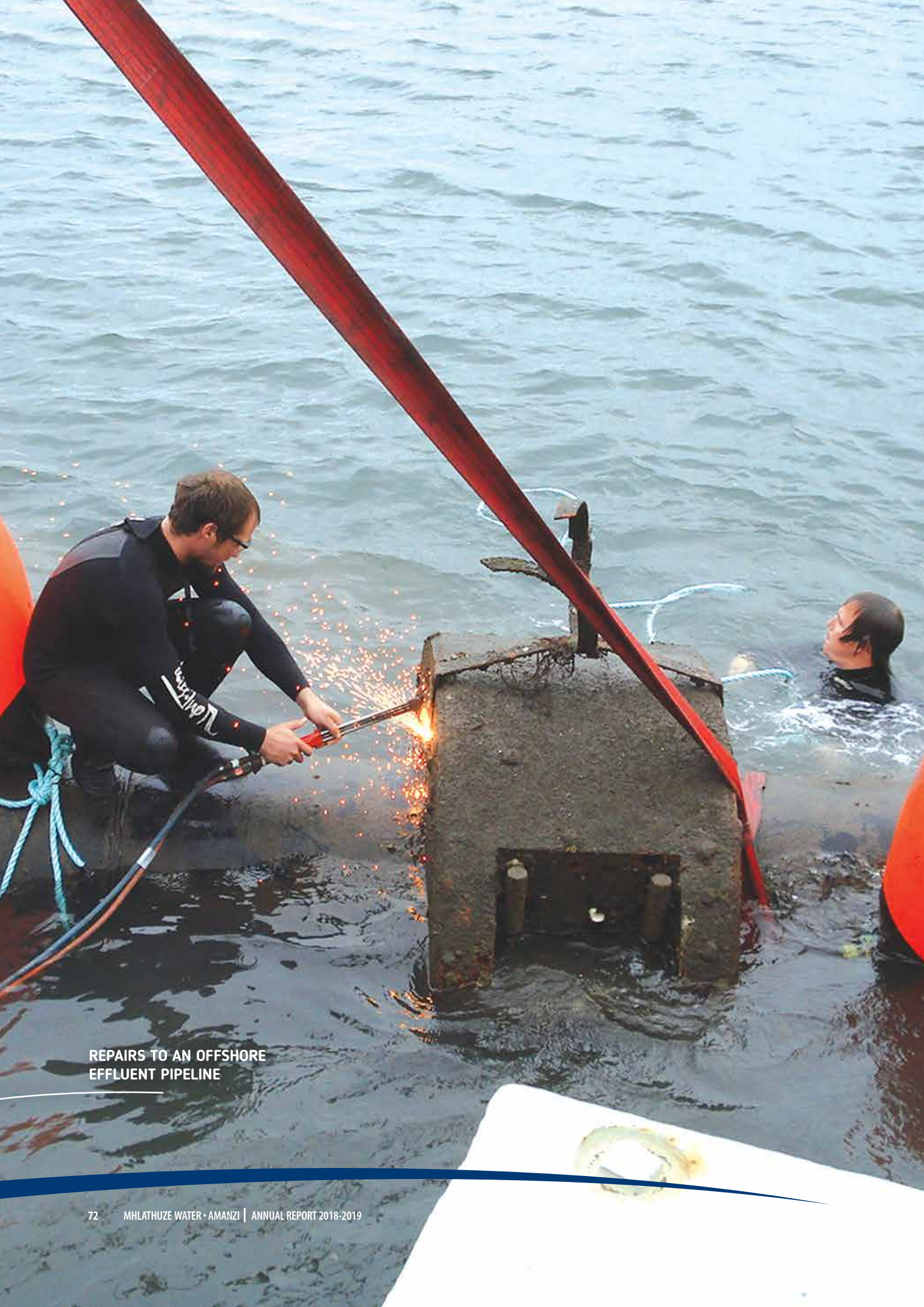
Gas Chromatograph with a Mass Spectra Detector

- > Project scope: The primary duty of the GCMS instrument is to perform analyses of various components from river, potable, surface and ground water samples. For research purposes the scope includes saline, wastewater and industrial effluents. Primary tests to be performed are: Geosmin and 2MIB, Trihalomethanes (THMs), Phenolic Compounds and qualitative GC scans;
- > 2018/2019 Budget: R2 205 527.50;
- > Expenditure as at 30 June 2019: R1 887 888.00;
- > Planned completion date: The instrument is being utilised;
- > Impact: Analysis of organics which test the drinking water for compliance in relation to SANS 241 standard; and
- > Challenges: None.

8.4.4 SCIENTIFIC SERVICES UNIT 2018/2019 PRE-DETERMINED OBJECTIVES

Table 22: Scientific Services Unit 2018/2019 pre-determined objectives

ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVES	TO BE PROACTIVE ON ISSUES RELATED TO ENVIRONMENT COMPLIANCE AND STEWARDSHIP				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
SC1	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 2018 to 30 June 2019	99.95%	2.95%	Conducted tests complied with the water quality standard
N/A	ISO 17025 laboratory management system standard accreditation maintained	Number of accreditations maintained	1 ISO 17025 accreditation maintained by 30 June 2019	1 ISO 17025 accreditation maintained by 30 June 2019	None	N/A
N/A	ISO 9001, 14001, OHSAS 18001 standard certification	Number of compliance certifications maintained	ISO 9001, 14001 and OHSAS 18001 certification maintained by 30 June 2019	ISO 9001, 14001 and OHSAS 18001 certification maintained by 30 June 2019	None	N/A
N/A	Environment awareness initiatives	Number of environment awareness initiatives conducted	4 Environment awareness initiatives (Arbour Day, Weed Buster, Water Week and Oceans & Environment Day) conducted by 30 June 2019	4	None	N/A
N/A	Compliance with Coastal Water's Discharge Permit (CWDP)	Percentage of quality compliance with CWDP	≥90% effluent quality compliance CWDP for A and C lines for period 1 July 2018 to 30 June 2019	92%	2%	The effluent quality compliance CWDP for A and C lines is 92% due to pH and suspended solids due to non-compliance from contributors



REPAIRS TO AN OFFSHORE
EFFLUENT PIPELINE

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 waste water 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 waste water 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 the organizations business development model (concept & 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 waste water re-use 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 Mhlathuze Water's area of Operation.

PROJECT MANAGEMENT

The section is responsible for the implementation and project management (in-year monitoring and reporting) of capital projects for internal 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 Plan/s. The Organisational Capital budget project implementation plans are informed by the conditional assessment of plant assets together with 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

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

PRIMARY INFRASTRUCTURE DEVELOPMENT ACTIVITIES

In the 2017/2018 financial year, Mhlathuze Water, as part of its core business, made a budget available for the implementation of water key multi-year infrastructure project upgrades and expansions. To ensure continuous and reliable supply to customers, Mhlathuze Water embarked on the implementation of following projects:

- > Installation of a standby diesel generator as a back-up power supply:
 - Project scope: Construction of the standby generator building. Supply, installation and commissioning of a new standby generator.
 - Overall budget: R16 014 210.40;
 - 2018/2019 budget: R4 704 185.00;
 - Expenditure as at 30 June 2019: R 76 278.00;
 - Expenditure to date: 12 391 168.06;
 - Project Completed: The project has reached practical completion in June 2019;
 - Impact: Backup power supply for the 22kVa line from Eskom; an uninterrupted supply of raw water to the Nsezi Water Treatment Works and upgrades to the Tronox and Nsezi control panels.; and
 - Challenges: None.
- > 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 placement of riprap;
 - Overall budget: R66 826 451.54;
 - 2018/2019 budget: R44 898 815.00;
 - Expenditure as at 30 June 2019: R49 951 781.00;
 - Expenditure to date: R52 218 477.00;

- Planned completion date: October 2019;
 - Impact: To strengthen and stabilize the weir structure thus prolonging useful life; and
 - Challenges: None.
- > Replacement of 1 500mm Ø Raw Water Pipeline from Mhlathuze River to Shooting Range:
- Project scope: 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.
 - Overall budget: R151 360 909.00;
 - 2018/2019 Budget: R69 360 909 .00;
 - Expenditure as at 30 June 2019: R68 708 488.00;
 - Expenditure to date: R68 708 488.00;
 - Planned completion date: December 2019;
 - Impact: To upgrade the maximum abstraction capacity at the weir pump station from 205 MI/day to 265 MI/day; and
 - Challenges: The objection on the raw water pipeline from Weir to shooting range delayed the implementation of the project Mhlathuze Water/22/2017. The project was cleared for commencement in January 2019.

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.

JOZINI REGIONAL WATER SUPPLY PROJECT

Mhlathuze Water successfully commissioned a 40 MI/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 the Municipality is fully capacitated to take over the running of the scheme. The project has reached practical completion with only 3 pump stations yet to be commissioned due to ESKOM power-related challenges.

RESERVOIRS AT THE NSEZI WATER
TREATMENT PLANT

NONGOMA WATER SUPPLY PROJECT

Mhlathuze Water's mission is to provide and expand affordable, sustainable and reliable regional water and waste water services of high quality to stakeholders; to improve quality of life; and to contribute to development. Mhlathuze Water received a Ministerial Directive for provision of water services within Nongoma. The scope of work includes installation of boreholes, storage tanks, reticulation and standpipes within Nongoma ward 5, 10 and 11, to supply water to communities without access to basic water. The Nongoma Water Supply project is a multi-year project, with the scope (implemented by Mhlathuze Water) for ward 5, 10 and 11 completed in December 2018. A total of 1 537 households are benefitting from this scheme. The project immensely contributed towards government priorities, as the project supports and strengthens the participation of local communities in improving water and sanitation management, to achieve the Sustainable Development Goals by strengthening the participation of local communities in improving water and sanitation management. Mhlathuze Water is in the process of handing over the completed project to the Zululand District Municipality (ZDM).

NONGOMA WATER SUPPLY WARD 14 & 17

The project practically complete, with a total of 1 583 households benefitting from the project. The scope of work includes installation of boreholes, storage tanks, reticulation and standpipes. Mhlathuze Water is in the process of handing over the completed project to the Zululand District Municipality (ZDM).

ABAQULUSI

Abaqulusi water supply project; ward 5, 6 and 7 was for the protection of springs. 9 springs were successfully protected and the project is complete. A total of 259 households are benefitting from this project. Mhlathuze Water is in the process of handing over the completed project to the Zululand District Municipality (ZDM).

DEPARTMENT OF LABOUR: LEARNERSHIP PROGRAMME

- > Project scope: The overall objective of the Project is to reskill the previously employed through learnerships, on the other hand to alleviate poverty, create employability of beneficiaries and also provide them with the nationally recognised qualification. The project is being implemented in KwaZulu-Natal and Eastern Cape, within 9 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.
- > 2018/2019 Budget: R85 200 000.00;
- > Expenditure as at 30 June 2019: R3 899 995.00; and
- > Impact: Reskilling the previously employed through learnerships thereby alleviating poverty, improve employability prospects of beneficiaries and also provide them with nationally recognised qualifications.
- > Challenges:
 - Late payment of stipends;
 - Unpaid learners' stipends due to learners providing incorrect bank accounts;
 - Municipalities not responding on time which causes project delays; and
 - Suspension of classes by students at some sites.

8.5.4 TECHNICAL SERVICES UNIT 2018/2019 PRE-DETERMINED OBJECTIVES

Table 23: Technical Services Unit 2018/2019 pre-determined objectives

ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVES	TO GROW THE PROVISION OF WATER SERVICES				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
CS11	Implementation of Ministerial directives	Percentage of Ministerial directives implemented against allocated budget	100% Ministerial directives implemented against allocated budget by 30 June 2019	100%	None	N/A
CS9	Internally funded capital expenditure programme	Percentage of capital projects completed within targeted dates	80% of capital projects completed within targeted dates by 30 June 2019	95%	15%	The project Weir Standby Generator: (Mhlathuze Water/27/2016) reached practical completion as at 30 June 2019
ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVES	TO RESOURCE THE ORGANISATION WITH THE REQUIRED SKILLS AND COMPETENCE IN ORDER TO DELIVER THE STRATEGIC INTENT				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
CS15	Temporary jobs created	Number of temporary jobs created through Mhlathuze Water external programme	200 temporary jobs created through Mhlathuze Water external programme by 30 June 2019	208	8	More indirect jobs were created through Mhlathuze Water external programme
ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVES	TO GROW THE PROVISION OF WATER SERVICES				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
N/A	Effective integration of departmental plans	3 year Infrastructure MTEF development plan	Adoption and approval of the 3 year Infrastructure MTEF development plan by EXCO by 30 June 2019	3 year Infrastructure MTEF Plan was adopted and approved by EXCO	None	N/A



CLOSE UP IMAGE OF
THE NSEZI CLARIFIER

8.6 FINANCE UNIT

8.6.1 MANDATE OF 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 ensuring financial viability and sustainability of the organisation, thereby contributing to delivery on the organisation's 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, 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 tangible (property, plant and equipment) and intangible assets (software) for the organisation. 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, 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 an 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 establishment and participation of black players in the economy in line with BBBEE Act, in order to stimulate economic growth and creation of jobs in communities. It is also responsible for implementation and monitoring of the five pillars of 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 SMME space;
- > Incubation support system;
- > Investigating establishment of ESD Development Fund;
- > Structured joint venture; and
- > Targeted payment system.

8.6.3 FINANCE UNIT 2018/2019 PRE-DETERMINED OBJECTIVES

Table 25: Finance Unit 2018/2019 pre-determined objectives

ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVES	TO GROW THE PROVISION OF WATER SERVICES				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
SC4	Increased access to services by implementing expansion projects	Percentage of CAPEX budget spend on expansion related projects	80% expenditure on expansion related projects by 30 June 2019	99.05%	19.05%	There is a favourable variance of 19.05% compared to 80% target. This is a result of management spending the budget as planned on expansion related projects.
ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVES	TO ENSURE THE LONG TERM FINANCIAL SUSTAINABILITY OF THE ORGANISATION				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
SC6	Effective and efficient mechanisms to ensure financial sustainability and viability	Current ratio	≥2 ratio on assets over current liabilities that measures liquidity by 30 June 2019	2.50	0.50	There is a favourable variance of 0.50 due to higher cash reserves held by Mhlathuze Water. Furthermore this is due to less Trade Payable balance as year-end versus budgeted figure.
SC6	Effective and efficient mechanisms to ensure financial sustainability and viability	Percentage of primary gross profit margin	≥60% Gross profit margin ratio on Revenue minus Cost of sales over revenue, measures profitability on Primary activities by 30 June 2019	62%	2%	There is a favourable variance of 2%. As much as there were reduced volumes due to drought restrictions that were imposed by DWS. The increase is due to activities which were not budgeted for i.e. Department of Labour project and the TG Scheme, where the costs to implement are minimal.
SC6	Effective and efficient mechanisms to ensure financial sustainability and viability	Percentage of primary net profit margin	≥10% Net profit margin ratio on Gross Profit minus expenditure over Revenue, measures profitability on Primary activities by 30 June 2019	20%	10%	There is a favourable variance of 10%. As much as there were reduced volumes due to drought restrictions that were imposed by DWS. The increase is due to activities which were not budgeted for i.e. Department of Labour project and the TG Scheme, where the costs to implement are minimal.
SC6	Effective and efficient mechanisms to ensure financial sustainability and viability	Percentage of debt equity	≤0.33% Debt equity ratio on Total debt liabilities over Equity, measures Financial Leverage and long term Solvency by 30 June 2019	0.12%	0.21%	There is a favourable variance of 0.21% Mhlathuze Water did not borrow a further R100 million as budgeted for in the business plan, hence the favourable variance.
SC6	Effective and efficient mechanisms to ensure financial sustainability and viability	Percentage of return on assets	≥4% Return on assets ratio on Net income over Total assets, measures Profitability by 30 June 2019	7.79%	3.79%	There is a favourable variance of 3.79% due to an increased surplus in Mhlathuze Water performance against the budget. Additional revenue was earned from secondary activities which employs less capital.
SC6	Effective and efficient mechanisms to ensure financial sustainability and viability	Percentage of repairs and maintenance of PPE	≥2% Repairs and maintenance of PPE by 30 June 2019	3.74%	1.4%	There is a favourable variance of 1.4% which resulted from spending of budgeted repairs and maintenance expenditure as planned.

Table 25: Finance Unit 2018/2019 pre-determined objectives...continued

ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVES	TO ENSURE THE LONG TERM FINANCIAL SUSTAINABILITY OF THE ORGANISATION				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
SC6	Effective and efficient mechanisms to ensure financial sustainability and viability	Number of days to collect primary debts	Primary activities debts collected within 45 days by 30 June 2019	44.7 days	0.3 days	There is a favourable variance of 0.3 days as a result of effective debt collection processes in place which resulted to majority of customers paying within 45 days.
SC6	Effective and efficient mechanisms to ensure financial sustainability and viability	Percentage of staff remuneration of total operating expenditure	≤30% Staff remuneration of total operating expenditure by 30 June 2019	23.97%	6.03%	There is a favourable variance of 6.03% and this resulted from vacant positions in the financial year ended 30 June 2019 which affected the employee related costs.
ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVES	TO INITIATE AND BUILD RELATIONSHIPS WITH STAKEHOLDERS TO ADD VALUE FOR THE MUTUAL BENEFIT OF ALL				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
SC7	BBBEE spend as per PPPFA compliance requirements	Percentage of BBBEE spend as per compliance requirements	55% BBBEE Spend as per PPPFA compliance requirements by 30 June 2019	72.29%	17.29%	More orders were placed with Black Owned Companies
ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVES	TO ENSURE THE LONG TERM FINANCIAL SUSTAINABILITY OF THE ORGANISATION				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
SC8	Effective and efficient mechanisms to ensure financial sustainability and viability	Percentage of actual expenditure compared with budget expenditure	Actual expenditure within ±10% of total budget expenditure by 30 June 2019	97.47%	7.47%	There is a favourable variance of 7.47% compared to 90% target. This is a result of better management of budgets.
ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVES	TO GROW THE PROVISION OF WATER SERVICES				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
SC9	Internally funded capital expenditure programme	Percentage of CAPEX budget spent on internally funded capital projects	80% expenditure on internally funded capital projects by 30 June 2019	99.49%	19.49%	There is a favourable variance of 19.49% compared to 80% target. This is a result of management spending the budget as planned on internally funded capital projects and funds being rolled forward to the next financial year.

Table 25: Finance Unit 2018/2019 pre-determined objectives...continued

ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVES	TO INITIATE AND BUILD RELATIONSHIPS WITH STAKEHOLDERS TO ADD VALUE FOR THE MUTUAL BENEFIT OF ALL				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
N/A	SMMEs paid within turnaround time	Percentage of SMME suppliers paid within 14 days	100% of SMME suppliers paid within 14 days by 30 June 2019	75%	25%	Out of 260 SMME invoices, 196 invoices were paid within 14 days. 64 SMME invoices were not paid within 14 days. The delay in payment of invoices is due to non-compliance with processes.
N/A	Identified Small, Medium and Micro-Enterprises (SMEs) subcontracted as per NT Guidelines	Percentage of construction project awarded subcontracting a minimum 30% of total value of SMMEs	100% of construction project (to the value of R10 million and above) awarded must subcontract minimum 30% of total value to SMMEs by 30 June 2019	100%	None	N/A
N/A	Contractors' compliance to CPG requirements monitored	Number of unresolved complains on CPG matters	Zero unresolved complains on CPG matters by 30 June 2019	0	None	N/A
N/A	New entrants awarded contracts	Number of new entrants awarded contracts	15 new entrants awarded contracts by 30 June 2019	42	27	More new entrants were awarded contracts
ALIGNMENT TO SHAREHOLDERS COMPACT	STRATEGIC OBJECTIVES	TO ENSURE THE LONG TERM FINANCIAL SUSTAINABILITY OF THE ORGANISATION				
	OUTCOMES	PERFORMANCE INDICATOR	ANNUAL TARGET	ACTUAL ACHIEVEMENT	DEVIATION FROM PLANNED TARGET TO ACTUAL ACHIEVEMENT	COMMENT ON DEVIATION
N/A	Effective and efficient mechanisms to ensure financial sustainability and viability	Tariff increases	Tariff increases approved by the Minister and communicated to end-users by 30 June 2019	Tariff increase was approved by the Minister and communicated to end users	None	N/A

8.6.4 CORRECTIVE MEASURES TO ADDRESS AREAS OF UNDERPERFORMANCE

100% OF SMME SUPPLIERS PAID WITHIN 14 DAYS BY 30 JUNE 2019

To ensure that all SMME invoices are paid within 14 days, Mhlathuze Water issued a notice to service providers and suppliers to submit original invoices to the Office of the CEO.

SECTION D:

CLARIFIERS AT NSEZI WATER
TREATMENT PLANT

FINANCIAL INFORMATION

9. FINANCIAL OVERVIEW

9.1.1 INTRODUCTION

During this period of 2018/19 financial year, Mhlathuze Water continued to increase its financial performance and financial position in order to ensure that the main objective and mandate is achieved in a financially viable and sustainable manner, even though the financial period still impacted by the drought. Mhlathuze Water continued to work with the Department of Water and Sanitation to alleviate the effects of drought within its area of operation.

This financial overview details the growth and performance achieved financially for the past five years. Overall, a growth in financial performance of R173 million in revenue from sale of goods and service was achieved as a total of R712 million (2018: R539 million).

This growth is also supported by an increase in surplus achieved for the financial year from R82 million to R107 million, a growth of almost 30%.

9.1.2 ACCOUNTING FRAMEWORK, LEGAL AND LEGISLATIVE REQUIREMENTS

Consistent with prior years, the Annual Financial Statements for the financial year ending 30 June 2019 were prepared and presented in accordance with Generally Recognised Accepted Accounting Practices (GRAP), the Public Finance Management Act (Act No. 1 of 1999) (PFMA) as amended, and reflect the reporting requirements of the Water Services Act (Act No. 108 of 1997). The Financial Department is guided in the performance of its tasks by the following Acts of Parliament and Financial Codes: the Water Services Act (Act No. 108 of 1997), the Public Finance Management Act (Act No. 1 of 1999), the Municipal Finance Management Act, the Preferential Procurement Policy Framework Act, the Supply Chain Management Framework, and other related prescripts such as National Treasury's regulations.

9.1.3 OPERATING PERFORMANCE

Table 26 gives an overview of the Statement of Financial Performance of the entity for the 5 years ending 30 June.

Table 26: Statement of Financial Performance

	2015	2016	2017	2018	2019	%
	R'000	R'000	R'000	R'000	KL'000	CHANGE
Volumes	136 222	131 295	117 506	123 578	123 578	0%
	R'000	R'000	R'000	R'000	R'000	R'000
Sale of goods and services	498 765	527 042	533 617	538 996	711 942	32%
Cost of Sales	134 913	122 819	242 391	232 440	309 410	33%
Raw water purchases	59 045	51 738	44 315	44 378	63 069	42%
Electricity and water	26 369	27 654	103 738	81 239	129 147	59%
Chemicals	12 580	11 572	16 760	17 551	18 969	8%
Employee related costs	9 501	10 774	42 160	50 804	51 935	2%
Depreciation and amortisation	27 418	21 081	35 418	38 469	46 290	20%
Gross profit	363 852	404 223	291 226	306 554	402 532	31%
Other income	12 732	13 322	14 414	17 400	19 969	15%
Expenditure						
Employee related costs	88 070	106 975	86 920	93 107	95 588	3%
Remuneration of board members	2 964	3 129	2 679	620	3 274	428%
Depreciation and amortisation	24 384	19 278	6 386	7 851	9 490	21%
Finance costs	13 069	10 205	9 850	6 021	5 625	(7%)
Lease rentals on operating lease	2 410	2 488	2 566	2 805	2 740	(2%)
Debt impairment	144	181	293	0	20	100%
Repairs and maintenance	42 943	45 973	40 748	48 088	81 302	69%
Electricity and water	49 546	72 833	2 026	1914	2 076	8%
Chemicals	1 313	3 239	-	796	829	4%
Other expenses	60 246	62 917	81 918	74 745	110 617	48%
Total expenditure	285 089	327 218	233 386	235 946	311 561	32%
Operating surplus	91 495	90 327	72 254	88 008	110 940	26%
Gain (loss) on disposal of assets	(1 499)	56 576	(2 815)	(6 058)	(4 014)	(34%)
Surplus for the year	89 996	146 903	69 439	81 948	106 926	30%

The financial performance of the 2018/19 financial year indicates that the Operating Surplus has increased by 31% from the prior year and Surplus for the year has increased by 33%. Mhlathuze Water measures its financial performance in terms of its achievement against financial indicators, which are aligned to the organisation's strategic objectives.

Operating surplus is an indicator of financial performance before accounting for gains or losses from disposal of assets.

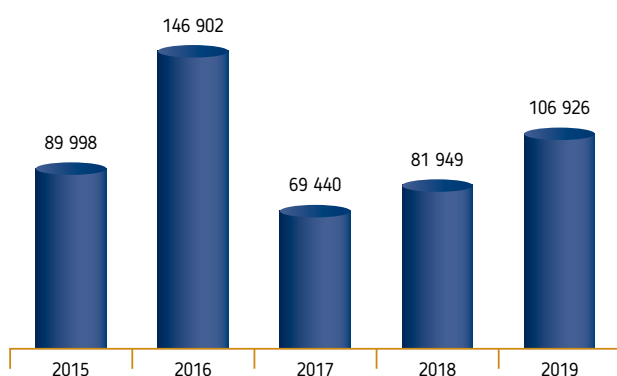
The main reasons for the increase are due to the following reasons:

- > Volumes sold for bulk water and effluent increased by 12% for the year.
- > Revenue from sale of goods increased by 32% from previous year, this mark the highest turnover for the past five financial years.
- > Gross profit has increased by 31% from the previous year.

The operating surplus reflects significant growth trend, it has been consistently increasing in the 3 years.

9.1.4. SURPLUS FOR THE YEAR

Figure 16: Surplus for the year



The above figure reflects an increase in surplus for the year of R107 million, a significant performance growth from previous year. The main contributor to the surplus in Section 29 is increased tariff and 12% and increase in volume sold. The main contributor to the surplus in section 30 was new projects implemented in the financial year. Overall, a 30% increase achieved was significant growth and expansion in line with its growth strategy and objectives of the organisation.

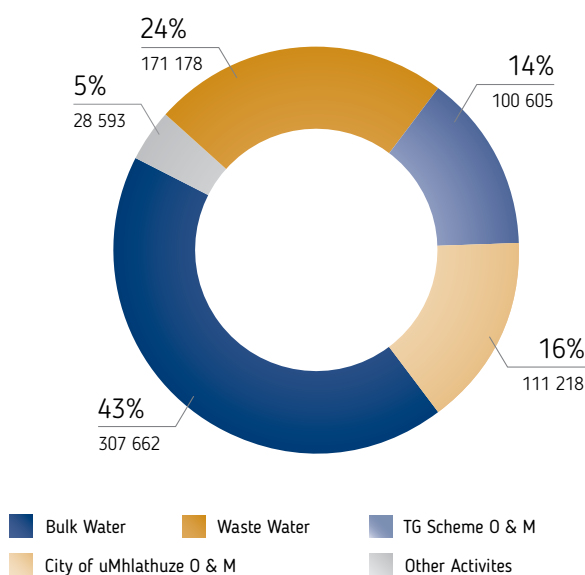
9.2 REVENUE FROM EXCHANGE TRANSACTIONS

9.2.1 SALE OF GOODS AND SERVICES

The business of Mhlathuze Water is divided into two operations, i.e. Section 29 and Section 30 activities as defined by the Water Services Act (Act No. 108 of 1997). Section 29 activities is our primary activities, these activities are the sale of bulk water, raw, clarified, portable and the disposal of effluent. Whilst Section 30 activities relate to other services, which mainly relate to operations and maintenance of water schemes on behalf of municipalities, industries and implementing agent work from projects implemented on the behalf of government institutions. The volumes sold in the current year increased by 12%, additionally an increase in Revenue was realised due to approved tariff increases and the Implementing Agency fees received.

Figure 17: Sale of Goods and Services (R'000)

Revenue per Segment - 30 June 2019 (R'000)

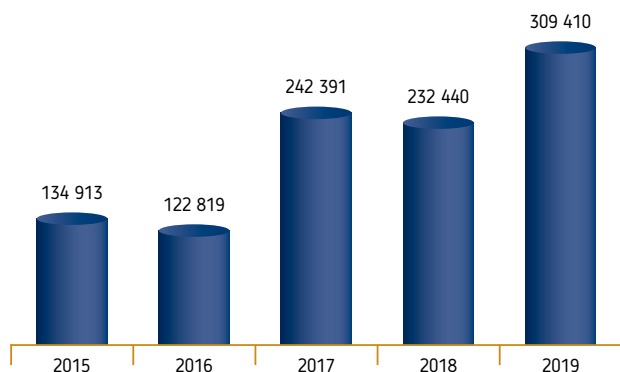


The above graph indicates that combined the revenue from sale of goods from primary activities as explained above is R479 million (67%) and R233 million (33%) from secondary activities. Refer to Note 26 of the Annual Financial Statements for details.

9.3 COST OF SALES

Cost of Sales increased by 33% for the year which is in line with the increase in sales. These are costs directly linked to the production of sales of goods and services. The main contributor is electricity and water costs and raw water purchases, these contributors increased by 59% and 42% respectively. Depreciation increased by 20% compared to the previous financial year.

Figure 18: Cost of Sales (R'000)



9.4 GROSS PROFIT

Gross profit is a reflection of all the direct costs involved in the production of goods and services sold. Direct costs include Raw Water Purchases, Electricity & Water, Chemicals, Depreciation as well as Direct Labour Costs. The gross profit percentage increased by 31% for the year. Evidently from the Graph below, it is indicative that the Gross Profit has increased significantly from the past two years. Gross profit percentage has remained consistent with previous financial year.

Figure 19: Gross Profit (R'000)

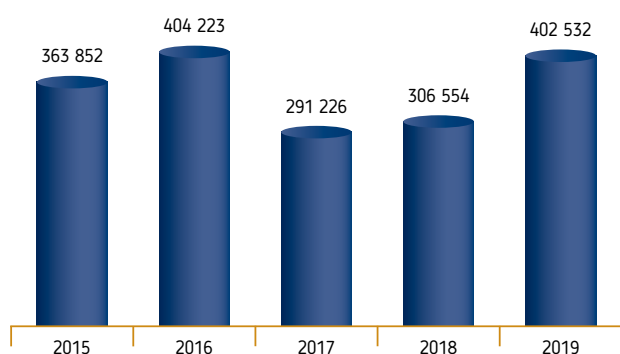
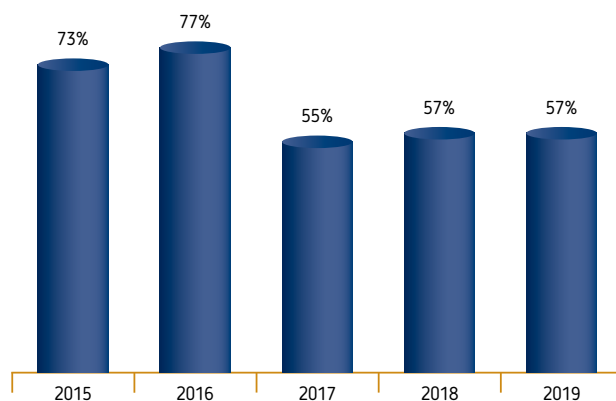


Figure 20: Gross profit (%)



9.5 EXPENSES

A cost structure breakdown of expenses by nature including direct and indirect costs incurred in the financial year is as follows:

Figure 21: Cost Structure 2019 (%)

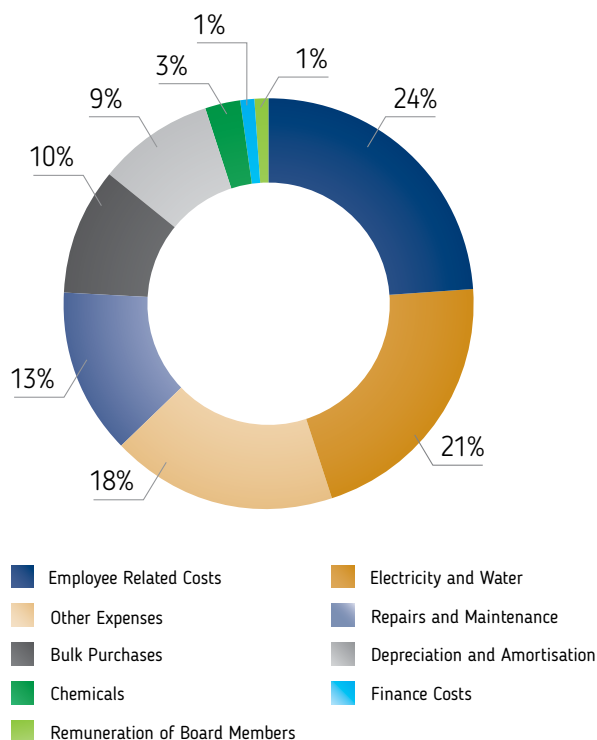
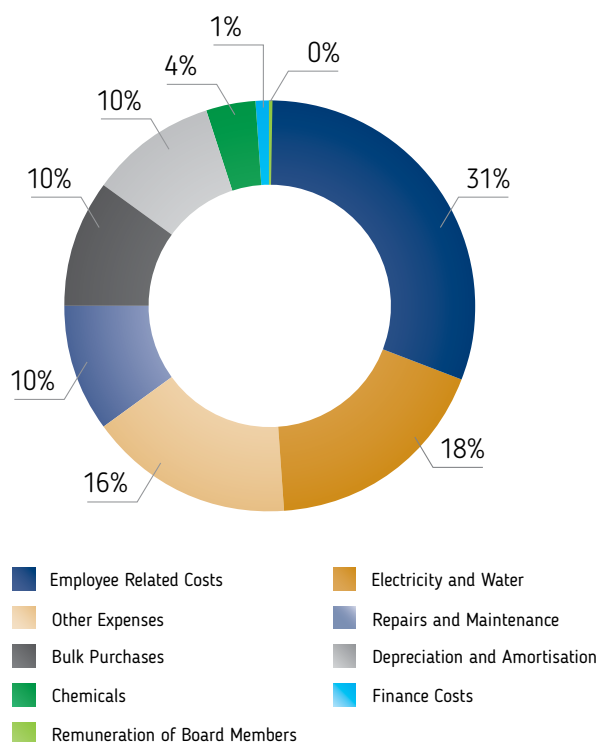


Figure 22: Cost Structure 2018 (%)

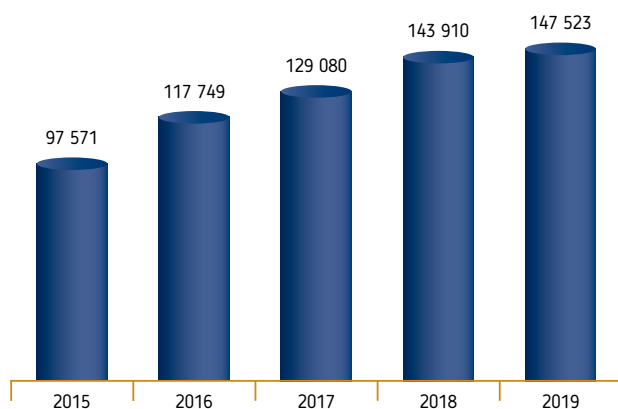


9.6 EMPLOYEE RELATED COSTS

An increase of 2% in employee related costs from the prior year was due to the following:

- > An approved salary increase of 7.5% by the Amanzi Bargaining Council.
- > Business travel claims increased due to business requirements.
- > An increase in Workman's Compensation premiums due to a revised risk rating.
- > Overtime increased mainly due to operational requirements as a result of the employee turnover rate.

Figure 23: Employee Related Costs (R'000)

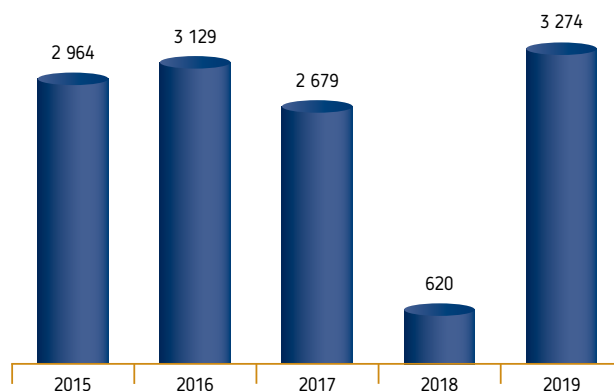


Graph 30 above demonstrates the employee related costs incurred by Mhlathuze Water over the past five financial years in monetary values, which reflects a consistency increase.

9.7 REMUNERATION OF BOARD MEMBERS

An increase from R620 thousands to R3.3 million was due to the fact that there was newly appointed Board which took office from the 5th of December 2018.

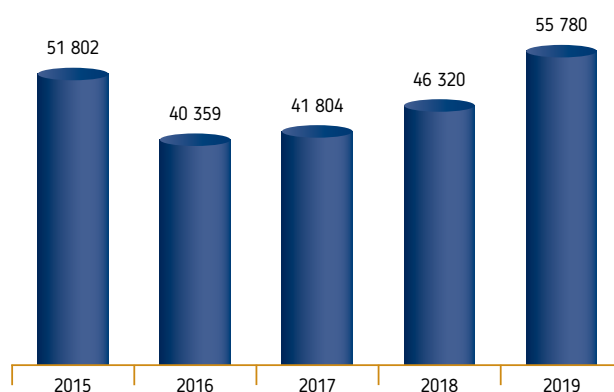
Graph 31: Remuneration of Board Members (R'000)



9.8 DEPRECIATION AND AMORTISATION

The depreciation and amortisation increased by 20% due to projects that were capitalised in prior year.

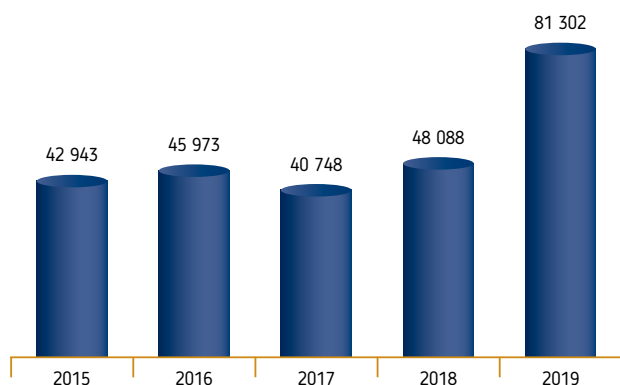
Figure 25: Depreciation and Amortisation (R'000)



9.9 REPAIR AND MAINTENANCE

The 69% increase from (R48 million)2018 to 2019(R81 million) was due to major maintenance projects implemented in the year arising from the internal assessments conducted that resulted to increased repairs and maintenance.

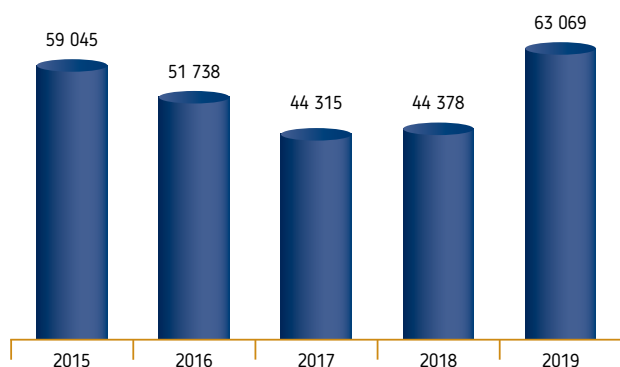
Figure 26: Repairs and Maintenance (R'000)



9.10 BULK PURCHASES

There is an increase in Bulk Purchases for the year due to the number of volumes sold in 2018/19 financial year as demonstrated by the graph below. The main reason is that there was a greater impact of drought and water restrictions in the previous financial year.

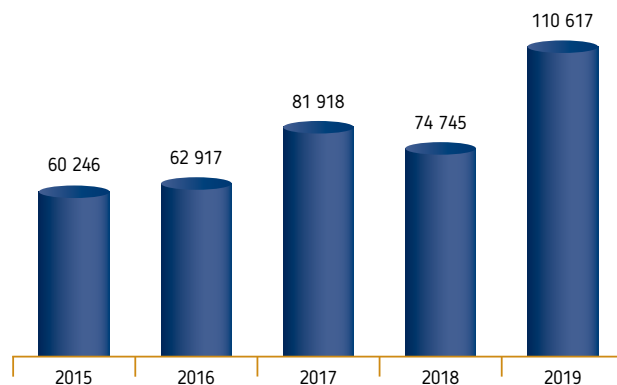
Figure 27: Bulk Purchases (R'000)



9.11 OTHER EXPENSES

The movement in monetary value increased from R75 million to R101 million. The main reasons for this relates to sludge removal, legal expenses and cleaning cost, refer to Note 21 of the Annual Financial Statement for detailed costs.

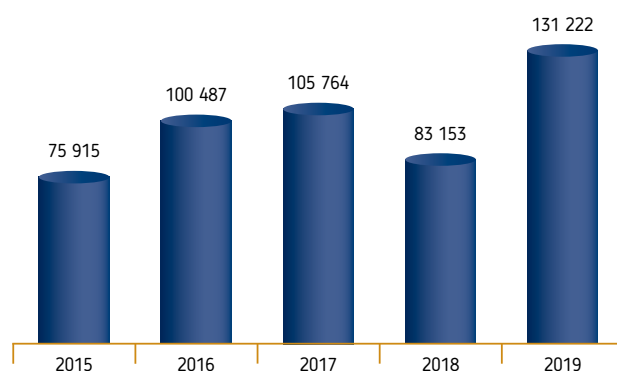
Figure 28: Other Expenses (R'000)



9.12 ELECTRICITY AND WATER

The graph below demonstrates the cost of electricity and water that increased by 58%, this is due to increase in pumping especially in operations the electricity costs that were incurred in operations and maintenance contracts.

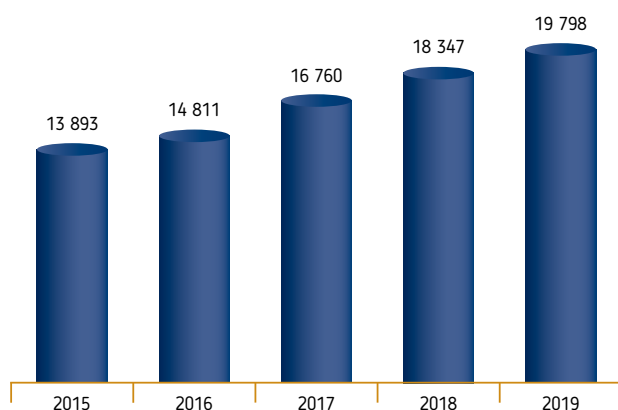
Figure 29: Electricity and Water (R'000)



9.13 CHEMICALS

The increase of 8% was due to the price increase on tendered chemical contracts.

Figure 30: Chemicals (R'000)



9.14.1 RAW WATER

A positive growth of 26% on raw water was achieved. This is due to increased volumes due to that in the prior year drought being more severe as compared to the 2018/19 financial year. Raw water sold volumes increased from 3 652 000 kilolitres to 7 771 000 kilolitres, a 113% increase.

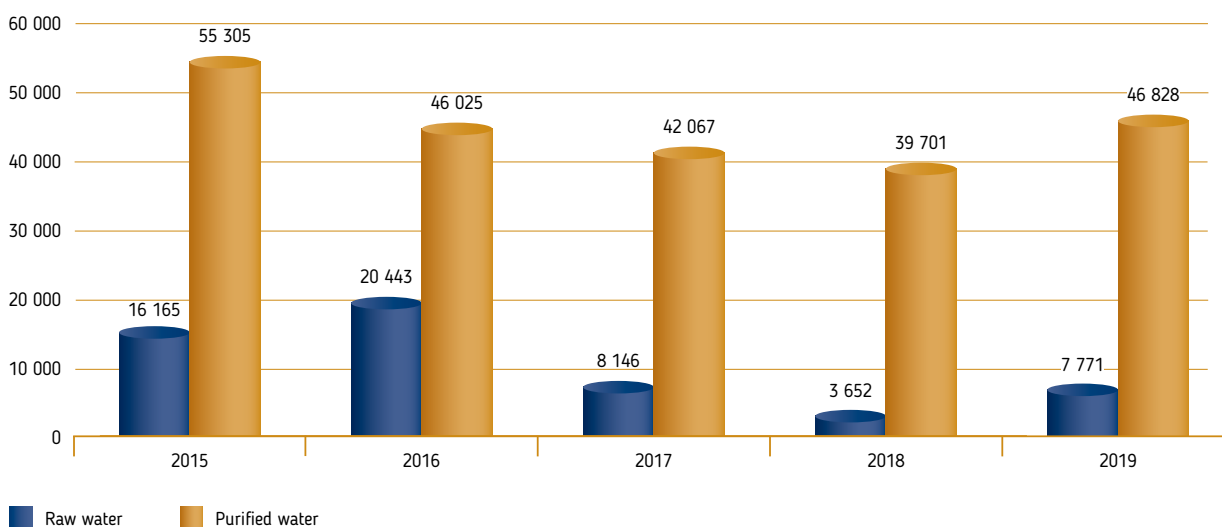
9.14.2 PURIFIED WATER

A positive growth of 18% on purified water volumes is also mainly due to the increased volumes sold as compared to the prior year where there was a severe drought. A growth from 43 352 000 kilolitres to 54 599 kilolitres was witnessed.

9.14 VOLUME SOLD

Water volumes sold and disposed are as per the below graphs:

Figure 31: Bulk Water sold in Kilolitres



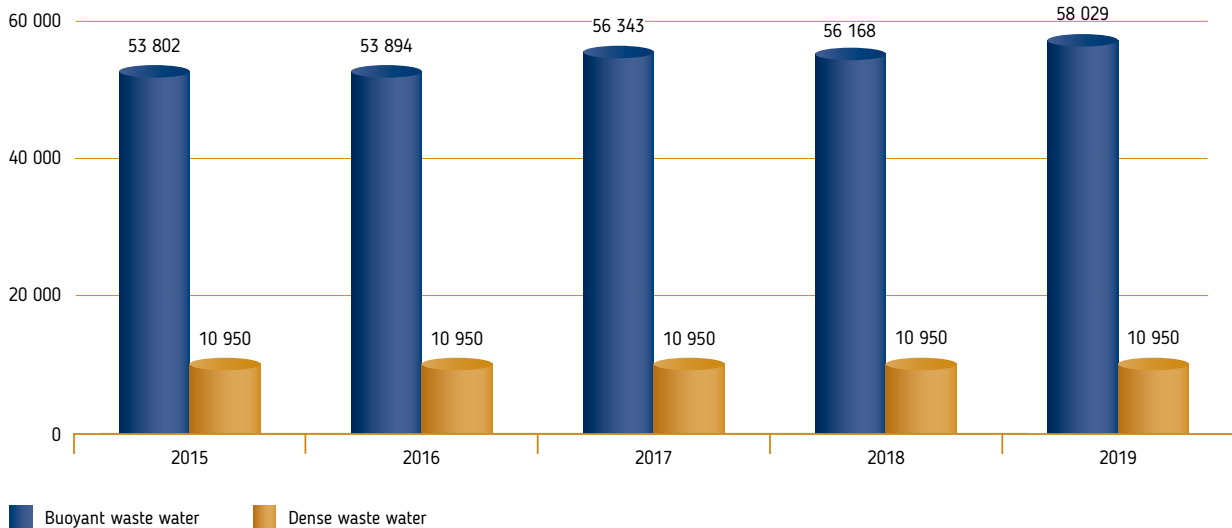
9.14.3 WASTE WATER

The Waste Water increase of 3% was witnessed. This is steady increase is mainly due to additional disposed water as a result of some of our customers operational needs.

9.14.4 WASTE WATER

Dense waste water remained constant in the 2018/19 financial year due to contracted volumes that did not change, whereas a 3% increase in Buoyant waste water was experienced.

Figure 32: Waste water volume sales (kl'000)

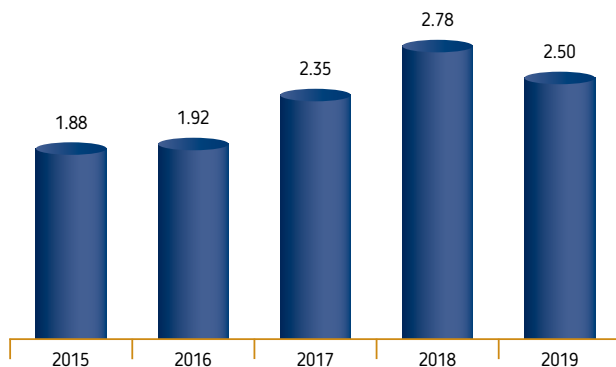


9.16 OPERATING INDICATORS

9.16.1 CURRENT RATIO

Mhlathuze Water achieved the ratio of 2.5 in 2019; this indicates that organisation have the ability to meet its short term obligations from its current assets.

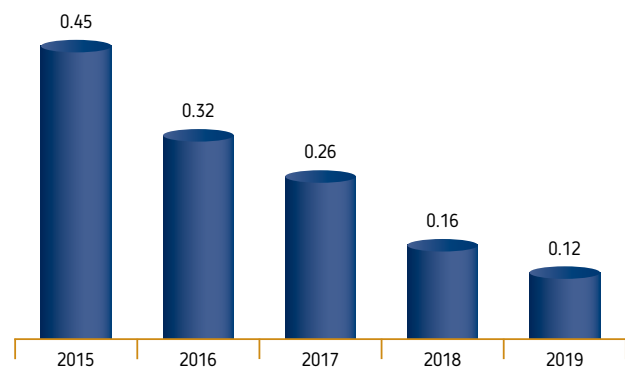
Figure 33: Current Ratio



9.16.2 DEBT EQUITY RATIO

The ratio is an indicator of financial leverage for the organisation, which mainly indicates how much does the organisation relies to debt compared to equity. This is a measure of financial risk exposure. A debt equity ratio of 0.12 was witnessed in 2019, in line with the set target for the financial year.

Figure 34: Debt Equity Ratio



9.16.3 INTEREST TURNOVER RATIO

An increase in the interest turnover ratio to 20.01 was witnessed. This indicates that Mhlathuze Water can meet interest payments on outstanding debt.

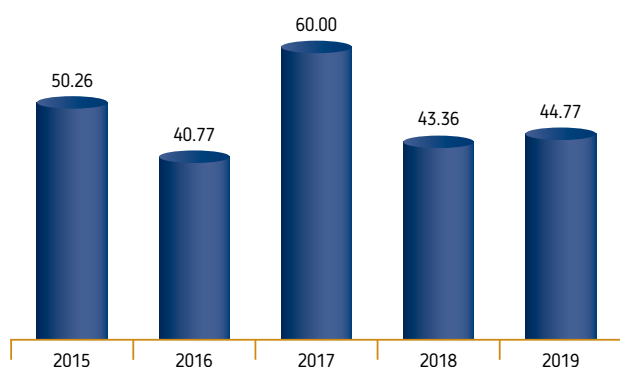
Figure 35: Interest Turnover Ratio



9.16.4 DEBTORS DAYS

The debtors' days from Primary activities increased to 44.77 days. This is in-line with 45-days collection target. This is due to an esteem debt collection process in place to regularly follow up with customers owing to Mhlathuze Water.

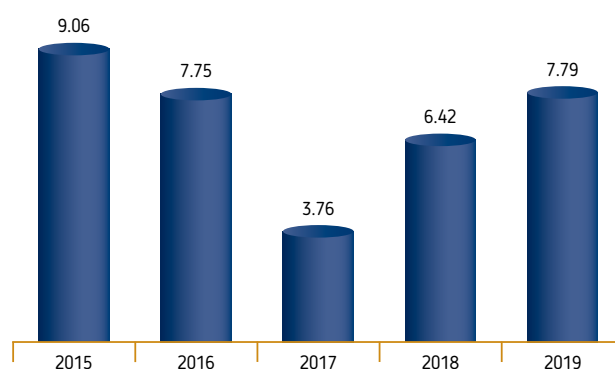
Figure 36: Debtor Days



9.16.5 RETURN ON ASSETS RATIO

The return on assets ratio increased to 7.79 due to the operational net income that was higher than the prior year.

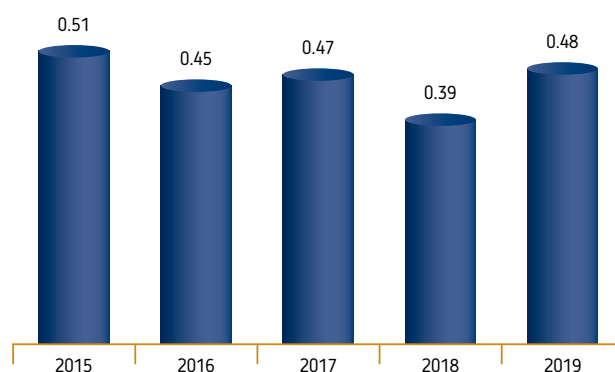
Figure 37: Return on Asset Ratio (%)



9.16.6 ASSET TURNOVER RATIO

The ratio measures the turnover return achieved from the total assets for the financial year. A growth increase to 0.48 was witnessed. This is due increased revenue compared to previous financial year.

Figure 38: Asset Turnover Ratio



9.17 CASH FLOW ANALYSIS

9.17.1 CASH FLOWS FROM OPERATING ACTIVITIES

Net cash generated from operating activities increased by 8% compared to the prior year, mainly due to an increase cash inflow from sales.

9.17.2 CASH FLOWS UTILISED IN INVESTING ACTIVITIES

Cash flow from investing activities reflects a movement from R81 million to R137 million. Net cash movement is negative; this is mainly due to investments in capital projects which are internally funded.

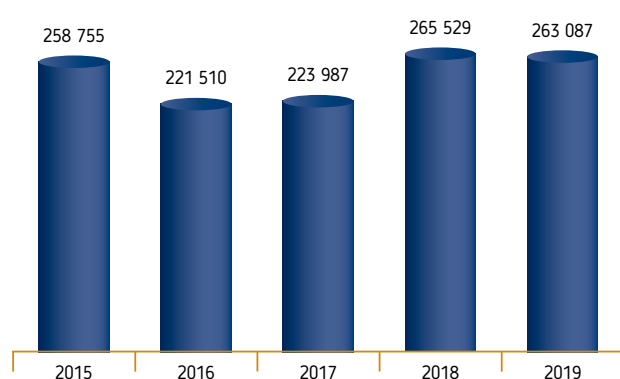
9.17.3 CASH FLOWS FROM FINANCING ACTIVITIES

Due to Capital payments that are fixed as per the Loan agreements the Cash flow from financing Activities has remained steady.

9.17.4 CASH AND CASH EQUIVALENTS

Although the Cash and Cash Equivalents have decreased by less than 1% Mhlathuze Water is still in a financially stable position to meet all obligations resulting from approved Capital and Operational Commitments.

Figure 39: Cash and Cash Equivalents (R'000)



9.18 FUNDING REQUIREMENTS

For the period under review no new funding was required for business activities. The proposed borrowing limit is as follows:

Table 27: Borrowing Limits

FINANCIAL YEAR	AMOUNT
2018/19	R112 million

9.19 REFLECTIONS

The Financial Overview has highlighted operational successes for the financial year; furthermore an opportunity for improvement and performance in line with the objectives.

Even though the financial year was still impacted negatively by the drought that resulted to water restrictions, Mhlathuze Water continued to show great resilience through these turbulent times and remains sustainable in the medium to long term. Going forward, there is foreseeable sustainability and growth opportunity in line with the organisational strategy and objectives to improve both in primary and secondary activities through these tough economic times. This is to be achieved through management of operational expenditure and cash flows, prioritisation of capital projects and achievement of operational targets.

REPORT BY THE ACCOUNTING AUTHORITY

The Accounting Authority of Mhlathuze Water hereby presents the report of the entity for the year ended 30 June 2019.

The Board of Mhlathuze Water's term of office came to an end when the Honourable Minister officially terminated the Board in April 2017. In terms of section 49 2 (b) of the Public Finance Management Act No 1 of 1999, in the absence of a Board, the chief executive officer assumed responsibility as the accounting authority. The new Board was appointed on 5 December 2018 for the period ending in 2022.

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. 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 ESTABLISHMENT OF A SINGLE WATER BOARD IN KWAZULU-NATAL

The Minister of Water and Sanitation decided to put the implementation of the Institutional Reform and Realignment (IRR) program on hold in order to allow for proper consultation with all stakeholders to occur.

In this regard, Mhlathuze Water was instructed to initiate the process of appointing a new Board for the period commencing 2018 till 2022.

The nomination process closed on 17 June 2018 and the shortlisting of candidates was conducted on 23 July 2018.

Interviews were held on 2 and 3 August 2018 and the candidates recommended for appointment were forwarded to the Honourable Minister for Water and Sanitation for consideration. The Minister appointed the new Board on 5 December 2018 for the period ending in 2022.

The annual financial statements for 2018/2019 have been prepared in line with the accounting standards and policies applicable to the going-concern of this nature. Our Financial records denote that Mhlathuze will be able to fund and sustain its operations henceforth.

Mhlathuze Water prepared and submitted its Business Plan for 2018/2019 to 2022/2023 together with the Shareholder Compact to the Minister of Water and Sanitation on 13 April 2018. The Minister signed the two documents and these were tabled before parliament on 20 June 2018.

The annual financial statements for 2018/2019 have been prepared in line with the accounting standards and policies applicable to the going-concern of this nature.

Our financial records denote that Mhlathuze Water will be able to fund and sustain its operations henceforth.

The going concern assessment was undertaken taking with the following considerations:

- > Mhlathuze Water has adequate committed credit facilities from its lenders to fund its operations and meet its financial obligations in the normal course of business for the foreseeable future.
- > A funding strategy and plan have been developed to ensure that Mhlathuze Water is able to successfully fund its capital expenditure programme without breaching the financial parameters.
- > The operational and financial risks have been reviewed to determine their impact on the business under various conditions, and mitigating initiatives, strategies and controls are in place as reflected in the business and risk management plans.
- > Total reserves have improved by 2.78% compared to the prior year.
- > Interest cover and cash interest cover are still covering over 21.08 times (2018: 15.32)
- > Based on the new business plan, the cash flow forecasts reflects that there will be sufficient funds to cover liquidity requirements for the year 2019.

3. SUBSEQUENT EVENTS

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

REPORT BY THE ACCOUNTING AUTHORITY ...continued

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

The borrowing limits for the period 2016 to 2018 have been approved by National Treasury in concurrence with the minister of Water and Sanitation as follows:

Financial year	Amount
2016/17	R430 m
2017/18	R478 m
2018/19	R112 m

Borrowing limitations for 2018/2022 have not yet been approved by National Treasury. However, after the appointment of the new Board the new borrowing limit has been sent to the Minister for approval.

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. THE NEW BOARD OF DIRECTORS FOR MHLATHUZE WATER WAS APPOINTED AS ON 05 DECEMBER 2018

The Non-Executive membership of the board as follows:

TA Shange (Chairperson)
ZS Hlophe (Deputy Chairperson)
BV Mshengu
ME Makgae
M Xulu
P Reddy
N Gevers
A Badul
N Mkhize
M Zikalala
G Biyela and
N Mkhize

The Executives of Mhlathuze Water are as follows:

M P Duze (Chief Executive)
B Mnyandu (Chief Financial Officer)
M Myeni (GM Corporate Services)
B S Ntlhoro (Head of Scientific Services)
C Cele (GM Operations)

7. CORPORATE GOVERNANCE AND RISK MANAGEMENT

GENERAL

The Board subscribes and complies with the principles of Corporate Governance as set out in the King IV Report on Corporate Governance for South Africa 2016. The Board has overall responsibility for Risk Management.

In order to strengthen internal controls as well as ensure credibility and financial accountability, The Accounting Authority appointed Mr. M Xulu as the Chairperson of the Independent Audit and Risk Committee, the term of this committee ended in December 2018 when the new Board was appointed.

The members of the Independent Audit and Risk Committee were:

M Xulu (Chairperson);
C Gevers;
S Chamane;
B Rawlins; and
N Shezi.

The Audit, Risk and Finance Committee was appointed within the new Board with the membership as follows:

ZS Hlophe (Chairperson);
M Xulu;
N Gevers;
A Badul; and
P Reddy.

8. BANKERS

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

9. AUDITORS

Deloitte was appointed on 28 May 2018 until April 2019 to render Internal Audit Function. Bonakude Consulting was appointed on 06 June 2019 to support to the Internal Audit Function for the period of thirty six (36) months.

The Internal Audit function has been insourced with the capacity of three officials with includes the Internal Audit Manager and two Internal Audit Practitioners.

The Auditor-General renders services of external audit.

REPORT BY THE ACCOUNTING AUTHORITY ...continued

10. 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).

11. 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.

12. CAPITAL EXPENDITURE AND COMMITMENTS

Commitments for the acquisition of property, plant and equipment will be financed from borrowings and internal resources. The capital commitments are set out in Note 30 of the financial statements.

13. 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.

14. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure totalling R3898.43 in the current year relates to interest on late payment of invoices.

15. IRREGULAR EXPENDITURE

Irregular expenditure totalling R14 067 174, 99 in the current year is for appointments that were made in prior years but paid for in the year under review. This resulted in non-compliance with the supply chain management policy and in payments that were made to various suppliers without appropriately approved variation orders as per the Delegation of Authority. Irregular expenditure for the prior year 2017/18, of R137 million relates to payments that were made to various suppliers, without appropriately approved variation orders as per the Delegation of Authority and to advance payments that were made to various suppliers not in accordance with contract terms.

16. UNAUTHORISED EXPENDITURE

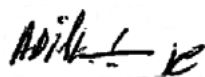
There were no incidents and reports of unauthorised expenditure during the current financial year as well as the prior year.

17. 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.

18. 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 TA Shange
Accounting Authority
30 October 2019

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 2019.

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.

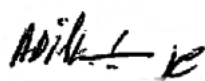
The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the 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 2019 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 on pages 109 to 156 which have been prepared on the going concern basis, were approved by the Accounting Authority on 30 October 2019 and were signed on its behalf by:



Ms TA Shange
Accounting Authority
30 October 2019

REPORT BY THE AUDIT, RISK AND FINANCE COMMITTEE

FOR THE YEAR ENDED ON 30 JUNE 2019

OBJECTIVE

The 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, RISK AND FINANCE COMMITTEE RESPONSIBILITIES

The Committee presents its report for the financial year ended 30 June 2019 as required by section 77 of the Public Finance Management Act, 1999 (Act No. 1 of 1999, as amended by Act No. 29 of 1999) (PFMA) read with Treasury Regulation 27.1.10. The Committee also reports that it has adopted formal terms of reference as its Charter and has regulated its affairs in compliance with this charter. The Committee has reviewed its charter during the year and has made amendments which were subsequently approved by the Board. This committee is also tasked by the Board to deal with financial matters as part of its terms of reference. The Committee has accordingly discharged its responsibilities as contained in the Charter.

AUDIT, RISK AND FINANCE COMMITTEE COMPOSITION AND ATTENDANCE

The Committee comprised of at least 4 members throughout the financial year. For the first half (July 2018 to December 2018), the Committee comprised of 5 independent members. With effect from December 2018 to June 2019 the Committee comprised of 4 non-executive independent members. The PFMA requires that the Committee comprise of at least 3 independent members at any given time, this requirement was accordingly complied with.

The Committee held 7 meetings during the financial year and the member's attendance was as follows:

NO	NAME	POSITIONS	MEETING ATTENDANCE
1.	Mr. S Hlophe	Chairperson (December 2018 to June 2019)	3/3
2.	Mr. M Xulu	Chairperson (July 2018 to December 2018) Committee Member (December 2018 to June 2019)	6/7
1.	Mrs N Gevers	Committee Member July 2018 to June 2019	7/7
2	Adv.S Chamane	Committee Member (July 2018 to December 2018)	3/4
3.	Mr B Rawlins	Committee Member (July 2018 to December 2018)	4/4
4.	Ms N Shezi	Committee Member (July 2018 to December 2018)	2/4
5.	Mrs A Badul	Committee Member (December 2018 to June 2019)	3/3
6.	Prof P Reddy	Committee Member (December 2018 to June 2019)	2/3

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

REPORT BY THE AUDIT, RISK AND FINANCE COMMITTEE

FOR THE YEAR ENDED ON 30 JUNE 2019

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

1. EFFICIENCY AND EFFECTIVENESS OF INTERNAL CONTROLS

The system of internal control employed by the entity for financial and risk management is partially effective, efficient and transparent. In line with the PFMA and the recommendations from the King IV Report on Corporate Governance requirements, Internal Audit provides the Committee and management with assurance that the internal controls are appropriate and effective or not. This is achieved through the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes.

From the various reports of Internal Audit, the Audit Report on the annual financial statements and the management report of the Auditor-General South Africa (AGSA), it was noted that certain matters were reported indicating deficiencies in the system of internal control. It is of crucial importance that the issues reported should receive ongoing attention and focus by management to effect qualitative administration and financial management within the entity. Management has committed to implement corrective actions and this will be closely monitored by the Committee. Among other things in this financial year a full review and investigation of irregular, fruitless and wasteful expenditure has been undertaken. A team or panel of attorneys -will assist management with instituting disciplinary processes and consequence management. This is a bold step to inculcate the culture complying with policies, procedures and laws and ultimate this will improve the control environment within Mhlathuze Water.

Mhlathuze Water has anti-corruption measures that curb the frequency and magnitude of fraud and corruption. The Committee is satisfied that the prevention of fraud controls has improved and continue to be monitored. Fraud and other irregular activities are reported through the tip-offs anonymous hotline that is monitored by an independent service provider, Whistle Blower.

2. INTERNAL AUDIT

The Committee reviewed and approved the Internal Audit Charter. The Internal Audit Plan was also approved after considering specific risk areas facing Mhlathuze Water. The Committee considers the internal audit function to be optimally resourced and effective. During the year under review the internal audit function comprised of internal staff and outsourced capacity. The Committee decided on this approach so as to build internal capacity and gain skills from the external service providers. It is envisaged, that Internal Audit should be performed fully by internal staff within the next two years. The Committee also reports that the planned audits and activities of the Internal Audit, were all concluded, with the exception that two of the internal audit reports will only be presented to the Committee in 2019/20 financial year.

The Committee reviewed the entity's compliance with legal and regulatory provisions where internal audit reports were discussed and Management identified corrective actions in instances where weaknesses in the systems of internal controls were identified. The Committee also reviewed the information on pre-determined objectives on which Internal Audit presented the annual performance report to the Committee.

3. REVIEW OF ANNUAL FINANCIAL STATEMENTS

The Committee reviewed the Annual Financial Statements, before submission to the Office of the Auditor-General. All issues raised by the committee were addressed and verified through internal audit checks. The Committee was satisfied with the going concern basis used to prepare the Annual Financial Statements. The Committee, however is concerned with regards to planning and quality of financial reports that are submitted to the Committee. Our observation is that the finance team need to strengthen their knowledge through continuous learning to improve their understanding and implementation of relevant accounting standards.

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

REPORT BY THE AUDIT, RISK AND FINANCE COMMITTEE

FOR THE YEAR ENDED ON 30 JUNE 2019

4. EXTERNAL AUDIT FUNCTION

In terms of the Public Finance Management Act, the Auditor-General of South Africa (AGSA) is the appointed external auditor. The Committee is satisfied that the external auditor is independent of the organization.

The external auditor did not provide any non-audit services. The Committee has considered the quality of the external audit done by the AGSA.

The Committee concurs and accepts the report of the Auditor-General on the Annual Financial Statements for 2018/19. While the entity received an unqualified audit opinion, the Committee is concerned with matters raised in the management letter and some compliance issues on the report itself. The Committee will ensure that management develop an action plan addressing the matters raised by the Auditor General and will monitor progress of implementation in this regard.

5. RISK MANAGEMENT

The 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 registers is Information Technology related risks. Management also developed fraud risk register which was considered by the Committee. The assessment of internal controls over the financial reporting period 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 Committee noted and considered the risk registers and the updated risk registers where it was appropriate. The strategic risk registers were recommended to the board for their input, consideration and approval. The progress on implementation of the mitigating factors is presented quarterly to the 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 which indicates that there is room for improvement with regards to implementation of mitigating factors. The Committee is satisfied with the overall risk management processes and the risk management framework applied by the entity, however it recommends that the risk functions need to be enhanced with the addition of a risk officer.

6. PERFORMANCE MANAGEMENT

Part of the responsibilities of the Audit and Risk Committee, includes the review of performance management systems. The Committee has in terms of the performance of Mhlathuze Water performed the following functions:

- > 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, business plans and shareholder's compact.
- > 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 Committee is satisfied with the effectiveness of internal controls around performance management. As noted on internal audit reports on performance there is a room for improvement in setting smart targets and the drive to achieve all set targets. In this regard the entity achieved 84% of the set targets for the 2018/19 financial year.

REPORT BY THE AUDIT, RISK AND FINANCE COMMITTEE

FOR THE YEAR ENDED ON 30 JUNE 2019

7. GOING CONCERN

The going concern assumption is a fundamental principle in the preparation of financial statements, Mhlathuze Water has applied and complies with applicable accounting principles which assume that Mhlathuze Water will continue to exist long enough to carry its objectives and commitments and will not liquidate in the foreseeable future.

Under the going concern assumption, Mhlathuze Water is ordinarily viewed as continuing in business for the foreseeable future with neither the intention nor the necessity of liquidation, ceasing trading or seeking protection from creditors pursuant to laws or regulations.

All assets and liabilities were recorded on the basis that the entity will be able to realize its assets, discharge its liabilities, and obtain refinancing (if necessary) in the normal course of business.

RECOMMENDATIONS

- > The Board should continue to ensure that financial sustainability plans are in place, monitored regularly in driving the business growth strategy.
- > The Board must develop a pricing strategy and policy for the services that Mhlathuze Water offers.
- > The Board and management should continuously review, evaluate and monitor internal controls in order to implement remedial, coherent actions to address weaknesses. The Accounting Officer must ensure that there are consequences for non-adherence with internal controls and non-compliance with laws and regulations.
- > The Accounting Officer should ensure that recommendations of the internal and external auditors are implemented as per the action plans and report progress every quarter. This should assist towards the achievement of a clean audit and prevent unauthorized, irregular, fruitless and wasteful expenditure as well as non-compliance with laws and regulations.

CONCLUSION

The Committee confirms its commitment as mandated by the Board to assist management achieve a clean audit and clean administration. The 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.



Mr Silas Zwelakhe Hlophe

Audit and Risk Committee Chairperson

REPORT BY 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 the 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 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 in the 2018/19 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 on 28 March 2019 and 27 June 2019.

For the period under review, the Committee remained focused on and monitored Mhlathuze Water's activities in respect of a number of matters including, inter alia: B-BBEE, 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 givings, 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 Anti-Bribery and Corruption, as well as its Supply Chain policies of employees in the organisation.

The Committee is implementing Ethics Framework which is aligned with our mission, vision and values and takes into consideration the various flows of actions based on, among others, external influences, legislation, regulatory frameworks and other international factors, as well as our four value drivers, financial sustainability, human capital, water provision and services and operating context. The outcome is viewed through the lens of our value drivers and material issues defined through our sustainable business strategy.

LEGISLATION, CODES OF BEST PRACTICE AND ETHICS

All Mhlathuze Water Board members have committed themselves to ethical leadership by confirming Mhlathuze Water's Ethics Strategy in the achievement of the outcomes of an ethical culture, good performance, effective control and legitimacy, as set out in King IV.

During 2018/19 annual declarations were signed by all employees indicating their adherence to and compliance with Mhlathuze Water policies. Mhlathuze Water's Legal Unit continues to ensure that all agreements concluded between Mhlathuze Water and its suppliers and customers contain appropriate clauses dealing with ethical behaviour and adherence to Mhlathuze Water's Code of Ethics and Code of Conduct, as well as Mhlathuze Water's policy on human rights and labour. Mhlathuze Water is satisfied that it is materially compliant with the relevant consumer protection legislation in South Africa.

Through stakeholder engagements, Mhlathuze Water collectively engages and network with peer organisations on aspects of concern within Zululand, KwaZulu Natal and South Africa. Internationally, we support and subscribe to the principles set out by the UN Global Compact. Through our continued involvement and association with these organisations, we remain committed to working against corruption in all its forms, including extortion and bribery. The Committee is satisfied with Mhlathuze Water's standing in terms of the 10 Principles of the United Nations Global Compact ("UNGC").

Mhlathuze Water's information officer continues to address matters relating to information governance within the context of the Protection of Personal Information Act, No 4 of 2013 ("POPIA") when it becomes fully enacted, as well as the Promotion of Access

to Information Act, No 2 of 2000 ("PAIA") across the organisation. Mhlathuze Water's businesses and its employees are guided by the Mhlathuze Water Code of Ethics and Corporate Code of Conduct. An abridged version of these is included in all suppliers' contracts and terms of conditions and service providers are expected to abide by the same level of ethics that we uphold in our own operations.

Ongoing communication featuring Mhlathuze Water's ethics-related policies, statistics on the consequences of misconduct and maintaining awareness around the fact that unreasonable profit pressure may result in employees acting unethically, 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.

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, 1995 (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. There remains room for improvement in terms of the Mhlathuze Water's employment equity statistics. Mhlathuze Water has maintained its level 8 rating. Mhlathuze Water has analysed its operations in reference to its Sector Code requirements, and have prioritised organisation spend and resource allocation to ensure that organisation retains or improves its required certifications.

Transformation, across all occupational levels, has shown meaningful improvement during the year. In line with this initiative, as positions become available within the organisation, Mhlathuze Water sources and promotes 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 look at investing 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 no material environmental impacts relating to Mhlathuze Water's activities had been identified. The handling of effluent on behalf of Industries remained within the approved limits and no harm to the environment has been reported during the year under review.

For more detail on the Mhlathuze Water's reported environmental footprint refer to our Performance Summary as part of the 2018/19 Annual Report.

CONCLUSION

As Chairperson of the Committee I am satisfied that following the review by the Committee for the year ended 30 June 2018/19, that in all material respects, the Committee has achieved its objectives for the financial year ended 30 June 2018/19. 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.



Mr Musa Xulu

Chairperson of Social and Ethics Committee

30 October 2019

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON MHLATHUZE WATER

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

UNQUALIFIED OPINION

I have audited the financial statements of the Mhlathuze Water set out on pages 109 to 156, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mhlathuze Water as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with Generally Recognised Accounting Practise and the requirements of the Public Financial Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

CONTEXT FOR THE OPINION

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.

I am independent of the entity in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code), parts 1 and 3 of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) and 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

EMPHASIS OF MATTER

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

FRUITLESS AND WASTEFUL EXPENDITURE

As disclosed in note 27.4 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of a prior period error in the financial statements of the entity for the year ended 30 June 2018.

RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY FOR THE FINANCIAL STATEMENTS

The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with the Generally Recognised Accounting Practise and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (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.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON MHLATHUZE WATER

In preparing the financial statements, the accounting authority is responsible for assessing the Mhlathuze Water'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 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

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.

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 ANNUAL PERFORMANCE REPORT

INTRODUCTION AND SCOPE

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 material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

My procedures address the reported performance information, which must be based on the approved performance planning documents of the entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did 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. Accordingly, my findings do not extend to these matters.

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 annual performance report of the entity for the year ended 30 June 2019:

OBJECTIVES	PAGES IN THE ANNUAL PERFORMANCE REPORT
Performance Objective 1 - Bulk potable water quality compliance	71
Performance objective 2 - Manage avoidable water losses	61
Performance objective 3 - Reliability of supply	61
Performance objective 4 - Increased access to Services	79
Performance objective 11 - Bulk Supply agreements concluded with municipalities/ other customers	43
Performance objective 12 - Implementation of Ministerial directives	76
Performance objective 13 - Support Rural Development	43

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON MHLATHUZE WATER

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.

The material findings in respect of the usefulness and reliability of the selected performance objectives are as follows:

PERFORMANCE OBJECTIVE 13 – SUPPORT RURAL DEVELOPMENT

NUMBER OF MUNICIPALITIES SUPPORTED THROUGH RURAL DEVELOPMENT INITIATIVES

The planned target for this indicator was not specific in clearly identifying the nature of performance for delivery.

I did not raise any material findings on the usefulness and reliability of the reported performance information for these performance objectives:

1. Performance objective 1 – Bulk potable water quality compliance
2. Performance objective 2 – Manage avoidable water losses
3. Performance objective 3 – Reliability of supply
4. Performance objective 4 – Increased access to Services
5. Performance objective 11 – Bulk Supply agreements concluded with municipalities/other customers
6. Performance objective 12 – Implementation of Ministerial directives

OTHER MATTER

1. I draw attention to the matter below.

ACHIEVEMENT OF PLANNED TARGETS

Refer to the annual performance report on pages 43 to 81 for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness of the reported performance information in paragraphs 17 of this report.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON MHLATHUZE WATER

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

INTRODUCTION AND SCOPE

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

The material findings on compliance with specific matters in key legislations are as follows:

ANNUAL FINANCIAL STATEMENTS

The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and not supported by full and proper records, as required by section 55(1) (a) and (b) of the PFMA.

Material misstatements on commitments, accounting policies, Statement of comparison of budget and actual amounts and related parties identified by the auditors in the submitted financial statements were corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

OTHER INFORMATION

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

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.

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 performance objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

INTERNAL CONTROL DEFICIENCIES

I considered internal controls 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. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the performance information and the findings on compliance with legislation included in this report.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON MHLATHUZE WATER

LEADERSHIP

OVERSIGHT RESPONSIBILITY

Inadequate oversight over the preparation and review of the annual financial statements and the annual performance reports before submitting them for audit. As a result material misstatements were identified in some disclosure notes to financial statements and accounting policy.

FINANCE AND PERFORMANCE MANAGEMENT

REGULAR, ACCURATE AND COMPLETE FINANCIAL AND PERFORMANCE REPORTS

Management did not perform adequate reviews of the financial statements submitted for audit against the adopted financial reporting framework, the financial statement contained material misstatements, which were corrected as a result of the audit process.

Management did not implement adequate processes during planning stage to ensure that the indicators and targets are well defined.

OTHER REPORTS

I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

The entity had various investigations relating to irregular expenditure, fruitless and wasteful expenditure incurred in the prior years. Some of the investigations have been concluded and others were still in the progress at year end.

Auditor - General

Pretoria

30 October 2019



**AUDITOR - GENERAL
SOUTH AFRICA**

Auditing to build public confidence



A hand is shown using a calculator over a desk with various financial documents. The documents include bar charts, pie charts, and tables of data. The background is a solid blue color with decorative white and yellow curved lines on the left side.

SECTION E:

ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2019

	NOTE	2019 R'000	RESTATED 2018 R'000
ASSETS			
Current assets			
Inventories	2	36 565	32 828
Receivables from exchange transactions	3	141 567	112 858
Vat receivable	9	3 071	-
Cash and cash equivalents	4	263 087	265 529
		444 290	411 215
Non-current assets			
Property, plant and equipment	5	1 038 654	955 813
Intangible assets	6	2 457	4 892
		1 041 111	960 705
Total assets		1 485 401	1 371 920
LIABILITIES			
Current liabilities			
Short term interest bearing borrowings	7	22 692	22 782
Payables from exchange transactions	8	131 390	94 370
Vat payable	9	-	1 389
Employee benefit liability	10	16 825	16 645
Income received in advance	11	7 026	7 965
		177 933	143 151
Non-current liabilities			
Long term interest bearing borrowings	7	56 897	79 006
Employee benefit liability	10	-	32
Income received in advance	11	57 102	63 189
		113 999	142 227
Total liabilities		291 932	285 378
Net assets			
Reserves			
Capital replacement reserve		242 418	235 802
Business development reserve		18 805	17 601
Self insurance reserve		5 475	5 124
Maintenance reserve		10 165	9 514
Environmental rehabilitation reserve		1 605	2 370
Accumulated surplus		915 001	816 131
Total net assets		1 193 469	1 086 542
Total net assets and liabilities		1 485 401	1 371 920

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2019

	NOTE	2019 R'000	AUDITED 2018 R'000
Revenue from exchange transactions			
Sale of goods and services	12	711 942	538 996
Cost of Sales	13	(309 410)	(232 440)
Gross Profit		402 532	306 555
Other income	15	19 969	17 400
Expenditure		(311 561)	(235 947)
Employee related costs	16	(95 588)	(93 107)
Remuneration of board members	17.1	(3 274)	(620)
Depreciation and amortisation	5-6	(9 490)	(7 851)
Impairment of assets	5	(295)	(59)
Finance costs	18	(5 625)	(6 021)
Lease rentals on operating lease		(2 740)	(2 805)
Bad debts written off		(20)	(0)
Repairs and maintenance	20	(81 302)	(48 088)
Electricity and water		(2 076)	(1 914)
Chemicals		(829)	(797)
Other expenses	21	(110 322)	(74 686)
Operating surplus	22	110 940	88 008
Loss on disposal of assets	23	(4 014)	(6 058)
Surplus period		106 926	81 949

STATEMENT OF CHANGES IN NET ASSETS

AS AT 30 JUNE 2019

	CAPITAL REPLACEMENT RESERVE	BUSINESS DEVELOPMENT RESERVE	SELF INSURANCE RESERVE	MAINTENANCE RESERVE	ENVIRONMENTAL REHABILITATION RESERVE	TOTAL RESERVES	ACCUMULATED SURPLUS	TOTAL NET ASSETS
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Opening balance 1 July 2017	228 900	16 220	4 722	8 768	1 410	260 020	737 970	997 990
Surplus for the year 1 July 2017 to 30 June 2018							81 949	81 949
Transfers to reserves	6 902	1 381	402	746	960	10 391	(10 391)	-
Balance 30 June 2018	235 802	17 601	5 124	9 514	2 370	270 411	809 528	1 079 939
Adjustments to Opening balance, Refer to Note 28							6 603	6 603
Restated Balance 30 June 2018	235 802	17 601	5 124	9 514	2 370	270 411	816 131	1 086 542
Transfers to reserves	6 616	1 204	351	651	1 637	10 458	(10 458)	-
Utilization of reserves	-	-	-	-	(2 402)	(2 402)	2 402	-
Surplus for the period 1 July 2018 to 30 June 2019							106 926	106 926
Balance as at 30 June 2019	242 418	18 805	5 475	10 165	1 605	278 467	915 001	1 193 468

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 2019 was R242.4 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 2019 was R18.8 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 2019 was R5.4 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 2019 was R10.1 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 2019 is R1.6 million, after utilization of the reserve and year-end transfers to the reserve.

During the current financial year, post identification of a spillage incident, Mhlathuze Water embarked on negotiations with one of its customers to recoup the costs incurred to repair the pipeline to prevent potential environmental damage. The recouped amount of R1 million was transferred to Environmental Rehabilitation Reserve at the end of the financial year. This amount is included in the R1.6 million referred to above.

CASH FLOW STATEMENT

AS AT 30 JUNE 2019

	NOTE	30 JUNE 2019 R'000	30 JUNE 2018 R'000 RESTATED
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts			
Sale of goods and services		678 824	577 816
Interest received	15.2	17 352	15 955
		696 176	593 771
Payments			
Cash paid to employees	16	(147 383)	(143 959)
Cash paid to suppliers		(382 236)	(292 812)
Finance costs	18	(5 625)	(6 021)
Finance cost capitalised	18	(4 434)	(6 436)
		(539 678)	(449 228)
Net cash flows from operating activities	24	156 497	144 543
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	5	(137 437)	(79 909)
Proceeds from sale of property, plant and equipment	23	852	-
Purchase of intangible assets	6	(156)	(895)
Net cash flows from investing activities		(136 740)	(80 803)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of other financial liabilities		(22 199)	(22 199)
Net cash flows from financing activities		(22 199)	(22 199)
Net (decrease)/increase in cash and cash equivalents		(2 442)	41 542
Cash and cash equivalents at beginning of year		265 529	223 987
Cash and cash equivalents at end of year	4	263 087	265 529

ACCOUNTING POLICIES

1. PRESENTATION OF ANNUAL 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 annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 PRESENTATION CURRENCY

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

1.2 GOING CONCERN ASSUMPTION

These annual 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 35 for more detail.

1.3 SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

In preparing the Annual Financial Statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application

of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

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

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.

ACCOUNTING POLICIES ...continued

1.5 PROPERTY, PLANT AND EQUIPMENT ...continued

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	20-60 years
Plant and machinery	10-50 years
Furniture and fixtures	5-40 years
Motor vehicles	5-12 years
Office equipment	5-40 years
Library	5 years
Industrial Electronics	5-10 years
Electrical supply	15-50 years
Radio and Communication equipment	5-10 years
Pipelines	20-60 years
Tools and loose gear	5-35 years
Lab Equipment	4-40 years
Fire and Safety Equipment	5-10 years
Electronic Equipment	5-10 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.

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.

ACCOUNTING POLICIES ...continued

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 of service potential that are attributable to the asset will flow to the entity; and
- > The cost or fair value of the asset can be measured reliably.

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, 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 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.

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.

ACCOUNTING POLICIES ...continued

1.8 LEASES ...continued

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

OPERATING LEASES – LESSOR

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

OPERATING LEASES – LESSEE

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.9 INVENTORIES

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

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

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's judgement as to whether current 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 of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in 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.

ACCOUNTING POLICIES ...continued

1.10 IMPAIRMENT ...continued

NON FINANCIAL ASSETS ...continued

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 retiree.

The fair value of the post retirement plan is arrived at after considering key assumptions and 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.

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.

ACCOUNTING POLICIES ...continued

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.

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.

ACCOUNTING POLICIES ...continued

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 1.8 and 1.9. 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 revenue in the statement of financial performance.

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.

ACCOUNTING POLICIES ...continued

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 110 - LIVING AND NON LIVING RESOURCES

The objective of this Standard is to prescribe the recognition, measurement, presentation and disclosure requirements for living resources and disclosure requirements for non-living resources.

This standard details recognition, measurement, presentation and disclosure of living resources except those living resources that are:

- (i) biological assets related to agricultural activity other than bearer plants (see the Standard of GRAP on Agriculture (GRAP 27)); (iA) bearer plants related to agricultural activity (see the Standard of GRAP on Property, Plant and Equipment (GRAP 17)); or
- (ii) inventory

EFFECTIVE DATE

No effective date has been determined by the Minister of Finance.

IGRAP 20 - ACCOUNTING FOR ADJUSTMENTS TO REVENUE

This Interpretation clarifies the accounting for adjustments to:

- (a) exchange and non-exchange revenue charged in terms of legislation or similar means; and
- (b) interest and penalties that arise from revenue already recognised as a result of the completion of a review, appeal or objection process.

EFFECTIVE DATE

An entity shall apply this Interpretation prospectively for annual financial statements covering periods beginning on or after 1 April 2020. Earlier application is permitted

ACCOUNTING POLICIES ...continued

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 requirement of any applicable legislation, including;

- (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 resulting transaction is recognized 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, or recovered or written off by 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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

AS AT 30 JUNE 2019

	2019 R'000	2018 R'000
2. INVENTORIES		
2.1 Stores		
Chemicals	7 019	3 088
Consumables and maintenance spares	7 861	7 570
Strategic stock	18 119	21 996
Rotable Spares	3 202	-
	36 201	32 654
2.2 Water Inventory		
Water inventory	364	174
Total Inventories	36 565	32 828
3. RECEIVABLES FROM EXCHANGE TRANSACTIONS		
Trade receivables - primary activities	111 808	64 153
Trade receivables - secondary activities	26 341	45 259
Provision for impairment - primary activities	(681)	(13)
Sundry receivables - primary activities	1 915	988
Staff receivables - primary activities	27	114
Prepayments - primary activities	1 683	1 897
Refundable Deposits - primary activities	474	460
Total Receivables from Exchange Transactions	141 567	112 858
4. CASH AND CASH EQUIVALENTS		
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
Credit card	-	-
Bank balances	44 671	36 247
Short-term deposits	205 861	224 146
Call account - Secondary activities	12 550	5 131
	263 087	265 529
Bank Accounts - Secondary Activities		
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.		
The unutilised advances are listed below:		
Advances received from the Department of Water and Sanitation <i>Thirteen projects are currently being managed.</i>	2 759	1 610
Advances received from the Department of Education/Department of Basic Education <i>Two projects are currently being managed.</i>	541	1 665
Advances received from the Department of Environmental Affairs <i>Sixteen projects are currently being managed.</i>	808	853
Advances received from the Department of Co-operative Governance and Traditional Affairs <i>Two projects are currently being managed.</i>	77	1 003
Advances received from Department of Labour <i>One project is currently being managed.</i>	8 364	0
	12 549	5 131

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. Refer to note 8.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	UNAUDITED 30 JUNE 2019			AUDITED 30 JUNE 2018		
	COST R'000	ACCUMULATED DEPRECIATION AND ACCUMULATED IMPAIRMENT R'000	CARRYING VALUE R'000	COST R'000	ACCUMULATED DEPRECIATION AND ACCUMULATED IMPAIRMENT R'000	CARRYING VALUE R'000
5. PROPERTY, PLANT AND EQUIPMENT						
Land	1 780	-	1 780	1 780	-	1 780
Buildings/Civil works	369 440	(98 853)	270 587	380 555	(88 475)	292 080
Plant and Machinery	201 941	(60 652)	141 290	202 205	(54 528)	147 676
Furniture and fixtures	4 401	(1 921)	2 480	4 453	(1 513)	2 939
Motor vehicles	14 791	(10 985)	3 806	15 125	(8 388)	6 736
Office equipment	36 686	(15 580)	21 106	42 676	(14 191)	28 485
Library	6	(4)	2	6	(4)	3
Electrical supply	90 368	(21 499)	68 869	120 240	(22 444)	97 796
Industrial Electronics	53 806	(16 126)	37 680	18	(1)	17
Work in progress	144 526	-	144 526	31 010	-	31 010
Pipelines	504 432	(158 420)	346 013	493 588	(146 882)	346 706
Tools and loose gear	1 353	(838)	515	1 209	(626)	583
Total	1 423 530	(384 878)	1 038 654	1 292 863	(337 054)	955 813

	OPENING BALANCE R'000	ADDITIONS R'000	DISPOSAL R'000	COST TRANSFERS R'000	BORROWING COST CAPITALISED R'000	IMPAIRMENT ** R'000	DEPRECIATION R'000	IMPAIRMENT REVERSAL R'000	CLOSING BALANCE **** 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	-	(229)	(13 637)	52	141 290
Furniture and fixtures	2 939	-	(16)	-	-	-	(443)	-	2 480
Motor vehicles	6 736	-	(31)	-	-	-	(2 900)	-	3 805
Office equipment	28 485	4 239	(543)	(5 168)	-	-	(5 907)	-	21 106
Library	3	-	-	-	-	-	-	-	3
Electrical supply	97 796	1 164	(1 024)	(22 204)	-	-	(6 863)	-	68 869
Industrial Electronics	17	539	(427)	38 366	-	(65)	(750)	-	37 680
Work in progress	31 010	128 168	-	(19 086)	4 434	-	-	-	144 526
Pipelines	346 706	518	(255)	11 021	-	-	(11 978)	-	346 013
Tools and loose gear	583	172	(8)	-	-	-	(232)	-	515
	955 813	139 662	(7 824)	0	4 434	(294)	(53 188)	52	1 038 654

NOTES TO THE ANNUAL FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT 30 JUNE 2018	OPENING BALANCE	ADDITIONS	DISPOSAL	COST TRANSFERS	BORROWING COST CAPITALISED	DEPRECIATION ***	IMPAIRMENT LOSS	OTHER ADJUSTMENTS*	CLOSING BALANCE
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Land	1 829	-	(49)	-	-	-	-	-	1 780
Buildings/Civil works	237 574	-	(1 577)	65 723	-	(9 640)	-	-	292 080
Plant and Machinery	115 898	1 355	(4 432)	41 411	-	(10 913)	(59)	4 416	147 676
Furniture and fixtures	1 533	260	(138)	1 683	-	(398)	-	-	2 939
Motor vehicles	7 706	667	(30)	1	-	(1 607)	-	-	6 736
Office equipment	24 886	913	(1 223)	8 359	-	(4 450)	-	-	28 485
Library	2	-	(0)	0	-	(0)	-	1	3
Industrial Electronics	-	-	-	17	-	-	-	(1)	17
Electrical supply	65 934	-	(1 967)	39 224	-	(5 395)	-	(0)	97 796
Communication equipment	5	-	(3)	-	-	(1)	-	-	0
Work in progress	150 177	73 485	-	(198 732)	6 427	-	-	(346)	31 010
Pipelines	315 383	772	(510)	42 313	-	(11 251)	-	(0)	346 706
Tools and loose gear	541	74	(33)	1	-	-	-	-	583
	921 468	77 526	(9 962)	0	6 427	(43 657)	(59)	4 070	955 813

5.1 Work-In-Progress

PROJECT/ DESCRIPTION	ASSET CATEGORY	TOTAL	WITHIN 1 YEAR	BETWEEN 1 TO 5 YEARS	BEYOND 5 YEARS
Pipeline from Weir to Shooting range	Pipeline	76 866	73 172	3 693	-
New Mhlathuze Weir Structure	Civil Works	57 258	52 640	4 618	-
AC Mitigation System for Empangeni	Electrical	60	60	-	-
Pipeline	Professional Fees	10 342	-	10 343	-
Plant Augmentation (Independent 170 M/D PLANT)		-	-	-	-
Total		144 526	125 873	31 010	-

Included in other adjustments are the following:

* Prior year error relates to the re-assessment of useful lives of PPE not effected in the correct period

Prior year error relates to a reinstatement of PPE originally acquired at R1 value to fair value.

** Reversal of impairment

*** Portion of current year depreciation is recognised as Cost of Sales (refer to note 13)

**** Included in the Property Plant and Equipment are two assets that were mothballed (suspended), these assets were fully impaired in the previous financial years and are therefore carried at R0 Net Book Value.

		2019 R'000	2018 R'000
Depreciation***			
Depreciation	5	53 188	43 657
Amortisation	6	2 591	2 664
Total depreciation and amortisation		55 779	46 321
Cost of sales	13	46 290	38 469
Depreciation and amortisation IS		9 490	7 852
Total		55 779	46 321

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	UNAUDITED 30 JUNE 2019			AUDITED 30 JUNE 2018		
	COST R'000	ACCUMULATED DEPRECIATION AND ACCUMULATED IMPAIRMENT R'000	CARRYING VALUE R'000	COST R'000	ACCUMULATED DEPRECIATION AND ACCUMULATED IMPAIRMENT R'000	CARRYING VALUE R'000
6. INTANGIBLE ASSETS						
Computer software	15 694	(13 238)	2 457	15 538	(10 646)	4 892
Total	15 694	(13 238)	2 457	15 538	(10 646)	4 892

RECONCILIATION OF INTANGIBLE ASSETS 30 JUNE 2019	OPENING BALANCE R'000	ADDITIONS R'000	DISPOSAL R'000	TRANSFER R'000	OTHER ADJUSTMENTS R'000	REASSESSMENT OF USEFUL LIFE OF INTANGIBLE ASSETS R'000	AMORTISATION R'000	CLOSING BALANCE R'000
Computer software	4 892	156	-	-	-	-	(2 591)	2 457
	4 892	156	-	-	-	-	(2 591)	2 457
RECONCILIATION OF INTANGIBLE ASSETS 30 JUNE 2018								
Computer software	3 859	-	(38)	3 486	249	-	(2 664)	4 892
Under development	2 786	895	-	- 3 486	(194)	-	-	0
Total	6 645	895	(38)	-	55	-	(2 664)	4 892

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	2019 R'000	2018 R'000
7. INTEREST BEARING BORROWINGS		
At amortised cost		
Ned Bank	11 765	23 529
Rand Merchant Bank	67 824	78 260
Total interest bearing borrowings	79 589	101 789
Debt consists of unsecured interest-bearing liabilities held at amortised cost.		
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 and matures on 30 June 2020.		
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.		
Non-Current Liabilities		
At amortised cost	56 897	79 006
Current Liabilities		
At amortised cost	22 692	22 782
Total interest bearing borrowings	79 589	101 789
8. PAYABLES FROM EXCHANGE TRANSACTIONS		
Trade payables- primary activities	24 032	29 220
Trade payables - secondary activities	3 114	3 714
Retention - primary activities	11 379	4 113
Retention - secondary activities	7 975	11 974
Accruals - primary activities	66 851	31 126
Accruals - secondary activities	2 240	5 263
SARS - PAYE, UIF and SDL	2 725	2 761
Sundry creditors - primary activities	524	781
Accrued interest - secondary activities	3 331	4 599
Advances - secondary activities	9 219	819
	131 390	94 370
9. VAT (RECEIVABLE)/PAYABLE		
VAT (Receivable)/Payable	(3 071)	1 389
	(3 071)	1 389

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	OPENING BALANCE R'000	MOVEMENT R'000	UTILISED DURING THE YEAR R'000	CLOSING BALANCE R'000
10. EMPLOYEE BENEFIT LIABILITY				
Reconciliation of employee benefit – 30 June 2019				
Provision of post retirement medical aid	110	83	(75)	118
Provision of staff bonuses	8 221	6 348	(4 933)	9 636
Provision of staff leave	8 346	2 614	(3 889)	7 071
	16 677	9 045	(8 897)	16 825
Reconciliation of employee benefit – 30 Jun 2018				
Provision of post retirement medical aid	314	(132)	(72)	110
Provision of staff bonuses	6 903	7 753	(6 435)	8 221
Provision of staff leave	6 246	2 100	-	8 346
	13 463	9 721	(6 507)	16 677

	30 JUNE 2019 R'000	RESTATED 30 JUNE 2018 R'000
Non-current liabilities	-	32
Current liabilities	16 825	16 645
	16 825	16 677
Provision of Post Retirement Medical Aid		
The Mhlathuze Water Post Medical Aid Contribution scheme was closed on the 31st of December 2004 to new beneficiaries. Currently there is only one former employee, Mr. GF Allison and his spouse, who benefit from this scheme. The scheme is unfunded and actuarially valued every year. The date for the most recent valuation is 30 June 2019		
	30 JUNE 2019 R'000	RESTATED 30 JUNE 2018 R'000
The fair value of the plan is arrived at after considering the following assumptions:		
Discount rate	8.20%	8.80%
Expected medical aid increases	6.00%	6.00%
Life expectancy	1 year	1 year
Provision for Staff Bonus		
The provision for Bonus is raised to recognise the performance of employees, which is payable at the Board's discretion in line with the Performance Management Policy.		
Provision for Leave Pay		
The provision for leave pay is based on the number of days leave due to employees at financial year end and their cost to company per day.		

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

10. EMPLOYEE BENEFIT LIABILITY ...continued		
Employee Benefit Obligation		
Mhlathuze Water Pension Fund – defined contribution plan		
The Mhlathuze Water Pension fund was closed in 2015 and was deregistered in 2016. The members now belong to the Provident Fund and member shares from the Pension Fund have been transferred to the Provident Fund. The fund is governed by the Pension Funds Act, 1956 (Act No. 24 of 1956).		
Mhlathuze Water Provident Fund – defined contribution plan		
The provident fund is in the nature of a defined contribution plan. The Risk benefits are registered as Group Income Insurance and Group Life Insurance schemes. Funeral benefits are covered through a separate funeral policy. Retirement benefits are determined with reference to the contributions to the fund. Mhlathuze Water has no commitment to meet unfunded benefits of the provident fund. The assets from the Mhlathuze Water Provident Fund were transferred to the Sanlam Umbrella Fund in December 2016. All members belong to the Sanlam Umbrella Fund.		

	30 JUNE 2019 R'000	AUDITED 30 JUNE 2018 R'000
11. INCOME RECEIVED IN ADVANCE		
Short-term portion of advances	7 026	7 965
Long-term portion of advances	57 102	63 189
Total income received in advance	64 128	71 154
Provision of Post Retirement Medical Aid		
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.		

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	NOTE	2019 R'000	2018 R'000
12. REVENUE – SALE OF GOODS AND SERVICES			
Sale of Goods and Services			
An analysis of tariff income is as follows:			
Primary Activities (Section 29)			
Bulk water		307 662	254 480
Waste water		164 152	139 892
Total Primary Activities		471 814	394 372
Operating lease income			
An analysis of operating lease income is as follows:			
Lease income – waste water		7 026	7 965
		7 026	7 965
Secondary Activities (Section 30)			
Operations and Maintenance Agreements			
Thukela Goedertrouw Scheme		100 605	52 231
City of uMhlathuze		111 218	72 979
Total Operations and Maintenance Agreements		211 823	125 210
Other Activities			
Management fee		7 707	2 162
Laboratory services		3 645	3 457
Implementing Agency Fees		9 926	5 830
Total Other Activities		21 278	11 449
Total Revenue		711 942	538 996
13. COST OF SALES			
Raw water purchases		63 069	44 378
Electricity and water		129 147	81 239
Chemicals		18 969	17 551
Employee related costs	16	51 935	50 804
Depreciation and amortisation		46 290	38 469
Total Cost of Sales		309 410	232 440

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	2019 R'000	2018 R'000
14. EXTERNAL PROJECTS (SECONDARY ACTIVITIES)		
Mhlathuze Water, apart from its primary activities implements External Projects (Secondary Activities) on behalf of the Department of Water and Sanitation, Department of Education, Department of Environmental Affairs, Department of Labour and the Department of Governance and Traditional Affairs. Total expenditure for these projects is fully recovered from these departments.		
These amounts are not reflected in the Statement of Financial Performance as Mhlathuze Water is deemed to be an agent in these transactions.		
Accordingly, the implementing agency fees have been recognised as revenue in the Statement of Financial Performance.		
The following project activities took place during the year:		
Department of Education/Department of Basic Education - school sanitation	4 982	2 726
Department of Water and Sanitation - water infrastructure	81 021	95 658
Department of Environmental Affairs - alien plant removal	-	15 690
Department of Co-operative Governance and Traditional Affairs- bucket eradication and drought relief.	-	5 501
Department of Labour - UIF	3 900	-
	89 903	119 575
The above amounts have been incurred on behalf of the respective Departments and is recoverable from them.		
15. OTHER INCOME		
Included in other income:		
15.1 Sundry Income		
Handling fees	2	5
Tenders	-	33
Bad debt recovered	-	280
Rent received	7	7
Impairment reversal	52	-
General	2 556	1 118
	2 617	1 444
15.2 Interest Income		
Bank account	282	165
Interest charged on trade and other receivables	21	60
Interest earned on outstanding debtors	768	86
Call accounts/investments	16 281	15 646
	17 352	15 956
Total Other Income	19 969	17 400

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

		30 JUNE 2019 R'000	RECLASSIFIED 30 JUNE 2018 R'000
16. EMPLOYEE RELATED COSTS			
Basic		110 332	101 976
Independent contractor		-	1 912
Bonus		6 348	10 782
Internship		702	649
Learnership		71	-
Shift allowance*		1 210	1 101
Standby allowance		2 120	2 066
Responsibility allowance		2 069	1 685
Cell phone allowance		910	906
Relocation allowance		258	3
Transport allowance *		666	501
Housing allowance *		1 569	1 038
Tool allowance		157	70
Secondment allowance		232	740
Leave		2 614	5 551
Overtime*		11 920	11 635
Overtime - Normal Shift		3 011	-
Medical aid - company contributions		75	114
UIF - company contributions		542	532
WCA - company contributions		1 428	1 415
Statutory levies - SDL		1 280	1 227
Statutory levies - AMC		8	8
		147 523	143 910
Direct employee related costs	13	51 935	50 804
Indirect employee related costs		95 588	93 107
Total Employee Related Costs		147 523	143 910

* Overtime previously disclosed with Shift allowances has been reclassified and only included overtime worked on normal shifts. This overtime cost includes the City of uMhlathuze Operating and Maintenance payroll costs which were recovered from the City of uMhlathuze Operating and Maintenance contract.

* Transport and Housing Allowances relate to the City of uMhlathuze payroll and were negotiated benefits that were fully recovered from the City of uMhlathuze.

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

17.1 Board Members Emoluments

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 were:

	Appointment Date	Termination Date
MM Xulu (Chairperson)	1 st August 2017	4 th December 2018
NR Shezi	24 th April 2018	4 th December 2018
N Gevers	1 st August 2017	4 th December 2018
BK Rawlins	1 st August 2017	4 th December 2018
Adv S Chamane	1 st August 2017	4 th December 2018

MEMBERS OF THE INDEPENDENT AUDIT AND RISK COMMITTEE	PACKAGE EARNINGS R'000	TRAVEL AND SUBSISTENCE ALLOWANCE R'000	OTHER ALLOWANCES R'000	TOTAL 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
			-	
Total Independent Audit and Risk Committee	-	16	135	151

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)	5 th December 2018
SZ Hlophe (Deputy Chairperson)	5 th December 2018
A Badul	5 th December 2018
GD Biyela	5 th December 2018
N Gevers	5 th December 2018
M Makgae	5 th December 2018
N Mkhize	5 th December 2018
B Mshengu	5 th December 2018
PS Reddy	5 th December 2018
MM Xulu	5 th December 2018
M Zikalala	5 th December 2018

NON-EXECUTIVE BOARD MEMBERS	PACKAGE EARNINGS R'000	TRAVEL AND SUBSISTENCE ALLOWANCE R'000	OTHER ALLOWANCES R'000	TOTAL R'000
TA Shange (Chairperson)	131	43	374	548
SZ 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
			-	
Total Independent Audit and Risk Committee	1 062	218	1 843	3 123

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

17.2 Executives' Emoluments

EXECUTIVE BOARD MEMBERS	PACKAGE EARNINGS R'000	TRAVEL AND SUBSISTENCE ALLOWANCE R'000	OTHER ALLOWANCES R'000	OTHER ALLOWANCES R'000	TOTAL 2019 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) see note 10			75		75
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
Total Independent Audit and Risk Committee	7 555	472	1 021		9 598

* 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

17.1 Board Members Emoluments

Board Members and Executives' Emoluments

*The Mhlathuze Water Board's term of office came to an end on the 24th of April 2017, The duties of the Board are performed by the Accounting Authority from 24th April 2017. The process to appoint members of a new Board was finalised in December 2018.

Members of the Independent Audit and Risk Committee were:

	Appointment Date	Termination Date
MM Xulu	1 st August 2017	4 th December 2018
N Gevers	1 st August 2017	4 th December 2018
Adv S Chamane	1 st August 2017	4 th December 2018
PS Dlamini	1 st August 2017	4 th December 2018
BK Rawlins	1 st August 2017	4 th December 2018
N Shezi	25 th April 2018	3 rd April 2018

2018 MEMBERS OF THE INDEPENDENT AUDIT AND RISK COMMITTEE	PACKAGE EARNINGS R'000	TRAVEL AND SUBSISTENCE ALLOWANCE R'000	OTHER ALLOWANCES R'000	TOTAL R'000
PS Dlamini	-	12	102	114
N Gevers	-	15	122	137
MM Xulu	-	8	118	126
BK Rawlins	-	8	109	117
Adv S Chamane	-	15	111	126
Total Independent Audit and Risk Committee	-	58	562	620

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

17.2 Executives' Emoluments

EXECUTIVE STAFF MEMBERS	PACKAGE EARNINGS R'000	TRAVEL AND SUBSISTENCE ALLOWANCE R'000	OTHER ALLOWANCES R'000	TOTAL 2019 R'000
MP Duze (Interim Chief Executive)*	964	301	890	2 155
AS Makhanya (Chief Executive)**	2 022	180	24	2 226
BS Ndaba***	797	144	809	1 750
M Myeni	1 353	25	151	1 529
BS Ntlhoro ****	1 252	3	506	1 761
N Ndlovu*****	987	26	285	1 298
CG Cele *****	1 288	10	606	1 904
B Mnyandu*****	399	-	4	403
Total Executive Staff Members	9 062	689	3 275	13 026
Total Independent Audit and Risk Committee Members and Executive Staff Members	9 062	747	3 837	13 646

- * MP Duze was appointed Interim Chief Executive on the 8th of June 2016
- ** AS Makhanya is on suspension pending outcome of the CSA case disciplinary proceedings
- *** BS Ndaba resigned on the 4th of December 2017
- **** BS Ntlhoro was appointed Interim GM: Operations on the 1st of December 2017
- ***** N Ndlovu resigned on the 11th of April 2018.
- ***** CG Cele was appointed Interim GM: Technical Services on the 1st of December 2017
- ***** B Mnyandu was appointed Chief Financial Officer on the 11th of April 2018

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	2019 R'000	2018 R'000
18. FINANCE COSTS		
Non-current borrowings	10 056	12 457
Less: borrowing cost capitalised	(4 434)	(6 436)
	5 622	6 021
Capitalisation rates used during the period were 10.62% on specific borrowings for capital projects 10.62% is the weighted average cost of funds borrowed by the entity. (2018: 10.64%)		
19. OPERATING LEASE		
19.1 Operating Lease - Income		
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	6 312	7 026
Between 1 to 5 years	25 247	20 472
Beyond 5 years	-	-
Total Operating Lease Receivable in Future	31 559	27 498
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.		
19.2 Operating Lease Expenditure		
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	2 708	2 801
Between 1 to 5 years	8 910	9 243
Beyond 5 years	2 599	4 756
Total Operating Lease Commitments	14 217	16 800
Mhlathuze Water leases equipment, land and a pipeline from 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.		
20. REPAIRS AND MAINTENANCE		
- Building	8 949	6 466
- Plant and Machinery	46 023	19 540
- Electrical Supply	6 789	5 208
- Industrial Electronics	46	-
- Motor vehicles	1 095	667
- Equipment, Furniture and Fixtures*	2 076	3 615
- Pipelines	15 975	12 292
- Tools and loose gear	350	299
	81 302	48 088
*Account reclassified		

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	2019 R'000	RECLASSIFIED 2018 R'000
21. OTHER EXPENSES		
Abnormal expenditure	-	2 664
Assessment rates & municipal charges	559	612
Auditors remuneration - external	2 876	3 238
Auditors remuneration - internal	722	465
Bank charges	148	371
Bio monitoring	1 100	1 708
Board members - general expenses	1 317	340
Bursaries	678	827
Chemicals Laboratory	648	723
Cleaning	4 716	1 706
Community development and training	140	446
Compliance testing	1 970	1 494
Conferences and seminars	116	662
Consulting and professional fees	780	1 930
Consumables	650	883
Corporate social investment	508	806
Debt impairment	668	-
Donations	536	69
Fees - special investigation	35	282
Fines and penalties	78	84
Fruitless and wasteful expenditure	-	527
Fuel and oil	2 801	2 761
General*	98	5 073
Ground contractors	3 336	3 029
Insurance	2 586	3 010
IT expenses	7 777	8 495
Learnership	339	267
Legal expenses	24 085	6 721
Magazines, books and periodicals	-	8
Strategic Support*	4 166	1 357
Motor vehicle expenses	162	209
Pest control	4	29
Placement fees	854	965
Postage and courier	14	7
Printing and stationary	706	720
Protective clothing	1 317	1 390
Public relations	1 877	1 604
Regional bulk studies	5 201	2 276
Sludge removal*	22 225	903
Security	4 500	4 830
Staff assessments/grading	29	30
Staff Welfare	2 271	695
Subscriptions and membership fees	327	568
Telephone and fax	529	758
Training	1 048	1 979
Transport and freight	16	75
Travel - local	1 216	1 278
Travel - overseas	-	927
Uniforms	-	254
Vehicle Hire	3 815	4 207
Water analysis	777	426
	110 322	74 686

*Account reclassified

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	2019 R'000	RECLASSIFIED 2018 R'000
22. OPERATING SURPLUS		
Operating surplus for the year is stated after accounting for the following:		
Operating Lease Charges		
<u>Equipment</u>		
Contractual amounts	545	540
<u>Pipelines</u>		
Contractual amounts	2 195	2 266
	2 740	2 806
Amortisation on intangible assets (Refer to Note 6)	2 591	2 664
Depreciation on property, plant and equipment (Refer to Note 5)	53 482	43 657
Employee costs and board remuneration	46 927	42 923
23. LOSS ON DISPOSAL OF ASSETS		
Proceeds on sale of assets	852	-
Loss on sale of assets	(4 867)	(6 058)
	(4 014)	(6 058)
24. CASH GENERATED FROM OPERATIONS		
Surplus	106 926	81 949
Adjusted for:		
Depreciation and amortisation	55 779	46 321
Loss on sale of assets	4 014	10 000
Asset impairment/asset write off (Refer Note 5 and 3)	975	59
Finance costs - capitalised	(4 434)	(6 422)
Movement in employee benefit liabilities	148	3 213
Movement in income received in advance	(7 026)	(7 965)
Changes in Working Capital:		
Increase in inventories	(3 737)	(2 241)
(Increase)/decrease in receivables from exchange transactions	(28 709)	45 343
Increase/(Decrease) in payables from exchange transactions	37 020	(31 177)
Movements in VAT balance	(4 460)	(348)
	156 497	144 544

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

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. Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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 Annual 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 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.

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

25. FINANCIAL RISK MANAGEMENT ...continued

BANK SHORT-TERM FUNDING	AMOUNT R'000
Mhlathuze Water's main credit facility is with First National Bank and includes the following:	
Type of Facility	
-Credit Card facility	100
	100
The overdraft facility is only in place for emergency.	

EXPOSURE TO LIQUIDITY RISK	CARRYING AMOUNT R'000	CONTRACTUAL AMOUNT R'000	< 1 YEAR R'000	2-5 YEARS R'000	> 5 YEARS R'000
Interest bearing borrowings	(79 589)	(79 589)	(22 692)	(49 362)	(7 535)
Payables from exchange transactions	(131 390)	(131 390)	(131 390)	-	-
Total	(210 979)	(210 979)	(154 082)	(49 362)	(7 535)
At 30 June 2018					
Interest bearing borrowings	(101 789)	(137 474)	(32 672)	(74 847)	(29 955)
Payables from exchange transactions	(94 370)	(94 370)	(94 370)	-	-
Total	(196 159)	(231 844)	(127 042)	(74 847)	(29 955)

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

25. FINANCIAL RISK MANAGEMENT ...continued

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 R'000	TOTAL R'000
Financial Assets		
Receivables from exchange transactions	141 567	141 567
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	(131 390)	(131 390)
	193 674	193 673
30 June 2018		
Financial Assets		
Receivables from exchange transactions	112 858	112 858
Bank and cash implementing agent projects	5 131	5 131
Bank and cash	260 398	260 398
Financial Liabilities		
Interest-bearing borrowing	(101 789)	(101 789)
Payables from exchange transactions	(94 370)	(94 370)
	182 227	182 227

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.

Mhlathuze Water reviews outstanding balances on trade and other receivables on a monthly basis, via a debtors age report.

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

25. FINANCIAL RISK MANAGEMENT ...continued

Receivables from Exchange Transactions ...continued

A provision is raised for debtors outstanding more than 120 days accounts. The provisions raised are tabled together with the Annual Financial Statements to the Audit and Risk Committee and the Accounting Authority.

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:

	2019 R'000	2018 R'000
Financial Instrument		
Receivables from exchange transactions	141 567	112 858
Cash and cash equivalents	263 087	265 529
The maximum exposure to credit risk for from exchange transactions per business at reporting date was:		
Water supply	56 702	46 716
Waste water disposal	- 1 331	15 170
Thukela Transfer Scheme	9 718	3 396
Project activities	76 478	46 535
	141 567	111 817

	GROSS 30 JUNE 2019 R'000	IMPAIRMENT 30 JUNE 2019 R'000	GROSS 30 JUN 2018 R'000	IMPAIRMENT 30 JUN 2018 R'000
Provision for Impairment				
Not past due	86 251	-	87 116	-
Past due 0-30 days	25 474	-	2 800	-
Past due 30-60 days	2 551	-	2 172	-
Past due 60-90 days	14 565	-	13 700	-
Past due >90 days	12 726	(668)	7 070	-
	141 567	(668)	112 858	-

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

25. FINANCIAL RISK MANAGEMENT ...continued

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.

	2019 R'000	2018 R'000
Provision for Impairment		
Opening balance	(13)	(13)
Movement	(668)	-
Closing balance	(681)	(13)

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 to 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:

	30 JUNE 2019 R'000	30 JUNE 2018 R'000
Rate Instruments		
Receivables from exchange transactions - variable interest rate	141 567	112 858
Bank and cash - variable interest rate	102 041	102 988
Bank and cash - fixed interest rate	161 046	162 541
	404 655	378 387
Financial Liabilities		
Interest bearing borrowing - fixed interest rate	(79 590)	(101 789)
	(79 590)	(101 789)

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

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.

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

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	
Volumes ('000 m³)	54 599	68 979				
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	171 178	100 605	111 218	21 278	711 942
Cost of Sales	(145 547)	(38 219)	(87 165)	(34 678)	(3 802)	(309 410)
Bulk purchases	(63 069)	-	-	-	-	(63 069)
Electricity and water	(24 484)	(21 843)	(82 802)	(17)	-	(129 147)
Chemicals	(14 795)	-	(0)	(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)
Gross Profit	162 115	132 960	13 440	76 540	17 477	402 532
Other income	10 017	9 945	7	-	-	19 969
Expenditure	(123 550)	(90 728)	(13 448)	(70 560)	(13 570)	(311 560)
Employee related costs	(57 987)	(37 601)	-	-	-	(95 588)
Remuneration of board members	(1 890)	(1 384)	-	-	-	(3 274)
Depreciation and amortisation	(5 594)	(3 896)	-	-	-	(9 490)
Impairment of Assets	(242)	(52)	-	-	-	(295)
Finance costs	(4 002)	(1 623)	-	-	-	(5 625)
Lease rentals on operating lease	(347)	(2 393)	-	-	-	(2 740)
Debt impairment	(12)	(7)	-	-	-	(20)
Repairs and maintenance	(11 193)	(18 915)	(9 745)	(35 352)	(6 096)	(81 302)
Electricity and water	(1 308)	(768)	-	-	-	(2 076)
Chemicals	(451)	(378)	(0)	-	-	(829)
Other expenses	(40 523)	(23 709)	(3 703)	(35 208)	(7 474)	(110 322)
Operating surplus	48 582	52 177	(0)	5 981	3 907	110 941
Loss on disposal of assets	(2 467)	(1 547)	-	-	-	(4 014)
Surplus for the year	46 115	50 629	(0)	5 981	3 907	106 926
Assets						
Segment assets	707 750	280 316	-	-	38 891	1 026 958
Centralised services						458 444
Total assets as per statement of financial position						1 485 401
Liabilities						
Segment liabilities	12 737	59 028	-	-	16 659	88 424
Centralised services						203 508
Total liabilities as per statement of financial position						291 932
Other information						
Capital expenditure	22 569	3 017	-	-	-	25 586
Centralised services						118 510
						144 096

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

26. SEGMENT INFORMATION ...continued

	PRIMARY ACTIVITIES		SECONDARY ACTIVITIES			TOTAL
	BULK WATER	WASTE WATER	TG SCHEME O & M	CITY OF UMHLATHUZE O & M	OTHER ACTIVITIES	
Volumes ('000 m³)	68 249	43 352				
2018 Restated						
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	254 480	147 858	52 231	72 979	11 448	538 996
Cost of Sales	(114 973)	(36 968)	(42 270)	(35 610)	(2 620)	(232 440)
Bulk purchases	(44 378)	-	-	-	-	(44 378)
Electricity and water	(22 077)	(21 024)	(38 118)	(19)	-	(81 239)
Chemicals	(12 223)	-	-	(5 027)	(300)	(17 551)
Employee related costs	(10 901)	(2 868)	(4 151)	(30 563)	(2 320)	(50 804)
Depreciation	(25 393)	(13 076)	-	-	-	(38 469)
Gross Profit	139 507	110 890	9 961	37 369	8 828	306 555
Other income	9 220	8 172	7	-	-	17 399
Expenditure	(106 983)	(76 202)	(9 755)	(35 254)	(7 753)	(235 946)
Employee related costs	(59 531)	(33 576)	-	-	-	(93 107)
Remuneration of board members	(391)	(229)	-	-	-	(620)
Depreciation and amortisation	(4 388)	(3 463)	-	-	-	(7 851)
Impairment of Assets	(59)	-	-	-	-	(59)
Finance costs	(2 891)	(3 130)	-	-	-	(6 021)
Lease rentals on operating lease	(346)	(2 459)	-	-	-	(2 805)
Debt impairment	(0)	0	-	-	-	(0)
Repairs and maintenance	(6 459)	(12 448)	(6 137)	(21 437)	(1 606)	(48 088)
Electricity and water	(1 206)	(708)	-	-	-	(1 914)
Chemicals	(374)	(423)	-	-	-	(797)
Other expenses	(31 338)	(19 765)	(3 618)	(13 817)	(6 147)	(74 686)
Operating surplus	41 745	42 860	213	2 116	1 075	88 009
Gain (loss) on disposal of assets	(2 892)	(3 166)	-	-	-	(6 058)
Surplus for the year	38 852	39 694	213	2 116	1 075	81 949
Assets						
Segment assets	664 331	274 855	-	-	50 390	989 576
Centralised services						382 343
Total assets as per statement of financial position						1 371 920
Liabilities						
Segment liabilities	32 084	63 275	-	-	29 719	125 078
Centralised services						160 301
Total liabilities as per statement of financial position						285 379
Other information						
Capital expenditure	65 483	9 707	-	-	-	75 190
Centralised services						7 268
						82 458

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	2019 R'000	2018 R'000
27. STATUTORY INFORMATION IN TERMS OF THE PUBLIC FINANCE MANAGEMENT ACT NO. 1 OF 1999 AS AMENDED		
27.1 Irregular Expenditure		
Opening balance	264 763	205 951
Add: Irregular expenditure emanating from Prior Years	16 228	44 470
Add: Current Year	-	20 050
Less: Amounts condoned	(35 915)	(5 708)
Closing balance 30 June	245 076	264 763
Application of Condonation is underway. Letters requesting condonation have been submitted to National Treasury. Awaiting for a response.		
27.2 Details of Irregular Expenditure		
Incident		
Irregular Expenditure relates to payments that were made to various suppliers, without appropriately approved variation orders as per the delegation of authority (DoA).	-	456
Irregular Expenditure relates to bids not advertised for the prescribed period of twenty-one (21) days.	1 890	39 716
Irregular appointment of an independent contractor where the procurement procedure was not followed.	-	177
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 professional fee adjustment due to change in construction value, not approved according to the DOA.	-	4 434
Irregular expenditure relates to orders that were not issued in time, as a result of vehicle contracts expired whilst the vehicles were in use.	-	948
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	4 860
Irregular expenditure as a result of not adhering to the SCM Policy.	7 767	8 270
Irregular expenditure occurred as a result of payments that were made to suppliers that exceeded contract value	-	4 930
Irregular expenditure resulted in a contract that was taken over from City of uMhlathuze in 2014 without following the correct SCM process.	5	65
Irregular expenditure as a result of no evidence to verify that bids were received on time.	-	344
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	320
	16 228	64 520

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	2019 R'000	2018 R'000
27. STATUTORY INFORMATION IN TERMS OF THE PUBLIC FINANCE MANAGEMENT ACT NO. 1 OF 1999 AS AMENDED...continued		
27.3 Details of Irregular Expenditure condoned		
Incident		
Irregular Expenditure relating to bids not advertised for the prescribed period of twenty-one (21) days has subsequently been condoned.	19 250	-
Condoned by : Board		
Incident		
Irregular expenditure as a result of no evidence to verify that bids were submitted on time has subsequently been condoned.	1 764	-
Condoned by : Board		
Incident		
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	-
Condoned by : Board		
Incident		
Irregular Expenditure relating to ceding of work not as per SCM Policy and documents not signed as per the DOA.	809	-
Condoned by : Board		
Incident		
Irregular expenditure as a result of not adhering to the SCM Policy.	5 265	-
Condoned by : Board		
Incident		
Irregular expenditure occurred as a result of a construction tender not advertised on CIDB, resulting in a non-compliance.	4 572	-
Condoned by : Board		
Irregular expenditure occurred as a result of expenditure that was incurred without a contract being in place.	498	-
Condoned by : Board	35 915	-
27.4 Fruitless and Wasteful Expenditure		
Opening balance	27 475	25 203
Add: Fruitless and Wasteful expenditure - prior year identified in the current year	-	2 181
Add: Fruitless and Wasteful expenditure - current year	4	328
Add: Amounts condoned	-	(232)
Add: Amounts written off	-	(5)
	27 479	27 475

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.

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	2019 R'000	2018 R'000
27. STATUTORY INFORMATION IN TERMS OF THE PUBLIC FINANCE MANAGEMENT ACT NO. 1 OF 1999 AS AMENDED ...continued		
27.5 Details Fruitless and Wasteful Expenditure		
Incident		
Fruitless and wasteful expenditure (Prior Year), relates to payments that were made to supplier utilising bridge funding, however the funding Departments disputed the invoices as the work done was out of scope. The matter is still under investigation.	-	2 509
Fruitless and wasteful expenditure incurred on interests charges on late payments.	4	-
	4	2 509
27.6 Secondary Activities Non-conformances		
Services rendered on behalf of some departments. Service Providers paid using MW which has not been recovered from departments.		
27.7 Details of Fruitless and Wasteful Expenditure Written Off		
Incident		
Fruitless and wasteful expenditure incurred by a delegate who did not attend a conference, has been subsequently condoned by the Accounting Officer.	-	(232)
Fruitless and wasteful expenditure incurred by an employee who did not attend training has been subsequently written off by the Accounting Officer.	-	(5)
	-	(237)
27.8 Bad Debts		
Bad debts provided for	20	13
Bad debts recovered	-	-
Totals	20	13
28 ADJUSTMENTS FROM PRIOR PERIOD ERRORS AND CHANGE IN ACCOUNTING ESTIMATES		
28.1 Intangible Assets		
Due to the re-assessment of the useful lives of Mhlathuze Water's intangible assets, the amortisation expense had to be recalculated and this resulted in a decrease in amount in the prior period. MW re-assessed useful lives of the assets for the first time in FY2016/17 and the re-assessment resulted in the prior period error adjustments which were not implemented in the prior year.		
Intangible Assets	-	249
2017/18 Audited Financial Statement	-	4 643
2017/18 Audited Financial Statement	-	4 892

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	2019 R'000	2018 R'000
28 ADJUSTMENTS FROM PRIOR PERIOD ERRORS AND CHANGE IN ACCOUNTING ESTIMATES ...continued		
28.2 Correction of effluent penalty invoices		
Correction of prior year effluent penalty charges and other expenses incorrectly accrued in an incorrect accounting period		
Accruals -Primary Activities	-	2 578
2017/18 Audited Financial Statement	-	33 704
2017/18 Restated Financial Statement	-	31 126
28.3 Correction of Property Plant and Equipment		
Professional fees previously expenses which should have been capitalised		
	-	1 495
2017/18 Audited Financial Statement	-	954 318
2017/18 Restated Financial Statement	-	955 813
28.4 Correction of Section 30 activities		
Accounts Payables - Secondary Activities	-	4 170
2017/18 Audited Financial Statement	-	7 884
2017/18 Restated Financial Statement	-	3 714
Accounts Receivables - Secondary	-	(1 276)
2017/18 Audited Financial Statement	-	46 535
2017/18 Restated Financial Statement	-	45 259
Accounts Receivables - Primary	-	(40)
2017/18 Audited Financial Statement	-	64 193
2017/18 Restated Financial Statement	-	64 153
Advances - secondary activities	-	(819)
2017/18 Audited Financial Statement	-	-
2017/18 Restated Financial Statement	-	(819)
28.5 Correction of Post Retirement Benefit Liability		
Correction of Post Retirement Benefit Liability not calculated in line with requirements of GRAP 25		
	-	247
2017/18 Audited Financial Statement	-	357
2017/18 Restated Financial Statement	-	110
Total Adjustments to Prior Period Error	-	6 603

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	2019 R'000	2018 R'000
28. ADJUSTMENTS FROM PRIOR PERIOD ERRORS AND CHANGE IN ACCOUNTING ESTIMATES ...continued		
28.6 Cash Flow Statement		
The Cash Flow Statement was restated due to the remapping of accounts, however, the net movement in cash and cash equivalents was not restated.	-	-
The impact of these errors is summarised below and the details are as follows:		
Increase/ (Decrease) in assets	-	427
(Increase) /Decrease in liabilities	-	6 995
(Increase)/Decrease in accumulated surplus:	-	6 603
(Increase)/Decrease in revenue	-	-
Increase/(Decrease) in expense	-	-
Total Adjustments to Prior Period Error		
28.7 Change in Estimate		
Mhlathuze Water re-assessed useful lives of assets in financial year 2018/19 and the re-assessment resulted in the change in estimates, the impact of the re-assessment is as follows		-
	697	-
Depreciation and Amortisation before re-assessment	6 697	-
Re-assessed Depreciation and Amortisation	6 000	-
28.8 Interest bearing borrowings		
Correction of accrued finance costs from non-current liabilities to current liabilities.		
Short term interest bearing borrowings		(672)
2017/18 Audited Financial Statement	-	22 110
2017/18 Restated Financial Statement	-	22 782
Long term interest bearing borrowings		672
2017/18 Audited Financial Statement	-	79 679
2017/18 Restated Financial Statement	-	79 007
	-	-
28.9 Fruitless and Wasteful Expenditure		
Management has in the current year identified fruitless and wasteful expenditure incurred in the prior year.		
	-	2 181
2017/18 Audited Financial Statement opening balance	-	25 294
2017/18 Restated Opening Balance	-	27 475

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	2019 R'000	2018 R'000
29. COMMITMENTS		
29.1 Authorised Capital Expenditure		
Already contracted for but not provided for		
- Building	14 505	65 129
- Plant and Machinery	1 302	3 831
- Furniture and fixtures	-	114
- Equipment	-	926
- Pipelines	58 646	-
- Tools and loose gear	-	6 133
- Electrical Supply	-	-
- Computer software	-	289
	74 453	76 422
This committed expenditure relates to Capital Expenditure and will be financed by available bank facilities, retained surpluses and existing cash resources.		
29.2 Authorised Operational Expenditure		
Authorised operational expenditure	31 933	18 812
	31 933	18 812
This committed expenditure relates to operational expenditure and will be financed by available bank facilities, retained surpluses and existing cash resources.		
Total Commitments		
Authorised capital expenditure	74 453	76 422
Authorised operational expenditure	31 933	18 812
	106 386	95 234
30 CONTINGENT ASSETS		
Penalties on Construction Contracts*		
- Reservoir no. 1	-	1 737
- Reservoir no. 2	1 071	2 580
- Empangeni Pumpstation Augmentation	560	560
Provident Fund Claim **	1 247	1 247
Mhlathuze Water/L.B Mjadu ***	29	-
	2 907	6 124

* Penalties due on construction contracts.

** 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.

*** 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.

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

31. RELATED PARTY TRANSACTIONS

Relationships

Controlling Entity	-Department of Water and Sanitation
Water Boards	-Umngeni Water
Interim Chief Executive's Employer	-Department of Co-operative Governance and Traditional Affairs
Board Member's Employer	-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

For a full list of Board members and Executives, refer to note 17

	2019 R'000	2018 R'000
Amounts included in Receivables from Exchange Transactions		
Department of Water and Sanitation - Water Services (TG Scheme)	9 718	3 396
Department of Water and Sanitation - External/implementing/laboratory services	37 263	30 970
Department of Co-operative Governance and Traditional Affairs External/implementing	-	2 789
Foskor Limited - Effluent/laboratory/advances	13 043	5 541
Total	60 024	42 696
Amounts included in Payables from Exchange Transactions		
Department of Water and Sanitation - Water Services (TG Scheme)	9 718	3 396
Department of Water and Sanitation - External/implementing/laboratory services	12 222	5 451
Foskor Limited - Effluent/laboratory/advances	30	121
Total	21 970	8 968
Sales of goods/services to related parties		
Department of Water and Sanitation - Operations and Maintenance	34 097	52 231
Department of Water and Sanitation - Implementing/laboratory services	9 627	8 341
Department of Co-operative Governance and Traditional Affairs Implementing/laboratory	299	3 449
Foskor Limited - Effluent disposal & income received in advance	70 518	64 765
Total	114 541	128 786
Purchases from related parties		
Department of Water and Sanitation - Implementing/laboratory services	62 249	48 395
Department of Water and Sanitation - TG Scheme	34 097	52 231
Foskor Limited - Electricity and Repairs and Maintenance	771	1 029
Umngeni Water - Water analysis	43	31
Total	97 160	101 686
Remuneration of Management and Board		
Refer to note 17 "Board members and executives' emoluments"		

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	NOTE	ACTUAL MHLATHUZE WATER R'000	BUDGET MHLATHUZE WATER R'000	DIFFERENCE BETWEEN BUDGET AND ACTUAL R'000
32. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2019				
Statement of Financial Performance				
Revenue from exchange transactions				
Sale of goods and services	32.1	711 942	811 112	(99 170)
Cost of Sales		(309 410)	(200 211)	(109 199)
Bulk purchases	32.3	(63 069)	(95 518)	32 449
Electricity and water	32.4	(129 147)	(29 996)	(99 151)
Chemicals		(18 969)	(16 882)	(2 087)
Employee related costs	32.5	(51 935)	(12 160)	(39 775)
Depreciation and amortisation	32.6	(46 290)	(45 655)	(635)
Gross Profit		402 532	610 901	(208 369)
Other income	32.2	19 969	11 499	8 470
Expenditure		(311 560)	(549 622)	238 062
Employee related costs	32.5	(95 588)	(188 561)	92 973
Remuneration of board members	17.1	(3 274)	(1 400)	(1 874)
Depreciation and amortisation	32.6	(9 490)	(32 419)	22 929
Impairment of assets	5	(295)	-	(295)
Finance costs	32.7	(5 625)	(2 632)	(2 993)
Lease rentals on operating lease		(2 740)	(3 568)	827
Debt impairment		(20)	-	(20)
Repairs and maintenance	32.8	(81 302)	(88 359)	7 057
Electricity and water	32.4	(2 076)	(104 893)	102 818
Chemicals		(829)	(8 873)	8 044
Other Expenses		(110 322)	(118 917)	8 595
Operating surplus		110 940	72 778	38 162
Gain (loss) on disposal of assets		(4 014)	-	(4 014)
Surplus for the year		106 926	72 778	34 148

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	NOTE	ACTUAL MHLATHUZE WATER R'000	BUDGET MHLATHUZE WATER R'000	DIFFERENCE BETWEEN BUDGET AND ACTUAL R'000
32. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS ...continued				
Statement of Financial Position				
ASSETS				
Current assets				
Total current assets	32.9	444 290	298 789	145 501
Non-current assets				
Total non-current assets	32.10	1 041 111	997 662	43 449
Total assets		1 485 400	1 296 451	188 949
LIABILITIES				
Current liabilities				
Total current liabilities	32.11	177 933	185 359	7 426
Non-current liabilities				
Total non-current liabilities	32.12	113 999	214 329	100 330
Total liabilities		291 932	399 688	107 756
Net assets	32.13	1 193 469	896 763	296 706
Total net assets and liabilities		1 485 401	1 296 451	188 950

Notes

32.1 Sale of goods and services has a negative variance of R99,1 million as a result of a decrease in water volumes sold which was caused by the drought restrictions that were imposed by the Department of Water and Sanitation.

32.2 Other income has a positive variance of R8,4 million due to delays in implementing capital projects resulting in excess cash balances that earned interest

32.3 Bulk purchases have a positive variance of R32,4 million due to a decrease in water volumes sold which was caused by the drought restrictions that were imposed by the Department of Water and Sanitation.

32.4 Electricity and water has a positive variance of R3,7 million mainly due to decrease in water volume sold thus less pumping.

32.5 Employee related costs have a positive variance of R53,2 million, mainly due to vacant positions that have not yet been filled.

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

32.6 Depreciation and amortisation has a positive variance of R22,3 million, which is due to a re-assessment of useful lives exercise completed in 2017/18 financial year which prolonged the lives of those assets and reduced the depreciation charge for future periods, which was not accounted for in the budget.

32.7 Finance costs have a negative variance of R2,9 million, which is due to a decrease in capital borrowing costs capitalised. The decrease in capital borrowing costs is caused by a delay in the implementation of capital projects that were planned for the financial year however they did not commence as scheduled, hence increasing the operational finance charges.

32.8 Repairs and maintenance has a positive variance of R7,1 million under spending due to a number of Plant & Machinery, having been recently refurbished in the prior year, not needing as much repair work as projected. However all Plants were properly maintained in accordance to the maintenance strategy, which includes preventative maintenance.

32.9 Current assets have a positive variance of R145,5 million mainly due to the increase in trade receivables under the primary activities and due to VAT receivable.

32.10 Non-current assets have a positive variance of R43,5 million which is due to major capital projects that were implemented.

32.11 Current liabilities have a positive variance of R9,4 million due to the decrease in trade payables under the primary activities.

32.12 Non-Current liabilities have a positive variance of R100.3 million due to the repayment of interest bearing borrowings, furthermore there was no new loan agreements entered to by Mhlathuze Water as was projected.

32.13 Net assets have a positive variance of R298,7 million due to positive surpluses made as well as interest earned on cash invested for reserves.

33 EVENTS AFTER THE REPORTING DATE

33.1 Appointment of the Chief Executive of Mhlathuze Water

On the 1st of July 2019, the Board of Mhlathuze Water appointed a Chief Executive, Mr MP Duze.

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

The Minister of Water & 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.

Mhlathuze Water's 2019/20 to 2023/24 Five Year Business Plan as well as the Shareholders Compact is in place and was submitted to the Department of Water & Sanitation on the 15th of April 2019. Mhlathuze Water currently awaits a session for tabling the Business Plan to the Portfolio Committee.

The 2017/18 Mhlathuze Water's Annual Report was submitted to the Department of Water & Sanitation on the 30th of October 2018 and it was tabled to Parliament on the 6th the March 2019.

We draw attention to the fact that at 30 June 2019, Mhlathuze Water had an accumulated surplus of R917 million. 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.

NOTES TO THE FINANCIAL STATEMENTS ...continued

AS AT 30 JUNE 2019

	2019 R'000	2018 R'000
36 CONTINGENT LIABILITIES		
36.1 Endecon ubuntu/thutse civils joint venture		
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.	1 527	-
36.2 Water Purification Chemical & Plant Cc (Wpcp)		
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.	3 192	-
36.3 CCMA referral case		
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. The matter was thereafter referred to Labour Court in May 2019.	794	-
	5 513	-





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