



ANNUAL REPORT

2021/22



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LIST OF ACRONYMS

AGSA	Auditor-General of South Africa
BCM	Business Continuity Management
CSI	Corporate Social Investment
DWS	Department of Water and Sanitation
EWSETA	Energy and Water Sector Training Authority
IA	Implementing Agent
ICT	Information Communication and Technology
ISO	International Organization for Standardization
ML/day	Megalitre per day
NQF	National Qualifications Framework
PBWSS	Pilanesberg Bulk Water Supply Scheme
SANS	South African National Standards
WCDM	Water Conservation and Demand Management



PART A

STATEMENTS, CORPORATE GOVERNANCE AND STRATEGIC OVERVIEW

MAGALIES WATER HIGHLIGHTS

WATER QUALITY COMPLIANCE LEVELS

ACUTE 1

99.98%

ACUTE 2

99.96%

CHRONIC

98.19%

OPERATIONAL

96.96%

AESTHETIC

99.53%

SCIENTIFIC SERVICES LABORATORY



Providing world-class services to customers as an

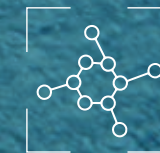
ISO/IEC 17025

organisation accredited in microbiology and chemistry



Highly-skilled scientists conduct more than

60 000 ANALYSES



Laboratory Services

63 ACCREDITED METHODS:

52 for chemistry

227

indirect jobs created through Section 30 contracts

4

self-funded projects completed

39

internal bursaries awarded

10

external bursaries awarded

21

internships provided

25

learnerships provided

3

CSI projects completed

6.7%

increase in revenue due to water sales volume



FOREWORD

BY THE MINISTER OF
WATER AND SANITATION

FOREWORD BY THE MINISTER OF WATER AND SANITATION

The water sector’s performance and management has attracted government’s interest since the advent of democracy. Access to basic services in the country was implemented in a manner that was not sustainable and not in response to the historical imbalances of the past. This further propagated an idea that basic service delivery was not etched on equality and equal access to improved socio-economic opportunities but one’s social and economic standing in the society. This system created widening socio-economic gaps, which to this point the Ministry is working hard to reverse for the benefit of the previously disadvantaged communities.

As such our mandate is central to the basis of effective and efficient service delivery within the context of spatial development and planning. Effective development takes into account a coordinated strategy which organizes all the strategic players across all the sectors of the economy, to ensure that all developmental plans and actions are specific, measurable and create a tangible impact. South Africa’s efforts to achieve universal access of potable water citizens remains a high priority as the country’s Constitution ensures access to clean drinking water to all citizens, irrespective of colour or creed as well as their geographic location.

It is for this reason that in last year the Ministry undertook a nation-wide stakeholder engagement process across all the nine provinces. The intention was to robustly debate, review and evaluate the state of water boards as well as their mandate, within the ambit of the Water Services Act. Our engagements revealed that legislative reviews and operational analysis of water boards was critical to the extent that we were able understand more intensely each water board’s strengths, weaknesses, opportunities and threats to business continuity and sustainability, within their area of operation.

This led us to the decision which we communicated through a government gazette to discontinue the now defunct Sedibeng Water. We had consulted widely and requested comments from stakeholders and citizens alike before a final decision was made. Sedibeng Water’s North West operations in Dr. Ruth Segomotsi Mompati and Ngaka Modiri Molema districts, its liabilities and human resources were transferred into Magalies Water for integration and operation beyond

“ We will provide necessary support to Magalies Water to ensure that there is business continuity, and an improved service standard following the reconfiguration of the bulk water supply in the North West. We will ensure that Magalies Water remains capacitated after this integration to deliver services optimally with minimal inconvenience to communities.”

July 2022. We are hopeful that the North West province, particularly areas that were previously serviced by Sedibeng Water will experience an improved and efficient service offering by Magalies Water, which will address many of the challenges which led to the demise of Sedibeng Water.

We will continue to play oversight through monitoring and evaluation of the integration, to ensure that there is no disruption of services to communities. Further, we will provide necessary support to Magalies Water to ensure that there is business continuity, and an improved service standard following the reconfiguration of the bulk water supply in the North West. We will ensure that Magalies Water remains capacitated after this integration to deliver services optimally with minimal inconvenience to communities.

South Africa remains one of the countries with the highest demand for water as compared to the available supply from our water sources to the extent that our water consumption average is 237 litres per person per day, which is higher than the world average of about 173 litres per person per day as indicated by the scholars and researchers in the water sector. The importance of access to water cannot be underscored as sectors of our economy rely on the availability and sustainable supply of bulk water. Industries such as mining, agriculture, manufacturing and processing rely on the availability of water for business operations and product offering to their varied markets, locally, regionally and internationally.

Added to this, water availability is constrained by the country's growing population in both formalized and non-formalized settlements and intra-provincial migration due to the rising of living and a continued search of economic opportunities to mitigate the impact of a strained economic outlook. The time for concerted efforts on positive messaging and tangible results on water demand management has come to ensure that the available water resources is managed in a way that will ensures equitable access of water in a sustainable manner. This will be evident in the more rural areas of Limpopo, and North West where Magalies Water has operations where service delivery around provision of water remains a daunting challenge. This due to a number of factors such as ageing infrastructure, vandalism of key infrastructure critical in supply of water to communities as well as funding limitations to address adequately water provision to communities.

It is for this reason, that government has adopted and continues to implement the objectives of the National Development Plan (NDP 2030) as a response mechanism to some of the issues prevalent in the water sector. The NDP as a government strategic plan aims to eliminate poverty and reduce inequality by 2030. According to the objectives of the plan, our country can grow an inclusive economy, building capabilities, enhancing the capacity of the state, and promoting leadership and partnerships throughout society with the intention of enhancing the performance of the government's ability to delivery key services. The NDP emphasizes the importance of coordinated efforts between government and other strategic stakeholders to ensure that the quality of live is improved and on an upward trajectory.

In response to the obvious need for increased access to water, Magalies Water has been able to deliver beyond expectation including on the Ministerial directive we issued which involved a three-year working relationship with Kgetlengrivier Local Municipality for operation and maintenance of key bulk services infrastructure. The Bojanala Platinum District, where Magalies Water has the bulk of its customers remains a prime example for service excellence in a geographical area, that has undeniable socio-economic challenges. Recently the water board has been able to complete and commission the Moretele South Bulk project in direct response to the water needs of communities. We remain proud of the quality of work and post project support that municipalities are provided with to ensure that we significantly reduce the level of water unavailability of communities.

We will strive to promote and work relentlessly with all role players, to reduce water losses through actively participating in upgrading of resources to assist water boards as part of our long-term strategy for water conservation as a long-term strategy. Equally, we will continue with the work which we have done in implementing water management systems contained in the bulk infrastructure networks to cater for the growing commercial and non-commercial requirements.

We wish to commend the interim Board, complement of executive on their combined strategies to ensure that Magalies Water performs optimally in providing services as well as making it a profitable business which is self-sustainable. Special mention is made to the work force of Magalies Water, who are on the ground implementing, compartmentalizing and executing the strategic plans to realize the desired outcomes. From operating during the surge of Covid-19, inclement weather conditions which affected our natural water sources resulting in variances of available bulk water, we applaud their dedication as they sworn allegiance to serving our communities. We remain proud of the consistent 90 percent and above performance year-on-year which the entity has been achieving. We draw great inspiration from the work which has been put in and the results of a high-performing organization which strives for service excellence despite the sector wide challenges.

The positive remarks and back-to-back audit opinions by the office of the Auditor General, in respect of the last two financial years, give us the full confidence that Magalies Water has an experienced Board. The success of this organisation is evidenced in the working relationship between the board and the capable executive which will ensure that there is an improved performance which is on a continual upward trajectory and surpasses previous performance.



Mr E.S. Mchunu
Minister of Water and Sanitation
28 October 2022

“ We remain proud of the consistent 90 percent and above performance year-on-year which the entity has been achieving. We draw great inspiration from the work which has been put in and the results of a high-performing organization which strives for service excellence despite the sector wide challenges.”



FOREWORD

BY THE CHAIRPERSON

FOREWORD BY THE CHAIRPERSON

The universal need to access water has reached unprecedented levels in recent years. It is therefore crucial to have a collaborative effort between government and role players in the sector, as well as other sections of society, to ensure universal and equitable access to basic water services.

Water boards play a key role here. The optimal functioning of water boards is central to the fulfillment of the dictates of Chapter 2 of the Constitution of the Republic of South Africa, namely to ensure that there is sustainable bulk water supply to all in the country.

In respect of water provision, government's National Development Plan (NDP 2030) details the necessary steps to be taken in a phased and measured approach to accelerate the speed with which bulk infrastructure projects are implemented. Further to that, it also focuses sharp attention on the maintenance and servicing of critical infrastructure to ensure optimal performance and delivery of water to communities. This is strategically linked to the United Nations Sustainable Development Goals (SDGs) 2030, which also places key focus on the access to water as a strategic action to unlock improved socio-economic opportunities, particularly in areas where inequality is substantially higher.

The 2021/22 reporting period ended with Magalies Water having experienced a number of challenges, some of which were unpredictable and unanticipated. The water board is still reeling from the impact of the COVID-19 pandemic which had adverse effects on the country's economy. We are pleased to report that our resilience stood strong during trying times. We are proud of the way we dealt with the challenges which we were confronted with. We remain encouraged by the efforts and dedication of the executive and staff to ensure that Magalies Water remains compliant and delivers according to the shareholder compact with the Minister of Water and Sanitation. This is testament to the high-performance organisation that Magalies Water has become.

Cognisant of the mandate we received from the ministry upon our appointment, we look back and beam with pride as the organisation has reached stability on both governance and operational levels. We continue to work hard in achieving the set targets and in enhancing our oversight through solid monitoring and evaluation. Magalies Water's organisational performance averaged 90% throughout the period under review.

“ We are proud of the way we dealt with the challenges which we were confronted with. We remain encouraged by the efforts and dedication of the executive to ensure that Magalies Water remains compliant and delivers according to the shareholder compact with the Minister of Water and Sanitation. This is testament to the high-performance organisation that Magalies Water has become.”

The area we service is largely semi-urban to rural and remains underdeveloped. This has a direct bearing on our ability to lead capital infrastructure projects in a more accelerated manner to realise increased revenue into the business more frequently. This impediment has a causal effect on our ability to maximise on profitability as the customer base is not growing rapidly, while the existing customer base continues to experience financial constraints due to the economic downturn.

During the 2021/22 financial year, we undertook rigorous stakeholder engagements with the bulk customers in our area of operation. Having identified some of the concerns regarding Magalies Water’s business continuity strategies and performance in the last two financial years, we focussed on improving service delivery and debt recovery strategies. This led to business continuity in respect of bulk infrastructure maintenance and subsequently resulted in better stakeholder relations.

Despite these efforts, however, we remain concerned about the low collection rates that affect the organisation’s ability to fully operationalise the strategic intents for each financial year and ensure that the set objectives are fully achieved.

Notwithstanding the challenges, we continue to appreciate all our water service authorities (WSAs) for their continued support and belief in our ability to deliver bulk water services that meets industry standards, and which contributes to their set integrated development plans (IDPs) and service delivery budget implementation plans (SDBIPs). We envisage working more diligently in strengthening our relationship with these critical stakeholders in North West (Rustenburg Local Municipality, Moses Kotane Local Municipality, Kgetlengrivier Local Municipality, and Moretele Local Municipality), Limpopo (Thabazimbi Local Municipality, Bela-Bela Local Municipality and Modimolle-Mookgophong Local Municipality) and Gauteng (City of Tshwane Metropolitan Municipality).

We were recently mandated by the Ministry of Water and Sanitation to incorporate and operate in the previously promulgated service area of the now disestablished Sedibeng Water effective from 01 August 2022. This followed a Ministerial pronouncement at the beginning of 2022 which directed Magalies Water to service the Dr Ruth Segomotsi, Dr Kenneth Kaunda, Mompoti and Ngaka Modiri Molema district municipalities. These geographically vast areas come with historical challenges that include frequent service delivery protests due to unsustainable bulk water supply to communities, ageing infrastructure and poor maintenance of the bulk network resulting in high water losses. This is undoubtedly a mammoth task. However, we have confidence in our abilities, given our solid track-record of service delivery efficiency even in the most difficult environments.

Organisational performance

Magalies Water’s overall annual achieved performance is 90%, which reflects the achievement of 35 key performance targets against the 39 key performance indicators. For the third year running, Magalies Water has performed well under the leadership of CEO Psychology Mkhize. While 90% is lower than the 95% of the previous financial year, it pleases us that the Magalies Water performance still stands among the best water boards in the country.

We attribute this success to the full implementation of the shareholder compact and the approved corporate plan that set the organisation on a strategic path with clear focus on areas of improvement, maximisation of new opportunities for business growth as well as mitigation strategies for internal and external risk factors which affect the organisation negatively.

Challenges and opportunities

It cannot be overemphasised that Magalies Water depends on a sustainable financial ecosystem where all of the rendered services are paid for in full and on time. The outstanding debt of some of our customers have impeded greatly on our ability to fast-track major and minor capital projects which would otherwise respond to the increased demand of bulk water in the area of operation. This is very important as we have noted the growth of both commercial and non-commercial consumers as a result of the growth in the economy which necessitates that there be bulk infrastructure development. We believe firmly that the envisaged success of the water sector can only materialise when services are paid for and the sector is unburdened.

The announcement by the Minister to commence operations in the Dr Ruth Mompoti and Ngaka Modiri Molema district municipalities enables us to grow further into the North West province and acquire new customers. We have no doubt that, despite the challenges we have anticipated, we will turn the tide around and ensure that the rural areas of the North West receive quality bulk water services and that communities have their dignity restored.

Business model and sustainability

Having made an assessment during the year under review, it is our considered view that the current business model addresses all the strategic imperatives of Magalies Water. We are, however, concerned about the recurring external factors that affect our bottom line and the business continuity strategies. While these issues are out of our purview, we cannot ignore their impact on the overall performance and financial wellbeing of Magalies Water. We believe that certain reforms need to be looked into that will enable our executive more flexibility in rallying resources (financial and otherwise) to grow Magalies Water into a more formidable water board, which can compete on equal footing with other water boards that have a broader area of operation and are in a better financial standing in respect of revenue generation.



Ms N.R. Mokoto
Magalies Water Interim Board Chairperson
28 October 2022

“Magalies Water’s overall annual achieved performance is 90%, which reflects the achievement of 35 key performance targets against the 39 key performance indicators.”



FOREWORD

BY THE CHIEF
EXECUTIVE OFFICER

STATEMENT BY THE CHIEF EXECUTIVE OFFICER

The time has come again for us to reflect on the year that was. It pleases me as Magalies Water’s CEO to be presenting the Annual Report for the 2021/22 financial year.

Magalies Water’s overall performance for the year was 90%. This means that 35 key performance indicator targets were achieved out of the 39 set at the beginning of the reporting period. The high performance has been achieved despite the moratorium placed on Magalies Water by the shareholder, preventing the filling of vacant senior and executive positions until a substantive Board is appointed by the Minister of Water and Sanitation. This has seen key senior and executive positions in the organisation being occupied by acting personnel, which is detrimental to organisational stability and high performance.

We are proud of the work which we have done, and this demonstrates the commitment of the executive to ensure that Magalies Water becomes a fit-for-purpose organisation that delivers on its mandate. We attribute the success achieved in recent years to the pragmatic approach and systemic strategies that are aligned to our business operating models contained in the Corporate Plan as well as the Shareholder Compact. These strategic foundations give impetus to the work and subsequent success of our joint and collaborative efforts between the Board and executive to make Magalies Water a profitable organisation.

Magalies Water commenced operations to service the mining sector in the platinum belt, including mineral rich Rustenburg and iron concentrated Thabazimbi areas. This has further shaped the organisation. We have come a long way in order to become a worthy competitor in the water sector as a fully-fledged water board.

For the period under review, we considered short to long-term strategies which were implemented in line with the Corporate Plan and Shareholder Compact to address some of the key challenges that were identified as having potential to affect the organisation’s performance. These challenges include investment to address bulk infrastructure improvements and address systematic performance, as well as capacitation and development of human capital. We plan to recruit the skills needed at both executive and operational levels to enable Magalies Water to be highly competitive in the water sector.

“We are proud of the work which we have done, and this demonstrates the commitment of the executive to ensure that Magalies Water becomes a fit-for-purpose organisation that delivers on its mandate. We attribute the success achieved in recent years to the pragmatic approach and systemic strategies that are aligned to our business operating models contained in the Corporate Plan as well as the Shareholder Compact.”

Key to our success, as stated in the Corporate Plan, are the following objectives:

- Meticulously plan and implement infrastructure development and maintenance plans in order to improve technical performance towards bulk water supply within the area(s) of supply.
- Ensure that the bulk water provided by Magalies Water meets and exceeds the set industry norms and standards.
- Improve on the delivery of Section 29 and Section 30 mandates by ensuring that our service exceeds customer expectations.
- Ensure that Magalies Water becomes a sustainable and profitable business within the confines of the Water Services Act, 1997 (Act 108 of 1997).
- Enhance stakeholder engagement across varying levels in order to make the organisation accessible in line with the operational mandate and expectations.
- Enable economic activities and beneficiation processes of Magalies Water in respect of human capital, local economic development through enterprise development.

Our performance

This report provides information on our actual performance as well as the strategies and plans which enable Magalies Water to live up to its constitutional mandate as water board. During the past few years, Magalies Water has been on a process of building the foundations necessary for sustained growth. The process began when the entity had to restore its position as a functioning water board. We have subsequently shifted the focus from restoration to sustainable growth. In addition to this, our work is tied to the priorities of the national government in respect of the National Development Plan (NDP 2030) as well as the United Nations Sustainable Development Goals (SDGs).

Our strategic approaches are based on the following:

- Organisational efficiency and effectiveness
- Financial performance
- Customer and stakeholder interaction
- Organisational capacity
- General performance.

We have been able to maintain our performance above the 90% threshold. Despite a decline of 5% compared to the performance recorded during the 2020/21 financial year, Magalies Water's management remains satisfied that the level of performance places the organisation as a high performer in the water sector.

It must be noted that while the organisation is stable and remains high-performing, the rate of achievement of the set targets (including those which have not been fulfilled) are a concern seeing that we strive to always improve our performance in comparison to previous reporting periods. We will delve into the areas where there are shortfalls to identify causes and effects, as well as determine mitigation strategies that we can put into place. It is our intention to achieve all of the identified targets as we believe that each one of them provides Magalies Water with the necessary strategic thrust into a more successful future.

Sales volumes are the primary factor that drive Magalies Water's revenue. During the period under review, Magalies Water underperformed by 6.50% from achieving water sales budget of 97 392 947 kilolitres. Despite not achieving our water sales volume target, we are proud of selling water of the highest quality and of meeting high levels

of compliance for bulk water services. Our audited annual reports demonstrate uninterrupted and consistent compliance to SANS 241:2015.

Added to this, are the stringent measures for water quality determinants utilised in testing our water purification processes, to determine how safe our water is for human consumption:

- Acute health risk (both 1 and 2) refers to determinants that pose immediate and unacceptable health risk if specified contamination limits are exceeded.
- Aesthetic risk refers to determinants that taint water's taste, odour or colour but do not pose any unacceptable health risk even if specified contamination limits are exceeded.
- Chronic health risk refers to determinants that pose unacceptable health risk if ingested over an extended period, provided their presence exceeds specified SANS 241:2015 limits.
- Operational risk refers to determinants essential for the efficient operation of treatment systems and identification of risk to infrastructure.

We believe that our 90%-plus performance during the last three years, comes as result of adherence to the principles of good corporate governance as outlined in the King IV Report on Corporate Governance for South Africa. The results of our two clean audits arise from basing our plans, strategies and outcomes on strict governance practices that set us apart from our competitors.

For the year under review, Magalies Water continued to receive good feedback from the Auditor-General of South Africa, which is a clear indication that the organisation strives to perform to the highest standards in accordance with the applicable legislation regarding oversight mechanisms.

Our quest to deal with infrastructure development has started to yield positive results. In the last quarter of the 2021/22 financial year, we (with support from the Ministry of Water and Sanitation) were able to complete and commission the Moretele South Bulk project. The project has evidently addressed the long-standing challenges in the Moretele Local Municipality in North West. It consists of a 30 km pipeline with four off-takes that were previously used by the City of Tshwane to supply bulk water to Moretele Local Municipality. It presently falls under the auspices of the Magalies Water Klipdrift Water Treatment Works situated along the N1 highway linking Gauteng and Limpopo Province. The facility will be pumping about 27 million litres per day to various areas within the Moretele jurisdiction.

“We have been able to maintain our performance above the 90% threshold. Despite a decline of 5% compared to the performance recorded during the 2020/21 financial year, Magalies Water’s management remains satisfied that the level of performance places the organisation as a high performer in the water sector.”

We have also made great strides towards one of the projects we are implementing on behalf of the Department of Water and Sanitation. The Brits Water Treatment Plant upgrade is at 73% complete for the overall civil works at the Water Treatment Works (WTW).

While we have made significant progress with the roll-out of infrastructure development programmes and continue to deliver on time, the issue of non-payment by our customers remains a cause for concern. It is well known that being a Schedule 3B entity we do not receive funding from the national fiscus – this constrains us to deal with recapitalising projects within our area of operation. Municipalities that are our key customers have not made any significant progress in improving their inconsistent payment patterns or non-payment. We have implemented credit control processes and resolved to embark on legal processes where necessary to recover monies owed to us for services rendered. Non-payment is one of the biggest risks facing our organisation as it increases the value of the debtor’s book.

In conclusion, my sincere appreciation goes to the shareholder for the continuous and legislative support towards achieving our strategic goals, and to the Magalies Water Interim Board led by Ms R.N Mokoto without whose support we as the executive would have not been able to map, plan and implement the strategies currently in place to enhance the performance of the organisation.

I also thank our customers who continue to trust us as the bulk water provider of choice. And I thank our staff without whose unwavering commitment to Magalies Water would not be the great organisation that it is today.



Mr S.P. Mkhize
Magalies Water Chief Executive Officer
28 October 2022



STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF THE ANNUAL REPORT INFORMATION ACCURACY

In my capacity as the accounting officer in terms of the Public Finance Management Act , 1999 (Act 1 of 1999) (PFMA) as amended and as the Chief Executive Officer of Magalies Water, it is my honour to accept responsibility for the maintenance and preparation of financial statements and non-financial performance information of Magalies Water for the 2021/22 financial year.

The Magalies Water Annual Financial Statements have been prepared in accordance with, among others, the Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board (ASB) and the requirements of the PFMA. I also take full responsibility for the preparation, assessments or evaluations and the outcomes contained in this Magalies Water Annual Report (2021/22), financial year ending 30 June 2022.

The level of performance 95% reported on the predetermined objectives is accurate and I have confidence that the content is credible, of integrity and reliable due to the currently embedded internal controls that remain relevant and adequate. These are designed to provide reasonable assurance on our performance throughout the year. For instance, at self-assessment level, the Magalies Water internal controls are implemented and monitored; our employees understand the importance of maintaining the highest ethical standards in the manner we conduct our business.

The internal audit function and the risk management processes provide the necessary oversight that takes into account all levels of defence in the verification of the effectiveness of the existing control measures and the identification of additional ones where applicable. The two functions also continued to provide reasonable assurance against material misstatements or deficits and to check whether risk and opportunities were dealt with, whenever it was deemed necessary.

This is our account of the acceptability of the true state of affairs of our entity’s results from both operational and financial reporting for the year ended 30 June 2022.

It is premised on two critical factors:

1. Our reported information has been externally audited and the Auditor-General of South Africa (AGSA) has expressed an independent opinion on the annual financial and all other predetermined non-financial objectives that had been contracted to the shareholder for the reporting period. We provided unrestricted access to the AGSA for review of all the relevant records as legally required. Refer to the Auditor-General of South Africa (AGSA) Report on pages ##### to #####.
2. The Board and Executive Authority have been privy to the Annual Report for 2021/22 in line with the legislative requirements. The Annual Report has been prepared on a going concern basis and the Executive Authority approved it.

CORPORATE GOVERNANCE

Magalies Water Board is a Schedule 3B state-owned entity (SOE) established in terms of Section 28 of the Water Services Act, 1997 (Act 108 of 1997) (WSA) and is classified as a government business enterprise in Schedule 3B of the Public Finance Management Act, 1999 (Act 1 of 1999). The service area of Magalies Water determined by the Minister stretches over the Pienaars and Crocodile rivers, these being two of its major catchment areas.

As an SOE, Magalies Water is governed by, among others, legal frameworks that constitute its regulatory universe, including the legislation listed below. These legal instruments ensure that the roles and responsibilities of the Executive Authority, the Accounting Authority and management are clarified to prevent any possible conflicts. To that effect, the Minister of Water and Sanitation, continues to devolve some of the vested powers to members of the Board of Magalies Water:

- The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)

According to Chapter 2: Bill of Rights of the Constitution, the state must respect, protect, promote and fulfil the rights of all people in our country and (must) affirm the democratic values of human dignity, equality and freedom. Section 10 states that everyone has rights to human dignity and Section 11 speaks of everyone’s right to life.

- The Companies Act, 2008 (Act 71 of 2008)
- The Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA) as amended
- National Water Act, 1998 (Act 36 of 1998) (NWA) and its regulations:

The NWA provides that national government is the public trustee of the nation’s water resources. Acting through the Minister of Water and Sanitation, national government has the power to regulate the use, flow and control of all water in the republic. The goals are to protect, use, develop, conserve and manage water resources sustainably and equitably for the benefit of all persons.

- The Water Services Act, 1997 (Act 108 of 1997) (WSA), which provides for the right of access to basic water supply and the right to basic sanitation services. The WSA also provides for the establishment of water boards and defines their primary (Section 29) and secondary functions (Section 30).
- Other applicable public sector protocols

Magalies Water also makes use of the King IV Report on Corporate Governance to exercise ethical and effective leadership in achieving the following governance outcomes:

- Ethical culture
- Good performance
- Effective control
- Legitimacy.

Corporate governance key focus areas

The intent is to ensure sustainability and enhance efficiency and productivity, which are ongoing concerns for Magalies Water. The implementation of Magalies Water’s Corporate Plan programmes took into account the principles of King IV on Corporate Governance, which came into effect on 1 April 2017.

The functions of the Magalies Water Company Secretary and Board

Company Secretary

The Company Secretary oversees administration and compliance in the organisation. The company secretary, together with board members, is responsible for tasks specified in the Companies Act 2008, as amended. The function oversees coordination of activities of the Board and its committees in line with the Institute of Directors South Africa (IoDSA), which states that:

‘The Company Secretary has a key role to play in ensuring that Board procedures are both followed and regularly reviewed. The Chairperson and the board will look to the Company Secretary for guidance on what their responsibilities are, under the rules and regulations to which they are subject and on how these responsibilities should be discharged. All Directors should have access to the advice and services of the Company Secretary and should recognise that the Chairperson is entitled to strong support from the Company Secretary in ensuring the effective functioning of the board.’

In addition to governance, the Magalies Water Company Secretary ensured that members of the Executive Committee (EXCO) and the Board carried out their roles and responsibilities as outlined in the Magalies Water Board Charter.

The Board

The Board leads Magalies Water and takes collective responsibility for its long-term success. It provides leadership in setting strategic objectives, vision and values within the framework of prudent controls over risks and opportunities, the success or failure of which forms part of the corporate compliance and planning cycle.

Among the roles and responsibilities mandated to the Board and extracted from its adopted charter are:

- Lead ethically and effectively by cultivating the characteristics of integrity, competence, fairness, transparency, accountability and responsibility, and exhibit them in their conduct.
- Appreciate that the organisation’s core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are inseparable elements of the value creation process, by steering and setting the direction for strategy; including considering, challenging and approving management’s formulation of short, medium and long-term strategy.
- Act as the focal point and custodian of corporate governance in the organisation by steering the organisation and setting its strategic direction, approving policy and planning that give effect to that direction, overseeing and monitoring the implementation and execution by the management and ensure accountability for the organisation’s performance through reporting and disclosures.
- Adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interest of the organisation over time, by setting the direction of how it should be approached and addressed in the organisation, and approving policy that articulates and gives effect to the set direction.

- Govern risk in a way that supports the organisation in setting and achieving its strategic objectives, by evaluating and agreeing the nature and extent of risks that the organisation is willing to take in pursuit of its strategic objectives including governing technology and information in a way that supports the organisation in setting and achieving its strategic objectives.
- Approve annual tariffs and budget allocation in line with strategic objectives.
- Ensure that the organisation is financially viable, including condoning irregular expenditure provided that the transactions are not financially significant.
- Ensure that management is vigilant on local municipalities’ liquidity and financial sustainability, while addressing the affordability of non-paying debtors.
- Be responsive and guide mitigation of reputational impacts and approval processes for escalation of customers in arrears to the ministers, and/or engage the National Treasury on the municipalities’ equitable share apportionment.
- Approve committee reports and activities, including:
 - Declaration of interest and confidentiality undertaking procedures.
 - All committee terms of references in line with the Board Charter.
 - Setting and/or approval of policies of the organisation.
 - Audited annual financial statements and the annual performance reports for each financial year:
 - Approve quarterly and annual performance information reports.
 - Approve annual salary increases and performance incentive bonuses for each year.
 - Set key performance indicators for borrowing limits, guarantees and grant funding. This was carried out during the development of the Corporate Plan for 2020/21 to 2024/25 and the Shareholder Compact (2020/21).

Additional Board duties include the following:

- Setting and/or revising the delegation of authority.
- Dispatching its power of attorney, including ensuring that Magalies Water has registered tax representatives, an approved organisational structure and external auditors (AGSA) continues to add value to the organisation’s business planning and monitoring.
- Ensuring that the organisation is and is seen to be a responsible citizen.
- At pre-set intervals, the Board with the assistance of the company secretary, performs self-assessment.

In accordance with Schedule 1 of the Water Services Act, 1997 (Act 108 of 1997), the former Minister of the Human Settlements, Water and Sanitation, Honourable Lindiwe Sisulu, appointed an Interim Board on 8 July 2020, effective from 1 July 2020. An inaugural meeting facilitated by the DWS was held on 13 July 2020, followed by an induction on 22 July 2020; thereafter Board committees were established.

The Interim Board members contribute valuable inputs to the sustainability of the organisation through committing their time in attending all the organised committee meetings thus ensuring that the target of 85% attendance was achieved.

The following Board committees were established during the Interim Board induction session held on 22 July 2020 to effectively implement the designated fiduciary duties and responsibilities:

1. Audit & Risk Committee
2. Finance Committee
3. Capital Investment & Stakeholder Engagement Committee
4. Human Resource, Social & Ethics Committee
5. Chairpersons Coordinating Committee

INTERIM BOARD MEMBERS



Ms Rebecca Nthibane (Pinky) Mokoto
Chairperson

Ms Mokoto is a seasoned communicator, having attained a number of qualifications in the communications field and risen up the ranks to now being appointed as the Interim Chairperson of the Board of Magalies Water. She has worked in many spheres of government and her political career included numerous positions as a portfolio committee member and former member of the mayoral committee, to mention a few.



Ms Magogodi Elizabeth Tebogo Malaka
Board member

Ms Malaka has over 20 years of experience in the public sector, with expertise in programme and project management, strategic leadership, financial management and infrastructure delivery. She is a member of the Institute of Directors South Africa and serves on numerous board committees. She has also attended water sector study tours in Canada, Stockholm and Sri Lanka.



Dr Thembinkosi Gladden Twalo
Deputy Chairperson

Dr Twalo is an accomplished academic who has written and published numerous journal articles, conference papers and research reports. He has extensive experience in research, management, evidence-based policy-making and innovation.



Ms Bukeka Mahlutshana
Board member

Ms Mahlutshana is an experienced leader with a successful track record in strategic planning, business development, business turnaround strategies and coordinating and managing the execution of innovative solutions, among others. She has held various positions in both the private and public sectors and has worked closely with government departments, municipalities, unions and communities. Her key achievements include the successful establishment of the Bus Rapid Transit in the City of Tshwane and the North West Transport Investment Business Development Unit.



Dr Keneilwe Lydia Sebego
Board member

Dr Sebego has extensive experience in teaching. She has supervised and managed curriculum development in the education department of North West, and trained biology, mathematics and science teachers. She is a strategist who has provided leadership and mentoring to government departments over several years.



Mr Motiki George Shoahle
Board member

Mr Shoahle is a chartered accountant with experience in accounting for financial instruments, finance and operating lease assets, revenue recognition and project management, to mention a few.

Change in the Interim Board composition

Table 1: Interim Board members

Board member	Appointment date	Gender	Finance Committee	Chairpersons Coordinating Committee	Capital Investment and Stakeholder Engagement Committee	Audit and Risk Committee	HR, Social and Ethics Committee
Ms RN Mokoto (Chairperson)	01 July 2020	Female		X			
Dr TG Twalo (Deputy Chairperson)	01 July 2020	Male		X	X		X
Dr KL Sebego	01 July 2020	Female	X	X	X		
Ms EB Mokgatle	01 July 2020	Female		X		X	X
Ms B Mahlutshana	01 July 2020	Female	X	X	X		
Mr LD Morienyane*	01 July 2020	Male		X		X	X
Mr I Mosala	01 July 2020	Male	X		X		
Ms MET Malaka**	01 July 2020	Female			X		X
Mr MG Shoahle	01 July 2020	Male	X				X
Mr VAM Magqabi #	01 July 2020	Male				X	X

Mr VAM Magqabi passed away on 16 January 2021

* Mr LD Morienyane was reassigned from the Capital Investment & Stakeholder Engagement Committee to the Audit & Risk Committee on 25 March 2021

** Ms MET Malaka was reassigned from the Finance Committee to the Human Resource, Social & Ethics Committee on 25 March 2021.



Ms Ertia Boitumelo Mokgatle
Board member

Ms Mokgatle is a risk management specialist and professional, having served on numerous boards in the public and private sectors. She has international work experience, which includes work done in Uganda and Botswana.



Mr Likotsi David Morienyane
Board member

Mr Morienyane is a registered professional engineer with the Engineering Council of South Africa and has extensive experience as an enterprise architect, having developed enterprise architecture blueprints and IT systems for various companies and government departments.



Mr Itumeleng Mosala
Board member

Mr Mosala is an accomplished professional with strong expertise in governing complex business operations, monitoring ongoing programmes and processes and modelling change management initiatives. He has held a number of strategic local government positions, including Chair of Chairs in the North West Provincial Legislature and being a Member of Parliament.

The new External Audit & Risk Committee members were appointed effective from 1 March 2021:



Board composition by race and gender

Table 2: Composition of the Interim Board

Race	Gender	Total	%	Male %	Female %
African	Male	4*	44%	44%	56%
	Female	5	56%		
Indian	Male	-	-		
	Female	-	-		
Coloured	Male	-	-		
	Female	-	-		
White	Male	-	-		
	Female	-	-		
Total		9	100%		
Male and female totals				4	5

*One of the male Board members, Mr Magqabi, passed away on 16 January 2021 which affected the Board composition.

Board evaluation

According to King IV report on corporate governance, it is recommended that Board evaluation be conducted annually. During the year under review, no governance issues were experienced by the entity that could have an impact on the performance of the Board. All the meetings were held according to the Annual Board Plan, and as such, the Board was able to exercise their fiduciary duties in a diligent manner.

The appraisal of the Board performance was conducted by an independent service provider. The appraisal of the Board performance indicates that, for the relative short period of tenure of the existing Board of Directors, the Board is showing a highly mature Board with positive contributions by all members. The Board has achieved an excellent overall performance, with only minor areas being identified for improvement.

Board Charter

The primary purpose of the Magalies Board Charter is to set out the roles and responsibilities of the Board, composition, meeting procedures, delegation and authority and to effectively guide the Board in the following:

- Leadership, ethics and corporate citizenship
- Strategy, performance and reporting
- Governing structures and delegation
- Stakeholders
- Governance functional areas

Shareholder Compact

Magalies Water signed off the Shareholder Compact, effective for the period 1 July 2020 to 30 June 2021. It is hereby recorded that the agreed objectives, although subject to review annually, set out matters that are applicable beyond the period of a year. In the event that they are amended, the parties shall take into account initiatives already commenced on the basis of such objectives.

In terms of regulation 29 of the Treasury Regulations issued in terms of the Public Finance Management Act, 1999 (Act 1 of 1999) (as amended) (the PFMA), the accounting authority for a public entity listed in Schedule 3b, must, in consultation with its executive authority, annually conclude a shareholder compact.

Such a shareholder compact must document the mandated key performance measures and indicators to be attained by the public entity as agreed between the accounting authority and the executive authority.

The required Magalies Water Shareholder Compact comprises the principles and the key performance objectives, measures and indicators agreed to by the parties.

Board meetings

Members of the Interim Board of Magalies Water made valuable contributions to the sustainability of the organisation through their inputs, participation and time devoted to attending all scheduled committee meetings. The tables below detail attendance of Board Committee meetings for the period ending June 2022.

Table 3: Attendance of ordinary and special Board meetings by Interim Board members

Interim Board member	Ordinary & special Board meeting attendance	
	Ordinary	Special
Ms RN Mokoto	3/4	4/4
Dr TG Twalo	4/4	4/4
Dr KL Sebegu	4/4	4/4
Ms BE Mokgatle	4/4	3/4
Ms MET Malaka	4/4	3/4
Mr VAM Magqabi #	0/0	0/0
Mr LD Morienyane	4/4	4/4
Ms B Mahlutshana	3/4	4/4
Mr MG Shoahle	4/4	3/4
Mr I Mosala	4/4	4/4
Total Overall Attendance of Board Members	34/36	33/36

Mr VAM Magqabi passed away on 16 January 2021

Table 4: External Audit & Risk Committee members who attended Board meetings by invitation

Member	Attendance
Ms N Shabalala	2/2
Ms Z Tshabalala	2/2
Mr S Ngobeni	1/2

Board committees

Committees of the Board ensured that the Board operated effectively and efficiently.

Capital Investment and Stakeholder Engagement Committee

- The Capital Investment and Stakeholder Engagement Committee oversees and advises the organisation on growth strategies and stakeholder engagement related matters. The role of the Capital Investment & Stakeholder Engagement Committee is to assist the Board and Executive Management to ensure that:
- Appropriate capital investment, stakeholder communication, business development, and customer services policies are developed and implemented;
- It makes recommendations to the Board and advises on the implementation of strategies to ensure success in operations, capital infrastructure delivery and socio-economic development;
- Proper communication guidelines and strategies are adopted; and
- All approved policies are fair, transparent and implemented.

The Capital Investment & Stakeholder Engagement Committee held all the meetings set for the 2021/22 financial year.

Table 5: Capital Investment and Stakeholder Engagement Committee meeting attendance

Member	Attendance
Dr KL Sebegu (Chairperson)	6/6
Ms MET Malaka	6/6
Dr TG Twalo	5/6
Ms B Mahlutshana	5/6
Mr I Mosala	6/6

Finance Committee

- The Finance Committee shall play an oversight role over financial management policies and practice of the entity and makes recommendations on a variety of financial matters and policies to the Board for consideration and final approval. The role of the Finance Committee is to assist the Board and Executive Management to ensure that:
- Appropriate finance policies are developed and implemented;
- Proper internal controls are developed and monitored to maintain the sustainability of the organisation;
- It makes recommendations to the Board and advises on the budgeting and financial planning of the organisation; and
- All approved finance policies are fair, transparent and implemented.

The Finance Committee held all the meetings set for the 2021/22 financial year.

Table 6: Finance Committee meeting attendance

Member	Attendance
Ms B Mahlutshana (Chairperson)	5/5
Mr I Mosala	5/5
Dr KL Sebego	5/5
Mr MG Shoahle	5/5

Table 7: Board members who attended Finance Committee meetings by invitation

Member	Attendance
Dr TG Twalo	1/1

Audit and Risk Committee

The Audit and Risk Committee is responsible to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control and management of financial risks, the assurance process, enterprise-wide risk management and Magalies Water’s process for monitoring compliance with laws and regulations and its own code of business conduct.

The roles and responsibilities of the Audit and Risk Committee are in accordance with the PFMA and Treasury Regulation 27.1.

The committee oversees corporate governance, integrated reporting and management of internal controls. It reports on its evaluation of financial statements and effectiveness of internal controls prior to the finalisation of the entity’s annual sustainability and integrated report. Furthermore, it:

- Recommends risk areas of the entity to be covered in the scope of internal audit;
- Assesses the adequacy, reliability and accuracy of financials provided to users of financial information;
- Addresses accounting and auditing concerns identified during internal and external audit; and
- Ensures that the entity complies with legal and statutory provisions

The Audit and Risk Committee held all the meetings set for the 2021/22 financial year.

Table 8: Audit and Risk Committee meeting attendance

Member	Attendance
Ms EB Mokgatle (Chairperson)	6/6
Mr VAM Magqabi#	0/0
Mr LD Morienyane	6/6
Ms Z Tshabalala	6/6
Ms N Shabalala	6/6
Mr SN Ngobeni	5/6

Table 9: Board members who attended Audit and Risk Committee meetings by invitation

Member	Attendance
Dr TG Twalo	2/2
Ms RN Mokoto	1/1
Dr KL Sebego	1/1
Ms B Mahlutshana	1/1
Mr I Mosala	1/1
Mr MG Shoahle	1/1

Human Resource, Social and Ethics Committee

The Human Resources, Social and Ethics Committee oversees and advises the organisation on human resource and human resource-related matters. The role of the committee is to assist the Board and Executive Management to ensure that:

- Appropriate human resources policies are developed and implemented;
- It makes recommendations to the Board and advises on the implementation of affordable, competitive and fair remuneration practices throughout the organisation;
- All approved human resource and remuneration policies are fair, transparent and implemented;
- Magalies Water has the appropriate human capital to deliver on its mandate; and
- Magalies Water is transparent and representative in terms of equity.

The Human Resource, Social and Ethics Committee held all the meetings set for the 2021/22 financial year.

Table 10: Human Resource, Social and Ethics Committee meeting attendance

Member	Attendance
Mr LD Morienyane (Chairperson)	4/4
Mr MG Shoahle	4/4
Dr TG Twalo	4/4
Ms EB Mokgatle	4/4
Mr VAM Magqabi#	0/0
Ms MET Malaka	3/4

Mr VAM Magqabi passed away on 16 January 2021

Chairpersons Coordinating Committee

The Chairpersons Coordinating Committee oversees the statutory compliance to ensure submission of the Quarterly Performance Information Report to the Shareholder’s Office to comply with the legislative mandate imposed through Paragraph 29 of the Treasury Regulations of the Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA) and other applicable frameworks pertaining to reporting the status of Magalies Water as a state-owned entity’s performance monitoring information.

- The role of the Chairpersons Coordinating Committee is to assist the Board and Executive Management to ensure that:
- The agreed principles as contained in the performance agreement between Magalies Water and the Shareholder are adhered to and monitored;
 - The information contained in the Quarterly Performance Information Report is an accurate reflection of the organisations’ actual performance for the specific quarter under review; and
 - Other mandates or undertakings as might be required from time to time by the Board is considered and implemented.

The Chairpersons Coordinating Committee held all the meetings schedules for the 2021/22 financial year.

Table 11: Chairpersons Coordinating Committee meeting attendance

Member	Attendance
Ms RN Mokoto (Chairperson)	6/6
Dr TG Twalo	5/6
Ms B Mahlutshana	6/6
Ms EB Mokgatle	6/6
Dr KL Sebegu	6/6
Mr LD Morienyane	6/6

Table 12: Board members who attended Chairpersons Coordinating Committee meetings by invitation

Member	Attendance
Mr MG Shoahle	3/4
Mr I Mosala	4/4
Ms MET Malaka	4/4

Code of conduct and promotion of ethical culture

The Accounting Officer promoted the implementation of the Magalies Water Code of Conduct and the processes were delegated between the risk specialist and the company secretary. The risk specialist focused on internal operation and tactical levels, while the company secretary’s focus was at strategic board level. Declarations of financial interests, confidentiality, and conflict of interests and disclosures were made by employees as provided for in the government’s 1997 Code of Conduct for the public service.

The Company Secretary – as the provider of advice to the Board and the organisation on any matter of ethics, conflict of interest and good governance – handled the Board members’ declarations. Magalies Water regards ethical conduct as mandatory for all employees.

The objectives of the Magalies Water Code of Conduct include:

- Administrative management of remunerative work conducted by employees outside their delegated duties;
- Enforcing Regulation 13(c) of the Public Service Regulations, 2016 (PSR), which prohibits employees from contracting/conducting business with any South African organ of state, as of 07 August 2016;
- Promotion of transparency and prevention of conflicts of interest among all involved in bid evaluation and adjudication, even those drafting and/or sourcing services based on the specification;
- Managing errors in sourcing quotations from companies not on the National Treasury’s Central Supplier Database;
- Referring to recorded portfolios of evidence to protect the company and individuals who may be implicated in or facing charges of misconduct;
- Enabling individuals always to be conscious of disclosure requirements as they acquire, practise or pursue personal financial interests; and
- Ensuring that employees execute the company’s delegated duties and/or avoid improper influence/biased judgments etc. when acting on behalf of the company.

In summary, governance at Magalies Water is consistently kept in line with applicable legislation. The Company Secretary and EXCO assist the Board to implement business plans and exercise executive control over day-to-day operations. Magalies Water is diligent in ensuring that it adheres to regulations and ensures synergies with other key role-players and statutory stakeholders. The Magalies Water Board – supported by its committees, EXCO and the company secretary – fully owns the governance responsibility and fiduciary duties for driving good corporate citizenship.

The 2021/22 annual report was subjected to continuous review throughout the reporting period. Magalies Water has a solid foundation that is premised on the strength of a permanent Chief Executive Officer whose oversight of the six operating divisions is supported by five general managers, a Chief Operation Officer and a Chief Financial Officer, who constitute EXCO.

EXECUTIVE COMMITTEE MEMBERS



Mr Sandile Psychology Mkhize
Chief Executive Officer

- Academic qualifications
- MBA (Milpark Business School)
 - MTech Environmental Biotechnology (Durban University of Technology)
 - Management Advancement Programme (Wits Business School)
 - BSc Chemistry and Microbiology (University of KwaZulu-Natal)
 - BTech Biotechnology (Durban University of Technology)
 - Senior Executive Programme (Harvard Business School)
 - Diploma in Advanced Project Management (Damelin)



Mr Thembelani Shezi CA(SA)
Acting Chief Financial Officer

- Academic qualifications
- BCom in Accounting (University of Johannesburg)
 - Postgraduate Diploma in Applied Accounting Science (University of South Africa)
 - Hons Bachelor of Accounting Science (University of South Africa)



Ms Kele Mogamisi
General Manager: Stakeholder and Customer Services

- Academic qualifications
- MBA (Milpark Business School)
 - BSc Chemistry (MEDUNSA)
 - BSc Hons Water Utilisation (University of Pretoria)
 - National Diploma in Water Care (Pretoria Technikon)
 - Senior Management Programme Certificate (University of Pretoria)
 - Municipal Finance and Supply Chain Management (Wits School of Governance)



Mr Sandile Ngcobo
Acting Chief Operations Officer

- Academic qualifications
- NTC 3 (Water and Wastewater) – Durban Coastal College
 - BTech (Water Care) – Tshwane University of Technology
 - BSc Honours (Applied Sciences) – University of Pretoria
 - ABP (Advanced Business Programme) – Durban University of Technology
 - BTech (Business Management) – Durban University of Technology
 - MBL (Advanced Corporate Financial Management – Research project outstanding) – University of South Africa
 - MSc (Impacts of process selection and process train in design of water treatment Plants in RSA) – University of Pretoria



Ms Buyiswa Bingwa
Acting General Manager: Corporate Services

- Academic qualifications
- MBL (UNISA)
 - Bachelor of Law – LLB (UNISA)
 - BA Honours Industrial Psychology (UNISA)
 - BTech Human Resources (Cape Technikon)
 - Certificate – Labour Dispute Resolution Practice (Nelson Mandela Institute – Wits University)
 - Certificate Alternative Dispute Resolution – Arbitration Foundation of South Africa



Mr Mukesh Dayanand
Acting General Manager: Water Services

- Academic qualifications
- BSc Hons Engineering and Technology (University of Pretoria)
 - BTech Water Care (Pretoria Technikon)
 - NDIP Water Care (Pretoria Technikon)
 - Certificate In Labour Law (University of Natal)



Mr Jimwell Leburu
Acting General Manager: Project Management Unit

Academic qualifications

- BTech: Water Engineering (University of Johannesburg)
- National Diploma: Civil Engineering (University of Johannesburg)
- Programme in Project Management (University of Pretoria)
- Contract Management (University of Pretoria)
- Project Management Professional (Project Management Institute)
- Bid Committees: MFMA (National School of Government)



Mr Ofentse Nthutang
General Manager: Engineering Services

Academic qualifications

- BSc in Civil Engineering (University of Witwatersrand)
- Certificate in Municipal Finance Management Programme (Kgolo Institute)

STRATEGIC OVERVIEW

Vision

Magalies Water's vision is to be the leading provider of quality water services in South Africa.

The vision is ambitious and articulates what Magalies Water intends to be known for in the future considering that the organisation strives:

- for operational excellence and being benchmarked as best practice in all areas of its operation in South Africa;
- to be the go-to water board to address water services delivery challenges and requirements in and outside of its area of supply;
- to be a leader in the Section 30 markets that it plays in, recognising the prospect of new private sector entrants into the market;
- to provide high quality, reliable and affordable water services to all customers; and
- to be positioned as the anchor for the regional water utility for the central and northern areas.

Mission

Magalies Water's mission is to provide quality bulk water and sanitation, and Section 30 services to water services authorities, water services institutions and other users in order to positively impact the quality of life and economic growth of communities in our areas of operation.

Key considerations when determining the mission statement were the following:

- Magalies Water seeks to extend its service offerings in the value chain to include management of downstream bulk regional raw water infrastructure and provision of retail water supply services (where required to do so).
- While Magalies Water's service is confined to the North West, Limpopo, and parts of the Gauteng provinces, it will also seek to provide services in areas not served by other water boards, in (these) adjacent provinces.
- Magalies Water supports socio-economic objectives for its area of supply by ensuring that water supplied to WSAs is safe, reliable and affordable.
- Magalies Water will also undertake s30 activities, aligned with to its capabilities, provided that such services do not impact its primary business and are undertaken on commercially acceptable terms.
- Magalies Water will provide supplier development to further the aims of broad-based black economic empowerment, while creating a platform to sustainably manage its costs.
- Magalies Water will support WSAs in its area of supply, where directed by the Minister, provided that the terms of such directives are not prejudicial to its sustainability.
- Magalies Water will invest in Corporate Social Investment project that are aligned with its core mandate and positively impact the quality of life for communities in its supply area.

Strategic objectives

Magalies Water has seven (7) strategic objectives that define the markers of success and articulate how it will know when it has achieved its goals. Each of these are strategic objectives are defined below.

OBJECTIVE 1: To provide quality potable water.	Magalies Water’s objective is to deliver water services that exceed the required standards for water quality, reliability and client satisfaction. This entails effective management of plant and bulk distributon operations to deliver the required quality and quantity.
OBJECTIVE 2: To provide reliable and sustainable water services to customers.	Magalies Water’s objective is to plan, design, maintain and deliver enhanced water and waste water treatment facilities within funding constraints. This entails implementing pragmatic strategic asset management philosophy, robust infrastructure planning and effective implementation of capital projects portfolio.
OBJECTIVE 3: To achieve growth and sustainable financial returns.	Magalies Water’s objective is to achieve sustainable financial returns, value for money, effectiveness, and efficiency in resource deployment. The financial returns will facilitate the funding of its capital expenditure and growth strategy.
OBJECTIVE 4: To ensure good corporate governance	Magalies Water’s objective is to minimise business risk through sound governance practices.
OBJECTIVE 5: To manage customer and stakeholder relations.	Magalies Water’s objective is to engage the shareholder and stakeholders to position it as the leading supplier of quality water services.
OBJECTIVE 6: To contribute towards transformation and developmental agenda.	Magalies Water’s objective is to provide appropriate support for transformation and socio-economic development. This will entail the creation of decent employment through inclusive economic growth, development of suppliers and communities through skills development, local empowerment and enterprise development.
OBJECTIVE 7: To create a high-performance organisation through effective talent management	Magalies Water’s objective is to attract, develop and retain the right skills for the current and future success of the organisation.

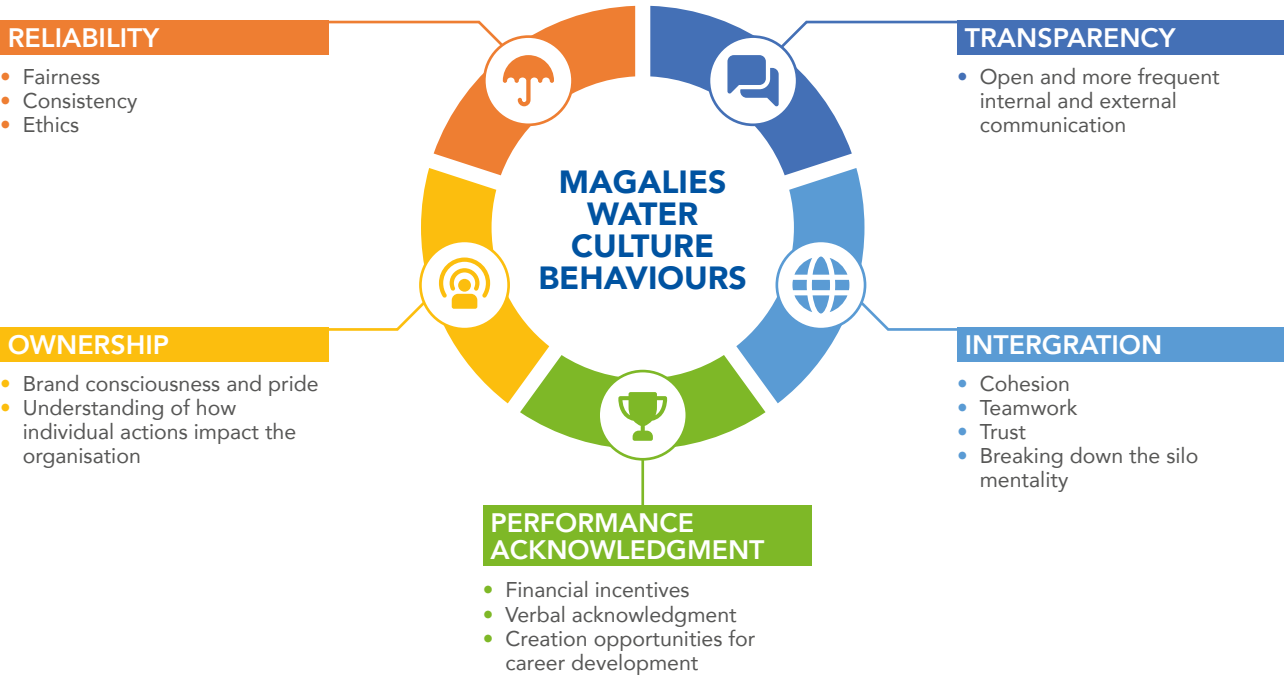
Thematic core values of Magalies Water

Figure 1: Values of Magalies Water



Magalies Water relies on the commitment and dedication of each staff member to fulfil its vision and mission. The entity aspires to be both a leader in the delivery of quality services and employer of choice.

Figure 2: Summary of cultural behaviours at Magalies Water



Magalies Water has committed to revive the internal communication mechanisms in order to foster trust and to ensure synergy and coherence between internally and externally disseminated information. Magalies Water will continue to maintain a responsive, timeous and proactive consumer-centric service approach to fulfil our aspirations to excel in delivering services to customers. The set standards and performance measures will strategically re-build the Magalies Water brand, reputation, good standing in the medium to long term to ensure expansion of the entity’s footprint.

OVERVIEW OF THE PUBLIC ENTITY

Purpose of the public entity

Magalies Water is a water board established in terms of Section 28 of the Water Services Act, 1997 (Act 108 of 1997, as amended) and is classified as a government business enterprise as per Schedule 3B of the Public Finance Management Act, 1999 (Act 1 of 1999, as amended). The service area of Magalies Water, as determined by the Minister, stretches over Pienaars River and Crocodile River, these being two of its major service area catchments.

The mandate of Magalies Water is to provide water services in terms of Section 29 and ensure viable Section 30 initiatives as prescribed in the Water Services Act, 1997 (Act 108 of 1997, as amended). Magalies Water will continue to contribute to the socio-economic development within the service areas.

Operating principles

Magalies Water is a Schedule 3B: State-owned Enterprise (SoE) and like all the businesses operating in the country (the Republic of South Africa), it is governed by the country’s relevant legislation. The Magalies Water’s operating relevance and its critical role is grounded in the legislative mandate imposed through the Water Services Act, 1997 (Act 108 of 1997), which is to ensure that the State complies with the Bill of Rights enshrined in Chapter 2 of the Constitution.

Business activities

The Minister of Water and Sanitation is the custodian of water resources, including the dams from which Magalies Water abstracts and channels water to its own water treatment plants for treatment before distributing through pipelines to water service authorities and other users (customers).

Primary activities (Section 29)

The primary activity of a water board is to provide water services to other water services institutions within its service area (Section 29). Raw water is obtained through various intermediaries (e.g., dams, mining associated sources, etc.) that are linked to two (2) major catchments of the Crocodile and the Pienaars Rivers.

Section (29) states that the primary activity of a water board is to provide water services to other water services institutions within its service area. Magalies Water service area covers 42 000 km² across the three provinces of North West, Limpopo and Gauteng.

Magalies Water customers

Magalies Water (MW)'s primary activity, as stipulated in Water Services 1997 (Act No. 108 of 1997), section 29, is the supply of bulk water services to Water Services Authorities and Institutions.

One of the key corporate strategic objectives to achieve the mandate is to manage customers and stakeholders' relations. The management of customers is done through the service level agreement entered between Magalies Water and its customers, namely water services authorities and water services institutions and industries. The agreements with the customers in compliance with the water service act legislative framework with special focus on Section 29 are outlined below.

Table 13: Section 29 – Bulk water supply agreements - water services authority and institutions

#	Description	Agreement signed	Agreement expire/d	Status
1.	Bela-Bela Local Municipality	2019	2029	Active contract
2.	City of Tshwane Metropolitan Municipality	2020	2023	Active contract
3.	Modimolle Local Municipality	2019	2021	Active contract (month to month contract)
4.	Moses Kotane Local Municipality	2013	2023	Active contract
5.	Rand Water – Vaalkop Southern Water Supply Scheme	1997	Open ended	Active contract, to comply with the Water Services Act
6.	Royal Bafokeng Administration	2011	2021	Active contract (month to month contract)
7.	Rustenburg Local Municipality	2020	2023	Active contract
8.	Thabazimbi Local Municipality	2020	2030	Active contract
9.	Moretele Local Municipality			Active contract (month to month contract)

Table 14: Ssection 29 – bulk water supply agreements - mines and industries

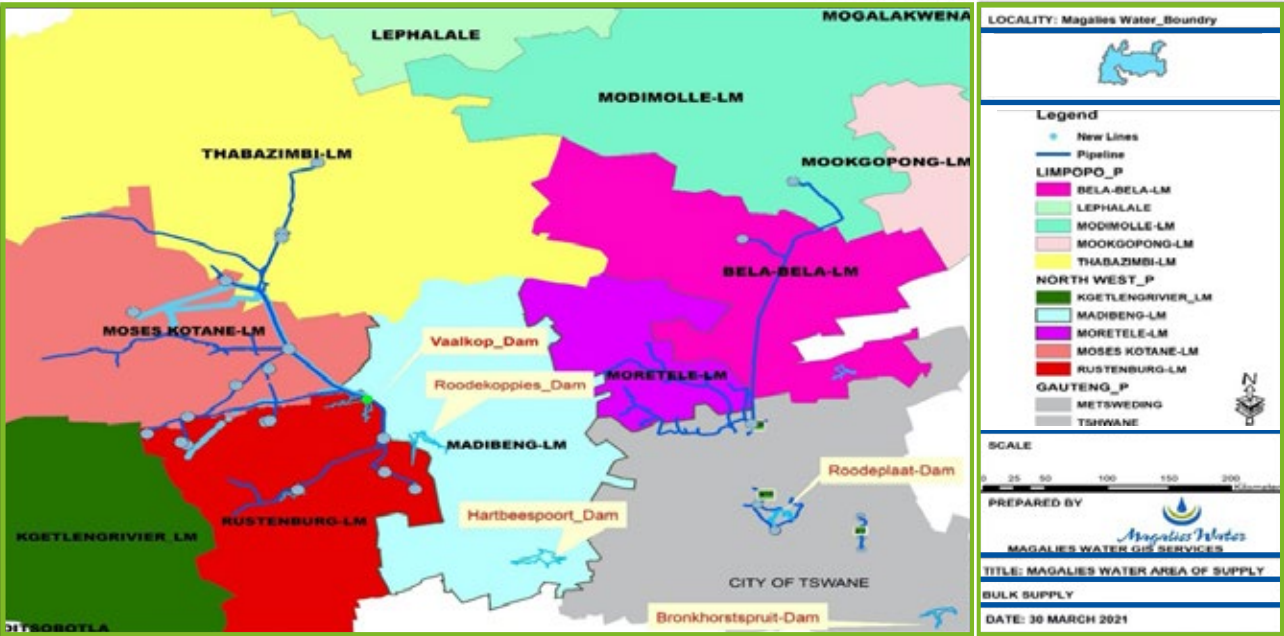
#	Description	Agreement signed	Agreement expire/d	Status
1.	Cullinan Diamond Mine	1998	2040	Active contract
2.	Impala Platinum Limited	2020	2040	Active contract
3.	Northam Platinum Limited – Northam	2020	2040	Active contract
4.	Rustenburg Platinum Mines Limited – Amandelbult Section	2021	2040	Active contract
5.	Royal Bafokeng Resources (Rustenburg Platinum Mines Lt-Boshkoppie (RPM))	1998	Expired	The contract is currently being renegotiated
6.	National Department of Public Works (Zonderwater and Baviaans Prison and SANDF Walmansthal)	1990	Open ended	Active contract, to be reviewed
7.	PPC-Dwaalboom	2010	Open ended	The contract is currently being reviewed to comply with Water Services Act
8.	Siyanda Bakgatla Platinum Mine	1993	Open ended	The contract is currently being reviewed to comply with Water Services Act
9.	Rhino Andalusite Resources	2020	2040	Active contract
10.	Pilanesberg Platinum Mine	2016	Open ended	The contract is currently being reviewed to comply with Water Services Act
11.	Royal Bafokeng Resources (Bafokeng Rasimone Platinum Mine (BRPM))	1998	Expired	The contract is currently being renegotiated
12.	Glencore Smelter	2016	09/2026	Active contract
13.	Royal Bafokeng Resources (Maseve)	2012	Open ended	To be reviewed and a new contract developed to be part of the Royal Bafokeng Resources Group
14.	Bakubung Wesizwe	2021	2061	Active contract
15.	Limberg Mine	2018	2028	Active contract

Open-ended contracts are linked to the life span of the mine and are due for annual review: most are aligned to the old Water Act

Magalies Water service area

The Magalies Water service water is indicated in the map below.

Figure 3: Magalies Water service area map



Magalies Water Treatment Plants

Magalies Water owns and operates the water treatment plants and associated pipelines as outlined below.

Vaalkop Water Treatment Plant (VWTP): has a design capacity of 270ML/day, abstracting raw water from the Vaalkop Dam in the Crocodile River Catchment. Potable water produced from this plant is distributed to the North West and Limpopo provinces, with a pipeline of 455.5 km in length.



Klipdrift Water Treatment Plant (KWTP): has a design capacity of 42ML/day abstracting raw water from the Roodeplaas Dam in the Pienaars River Catchment area. Potable water produced from this plant is supplied across Limpopo, North West and Gauteng Provinces through a 97 km pipeline.



Cullinan Water Treatment Plant (CWTP): has a design capacity of 16ML/day. Raw water is pumped from the Wilge River Dam which is a small impoundment on a tributary just downstream of the Bronkhorstspuit Dam. The 43 km raw water line discharges into an earth dam located on the plant. The earth dam is known as the Reserve Dam. Raw water is abstracted from the Reserve Dam by the Cullinan Water Treatment Works (CWTW).



Wallmannsthal Water Treatment Plant (WWTP): has a design capacity of 12ML/day, and abstracts raw water from the Roodeplaas Dam in the Pienaars River Catchment. Raw water is abstracted from the Pienaars River or the canal system downstream of the Roodeplaas Dam. Potable water produced from this plant is supplied to the City of Tshwane and some individual customers through a 51.9 km pipeline. Below is the view of the WWTP.



Scientific Services

Magalies Water Scientific Services laboratory facilities are fully accredited by the South African National standards (SANAS). The SANAS 17025 accredited laboratory-offering services in chemical, environmental and microbiological analysis to the water industry. Scientific Services is capacitated and capable to perform the secondary activities to enhance the process optimisation as well as the development of cutting-edge technologies to address current and future water quality challenges.

Magalies Water also complies with SANS 241:2015, the South African National Standard for drinking water that specifies the requirements for potable water to be considered safe for human consumption. To ensure that the produced water is compliant to SANS 241:2015, Scientific Services develops a risk-based monitoring programme which is followed regularly and used to define the performance of Magalies Water’s supply system.



Other activities (Section 30)

In partnership with the Department of Water and Sanitation (DWS) and municipalities, Magalies Water concludes contracts and agreements to perform Section 30 duties as the implementing agent, or as per the Minister’s directive. With regards to Section 30 activities, Magalies Water has the capability and experience to carry out and or perform the following activities:

- 1. Infrastructure refurbishment
- 2. Potable water and wastewater treatment solutions ranging from consultancy services, treatment, monitoring, operation and maintenance of potable water and wastewater treatment plants
- 3. Rapid response on critical interventions required on water and sanitation
- 4. Water conservation and demand management
- 5. Operations and maintenance (O&M) of bulk water supply and bulk sanitation infrastructure
- 6. Magalies Water Scientific Services: the SANAS 17025 accredited laboratory-offering services in chemical, environmental and microbiological analysis to the water industry.

Magalies Water is capacitated and capable to perform the secondary activities to enhance the optimisation of the value chain of the water services business in South Africa.

Environmental scan

Magalies Water continuously conducts an environmental scan to assess external and internal factors to determine risks and key capabilities. Through environmental scanning, strategic operating conditions confronting Magalies Water are described. Gathering information on several variables of the environment facilitates alignment between Magalies Water’s strategic plans and the operational environment in which it operates.

It is imperative for Magalies Water to understand the forces of change so to develop effective response mechanisms that could secure or improve the entity’s position in the future.

External environmental analysis

Magalies Water uses the P-E-S-T-E-L (Political, Economic, Social, Technological, Environmental and Legislation) approach when analysing external environmental conditions and changes.

Table 15: The Macro Operating Environment

Aspect	Key outcome
Political	The restructuring of water boards provides a strategic imperative for Magalies Water to grow and service more clients and communities. At the same time this can pose a risk as several factors needs to be present for the intended growth to materialise. There is an increasing perception that municipalities’ capabilities in water service delivery and operations of water and sanitation infrastructure are, generally, considered as being highly or extremely vulnerable.
	This can pose both risks and opportunities for Magalies Water to grow. Magalies Water sees this process as very strategic and significant and will endeavour to fully participate in the institutional reform processes.
	The envisaged process of review of powers and functions is welcome as it will provides an opportunity for Magalies Water as the right allocation of powers and functions will improve service delivery to communities and this can also present a level of certainty in the running of the Water Board’s business. Magalies understands this matter is outside of its sphere of control however it recognises that it has a role to play and intends to engage constructively and add value to the process. This will bring certainty in terms of the investment framework and will lead to better service delivery.
	Many municipalities continue to be plagued by challenges of dysfunctionality or distress because of systemic and management issues associated with governance. This situation plays itself out in municipal viability and ability to pay for services rendered by the Water Board. It may have serious implications on the Water Board’s viability and effectiveness.
	At ground level, the Magalies Water role and its brand are not ‘recognised’ separately from the role of the municipalities it sells water to. While the Water Board recognises that it has a role to play in the whole value chain and would like to do so in a spirit of cooperative governance, being seen as “part of municipalities” can pose significant risks and these need to be managed responsibly. This scenario calls for a continued focussed marketing of Magalies Water as well as increased awareness among stakeholders.
	Magalies Water will continue with its aggressive strategy to support black economic empowerment through its procurement process and programmes. Failure to do so might create an impression that it is deliberately undermining government’s stated objectives.

Table 15: The Macro Operating Environment

Aspect	Key outcome
Economic	Constrained economic growth, tight fiscal policies, effects of monetary policy and the recent sovereign credit rating downgrades continue to have an impact on the desired future capital structures particularly considering the implementation of high austerity measures, which is one of several government initiatives to mention a few. Government may not be in a position to provide funding for the social component of projects to the required levels. Magalies Water must proactively explore strategies to improve its operational efficiencies (realise cost savings) and drive its growth aspirations by positioning itself in the rural service provider context which has high unemployment rates and the consequent inability of its users to pay for services. (the inability to pay) rates. The recent increases in the cost of the fuel and related increases in food and services will impact on Magalies Water users.
	South Africa has been experiencing steep increases in fuel and electricity prices lately, particularly fuel prices due to a surge in the oil price. As a result, organisations and citizens will be faced with fuel and electricity price hikes that lead to budgets constraints, forcing less spending on goods and services or erode their purchasing power. Magalies Water would need to consider these effects on its operations and how they will affect its tariff structure and it is critical to ensure provisioning of a profitable services given all these challenges.
	An overall assessment is that the local government sphere has shown an inability to pay water boards for the water provided. This has a direct bearing on the water board’s ability to operate optimally to ensure institutional stability, viability and sustainability. Municipalities in which Magalies Water operates, have shown a decline in their ability to collect their revenue and in future, it will become a challenge for these municipalities to continue serving their debt.

Table 15: The Macro Operating Environment

Aspect	Key outcome
Social	Magalies Water’s area of operation is characterized with mainly B3 and B4 municipalities. These are mainly rural, small towns municipalities and with small population and minimum economic activities and growth. This kind of towns usually record high unemployment rates. Also, they usually do not have adequate infrastructure to provide services which might lead to service delivery protests.
	Some areas, such as Rustenburg, have experienced rapid increases in their population. Since 2015, Rustenburg has been one of the fastest growing populations within the North West Province. This is mainly due to migration to the town and surrounding areas with a hope to find employment in the mining companies. This has resulted in high demand being placed on the water infrastructure of Magalies Water.
	Changing spatial patterns, economic and population growth in the service areas provide Magalies Water with an opportunity to grow its business. The ongoing infrastructure upgrades address the demand and progressively reach areas that do not have access to water services.
	The radical economic transformation theme articulated by the state president/s bring about an opportunity for the transformation profile of Magalies Water; it should give rise to inclusive socio-economic benefits in the targeted areas of operation as well. The current levels of poverty, low-income and unemployment, continue to pose threats on financial sustainability of Magalies Water; ill-affordability levels of consumers to pay municipal services has a domino effect in the revenue of the bulk water services. The impact of the COVID-19 pandemic on socio-economic factors cannot be ignored and needs a proper response plan as with high unemployment and even lower projected income levels, threats are eminent to affect operations of Magalies Water.
	Further to this, Magalies Water should position itself as the service provider of choice through, not only expanding its service footprint, but also creating job opportunities and skills development /youth capacitation. Corporate social investment initiatives designs need to encourage ‘innovation’ as well. Learnerships and internships programmes strive to grow our social licence to operate and expand the economic base of the municipalities in which we have presence. The net effect should improve the rural and informal surrounding consumers’ unemployment / affordability challenges.



Table 15: The Macro Operating Environment

Aspect	Key outcome
Technological	Technology, when used to support business needs, should be considered as an asset to be invested in, not a cost to be borne. When implemented properly, good technology investments result in a measurable return on investment (ROI). That ROI might well be achieved through lower running costs, better productivity, better customer service or simply increased sales due to increased capacity. Technology is a business enabler that doubles up as a disruptor to most business models (consider the “internet of things”).
	Globally, the water sector is utilising big data to optimise business models that evolve along with times. Technology advancement requires enhancement of research and development capabilities. Operations must respond to ‘business unusual’ model as hackers pose a serious threat to the Magalies Water’s business blueprint. Cyber-attacks need to be consistently monitored by the organisation to ensure business continuity should the threat be realised.
	Water treatment processes are forever evolving and technological advances need to be explored and implemented by Magalies Water. This can be done through constant research and development in water treatment process in the Scientific Services department in Magalies Water
	As much as Magalies Water operates within a fresh surface water resources constrained landscape, it is set to grow its customer base, explore raw water sources, and spatial footprint. It is therefore imperative for Magalies Water to take cognisance of the need to adapt accordingly. Magalies Water’s Strategy Growth Plan already includes the use of boreholes and ground water in the recent future. In the end, a need might arise to consider a mix such as innovative initiatives like 1. the zero effluent / zero discharge strategy, 2. the re-engineering of brown water / sanitation water through a closed cycle process similar to the Israel’s greening or water re-use – refer to some of the cruise ships, 3. Desalination that may reduce fresh raw water use, and 4. adoption of energy efficient technologies to generate power from wastewater in order to lower the costs of production and increase competitiveness.



Table 15: The Macro Operating Environment

Aspect	Key outcome
Environmental	Global warming and climate change requires adaptation strategies as they have an adverse impact on the hydrological systems. Groundwater resource diminishes at a faster rate than it can be naturally replenished and this translates to the surface water scarcity; one of the key business disruptors within the emergent concept of the water-food-energy nexus. In keeping with Magalies Water's vision to be the leader in the delivery of bulk water services in the country, the expansion of services need not add pressure to natural ecological systems. To understand the human factors to the catchment areas we draw raw water from, research and development efforts will include innovative technologies for the laboratories. Currently, it is possible that the emerging 'strains' of contaminants from the pharmaceutical industry and other ecological disruptors need smarter detection techniques. The source of raw water and quality of the raw water needs to be analysed and engagements on purification needs to be finalised. Ground water programmes are also potential areas of growth for Magalies Water. Sludge classification and beneficiation also has a potential to yield positive results for the organisation. Deteriorating water quality reduces the amount of water available for use as more water must be retained to maintain the dilution capacity in our river systems. It increases the costs of doing business as many enterprises are forced to treat water before using it in their industrial processes Magalies Water activities that could contribute negatively to the carbon footprint or potentially be legally constrained due to the surrounding natural environment's protection requirements fall within our eco-efficiency / friendly values and we see opportunities for the future, in exploring initiatives based on water sources associated with the closing mines and the 'raw' polluted water from disused mining facilities. Pollution control, involvement in catchment management and environmental impact assessments are important areas where environmental impact is managed. In addition, there are critical environmental management threats (SWOT) arising from: 1. Municipalities with weak internal controls to deal with the quality of waste water released to the environment, and which increases the Magalies Water's production costs could be addressed through partnerships that could re-direct such polluted water feedstock to electricity generation and ultimately drive tariffs down; 2. Emerging trends in severe climatic conditions including droughts and floods, which can potentially cripple any water board's business continuity.

Table 15: The Macro Operating Environment

Aspect	Key outcome
Legal	The current review of water sector legislation provides an opportunistic environment conducive to business growth. Magalies Water will need to prepare itself with respect to the DWS' Institutional Reform and Realignment (IRR) processes. The review of the Water Services Act, SANS 241 standards and other applicable legislation will require the organisation to be knowledgeable of the review and implement accordingly. Furthermore, the DWS process of establishing an independent regulator for water as well as a national water infrastructure agency may change the modes of interaction between the water boards and the DWS, particularly the benefits associated with Section 30. These factors are on the planning radar and monitored in order to strengthen Magalies Waters' business framework. The same applies to the continued efforts to monitor the Ministerial deployments and the continued planning of different engagement approaches to various constituencies or stakeholder segments.

- The environmental analysis revealed the following:
1. Economic and population growth in our service area presents Magalies Water with an opportunity to grow its business and infrastructure in order to address the increasing demand and progressively reach areas that do not have access to water and sanitation services.
 2. There is increasing availability of modern water services technologies globally and in South Africa.
 3. There is an ongoing increase in opportunities to render secondary services.
 4. Government policies present opportunities for Magalies Water to position itself to be relevant in achievement of government's service delivery mandate.

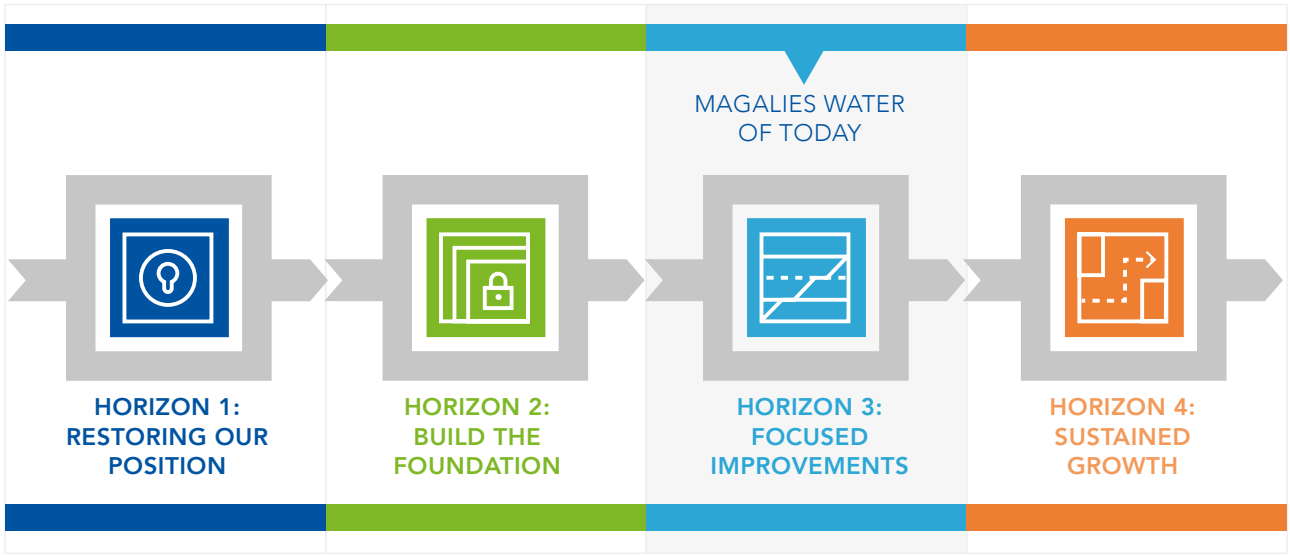
PART B

BUSINESS MODEL AND PERFORMANCE INFORMATION

STRATEGIC POSITIONING

Over the past few years, Magalies Water has been building the foundations necessary for sustained growth. This process began when the entity had to restore its position as a functioning water board and subsequently shifted the focus to sustainable growth. Part of the process included implementing specific improvements, as illustrated in Figure 4.

Figure 4: Building the foundations for sustained growth



An assessment into the competitive landscape was conducted to inform how Magalies Water could best position itself within the current context for sustained growth. The outcome of the assessment highlights that the threat of product substitution is very low, given that water cannot be manufactured nor replaced.

In terms of Magalies Water’s operational activities, the competitive environment is limited for Section 29 activities due to the high barriers to new entrants into the industry. However, for Section 30 activities, there are low barriers to entry and there are several market participants in this segment. Magalies Water needs to operate strictly within the defined parameters of Section 29 activities. With regards to Section 30, it needs to position itself competitively in the market.

Internal environmental analysis

Strengths	Weaknesses
- Financially sustainable organisation - Well established governance system and structures - Competent workforce, executives and management - SANAS accredited laboratories - A matured certified ISO 14001 management system - New technologies implemented - GIS is cross cutting (supporting all organisation departments) - Low staff turnover - Reduction in breakdowns resulting high plant availability - Water sales and water quality targets exceeded.	- Inadequate IT infrastructure (network availability) - Operational and process inefficiencies (turnaround times) - Not fully compliant with POPIA Act - Budget constrains to capacitate the organisation - Continuous encroachment of servitudes - Inability to raise co-funding for implementation of capital expansion projects (external stakeholder management for raising funds – Government Technical Advisory Centre and Development Bank of Southern Africa) - Difficulty in revenue collection and poor debt management (Section 30) - Lack of financial resources for capital expenditure programmes - Long lead time on license renewal - High staff turnover of process controllers - Lack of change management - Reliability of third-party infrastructure - Wallmannsthal WTP plant operating at maximum capacity - Governance and project management shortcomings - Lack of professional registrations with ECSA and SACPCMP.
Opportunities	Threats
- Expansion of Section 30 mandate for water resource management on behalf of DWS and expansion in service areas of Sedibeng - Technological advancements that could assist Magalies Water in achieving its financial objectives - Lack of access to water by some communities creates opportunity for Magalies Water to grow and increase its revenues - Implementing Agent for municipalities - Operations & Maintenance for municipalities - Potential for expansion of footprint into Moretele, Madibeng Mookgopong and Dr JS Moroka local municipalities.	- Poor enforcement of regulation on the management of water resources - Illegal water connections and unauthorised water usage - Deteriorating raw water quality - Slow economic growth (and its impact on financial objectives) - Negative changes in regulatory environment - Growing debt book due to nonpayment by municipalities for services provided - Dependence on ministers’ approval for tariff increases - Possible financial difficulties (high debt book and liabilities) coming with acquisition of Sedibeng - Community interference into SCM and finance processes - Delay in completion of projects - Eskom – electricity supply - Reduction in demand from City of Tshwane (Babelegi Reservoir) - Increase in reliability of augmentation from Roodeplaat – City of Tshwane - Drought and/or floods - Impact of COVID-19 - Fatalities due to the nature of safety incidents.

Magalies Water’s response to the outcomes of the internal environmental analysis is through the implementation of the following key action plans:

- To prioritise increased volumes of potable water and extend services in terms of the capital expansion masterplan.
- Improve research and development capabilities.
- Enhance capabilities to perform Section 30 activities.
- Perform credit rating and enhance capability to borrow against the strength of cash flows.
- Pay particular attention to threats posed by the natural environment.
- The development of a comprehensive strategy on climate change.

The risk management process provides another layer of the tools we use to mitigate the impacts of risks actually materialising.

Processes and workflow

Key performance areas

Magalies Water continues with the management focus on the following key performance areas:

- Bulk potable water quality compliance
- Management of water losses
- Reliability of supply
- Financial sustainability
- Efficiency of capital expenditure
- Appropriate support for public policy: rural development, broad-based black economic empowerment (BBBEE), skills development and job creation
- Stakeholder engagement and interaction.

Overall performance on the Shareholder Compact

Figure 5 illustrates 2021/22 performance. With 35 out of 39 KPI targets met, Magalies Water’s overall annual achieved performance stands at ninety percent (90%).

Figure 5: Annual performance: 2021/22

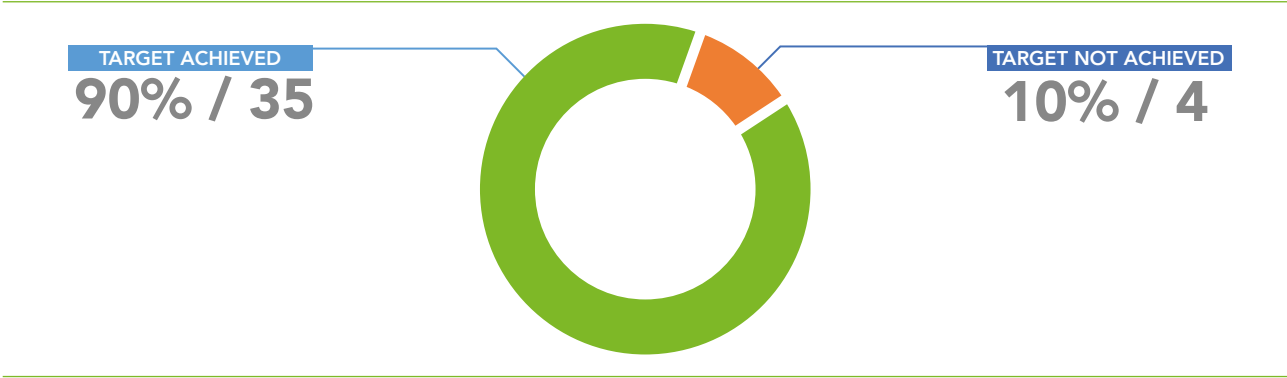


Table 16: Annual achievements and non-achievements of targets per perspective

Performance perspective	Annual	Performance meeting expectations	Performance not meeting expectations
Organisational efficiency and effectiveness	8	7	1
Financial performance	12	9	3
Customer and stakeholder interaction	3	3	0
Organisational capacity	8	8	0
General performance	8	8	0
Totals	39	35	4

Table 17: Organisational Efficiency and Effectiveness against Pre-Determined Objectives

Strategic objective	Key performance indicator	Annual target	Annual Actual performance	Variance
To provide quality potable water	Acute health risk ≥97	Acute health microbiological risk ≥97	99.98%	2.98%
	Acute health ≥97%	Acute health chemical risk ≥97%	99.96%	2.96%
	Chronic health chemical risk ≥95%	Chronic health chemical risk ≥95%	98.19%	3.19 %
	Operational risk ≥93%	Operational Risk ≥93%	96.96%	3.96%
	Aesthetic risk ≥ 93%	Aesthetic risk ≥ 93%	99.53%	6.53%
To provide reliable and sustainable water services to customers	Avoidable water lost as a percentage of water produced at plants	Plants: ≤5%	5.50%	0.5%
	Avoidable water lost as a percentage of water distributed	Distribution: ≤6%	5.78%	0.22%
	Number of incidents of continuous service interruption exceeding 48 hours	≤4 Incidents	1	3

Recovery Plans for Non-Achieved KPIs

Table 18: Organisational Efficiency and Effectiveness against Pre-Determined Objectives

Key Performance Indicator	Reasons for the non-achievement	Corrective measures already implemented	Planned corrective measures to be implemented
Avoidable water lost as a percentage of water produced at plants	The deteriorating raw water quality being abstracted by all four plants over-stresses treatment processes resulting in frequent backwashing of filters, particularly at Vaalkop WTP.	DWS is being engaged with the aim of enforcing effluents discharged permits’ quality requirements into receiving bodies of water in the catchment. Continuous process improvements and adjustments are implemented.	Magalies Water is doing research on processes that can reduce the effects of poor raw quality

Stakeholder Engagement Performance

Table 19: Customer and Stakeholder Interaction against Pre-Determined Objectives

Strategic Objectives	Key Performance Indicator	Annual Target	Annual Actual Performance	Variance
To manage customer and stakeholder relations	Municipalities/other customers with bulk supply agreements	80%	93.75%	13.75
	Signed contracts, MoUs, etc. NB: This pertains to the “Total number of identified municipalities supported” Outcome/ Impact	1	1	0
	% Submission dates met	100%	100%	0%

Financial Performance

Table 20: Financial Performance against Pre-Determined Objectives

Strategic Objective	Key Performance Indicator	Annual Target	Annual Actual Performance	Variance
To ensure good corporate governance	Annual external audit	Clean audit	Clean audit	N/A
To achieve growth and sustainable financial returns	Current ratio	2.8:1	3.4:1	0.6:0
	Gross profit margin % (primary activity)	≥31%	29%	2%
	Net Profit Margin % (primary activity)	≥7%	14%	7%
	Debt/equity	≤5%	0%	(5)%
To achieve growth and sustainable financial returns	Return on assets	≥2%	3%	1%
	Average debtors days	≤ 55 days	99 days	44 days
	Repairs and maintenance as a % of property, plant & equipment and investment property (carrying value)	≥1%	1.96%	0.96%
	Staff Remuneration as a % of Total Revenue	≤29%	28%	(1)%
To contribute towards transformation and developmental agenda	Spend	≥40%	66.88%	26.88%
	New Entrants (BBBEE)	80	162	8
	Actual CAPEX spend on expansion-related projects as % of total CAPEX budget	≥90%	52%	38%

Recovery Plans for Non-Achieved KPIs (Financial Performance)

Table 21: Recovery Plans for Non-Achieved KPIs (Financial Performance)

Key Performance Indicator	Reasons for the non- achievement	Corrective measures already implemented	Planned corrective measures to be implemented
Average debtors days	Customers have been taking longer to pay their accounts due to various financial difficulties. Other customers generally delay payment of their accounts in anticipation of paying when they receive equitable share in July.	With municipalities, Magalies Water is following due legal process in trying to collect revenue. Letters of demand have been issued to municipalities and summons were also issued. The restriction of water options was put on hold due to low sales volumes.	In the next financial year, engagements will be made with customers to encourage them to pay. If there is lack of improvement, restrictions will be implemented and legal processes will also continue.
Gross profit margin	The reason why the gross profit margin target was not achieved is because sales volumes and revenue were less than budgeted sales, caused by challenges in production. In addition to internal challenges, there were frequent power failures due to unreliable power supply from Eskom. Distribution losses were also experienced due to more frequent pipe leaks in the distribution system. Maintenance costs were also higher due to break downs. Remuneration was also high, mainly due to costs that were held back due to COVID-19, which have been incurred in this financial year, including performance rewards for employees.	Cost containment measures were implemented to reduce production costs. Lower than usual sales volumes were identified early and a plan was developed to improve sales.	The sales budget for the next financial year has been revised to achievable levels. Cost containment measures will be implemented in an attempt to reduce production costs in the next financial year and the budget has been prepared taking into account experiences of the previous financial year.
Actual CAPEX spend on expansion related projects as % of total CAPEX budget	The non-achievement was mainly due to legal challenge on the Pilanesberg Phase 2: Mafenya to Tlhabane bulk pipeline and reservoir, and delay in giving authorisation for site establishment by the Royal Bafokeng administration. As a result of these delays, construction commenced in May 2022 instead of January 2022 as per project planning. Delays in finalising procurement process remains a challenge on overall projects implementation.	Legal Services attended to court challenge and the matter was dismissed in court. Engagement with Royal Bafokeng administration to unlock the required authorisation, and improvement of stakeholder engagement to ensure that similar challenges do not recur on projects.	Monitoring of procurement timelines and contracts to ensure that contractors deliver according to project schedule and project timelines. Implementation of penalties for project delays as per the conditions of contract and provisions of Service Level Agreement.

GOVERNANCE

Table 22: General Perspective against Pre-Determined Objectives

Strategic Objective	Key Performance Indicator	Annual Target	Annual Actual Performance	Variance
To manage customer and stakeholder relations	Board Member attendance of all Board/Committee meetings	85%	95%	10%
	Board and Committee meetings held	24	36	12%
	Decision making: % number resolutions taken by the Board vs number of resolutions required	100%	100%	0%
To ensure good corporate governance	Number of repeat and unresolved internal audit findings	Repeat ≤10	2	8%
		Unresolved ≤15	3	12%
	Breaches of materiality and significance framework	0	0	0
To manage customer and stakeholder relations	% Compliance with the stakeholder engagement plan	90%	153.25%	63.25%

ORGANISATIONAL CAPACITY: EMPLOYMENT REPORT

Table 23: Organisational Capacity Performance against Pre-Determined Objectives

Strategic Objective	Key Performance Indicator	Annual Target	Annual Actual Performance	Variance
To create a high performance organisation through effective talent management	Staff turnover	≤3%	1.32%	1.68%

Table 24: Organisational Capacity Performance against Pre-Determined Objectives

Strategic Objective	Key Performance Indicator	Annual Target	Annual Actual Performance	Variance
To contribute to-wards transformation and developmental agenda	Learnerships	25	25	0
	Internships	10	21	11
	Number of external Bursaries awarded (annual cycle)	5	10	5
	Bursaries to employees	20	39	19
	Graduate programmes	4	4	0
	Total number (direct)	5	5	0
	Total number (indirect)	40	140	100

CORPORATE SOCIAL INVESTMENT

Magalies Water implements corporate social investment (CSI) activities in accordance with our CSI policy. Consultation with local municipalities in the Magalies Water service areas, and needs analysis and scoping are conducted to identify areas of priority.

Table 25: General Performance Perspective: Corporate Social Investment

Strategic Objective	Key Performance Indicator	Annual Target	Annual Actual Performance	Variance
To contribute towards transformation and developmental agenda.	Number of Initiatives undertaken	3	3	0

PART C

GENERAL PERFORMANCE

GENERAL PERFORMANCE AND ASSURANCE

The office of the Chief Executive Officer

The Magalies Water Office of the Chief Executive Officer (CEO) includes the company secretary, enterprise risk management, internal audit, Strategy Management unit, governance, compliance and monitoring. The office of the CEO is to oversee and lead the implementation of organisational strategy.

Internal audit

The Internal Audit unit provides independent, objective assurance and consulting activities designed to add value and improve Magalies Water's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance processes.

Fraud and corruption

Magalies Water supports and fosters a culture of zero tolerance for concealment of fraudulent, corrupt and illegal acts, regardless of whether internal or external to the organisation. All allegations of fraud and corruption are investigated fairly, and appropriate actions are instituted against wrongdoers. Employees of Magalies Water who do not comply with the organisation's code of business conduct and ethics, face disciplinary action, including dismissal.

The reporting of suspected cases is handled through the independently hosted hotline administrator and other internal arrangements for walk-ins. Magalies Water views whistle-blowers as crucial in the detection and prevention of fraud and dishonest behaviour. The outsourcing of the whistle-blowing services enables compliance with the provisions of the Protected Disclosures Act, 2000 (Act 26 of 2000) for whistle-blowers and whistleblowing processes. As an SOE, Magalies Water acknowledges and commits itself to its duty to protect whistle-blowers.

Enterprise risk management

Magalies Water has a dedicated risk management function based in the Office of the Chief Executive Officer. It coordinates and supports the overall organisational risk management process, which includes business continuity, fraud and corruption, related whistleblowing services and compliance management.

The organisation has an approved risk management framework, policy and strategy that guides the risk management process. It also has the effective Audit and Risk Committee of the Board that provides oversight on risk management and the organisation's control environment.

The organisation's approach to risk management is based on established governance processes that rely on both individual responsibility and collective oversight, supported by comprehensive reporting. As acknowledgement of the complex and changing risk environment, continuous risk assessments are conducted to identify emerging risks that could have negatively affect reaching organisational goals.

Risk management (including Treasury risks)

Magalies Water has adopted an enterprise-wide approach to risk management. Risk assessments were continuously conducted during the 2021/22 financial year to identify and manage potential risks that may negatively impact the achievement of the strategic and operational objectives of the organisation. Table 26 depicts Magalies Water's strategic risks for the year ended 30 June 2022.

Table 26: Strategic risks

Strategic Objective	Risk name	Residual Risk Exposure			Root Causes/ Background to the risk		Mitigating measures	Status of implementation as at end of the 2021/22 FY
		Likelihood	Impact	Exposure				
To achieve growth and sustainable Financial Returns.	1. Escalating debt book	Likely	Critical	Critical	1. Customers not paying on time. 2. Non optimal billing cycle. 3. Delays in payments by key customers. 4. Delays in payments by Section 30 customers. 5. Inadequate implementation of SLAs.		1. Ensure effective implementation of the debt recovery strategy Section 30 Customers -Send Monthly and after 60 days reminders. -After 90 days, the matter will be referred to legal for collection -Activate the withdrawal of services for section 30 customers after engagements. Small Customers -Implement the water restriction after 90 days of non-payment -Refer the non-payment cases to legal for collection. -Charge the penalty fee. Bulk consumers -Reduce water supply when there is no payment - CFO to follow up telephonically with the Municipalities -After 90 days of non-payment, a payment agreement should be entered into with the Municipalities. 2. The billing date will be changed from the 8th to the 25th of each month. 3. Full enforcement of restrictions.	Section 30 Customers -Invoices are sent to Section 30 customers on a monthly basis -At the moment KgetlengRiver is the active Section 30 customer that does not pay has been referred to legal for collection. -Services to Kgetleng River LM were not terminated as legal process is underway in a form of alternative dispute resolution. Small Customers -Disconnections were implemented during the quarter for customers that have balances older than 90 days. -Customers have been referred to legal department for non-payment -Once customers are disconnected, they are only reconnected, or services is provided after reconnection fee has been paid. Bulk consumers -Magalies Water experienced difficulties in achieving sales volumes target, which resulted in restrictions not being implemented in an attempt to improves sales volumes - CFO has been doing monthly telephonic follow up with the Municipalities so that they pay -During the quarter there were no new payment arrangements entered into with municipalities as legal process option was being followed. Other 1. Debt collector was appointed in quarter two and the service provider continued providing debt collection services in quarter 4

Strategic Objective	Risk name	Residual Risk Exposure			Root Causes/ Background to the risk		Mitigating measures	Status of implementation as at end of the 2021/22 FY
		Likelihood	Impact	Exposure				
To achieve growth and sustainable financial returns	2. Inability to sustain and grow the business.	Unlikely	Moderate	Low	1. Inadequate debt collection 2. Lack of implementation of Investment strategy 3. Increasing operational costs (utilities, staff, chemicals etc.) 4. Delays in completion of capital projects. 5. Insufficient financial resources		1. Conclude the borrowing limits processes with National Treasury 2. Implementation of the debt collection policy/strategy 3. Review the current Investment strategy 4. Update the financial models within the growth strategy 5. Robust cash flow management and reporting. 6. Filling of vacant posts when funding is available 7. Consider recommendations of the Feasibility study on alternative energy sources 8. Investigate new revenue generation streams. 9. Develop the Magalies Water cost containment Strategy as per National Treasury Framework. 10. Develop Bulk Sanitation Master Plan.	1. Borrowing limit The process for application for a borrowing limit was in progress during the quarter. Meetings were held at strategic level and operational level in preparation for application for borrowing limit 2. Debt collection policy Debt collection policy was implemented during the quarter including: a) Negotiation of debt repayment agreements with small consumers b) Stakeholder engagement meetings to discuss debt c) Letters of demand by legal department d) Disconnection notices issued by finance department 3. Investment strategy Investment strategy could not be reviewed during the quarter. 4. Weekly cash flow management and reporting. Cash flow projections were done weekly within finance department and reviewed by finance manager and CFO. On a monthly basis cash flow projections are submitted to EXCO 5. No new revenue sources have been identified during the quarter 6. SCM policy and cost containment measures were implemented as required by National Treasury circular

Strategic Objective	Risk name	Residual Risk Exposure			Root Causes/ Background to the risk		Mitigating measures	Status of implementation as at end of the 2021/22 FY
		Likelihood	Impact	Exposure				
To provide quality potable water (Raw water sources)	3. Deterioration of raw water quality	Common	Major	Critical	1. Droughts and floods. 2. Water pollution from defuse point and point sources 3. Over abstraction of natural resources. 4. Poor catchment management by Catchment Management Agency and DWS 5. Lack of maintenance and upkeep of dams by DWS.		1. Assess the impact of raw water quality (partner with external party for consultation with DWS) 2. Continuous engagement with DWS on quality challenges affecting the raw water. 3. Continuous monitoring and control of dam and abstraction levels.	1. Engagements conducted with DWS during the catchment forums. -MAP forum (17 May) water quality challenges were presented -Northwest Integrated catchment forum (20 June) 2. Raw Water Quality is monitored daily at Plant level and weekly by Scientific Services Catchment monitoring conducted in this quarter.
To provide quality potable water (Raw water sources)	4. Insufficient raw water quantity.	Unlikely	Moderate	Low	1. Low Dam Levels. 2. Infrastructure failure. 3. Augmentation system restriction or failure. 4. Dependency on infrastructure owned by external parties. 5. Raw water dam leaks. 6. Over abstraction of raw water. 7. Droughts and floods. 8. Water Pollution. 9. Inadequate maintenance of raw water infrastructure.		Vaalkop raw water system 1. Magalies Water to take over Operations and Maintenance of Canal - DHWS. 2. Engage DWS to maintain flow into the canal by controlling algae growth. 3. Request budget for controlling and managing the algae growth. 4. Review and implementation of the Business Continuity Management (BCM) Policy and plans Cullinan raw water system (cdm) 5. Engage the Cullinan Diamond Mine to take over raw water supply system. 6. Repair raw water dam leak at Cullinan WTP.	Vaalkop raw water system 1. Collaboration between Vaalkop management and DWS Hartbeespoort office is ensuring the O&M of Canal is maintained. A new Area Manager has taken over from Hannes Pretorius, who has gone on pension. Mr Moloki Mosome is the new Area Manager and will be engaged on the matters requiring attention at the canal Wallmansthal Raw Water system. 1. Roodeplaat dam is full and overflowing. Supplies both Wallmansthal and Klipdrift system. 2. Augmentation is available when there is need.

Strategic Objective	Risk name	Residual Risk Exposure			Root Causes/ Background to the risk		Mitigating measures	Status of implementation as at end of the 2021/22 FY
		Likelihood	Impact	Exposure				
'To Ensure safe and healthy working environment for employees.	5. Security breaches and incidents.	Unlikely	Moderate	Low	1. Lack of security procedures. 2. Lack of management of security personnel. 3. Inadequate access control measures and monitoring. 4. Inadequate security systems and management. 5. Lack of security training and awareness.		1. Enforce compliance to security measures and report non-compliance to relevant managers for corrective actions. 2. Follow up on the implementation of the recommendations on security risks assessment report. 3. Finalise fencing for Klipdrift, Wallmansthal and Cullinan. 4. Implementation of Bio-metric access controls at all Magalies Water areas - Phased approach strategy 5. Conduct safety and Security awareness campaign	1. A Chief Security Officer position was appointed and started on the 1st of June 2022. 2. Security access control procedure is implemented and monitored on a monthly basis. 3. Security awareness was not done in Q4 due to the facilities Coordinator position not being filled. 4. Fence is currently in good condition in other plants except for Klipdrift and Vaalkop. Klipdrift fence will be addressed through projects. And Vaalkop fence will be addressed in the new financial year. 5. CCTV camera not fully working at Klipdrift, Wallmansthal and Cullinan plant. Fibre installation is in progress and ongoing. 6. Motion sensors were installed in Head Office and Brits. Motion sensors will be installed in F2022/23 in other areas as it was not budgeted for in the current financial year. 7. Monthly security inspection are conducted and form part of security monthly report.
To Manage Customer and Stakeholder interactions	6. Erosion of reputation	Likely	Moderate	Moderate	1. Inadequate Stakeholder Engagements. 2. Lack of communication procedure 3. Ineffective internal and external communication 4. Impact of negative publicity in the business.		1. Holistic implementation of the stakeholder and Integrated Marketing and Communications plans and monitoring 2. Internal Stakeholders 2.1.1. Quarterly staff information sessions 2.1.2. Setting up of CEO@magalieswater.co.za 2.1.3. Online newsletter 3. External stakeholders 3.2.1. Public relations campaigns 3.2.2. Brand positioning 3.2.3. Social media platforms 3.2.4. Ensure full implementation of Customer and stakeholder engagement plan 4. Develop, implement, and monitor the media strategy 5. Develop, implement, and monitor the media Policy 6. Conduct the Quarterly and Monthly Customer & Stakeholder engagement meetings as per the Stakeholder Management Plan.	1. Communication and Media Relations policy developed and approved. 2. Media platforms used regularly to communicate to external stakeholders. 3. The Crisis Management Strategy and the Crisis Communication Plan approved by Board 4. Communication and Media Strategy will be submitted with Q4 reports 5. Media channels including social media platforms are in place and being utilised effectively. 6. Media monitoring is presently done internally through respective platforms. A plan to appoint a Media Monitoring company is underway to measure the effectiveness of our media channel. 7. Internally intranet updates are an ongoing process and information is posted on screens on weekly basis. 8. CI manual review underway and will be presented with Q4 reports.

Strategic Objective	Risk name	Residual Risk Exposure			Root Causes/ Background to the risk		Mitigating measures	Status of implementation as at end of the 2021/22 FY
		Likelihood	Impact	Exposure				
To provide reliable and sustainable water services to customers.	7. Failure of critical infrastructure	Unlikely	Moderate	Low	1. Ageing Infrastructure 2. Dependency on infrastructure owned by external parties * Leaking dams 3. Unreliable electricity supply. 4. Inadequate assets management. 5. Delays in finalising procurement processes.		1. Conclude the borrowing process with the National Treasury 2. Update Bulk Water Master Plan and Develop Bulk Sanitation Master Plan. 3. Ensure the Implementation of minor capex projects. 4. Implementation of Bulk Water Infrastructure Master Plan. 5. Repair, installation, and re-commissioning of Sondela pumps. 6. Sourcing and installation of Modimolle pump 3.	1. The process for application for a borrowing limit was in progress during the quarter. Meetings were held at strategic level and operational level in preparation for application for borrowing limit (Finance to update) 2. Procurement Plan was developed and is being adhered to. 3. Professional Service Provider (PSP) was appointed to review and update the Bulk Water Master, PSP finalising report. 3.1 Plan Service Provider was appointed to develop a Sanitation Master Plan. PSP finalising report. 4. Implementation of the minor capex project is ongoing %29 expenditure was recorded vs projected expenditure of 90%. 5. Implementation of Bulk Water Infrastructure Master Plan is ongoing. 6. Repair, installation and re-commissioning of Sondela Pumps-Pumps were repaired and installed. Procurement process for the services for the installation was completed through a BAC deviation. Pump Set No. 1 was commissioned and tested on the 13th of May 2022. Pump Set No. 3 was commissioned and tested on the 11th of May 2022. 7. Sourcing and installation of Modimolle pump 3- The tender went to BAC; however, tender was non-responsive and is back at BSC. The tender was re-advertised and closed February 2022. The tender was evaluated and returned non-responsive again. The re-tender process has commenced.
To create a high-performance organisation through effective talent management	8. Failure to maintain and retain critical and core skills.	Unlikely	Critical	Moderate	1. Competition for skills 2. Lack of implementation of retention policy 3. Lack of flexibility when budgeting for positions.		1. Implement the retention policy 2. Review budgeting for positions 3. Review remuneration policy. 4. Conduct workshop on policies	1. Skills Audit report to be presented to Exco. 2. Staff turnover was at 0,33% in Q4.

Strategic Objective	Risk name	Residual Risk Exposure			Root Causes/ Background to the risk		Mitigating measures	Status of implementation as at end of the 2021/22 FY
		Likelihood	Impact	Exposure				
To provide reliable and sustainable water services to customers.	9. Poor quality of potable water. (Non-compliance to SANS Standards)	Unlikely	Moderate	Low	1. Droughts and floods. 2. Deteriorating quality of raw water. 3. Inadequate distribution system management. 4. Over abstraction of natural water resource. 5. Inappropriate and failure of plant treatment processes and technologies. 6. Inadequate maintenance of Canal. 7. Reliance on third party supplier (CoT) 8. Blending of water in distribution system 9. Infrastructure failure 10. Lack of adequate skills (process controllers)		1. Conduct annual technical process audit for each plant and implement recommendations thereof. 2. Implementation of Online Analysers 3. Identify treatment processes for blended water 4. More robust engagements with CoT to supply water that complies with standards. 5. Upgrading Wallmansthal WTP 6. Monitoring and cleaning of plant reservoirs and attending to issues in the distribution system. 7. Enforcement of SLAs with suppliers.	1. Potable water produced for this quarter met the SANS 241:2015 Standards. 2. FY21/22: Scheduled as follows Cullinan: Q2: Number of Findings: 16 (100%) Completed: 6 (36.50%) Outstanding: 0.00% On-going: 10 (62.50%) Vaalkop: Q4 Wallmansthal :Q3 Number of Findings: 9 (100%) Completed: 5 (56.00%) Outstanding: 1 (11.00%) On-going: 3 (33.00%) Klipdrift: Q3 Number of Findings: 17 (100%) Completed: 5 (29.00%) Outstanding: 0.00% On-going: 12 (71.00%) Five-year audit done by Khulanonke: all four plants audited Number of Findings:143 (100%) Completed: 112 (89.00%) Outstanding: 0.00% On-going: 14 (11.00%)

ORGANISATIONAL EFFICIENCY AND EFFECTIVENESS

Operations

Magalies Water’s operations form part of the responsibilities of the Chief Operations Officer, who is assisted by three Exco members, namely the General Manager: Water Services, General Manager: Project Management Unit, and General Manager: Engineering Services.

Water Services Division

The Water Services Division implements scientific service related functions. The state-of-the-art laboratory remains the flagship enabler for analytical services on potable water supplied to customers.

Laboratory Services

Magalies Water Scientific Services, situated in Brits, provides world-class services to its clients through its state-of-the-art laboratory. The laboratory is comprised of the organic chemistry, inorganic chemistry, microbiology, hydrobiology and Molecular sections.

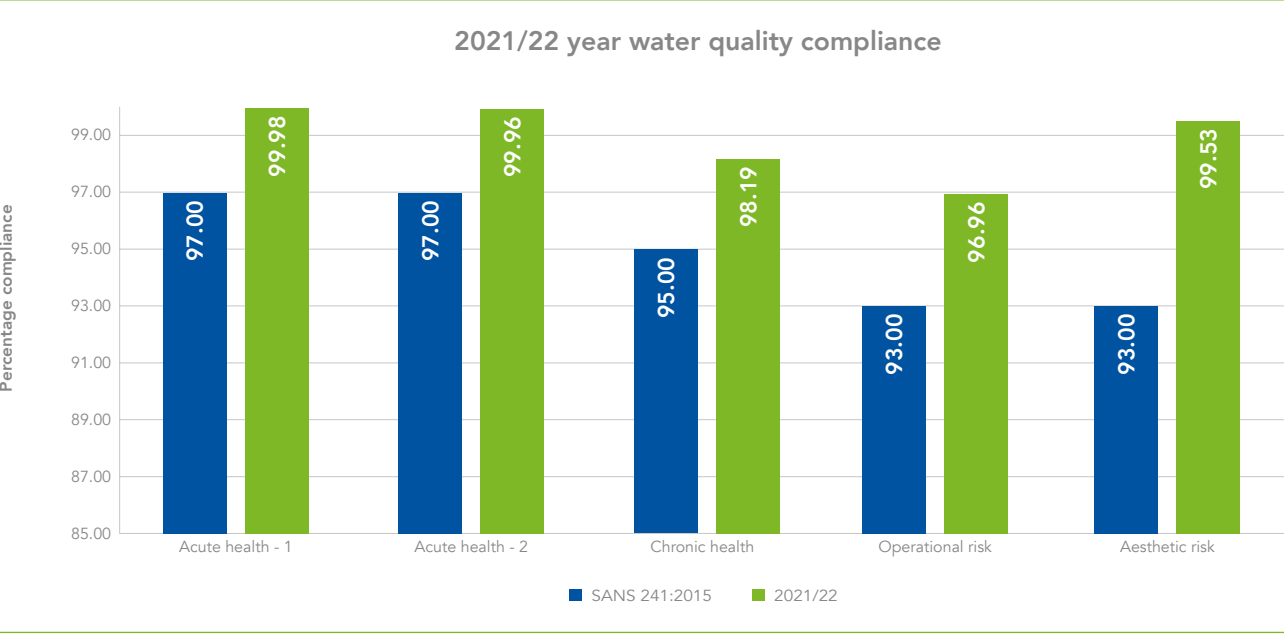
The facility is ISO/IEC 17025 accredited, which demonstrates that the laboratory operates competently and generates valid results, promoting confidence in their work both nationally and internationally. Scientific Services achieved 63 accredited methods – 52 for chemistry and 11 for microbiology. Highly-skilled scientists conduct more than 60 000 analyses annually to ensure that water quality complies with the national drinking water standards, SANS 241:2015.

The sampling and monitoring programmes are compliant with the Blue and Green Drop as well as SANS 241:2015 requirements. In addition to potable water quality analyses, the laboratories also conduct analyses on environmental samples of both potable water and wastewater.

Water quality compliance

Magalies Water has set SANS 241:2015-compliant performance indicators to monitor and assess quality of water supplied to customers. Figure 6 depicts compliance with SANS 241:2015 risk categories, which are key indicators of the quality of potable water for consumption.

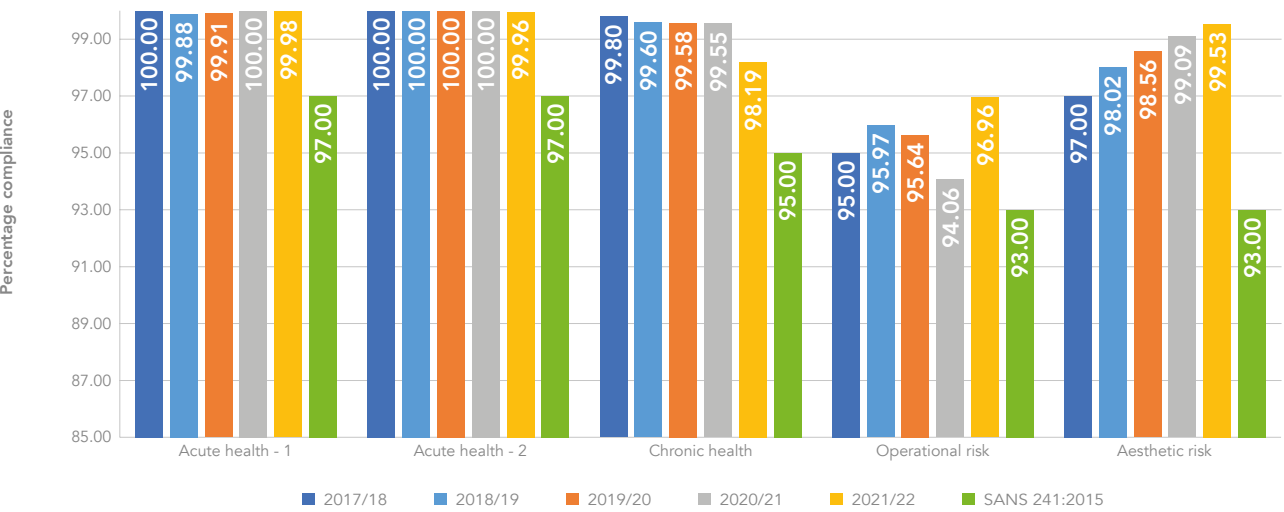
Figure 6: FY21/22 Water quality compliance



- The four water quality determinants referred to above are as follows:
- Acute health risk (both 1 and 2) refers to determinants that pose immediate and unacceptable health risk if specified contamination limits are exceeded.
 - Chronic health risk refers to determinants that pose unacceptable health risk if ingested over an extended period, provided their presence exceeds specified SANS 241:2015 limits.
 - Operational risk refers to determinants essential for the efficient operation of treatment systems and identification of risk to infrastructure.
 - Aesthetic risk refers to determinants that taint water’s taste, odour or colour, but do not pose any unacceptable health risk even if specified contamination limits are exceeded.

The high levels of compliance demonstrate in Figure 7 are attributed to the ability of Magalies Water’s laboratory to accurately analyse and timeously report on water quality so that key operational decisions may be taken and implemented at water treatment plants.

Figure 7: Five-year water quality compliance to SANS 241:2015

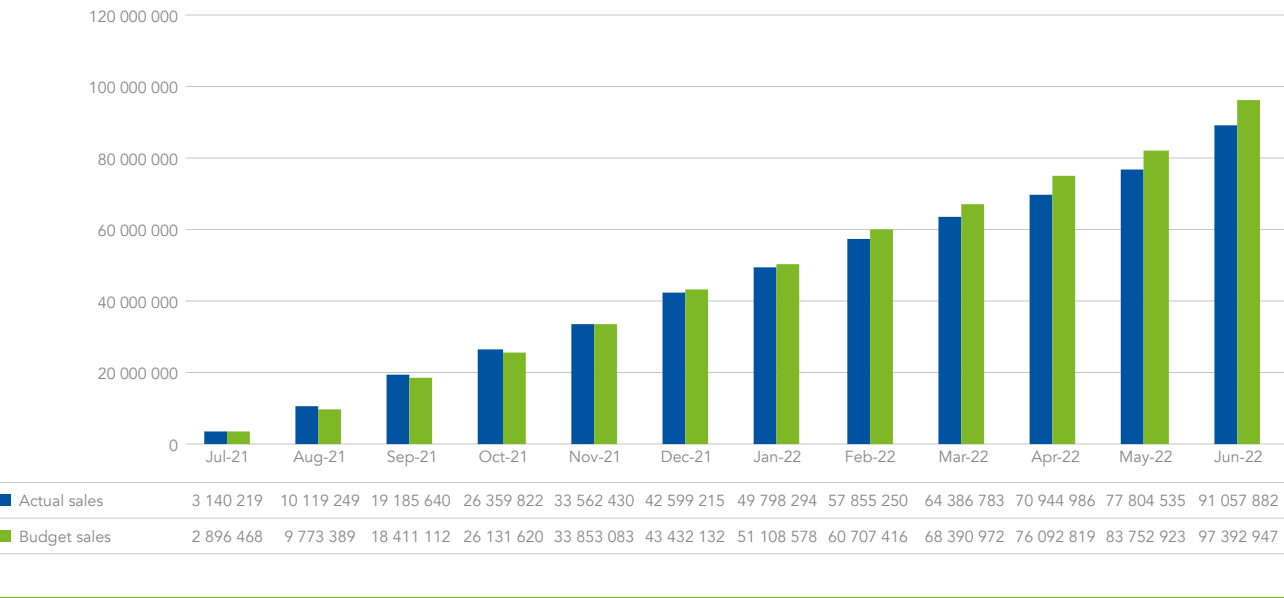


Compliance achievement levels for these years are attributable to the execution of water services targets as per the corporate plan. The audited annual reports for these years demonstrate uninterrupted and consistent compliance to SANS 241:2015.

Water sales volumes

Sales volumes are the primary success factor that drive Magalies Water’s revenue. Figure 8 shows the accumulated total potable water sales volume of 91 057 882 against set targets or budgeted sales for the four WTPs. In 2021/22, Magalies Water fell below its budgeted sales volumes of 97 392 947 by 6.50%.

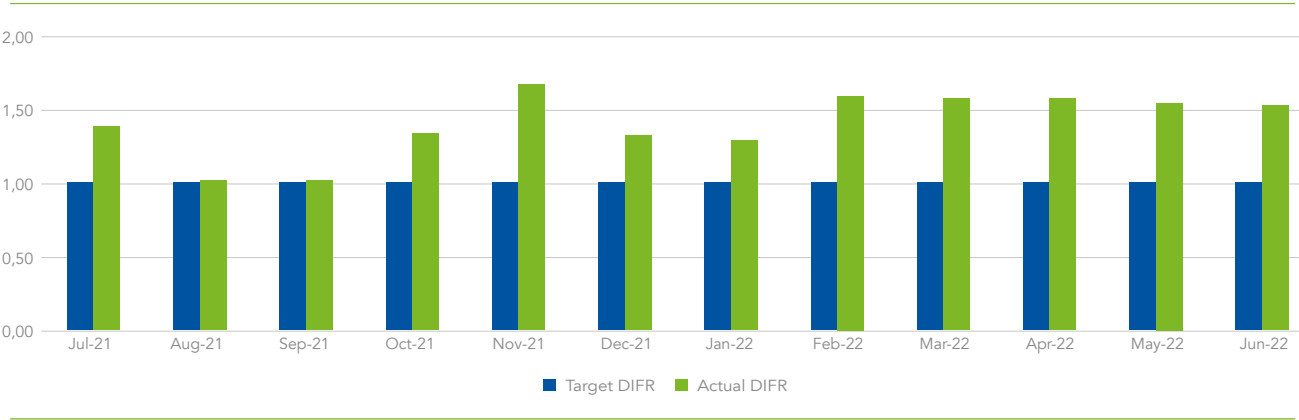
Figure 8: Potable water – accumulated actual sales vs budgeted sales



Safety and management

The ISO 45001 (2018) management system was implemented in 2021/2022 financial year. System and safety operating procedures were developed and implemented, and the system was audited internally to evaluate its efficiency and effectiveness. All identified non-conformances were addressed and closed. External auditors (SABS) were appointed to conduct Stage 1 Audit in preparation to get the system certified. Nine audit findings were identified and are currently in progress to be closed. A health and safety compliance audit was conducted in 2021/2022 financial year to evaluate compliance to occupational health and safety legislation, regulation, local bylaws and best practices. During 2021/2022, there were five injuries on duty. The disabling injury frequency rate (DIFR) for the year was 1.54, as shown below.

Figure 9: Disabling injury frequency rate



Environmental management

An environmental compliance audit was conducted in the year under review to evaluate compliance with environmental legislation, regulations and local bylaws. During 2021/22, a number of Environmental Management Implementation Plan initiatives were rolled out including:

- ISO 14001:2015 management system certification
The ISO 14001 (2015) management system was certified in 2021/22, with an annual surveillance audit conducted by the South African Bureau of Standards in 2021/22 to ensure the system is still efficient and effective. All non-conformances were cleared within the required three months.
- Eradication of alien plant species
Magalies Water understands that landowners are legally responsible for the control of invasive alien plants on their properties in terms of the Conservation of Agricultural Resources Act, 1983 (Act 43 of 1983). As a result, during the 2021/22 financial year, Magalies Water removed the identified species from all four plants. Monitoring and maintenance are conducted annually.

Engineering Services Division and the Project Management Unit

The Engineering Services Division and the Project Management Unit (PMU) focused on assisting divisions to successfully complete capital expenditure infrastructural upgrades, refurbishments, construction, monitoring, evaluation and quality compliance. The work included managing the outsourcing of work that Magalies Water is unable to do in-house.

PMU is also responsible for oversight of budgetary constraints, performance obligations and communication of progress and challenges to the Board.

The capital expansion master plan provided a trajectory for the organic growth of Magalies Water through implementation of water services infrastructure. Expansions of infrastructure were carried out to enhance operational capacity and resilience in response to the increasing demand for water supply. Completed projects enable Magalies Water to increase its asset base and geographical reach for water services provision.

During 2021/22 work continued on the Magalies Water’s self-funded projects that were started previously and carried over.

SELF FUNDED PROJECTS

Moretele South rising main and reservoir

The overall project for the pipeline is 100% complete. The practical completion was achieved on 18 February 2022. The commissioning and hand over of the pipeline was done on 5 May 2022. The Detailed Design Report for the Reservoir and the Far West Pipeline has been completed. The new 25 Ml Moretele Command Reservoir and the Far West Pipeline tenders have been advertised for the appointment of a Contractor; the briefing session and closing dates for both tenders will take place beginning of the 2022/23 financial year.

Mafenya to Evergreen (Cathodic Protection)

The Detailed Design has been completed. The contractor has commenced with the installation of the Zinc Ribbon, and over 5km has been installed.

Pilanesberg Phase 3

Three milestones have been met: the Inception report, technical feasibility study report and preliminary design report were completed. The Department of Water and Sanitation had committed to fund the IRS development with R36 million during 2018/19 financial year. Final IRS has been completed, however, it is still waiting upon DWS for approval.

Chlorine dosing upgrade

The contractor was appointed on the 30th of November 2021. The project overall progress is at 48% complete. The installation of equipment is at 24%. The civil works is at 43% complete and the mechanical work is at 9% complete. The anticipated completion of the project is 30 August 2022.

SECTION 30 PROJECTS

Brits Water Treatment Plant upgrades

The upgrade is 73% complete for the overall civil works at the water treatment works (WTW). The electrical contractor commenced work on 5 October 2021. The mechanical contractor was appointed on 9 March 2022 and has commenced work.

PROJECTS WITH IMPLEMENTATION READINESS STUDIES

The status of the implementation readiness studies reported in previous financial years remained unfinished due to financial constraints. The programme entails construction of the following:

- A bulk pipeline from La Patrie Reservoir to Moruleng to address the increasing water demand of Moses Kotane Local Municipality
- A pipeline and pump station between Padda junction and Thabazimbi to augment the current bulk supply to Thabazimbi Local Municipality
- A gravity pipeline from La Patrie Reservoir to Sandfontein to replace the current pipeline to meet existing and future water demand
- A pipeline that connects Padda junction to Swartklip to replace the currently stressed and aged pipeline.

CORPORATE SERVICES DIVISION

The purpose of the Corporate Services Division is to strengthen the dynamism of Magalies Water for continuous improvement in the human capital management and corporate support functions. In coordinating human resource development, legal services, records management and information communication technology (ICT), the division balances technology and human capital inputs to ensure effective and efficient business operations.

The division creates and maintains an environment that is supportive of employees through targeted high-impact interventions that can enhance performance. The interventions include advancing skills development – namely internships, learnerships, graduate trainee and (internal and external) bursary programmes – to prepare employees for the changing world of work, continuous learning and development and for potential career advancement and to preserve a high-performance culture.

As the wellbeing of staff is a fundamental pillar in talent management, the organisation provides an employee wellness programme that includes health testing and counselling services, managing employee psychosocial challenges, and monitoring and managing employee absenteeism. The division's Employee Relations Unit focuses on maintaining healthy internal stakeholder relationships, engagement plans and consultation with the unionised labour force, among others.

The division also manages compliance to the labour relations-related legislative frameworks and implements initiatives to be integrated into corporate plans. This enables the organisation to achieve the following:

- Attraction, selection and retention of skilled employees
- Continuous improvement of the organisation's employment equity profile
- Training and development of employees
- Retention of skilled and technical staff
- Implementation of benchmarked employment best practices and policies.

Human Capital Management

People are central to Magalies Water becoming the leading provider of quality water services in South Africa and the people who deliver these services are knowledgeable and specialists in their fields – and are dedicated to Magalies Water. They maintain our customer-focused culture and are respectful of the needs of internal and external stakeholders. They strive to employ best practices and their performance embodies the values of the institution.

Human capital management strives to:

- Create a leadership culture that enables an innovative and growing organisation
- Ensure that the organisational structure is effectively managed to enable the implementation of the organisation strategy
- Manage talent, succession planning and continuous learning and development to drive organisational objective and to provide strategic support
- Enable a high performing organisation by creating an environment of learning and self-development
- Maintain the organisation at the cutting edge by implementing advanced policies and procedures in remuneration and rewards
- Create a caring organisation that enables a cultural environment that facilitates the implementation of the organisation strategy.

Workforce Profile

Magalies Water complies with the applicable labour and employment prescripts. Plans relating to staffing are implemented in accordance with the Employment Equity Act, 1998 (Act 55 of 1998). Employment equity is realised through recruitment by ensuring that all designated groups are included and that previously disadvantaged persons (including people living with disabilities) are afforded equal and fair opportunities for employment at Magalies Water. The tables that follow, reflect performance on staff recruitment and employment during the year under review.

Table 27: Employment report

Employment group	Baseline (as start of financial year)	Total (end of Q4)	Reasons for variances
Top management	4	4	Resignations End of fixed-term contract Deaths New appointments Transfer of Madibeng employees (Section 30)
Senior management	3	3	
Professional qualified	56	61	
Skilled technical and academically qualified workers, supervisors, foremen and superintendents	67	73	
Semi-skilled and discretionary decision-making	85	86	
Unskilled	79	78	
Total permanent	294	305	

Table 28: Employment report by race and gender

Race	Gender	Total number	Percentage	Male	Female
African	Male	165	54.10%	59.02	40.98
	Female	116	38.03%		
Indian	Male	2	0.66%		
	Female	1	0.33%		
Coloured	Male	3	0.98%		
	Female	2	0.66%		
White	Male	10	3.28%		
	Female	6	1.96%		
Total		305	100%		

Table 29: Equity equity status – male

Occupational level	Male							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	2	0	0	0	0	0	0	0
Senior management	2	0	0	0	1	0	0	0
Professionally qualified	34	0	1	0	1	0	3	0
Skilled technical	26	1	1	0	0	0	6	0
Semi-skilled	48	0	1	0	0	0	0	0
Unskilled	53	0	0	0	0	0	0	0
Total	165	1	3	0	2	0	10	0

Table 30: Employment equity status - female

Occupational level	Female							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	2	0	0	0	0	0	0	0
Senior management	0	0	0	0	0	0	0	0
Professionaly qualified	19	2	0	0	0	0	3	0
Skilled technical	36	1	1	0	1	0	2	0
Semi-skilled	34	2	1	0	0	0	1	0
Unskilled	25	1	0	0	0	0	0	0
Total	116	6	2	0	1	0	6	0

Table 31: Employees with disabilities

Occupational level	Employees with disabilities			
	Male		Female	
	Current	Target	Current	Target
Top management	0	0	0	0
Senior management	0	0	0	0
Proffessionaly qualified	1	0	0	0
Skilled technical	0	0	0	1
Semi-skilled	2	0	0	0
Unskilled	0	0	0	0
Total	3	0	0	1

People living with disabilities make up 0.98% of the total staff complement, a decline from 1.36% reported in the previous year, due to one death in this financial year. Continuous efforts are made to employ more people living with disabilities.

Employee relations management

The Employee Relations Management Unit oversees implementation of mandatory and statutory compliance imperatives specified in the labour laws of South Africa, as well as any other binding government instruments. Unionised staff members belong to either the National Education, Health and Allied Workers Union or the South African Municipal Workers Union. The function handles the disputes and grievances of both unionised and non-unionised staff.

The table below provides a summary of personnel costs.

Table 32: Personnel costs by item

Item	Total expend- iture	Staff expendi- ture	Staff expenses/ total expenses	Employees	Average staff cost
Measure unit	(R'm)	(R'm)	%	Number	R'm value
Direct employee costs	695 085	118 179	46%	222	553 234
Support services		139 910	54%	83	168 566
Total		258 089	100%	305	2 218

Table 33: Personnel costs by salary band

Item	Staff expenditure	Staff expenses/ Total expenses	Employees	Average staff cost
Measure unit	(R'm)	%	Number	R'm value
Top management	8 928	3%	4	2 232
Senior management, Professionally qualified, Skilled, semi-skilled and unskilled	249 161	97%	301	828
Total	R258 089	100%	305	3 060

Table 34: Personnel costs by salary band

Item	Performance rewards	Personnel expenditure	Performance rewards to total personnel costs
Measure unit	(R'm)	(R'm)	%
Top management	R1 905 090.32	208 852	10%
Senior management	R1 134 965,20		
Professionally qualified	7 524 925,57		
Skilled, semi-skilled, unskilled	R 12 267 963,33		
Total	R 23 017 848	208 852	10%

Staff turnover monitoring and management

The 2021/22 percentage staff turnover was, as in the past years, lower than the 3% target. The financial year closed at 1.32% compared to 2.91% in the 2020/21 financial year.

Additional alignment: Ministerial outcomes, DWS strategic goals and water objectives

Throughout 2021/22, Magalies Water continued to strive for its transformation and developmental agenda objectives in terms of Ministerial outcomes 5 and 12 focusing on an efficient, effective and development-oriented public service and an empowered, fair and inclusive citizenship (National Development Plan 2030) and job creation: a skilled and capable workforce to support an inclusive growth path.

Organisational capacity/job creation management

This section provides a breakdown of alignment initiatives from both an external (communities in which Magalies Water has a presence) and an internal (own employees’ career growth) perspective.
Direct jobs

Five new positions were filled in the 2021/22 financial year. Only pre-existing vacancies were filled, as and when there were resignations.

Indirect/temporary jobs

For the reporting period ending 30 June 2021, Magalies Water created 227 indirect jobs (against a planned total of 40) through Section 30 contracts. Work was performed by permanent employees and by contracting to BBBEE-compliant service providers, where necessary.

Human Resources Development

The Human Resources Development unit implements skills development initiatives in compliance with the Skills Development Act, 1998 (Act 97 of 1998) and supports government skills development programmes for young South Africans. For the year under review, the organisation submitted the workplace skills plan (WSP) and the annual training report (ATR) to the Energy and Water Sector Education and Training Authority, detailing various programmes to be implemented during 2021/22 to build capacity and capabilities.

Skills development programmes

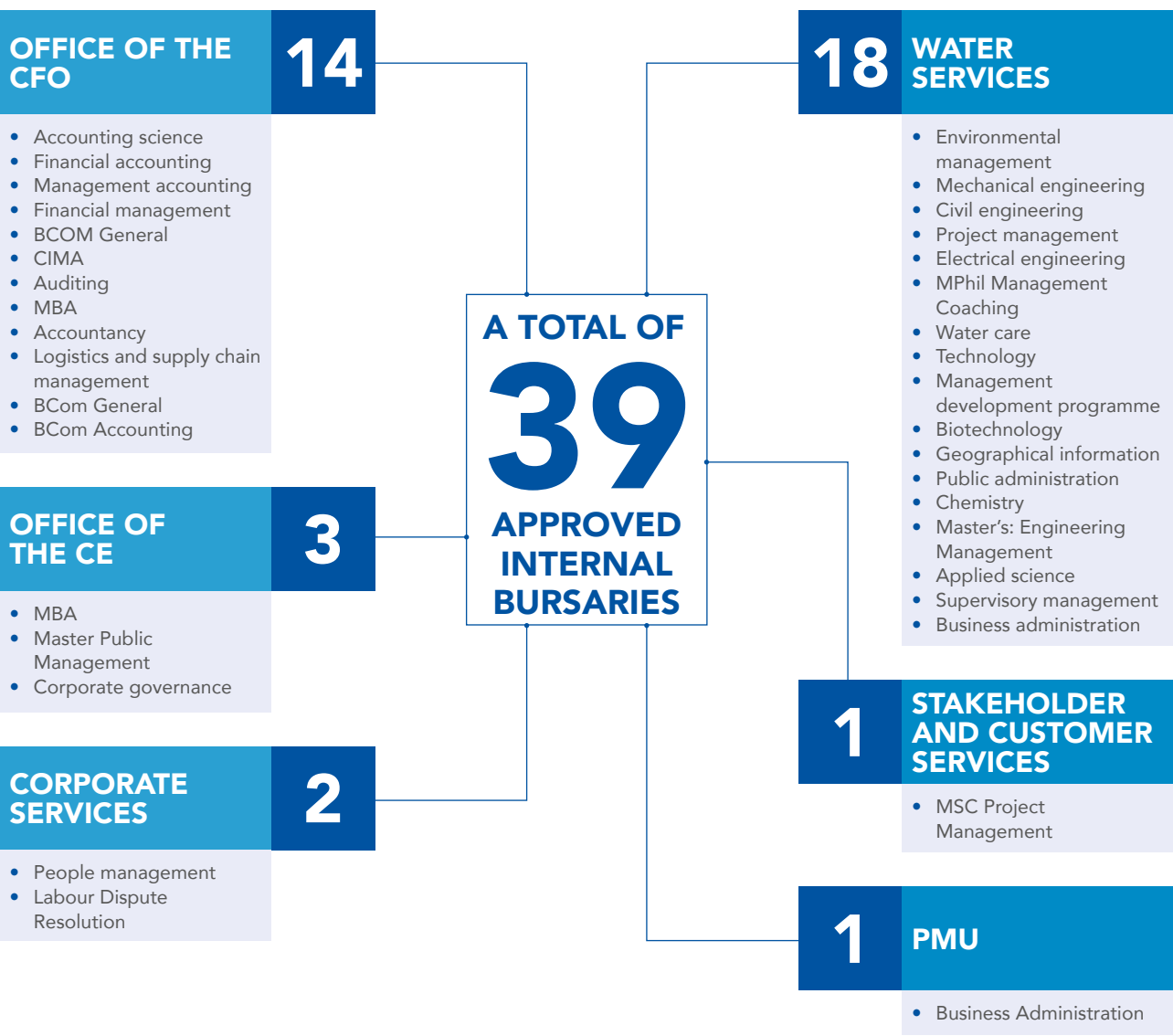
The Human Resources Development objectives are aligned to the strategic objectives to achieve a high-performance culture by building internal skills and capacity and to positively engage stakeholders through the promotion and implementation of initiatives that have socio-economic development impact. The organisation prioritises capacity building initiatives that add value and improve business efficiencies and effectiveness.

Internal bursaries

Magalies Water awards bursaries to internal permanent and fixed-term contract employees to enhance business productivity, promote individual career aspirations and facilitate a high-quality, reliable, dependable and ethical staff performance aligned to the desired culture of the organisation.

During the year under review, the target of 20 bursaries was exceeded, with the organisation awarding 39 bursaries in total, 27 of which were carried over from the previous year, including 12 new bursaries for the 2021 academic year.

Figure 10: Approved internal bursaries by department and field of study



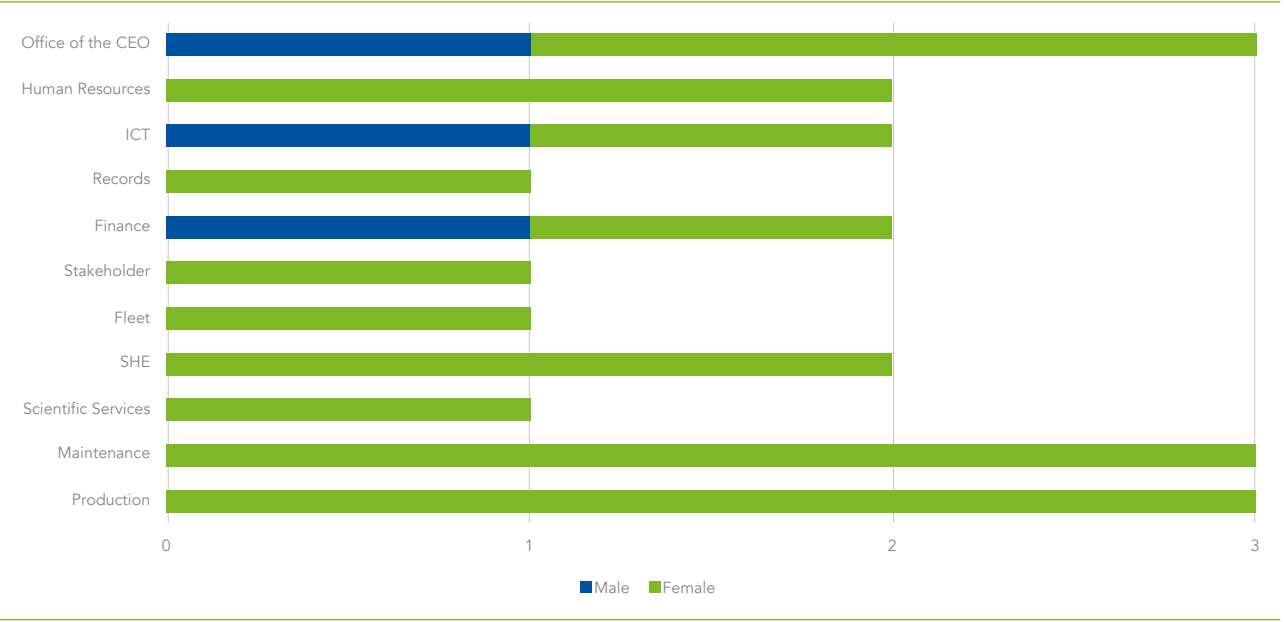
Contribution to the national capacity-building programme/skills development

Magalies Water is committed to providing much-needed opportunities to unemployed graduates and to potential entrants to the labour market. During 2021/22, all the indicators for skills development initiatives were either met or exceeded. Candidates were able to apply their knowledge and skills, and gain work experience.

Internships

The target of placing 10 interns in 2020/21 was exceeded by 11. The graph below shows the details of the 21 interns and the business functional areas in which they were placed.

Figure 11: Allocation of internships by department and gender

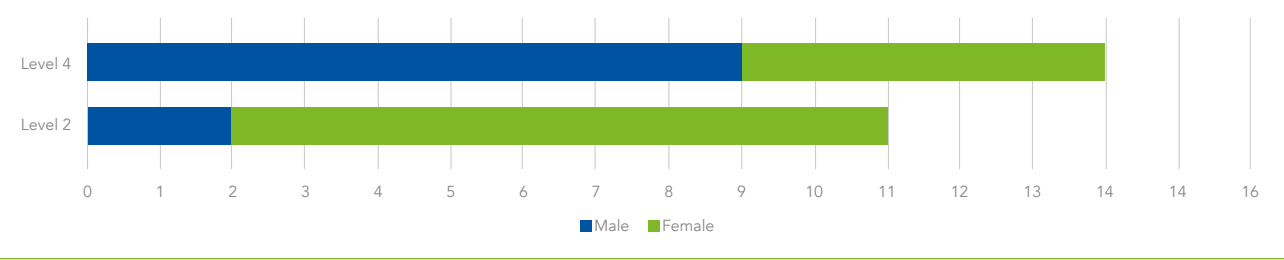


The internship programme is in line with the Skills Development Act, 1998 (Act 97 of 1998), which states that every employer should use the workplace as an active learning environment and that employers should provide young people with workplace experience to enter the job market. To better achieve these objectives, management approved the appointment of interns for 24 months per candidate. Four interns were appointed to permanent positions.

Learnerships

Magalies Water has two external learnership programmes. During the year under review, 14 learners were placed on the process control learnership at National Qualifications Framework (NQF) level 4 while 11 learners were placed on the water treatment and process control learnership at NQF level 2. The qualifications enable the learners to find job opportunities in the water sector. The achievements shown below are also in line with the Skills Development Act, which requires employers to provide opportunities for new labour market entrants to gain work experience and/or (when possible) to employ persons who find it difficult to find jobs.

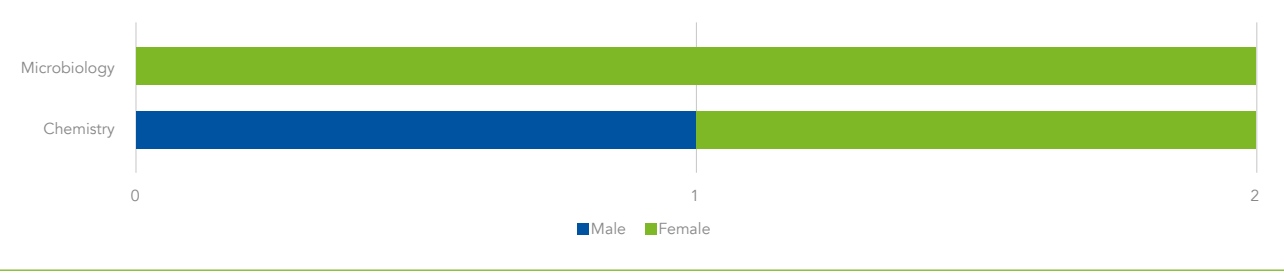
Figure 12: Number of learnerships by gender and NQF level



Graduate capacity-building programme (engineering)

During the 2021/22 financial year, four graduates underwent active learning in accordance with the annual target aimed at exposing youth to practical engineering work experience and to address scarce and critical skills in the water sector. These graduates were recruited by and placed at different water treatments plants. A breakdown is provided in the figure below. The graduates were mentored by qualified and skilled professionals.

Figure 13: Graduates per department and gender



External bursaries

Magalies Water has nine external bursars studying through universities; these were all carried over from the previous financial year. External bursaries are awarded to individuals who want to pursue studies in line with Magalies Water's core business. By awarding bursaries, the organisation aims to create a medium to long-term pipeline of qualified candidates from which the organisation can recruit scarce skills. The bursaries are in the following fields:

- Electrical engineering (one)
- Chemical engineering (one)
- Civil engineering (two)
- Water care (two)
- BSC Biological Science (one)
- Biotechnology (one)
- Human Resources (one)

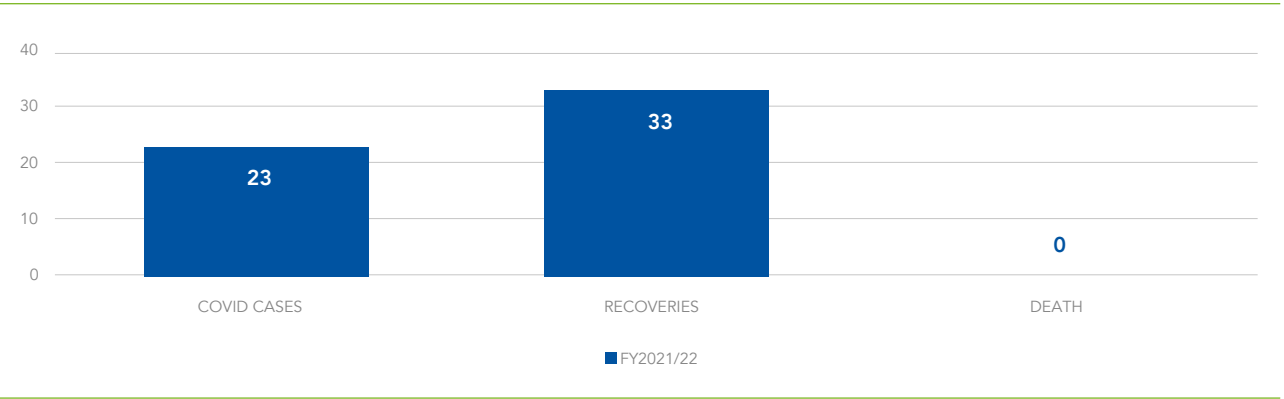
Employee wellness programme

The employee wellness programme (EWP) includes a health risk assessment and is made available to all employees and their immediate family members on a 24-hour basis throughout the financial year. For ease of access, it is outsourced to private service providers. The EWP offers several services, individually or in combination, including:

- Face-to-face or telephonic counselling (self-referral or managerial referrals)
- Group trauma intervention
- Awareness and education workshops.

The Magalies Water utilisation rate is 8.3% compared to 14.9% average of the service provider. The Employee Wellness Unit consistently communicates the benefits of the programme to employees.

Figure 14: COVID-19 cases, recoveries and deaths



Information, Communication and Technology Department

The ICT Department gives effect to the Board's function in terms of Principle 12 of the King IV Report on Corporate Governance, which states that, 'The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives'. King IV highlights the following key focus areas for the Board:

- Addressing ICT governance in a manner that moves beyond intimidating technical language
- Setting the foundation – an overview of the nature of ICT and the rapid advances in technology
- Aligning strategy from board level to information technology (IT) technical level
- Discussing methodologies to achieve ICT governance
- Discussing key IT governance issues relating to ICT assurance and reporting
- Addressing key technology issues and challenges facing the organisation and topical areas such as disruptive technologies, cloud-computing and cyber-crime, among others.

Throughout the year, Magalies Water leaned on the ICT Department to address stakeholder expectations so that multiple business divisions or departments could use only a company-wide 'owned' set of services rather than applications that are separately 'owned' or procured by individual business units when controlling budget, supply chain management, assets management, plant maintenance, billing, payroll and staff leave. The effectiveness on the use of Office365 particularly the SharePoint platform, was improved, and the Board PAC was reactivated to assist the board and executive to enable effective governance with paperless board meeting automation.

The ICT function bolstered the ability of the Board to evaluate, direct and monitor the use of the enterprise's technology and information resources to achieve strategic objectives. The Board and executive managers – even during the COVID-19 lockdown – continued to be mindful of the implications of fuzzy business boundaries that result in ICT governance responsibilities extending beyond the traditional corporate boundaries. Magalies Water did not experience such challenges because ICT governance is already integrated and applied in the organisation's value chain.

The ICT Department, staffed by dedicated specialists, effectively monitored and measured business-enabling tools in terms of, among others:

- Systems availability, which was sustained at 95.38%, 0.38% above the target of 95% up-time
- Wide area network availability, which was at 96.75%, 1.75% above the target of 95% up-time
- Measures to address emerging cybersecurity risks and threats, which included the enhancement of intrusion detection system and intrusion prevention system.

Further improvements to physical security were the implementation of aspects of the fourth industrial revolution (4IR). Artificial intelligence non-contact access control systems were rolled out to the Vaalkop treatment plant and Brits laboratory to comply on National Key Points requirements.

Information Security is the protection of information in opposition to fault, disclosure and manipulation. It is commonly accepted that the majority of the security violations are due to human interaction rather than technology fault. The ICT Department ensured the compliance with relevant best practices, legislations, and frameworks by conducting awareness workshops/trainings and communication to its stakeholders, and strengthened access to systems. In addition, it guaranteed business continuity by maintaining the recovery site in case of a disaster.

The modern workplace continues to change as new technologies enter the workplace and affect the ways we communicate and conduct business. One of the most impactful technologies implemented was the online collaboration technology which includes video conferencing and presentations. The technology enabled the flexibility of more agile collaboration, saving costs and time on traveling and accommodation.

STAKEHOLDER AND CUSTOMER SERVICES DIVISION

Stakeholder engagement is considered an integral part of sound governance processes. The King IV Report on Corporate Governance requires that the governing body in its execution of governance roles and responsibilities adopt a stakeholder-inclusive approach into corporate decision-making.

In view of the aforesaid, Magalies Water’s primary business makes it imperative to engage with stakeholders on a scheduled and voluntary basis. The Stakeholder and Customer Division’s mandate is to continuously engage with key stakeholders with a view to support public policy as well as to advance communication initiatives that elevate the marketing and branding reach of Magalies Water.

Furthermore, the division supports the organisation’s main mandate through the fulfilment of the Customer Services Charter (which incorporates the Batho Pele Principles). Overall, the performance of the division during the 2021/22 financial year was above expectations although some areas still require attention.

The division consists of two departments, namely a) the Stakeholder and Customer Services Department and b) the Marketing and Communications Department.

Stakeholder and Customer Services Department

The key functions of the department are the following:

- Stakeholder engagement
- Customer Services
- Business development
- Corporate Social investment, which contributes to the government Developmental Agenda through target intervention programmes
- Bulk water supply agreement (BWSA): Performance oversight through service level Balance Score Scorecard.

Stakeholder engagement

Magalies Water’s stakeholder engagement activities take into consideration the operating environment, in particular the external forces that may impact on the reputation and positioning of the organisation. The stakeholder engagement plan encompasses planned engagement activities aligned to the Magalies Water corporate plan. The planned activities engage stakeholders (shareholder, customers) towards enabling appropriate level of influence to the flexibility of our operations, growth and planning, which is one of the key performance areas supporting the corporate plan. The plan is implemented as outlined in Figure 15.

Figure 15: Programmes under the stakeholder engagement plan



The overall achievement for engagements with key stakeholders for the 2021/22 financial year was 153%.

Customer service

One of the key corporate strategic objectives is to manage customer and stakeholder relations. The management of customers is done through the service level agreement scorecard and contact centre performance matrix indicator. The overall performance for the year under review scored on average above 90%.

Business development

During the year under review, Magalies Water was able to secure new business agreements.

Table 35: New Section 30 customers

No	Name of municipality	Nature of services	Status
1	Moretele Local Municipality	Operations and maintenance of municipal rural water supply infrastructure	The agreement expired and was extended for the next three years
2	Kgetlengrivier Local Municipality	Operations and maintenance of the Koster Water Treatment Works, Koster Wastewater Treatment Works, and Swartuggens Water Treatment Works	A three-year agreement is in place

Bulk Water Supply Agreements (BWSA)

BWSAs with local municipalities

Magalies Water entered into bulk water supply agreements with the following institutions:

- Water services authorities:
- Bela-Bela Local Municipality
 - City of Tshwane Metropolitan Municipality
 - Modimolle Local Municipality
 - Moses Kotane Local Municipality
 - Rustenburg Local Municipality
 - Thabazimbi Local Municipality.

- Water services institutions:
- Rand Water
 - Royal Bafokeng Administration.

At the end of February 2021 one bulk water supply agreement (Royal Bafokeng Administration) expired while seven other agreements are active, which represents 87.5% compliance.

BWSAs with mines, industries and national government departments

Magalies Water entered into bulk water supply agreements with fifteen (15) mines. Two agreements had expired and needed to be renewed while 13 are active, which represents 87% compliance. The duration of the contracts with most of the mines and national departments are open-ended. Magalies Water has started the process of renewing and reviewing the agreements to align them with Section 29 of the Water Services Act, 1997 (Act 108 of 1997).

Corporate social investment (CSI)

The mandate of Magalies Water is set out in Sections 29 and 30 of the Water Services Act, 1997 (Act 108 of 1997). In addition to its mandate, the Shareholder acknowledges that Magalies Water has a strategic developmental role that may require decisions that are not always optimal from a commercial perspective, but should contribute to National Government's broader objectives of growth and development in Africa, South Africa and, in particular, its area of operation.

Magalies Water's corporate social investment (CSI) plan is developed and implemented to enable effective implementation of CSI initiatives and give effect to the Board's commitment to corporate citizenship.

CSI linkage to strategy

In line with the Magalies Water corporate plan and annual performance plan, the Board approved CSI projects in compliance with the organisation's commitment to deliver on the key performance indicator to contribute towards transformation and development agenda. This deliverable speaks to the transformation perspective of the balanced scorecard.

Magalies Water annually commits funding towards CSI initiatives in order to give practical effect to government's developmental agenda. Additionally, the organisation has also taken further steps to include CSI in its corporate plan under the strategic objective of being "a responsible and contributing corporate citizen". The focus areas are primarily on basic water supply augmentation and basic sanitation.

The developmental role and the aforementioned prescripts are given practical effect through the corporate social responsibility (CSR) programmes. The organisation effectively contributes to local communities through corporate social investment (CSI) initiatives to provide sustainable socio-economic benefits to the affected communities.

The initiatives focus primarily on, but not only limited to, basic water supply augmentation and basic sanitation.

Magalies Water planned to implement three (3) CSI initiatives for the 2021/22 financial year.

City of Tshwane: Borehole refurbishment and installation of a water Quality treatment facility

- Scope:** Installation of the disinfection dosing system and pumps on the existing two boreholes
- Project impact:** Water was being carted/tankered to the community of Overwatch. After refurbishment, the water from boreholes supplies an existing elevated steel tank which will supply the reticulation network and make potable borehole water readily accessible to the community at large, as well as the clinic.
- Project Status:** 100% Complete.

Moses Kotane Local Municipality: Refurbishment of storage tank

- Scope:** Refurbishment and cleaning of steel water storage tanks at Motlhabe and Dikwepi
- Project Impact:** Increased water storage capacity and extension of supply coverage in the area and to the larger community.
- Project Status:** 100% completed

Bojanala Platinum District Municipality: Moretele Fire Station

- Scope:** Refurbishment and repair a of a collapsed borehole, and water quality sampling
- Project Impact:** The project assisted in alleviating water supply disruptions to the fire station.
- Project Status:** 100%

Marketing and communication

The role of the Marketing and Communication Department is to ensure that there is continued sound stakeholder relations management, positive organisational profiling and marketing through proactive internal and external communications, public relations campaigns and interactive media relations. Furthermore, the Marketing and Communication Department plays a strategic and supportive role to other departments within the organisation by coordinating all Magalies Water corporate brand initiatives.

Marketing and communication initiatives seek to elevate the brand by increasing its visibility and making use of messages that communicate the organisation’s vision to its stakeholders. This is done through the following channels:

- Internal and external publications and outdoor advertising tools for brand elevation
- Content creation through the Magalies Water website, intranet and social media platforms
- Events that aim to enhance existing stakeholder relations while providing opportunities to create new ones
- Interviews on local media platforms that aim to broaden awareness of the organisation.

Table 36: Activities undertaken

Event/Activity	Description
Moretele South pipeline	Official commissioning of the Moretele South bulk water pipeline
Women’s Day celebration	Celebration of National Women’s Day in accordance with the national calendar of events
Quarterly staff information sessions	Staff sessions hosted by the CEO
Heritage Day	Magalies Water employees dressed in traditional attire representing various cultures.
External communication	Dissemination of Magalies Water information, campaigns and events to the public
Water conservation, water demand management campaign	Campaign on billboards
Internal communication	Dissemination of key information to all Magalies Water staff

Media relations

Magalies Water informs, engages, educates and mobilises stakeholders through traditional and new media communication channels, which are customised to stakeholders to ensure that accurate and reliable information is shared by the organisation. Optimisation of media communication includes development and management of communication plans, including end-to-end digital projects as well as coordination and management of all other media processes (ie. liaison with media houses, content management and development, and media monitoring, etc.)

Dicussssions focused on generic water conservation and water demand management and intergovernmental relations were undertaken during the 2021/22 financial year. Magalies Water continued to demonstrate its working relationship with municipalities and other state organs in pursuance of sustainable service to its customers. The discussions were covered on Motsweding FM, Mafisa FM, You FM, Mafikeng FM and Star FM. The campaign message included COVID-19 related messaging, encouraging the public to wash hands for at least 20 seconds, and ensuring they save water by keeping the taps closed while they rub their hands with soap (and only turn taps open when they need to rinse their hands).

The following articles were published during the year under review:

- Communities and business urged to stop polluting water resources article was published online <https://www.devdiscourse.com/article/headlines/2116372-communities-and-business-urged-to-stop-polluting-water-resources> on 20 July 2022 following the “Clear River” campaign where Magalies Water, and the department of Water and Sanitation as well as other corporate partners held a campaign on the preservation of water sources and awareness on the negative effects of pollution of the country’s water sources. Links were uploaded on to social media accounts and shared with the Board, EXCO members, and external stakeholders.
- An article was published relating to the progress on the Brits Water Treatment Plant refurbishment progress titled Brits water woes supposedly over by end of 2022 <https://kormorant.co.za/2022/07/07/brits-water-woes-supposedly-over-by-end-of-2022/>. As an implementing agent on behalf of the Department of Water and Sanitation, Magalies Water held a media tour on 24 June 2022 to showcase the technical upgrades which have been done and report on the outstanding works, which will improve bulk supply to Madibeng Local Municipality. Links were uploaded on to social media accounts and shared with the Board, EXCO members, and external stakeholders.
- The article titled Ubuntu-driven leadership as a cornerstone for good governance and transformation, in an effort to profile Magalies Water’s achievements and forward outlook, was published on the Sunday Times supplement “Empowerment” dated 30 June 2022 https://issuu.com/sundaytimesza/docs/empowerment-june_2022. The Chief Executive Officer, Chief Financial Officer and Board Chairperson Pinky Mokoto, featured in the article, which was circulated nationally, wherever the Sunday Times is available. Links were uploaded on to social media accounts and shared with the Board, EXCO members, and external stakeholders.

FINANCIAL PERFORMANCE PERSPECTIVE: THE CFO'S STATEMENT

Introduction

Magalies Water is required in terms of the Public Finance Management Act, 1999 (Act 1 of 1999) to prepare financial statements in accordance with the Generally Accepted Accounting Practice and must submit those financial statements within two months after the end of the financial year to the auditors of the public entity. The Statements for the Financial Year (FY) 2021/22 were prepared and presented as guided by the Public Finance Management Act (PFMA as amended), the Water Services Act, (WSA as amended), and other related prescripts.

During the year under review, Magalies Water reported an increase in the net surplus compared to the 2020/21 financial year, which was due to increases in water tariffs and easing of lockdown regulations which affected the previous financial year. In 2020/21 financial year, revenue and net surplus was low as sales volumes were low due to lockdown regulations while water sales tariffs were also not increased. COVID-19 regulations were eased and water sales tariffs increased in 2021/22.

The non-payment of debt by municipalities for bulk water sales remains a concern for entity, resulting in significant increase in receivables from exchange transactions. The impact of customers not paying on time has been considered in cash flow projections and assessment of the entity's ability to continue as a going concern. Management is satisfied with controls implemented to address this risk and has concluded that the organisation is still a going concern.

The entity's current assets exceed its current liabilities by R587 million and a net surplus of R127 million was realised for the current financial year. We assume that sufficient funds will be available to finance future operational needs, settlement of liabilities in the ordinary course of business. Although Magalies Water reported a surplus of R127 million, there is still a need for funds to implement capital projects with an estimate of over R8 billion. The entity's commitments for capital projects amount to R174.1 million and a budget of R376.3 million is required for the 2022/23 financial year, which should be funded from the entity's reserves and government grant allocations.

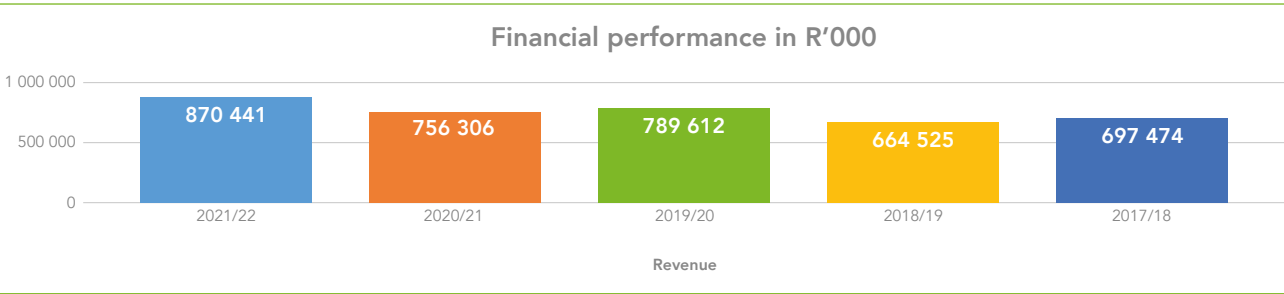
Accumulated surplus increased year on year as the organisation made profit for the last five years. The organisation remains solvent and total assets exceed total liabilities by R2.8 billion as at 30 June 2022.

The sections below provide a brief analysis of the financial performance and position of the organisation; detailed statements are provided in the Annual Financial Statements.

Financial performance

Revenue for the year
Revenue for the year increased from R756.3 million to R870.4 million. Revenue from sale of water increased by 6.7% from R730.2 million to R779.4 million as a result of increase in water sales tariffs. Revenue from government grants increased from R26 million to R91 million due to funding received for implementation of capital projects.

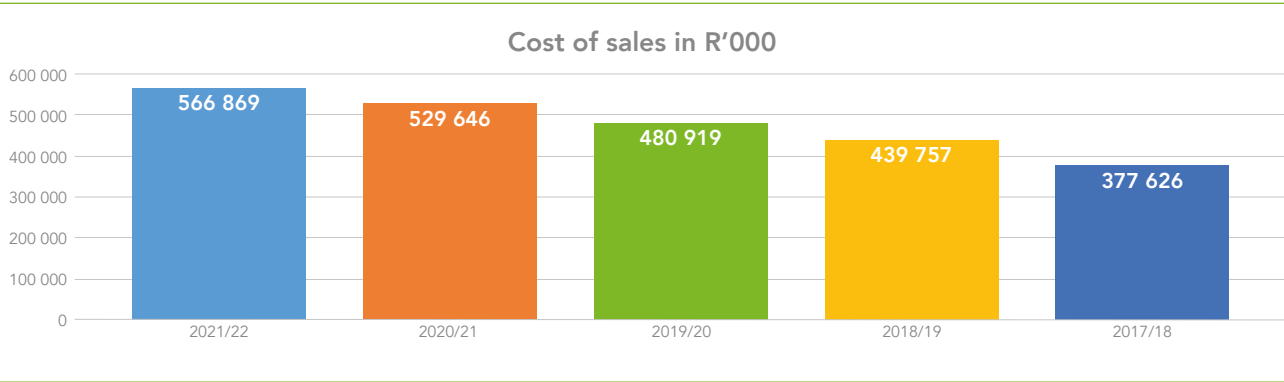
Figure 16: Revenue for the year



Cost of sales

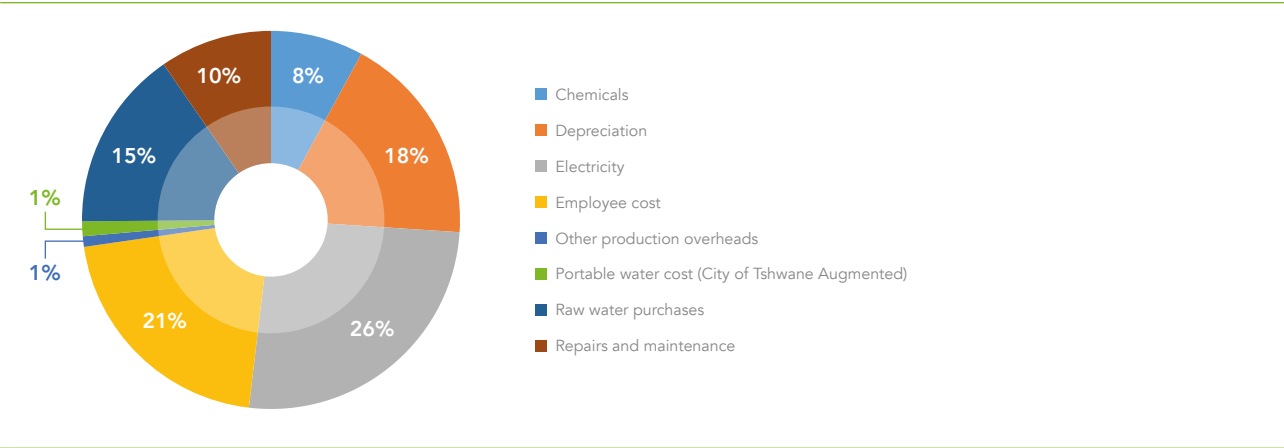
The cost of sales increased by 7% during the year as production costs continued to increase in line in inflation and other cost adjustments. Chemical cost increased by 7%, mainly due to the annual inflationary increase in chemical cost as agreed with suppliers. Electricity cost increased by 15% as a result of increases in electricity tariffs. Repairs and maintenance cost increased by 37% during the year when compared to the previous financial year. There was major maintenance work carried out which resulted in increase in costs.

Figure 17: Cost of sales



The main cost drivers for cost of sales are raw water, chemicals labour, depreciation, and electricity, as depicted in Figure 18.

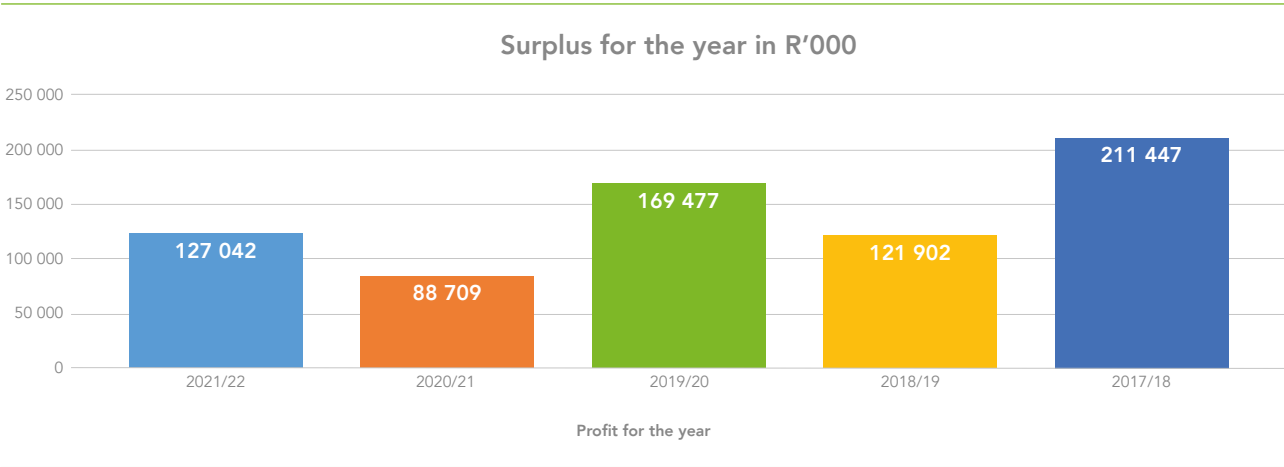
Figure 18: Main cost drivers for cost of sales



Surplus for the year

The organisation has achieved R127 million net surplus during the year compared to R84.7 million achieved in the previous financial year. Over the last five-year period, net surplus was achieved, which will assist the organisation in funding both operational and capital expenditure programmes in the future.

Figure 19: Surplus for the year

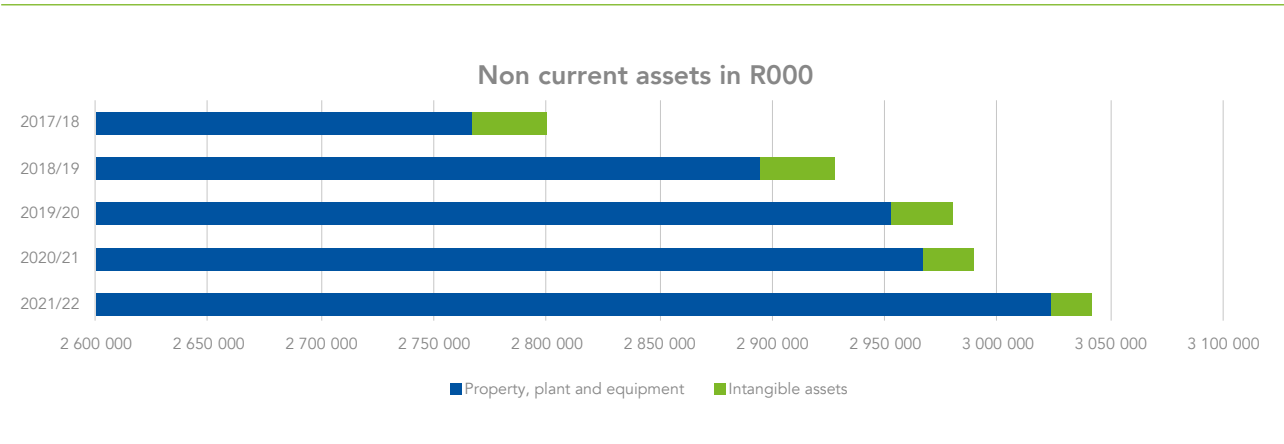


Statement of financial position

Non-current assets

Non-current assets have increased slightly when compared with the previous year, this is due to regular investment made by the organisation to its infrastructure.

Figure 20: Non-current assets

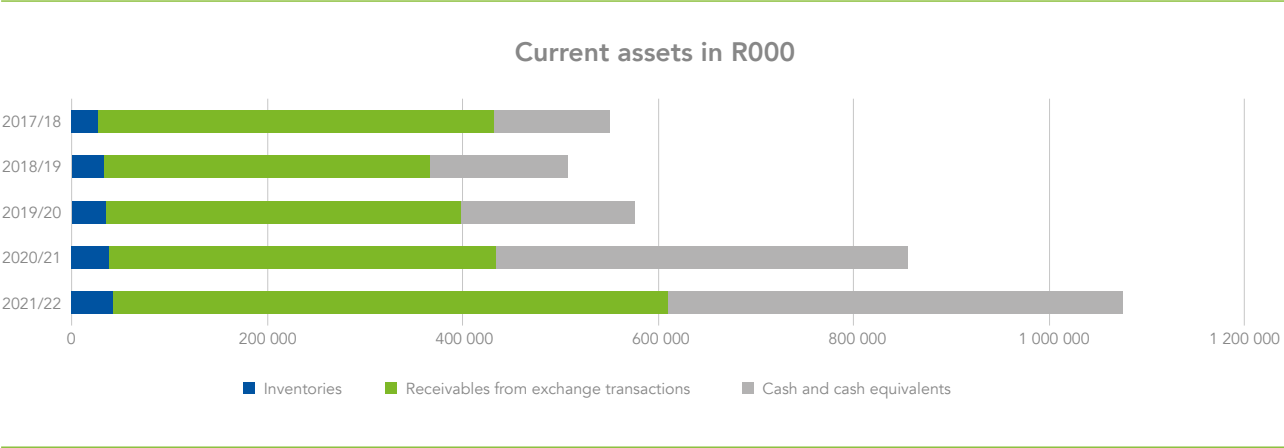


Current assets

The receivables from exchange transactions as at 30 June 2022 were R567 million, which increased by 43% compared to the previous year. The non-payment of debt by municipalities has been a concern for Magalies Water, especially the long-outstanding debts exceeding three years in some cases. Plans are in place to improve debt collection including payment agreements made with the defaulting bulk water customers which are monitored monthly. Management continuously engage the customers and ensure that payment arrangements are signed and implemented to ensure that the cash flow is sufficient to meet the organisational needs.

Cash and cash equivalents increased by R43.8 million, mainly due to government grants received from the Department of Water and Sanitation (R166 million) and capital contributions received from Bakabung Minerals mine (R15.9 million). Increase in cash and cash equivalents was not significant due to investment in infrastructure made during the year.

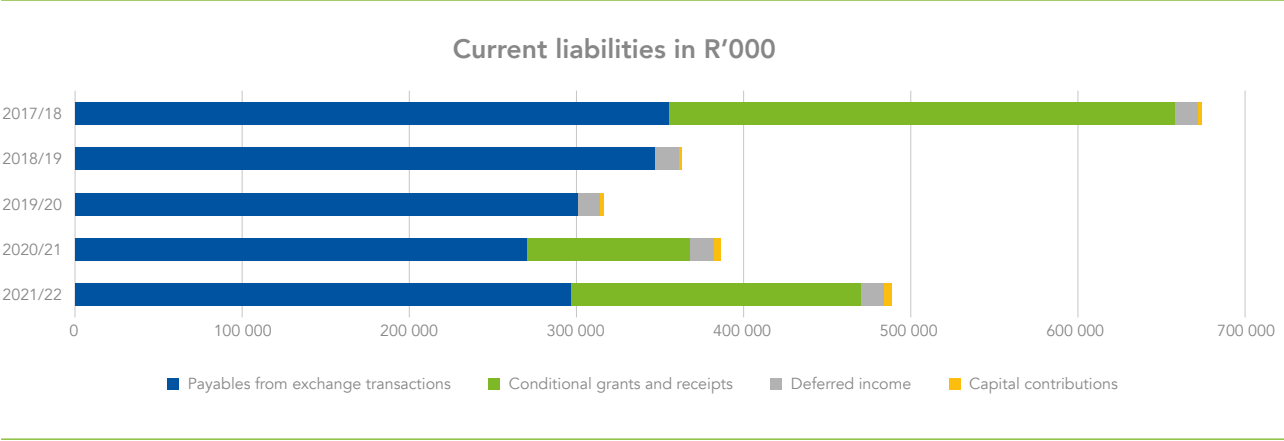
Figure 21: Current assets



Current liabilities

Payables from exchange transactions increased slightly as suppliers provided more services which had not yet been paid for at year-end. A government grant was received for infrastructure projects to be implemented in the next financial year. Capital contributions increased slightly as a result of additional contributions received from the mines.

Figure 22: Current liabilities



Cash flows

The cash and cash equivalents reported at 30 June 2022 is R465.2 million (2020/21: R421.3 million). Liquidity is closely managed daily in line with available cash reserves to ensure that the entity has sufficient cash reserves to pay debts when they fall due in the ordinary course of business.

Capital funding

Magalies Water developed a growth strategy which identifies numerous growth opportunities. However, the projects could not be implemented due to a lack of funding. The delays in implementing infrastructure projects negatively impact on service delivery and on the organisation’s ability to deliver on its mandate. The current investments are not sufficient to cover for the capital expenditure required for implementing projects. Magalies Water is currently engaging the Development Bank of Southern Africa (DBSA) and the Government Technical Advisory Centre (GTAC) to assist with packaging the projects for borrowing limit application. Magalies Water is also working with DBSA to source funds from other sources including Budget Facility for Infrastructure (BFI) as well as other grant funding.

Mr T Shezi
Acting Chief Financial Officer

AUDIT & RISK COMMITTEE REPORT

Audit & Risk Committee

The Audit & Risk Committee (the Committee) hereby presents its report for the year ended 30 June 2022. The Committee is an independent statutory body appointed by the Board in compliance with the Public Finance Management Act, 1999 (Act 1 of 1999 as amended) (PFMA) as well as the Treasury Regulations.

Responsibilities of the Audit and Risk Committee

In addition to the PFMA prescripts referred to above, the roles and responsibilities of the Committee are set out in Treasury Regulation 27.1 and the principles of the King IV Report on Corporate Governance (King IV) were adequately entrenched. The Committee plays an independent role in corporate governance, integrated reporting and management of internal controls. The Committee has a charter in place, which regulates both its statutory duties and those assigned to it by the Board. It has, during the year under review, regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein, and the related policies and practices.

The Committee is also accountable to the Board to which they report on their evaluation of Financial Statements and effectiveness of internal controls during the financial year, in order to ensure credibility of the audit outcomes that are incorporated in the Annual Report 2021/22.

Furthermore, the roles of the Committee comprises of, but is not limited to, the following:

- Review the annual financial statements, interim reports and ensure compliance with Generally Recognised Accounting Principles (GRAP);
- Review and approve the appropriateness of accounting policies, disclosure policies and the effectiveness of internal financial controls;
- Review the effectiveness of internal audit; the risk areas of the Magalies Water’s operations to be covered in the scope of internal and external audits;
- Review the accuracy, reliability and adequacy of financial information provided to management and other users of such information;
- Review and recommend the annual report and financial statements for approval by the Board;
- Review any accounting and auditing concerns identified as a result of internal and external audits;
- Review Magalies Water’s compliance with legal and regulatory provisions;
- Review where relevant, the independence and objectivity of the internal and external auditors;
- Approve the annual internal audit plan;
- Ensure the internal audit function is subject to independent quality review as deemed appropriate;
- Ensure that the IT Charter and Policies are developed and implemented;
- Ensure that IT risks are addressed;
- Consider the use of technology to improve audit coverage;
- Ensure that an IT control framework is adopted and implemented;
- Receive independent assurance on the effectiveness of the IT internal controls;

- Ensure that IT plans are aligned to Magalies Water’s strategy;
- Ensure that there is a process in place to identify and exploit opportunities to improve the performance and sustainability of Magalies Water through the use of IT;
- Ensure that the intellectual property contained in the IT systems is protected;
- Ensure that management has put in place adequate business resilience arrangements through business continuity plans in the event of a disaster;
- Ensure that an information security system is developed and implemented;
- Obtain an understanding of the extent of IT in relation to the evaluation of controls by internal and external audit;
- Approve the terms of engagement and remuneration of the external auditor; and
- Ensure a process is in place for the committee to be informed of any reportable irregularities identified by the external auditor.

The Committee hereby reports that it has complied with its responsibilities in accordance to Section 51 of the PFMA, the provisions of Treasury Regulation 27.1 and the principles of the King IV Report on Corporate Governance (King IV). The Committee plays an independent role in corporate governance, integrated reporting and management of internal controls. The Committee also reports that it has discharged its responsibilities and regulated its affairs in accordance to its Charter.

The Committee has assisted the Board in fulfilment of its oversight role through review of financial reporting processes, internal controls, audit processes, monitoring compliance with accounting policies, compliance to applicable legislation and regulations.

Composition and attendance of meetings

The Committee consists of a majority of independent non-executive members. The Committee meets at least four times per year in line with its charter. Independent External Audit and Risk Committee members served on the Committee during the period under review as shown in the table below.

Table 37: New external Audit and Risk Committee members

Member	Qualifications
Z Tshabalala	MBA, Post Grad Dip Business Management, BCom (Finance).
N Shabalala	BSc (Hons), BCom (Information Technology), Dip Business Management & Administration, CISA, Corbit 4.1, ITIL
SN Ngobeni	SAIPA, MBA, MCom (International and Domestic Tax), BCom (Distinction in Statistics, Taxation III, Management Accounting III and Financial Accounting III), RGA, Bcompt Honours, Higher Dip in Computer Auditing

The Audit and Risk Committee held all the meetings scheduled for the 2021/22 financial year and the attendance rate is set out in Table 8.

Effectiveness of internal control

The system of internal control is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In accordance with the PFMA and corporate governance requirements of King IV, Internal Audit provided the Committee, management and the Board with assurance that the internal controls are appropriate and effective. This has been achieved by ensuring that risk management processes identified corrective actions and led to the enhancements of controls wherever various reports of Internal Audit, the Audit Report and the Management Letter of the Auditor-General could note gaps. During 2021/22, management and the Committee also upped the response capacity to mitigate control weaknesses that used to be of concern and are content with the continuous improvements planned for the 2022/23 financial year.

Evaluation of financial and performance information

The Audit and Risk Committee has reviewed and evaluated financial information and performance information reports on a quarterly basis. Nothing came to the attention of the Committee to suggest that any material breakdown in the financial controls occurred during the financial year under review. The Committee was continuously satisfied with the content and quality of Magalies Water reports.

Evaluation of Annual Financial Statements

- The Committee:
- reviewed and discussed the draft Annual Financial Statements to be included in the integrated Annual Report with the Auditor-General, management and the Accounting Authority;
 - reviewed changes in accounting policies and practices;
 - reviewed the external auditor's management letter and managements' response thereto;
 - reviewed adjustments resulting from the audit process; and
 - reviewed compliance with legal and regulatory provisions.

The Committee concurs with and accepts the Auditor-General's Report on the Annual Financial Statements and all other governance related internal controls applicable to the performance report for 2021/22.

Evaluation of the expertise and experience of the Chief Financial Officer and the finance function

The Committee has satisfied itself that the Chief Financial Officer has appropriate expertise and experience. The Committee has considered and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of management for the financial function.

Internal Audit

The Internal Audit Plan was approved during the financial year and the Audit and Risk Committee provided its oversight to the Internal Audit function and approved the Internal Audit Plan and Charter. The Audit and Risk Committee is satisfied that the Internal Audit function is operating effectively and that the function is sufficiently resourced. The Internal Audit function has been open to the idea of subjecting it to independent quality reviews, had the Audit and Risk Committee deemed it appropriate.

External Audit

The Audit and Risk Committee has studied the report of the AGSA and concurs with and accepts the conclusion and audit opinion of the external auditors on the annual financial statements. The external audit function performed by the AGSA is independent from the entity. The Committee has met with the external auditors to ensure that there are no unresolved issues and acknowledges the diligence and cooperation of the external audit team. The Committee recommends that the audited annual financial statement be accepted and read together with the report of the external auditors.



Ms E.B. Mokgatle
Chairperson of the Audit and Risk Committee

INTERNAL AUDIT OPINION

The Internal Audit opinion on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management, and internal control, for the financial year 2021/22, is set out below.

The Board can take “Reasonable Assurance” on the adequacy and effectiveness of Governance, Risk management and Internal control, within those areas that were reviewed. Some matters require management attention in control design or compliance with low to moderate impact on residual risk exposure until they are resolved.



MG Dhladhla
Chief Audit Executive

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON MAGALIES WATER

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

1. I have audited the financial statements of Magalies Water set out on pages 124 to 181, which comprise the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of Magalies Water as at 30 June 2022, and its financial performance and cash flows for the year then ended, in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act 1 of 1999 (PFMA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general’s responsibilities for the audit of the financial statements section of my report.
4. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants’ International code of ethics for professional accountants (including International Independence Standards) (IESBA code) as well as other 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 code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matter

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

Transfer of Sedibeng Water operations to Magalies Water

7. I draw attention to note 32 in the financial statements, which deals with the transfer of Sedibeng Water North West operations to Magalies Water. The minister of water and sanitation disestablished Sedibeng Water on 31 July 2022, and the assets, liabilities and employees of Sedibeng Water in the North West were transferred to Magalies Water on 1 August 2022.

Responsibilities of the accounting authority for the financial statements

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

Auditor-general's responsibilities for the audit of the financial statements

- 10. 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.
- 11. 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

- 12. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for the selected objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
- 13. My procedures address the usefulness and reliability of the reported performance information, which must be based on the public entity's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the public entity enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or 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.
- 14. 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 objective presented in the public entity's annual performance report for the year ended 30 June 2022:

Objective	Pages in the annual performance report
To provide quality potable water	60

- 15. I performed procedures to determine whether the reported 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.
- 16. I did not identify any material findings on the usefulness and reliability of the performance information of the selected objective.

Other matter

- 17. I draw attention to the matter below.

Achievement of planned targets

- 18. Refer to the annual performance report on pages 59 to 65 for information on the achievement of planned targets for the year.

REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

Introduction and scope

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

OTHER INFORMATION

- 21. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected objective presented in the annual performance report that has been specifically reported in this auditor's report.
- 22. 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 on it.

23. 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 objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
24. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information and if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

INTERNAL CONTROL DEFICIENCIES

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

Auditor - General

Pretoria
31 October 2022



Auditing to build public confidence

ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

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

Financial statements

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

Communication with those charged with governance

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

PART D

FINANCIAL PERFORMANCE PERSPECTIVE

INDEX

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

Board’s Responsibilities and Approval	122
Statement of Financial Position	124
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Cash Flow Statement.....	127
Statement of Comparison of Budget and Actual Amounts	128
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The following supplementary information does not form part of the annual financial statements and is unaudited:

Detailed Income statement.....	180
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GENERAL INFORMATION

Country of incorporation and domicile	Nature of business and principal activities
South Africa	Provision of water services

Members		
Ms NR Mokoto (Chairperson)	Ms B Mahlutshana	Mr I Mosala
Dr TG Twalo (Deputy Chairperson)	Ms EB Mokgatle	Mr LD Morienyane
Mr SP Mkhize (Chief Executive Officer)	Dr KL Sebego	Mr MG Shoahle
		Ms MET Malaka

Secretary
Ms DW Engelbrecht

Business address	Controlling entity	Auditors
38 Heystek street Rustenburg 0300	Department of Water and Sanitation	Auditor General South Africa Registered Auditors

BOARD’S RESPONSIBILITIES AND APPROVAL

The members are required by the Water Services Act No 108 of 1997 and the Public Finance Management Act (Act 1 of 1999), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the members to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are 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 Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

The members acknowledge that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the members to meet these responsibilities, the members 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 members are 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 members have reviewed the entity’s cash flow forecast for the year to 30 June 2023 and, in the light of this review and the current financial position, they are satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

Although the members are primarily responsible for the financial affairs of the entity, they are supported by the entity’s external auditors.

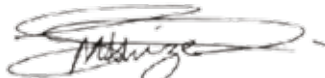
The external auditors are responsible for independently auditing and reporting on the entity’s annual financial statements. The annual financial statements have been audited by the entity’s external auditors and their report is presented on pages 115 to 119.

The annual financial statements set out on pages 124 to 181, which have been prepared on the going concern basis, were approved by the accounting authority on 28 October 2022 and were signed on its behalf by:



Ms N.R. Mokoto

Chairperson of the Interim Board



Mr S.P. Mkhize

Chief Executive Officer

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

Figures in Rand thousand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Inventories	4	42 684	37 394
Receivables from exchange transactions	5	567 495	396 098
Cash and cash equivalents	6	465 206	421 324
		1 075 385	854 816
Non-Current Assets			
Property, plant and equipment	2	3 023 840	2 966 521
Intangible assets	3	17 687	22 788
		3 041 527	2 989 309
Total Assets		4 116 912	3 844 125
Liabilities			
Current Liabilities			
Payables from exchange transactions	7	297 046	270 514
Unspent conditional grants and receipts	8	173 278	98 000
Capital contributions	9	4 118	3 714
Deferred income	10	13 909	13 909
		488 351	386 137
Non-Current Liabilities			
Capital contributions	9	219 824	208 047
Deferred income	10	504 462	521 048
Deposit received	11	63 274	14 934
		787 560	744 029
Total Liabilities		1 275 911	1 130 166
Net Assets		2 841 001	2 713 959
Accumulated surplus		2 841 001	2 713 959
Total Net Assets		2 841 001	2 713 959

STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand thousand	Note(s)	2022	2021 Restated*
Revenue	12	870 441	756 306
Cost of sales	13	(566 869)	(529 646)
Gross surplus		303 572	226 660
Other income	33	36 076	27 560
Operating expenses	34	(242 949)	(190 327)
Operating surplus		96 699	63 893
Investment revenue	22	30 343	24 816
Surplus for the year		127 042	88 709

STATEMENT OF CHANGES IN NET ASSETS

Figures in Rand thousand

	Accumulated surplus	Total net assets
Opening balance as previously reported	2 625 099	2 625 099
Adjustments		
Correction of errors	151	151
Balance at 01 July 2020 as restated*	2 625 250	2 625 250
Changes in net assets		
Surplus for the year	88 709	88 709
Total changes	88 709	88 709
Restated* Balance at 01 July 2021	2 713 959	2 713 959
Changes in net assets		
Surplus for the year	127 042	127 042
Total changes	127 042	127 042
Balance at 30 June 2022	2 841 001	2 841 001

CASH FLOW STATEMENT

Figures in Rand thousand

	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		663 672	698 090
Grants		166 296	124 095
Interest income		30 343	24 816
Other receipts		1 512	1 082
Capital contributions		15 962	140 345
		877 785	988 428
Payments			
Employee costs		(243 188)	(218 150)
Suppliers		(430 240)	(409 424)
		(673 428)	(627 574)
Net cash flows from operating activities	23	204 357	360 854
Cash flows from investing activities			
Purchase of property, plant and equipment	2	(165 341)	(116 477)
Proceeds from sale of property, plant and equipment	2	5 173	-
Purchase of other intangible assets	3	(307)	(300)
Net cash flows from investing activities		(160 475)	(116 777)
Net increase in cash and cash equivalents		43 882	244 077
Cash and cash equivalents at the beginning of the year		421 324	177 247
Cash and cash equivalents at the end of the year	6	465 206	421 324

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
BUDGET ON ACCRUAL BASIS

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand thousand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	833 644	-	833 644	779 423	(54 221)	38 a
Management fees	6 360	-	6 360	3 612	(2 748)	38 b
Tender fees	140	-	140	583	443	38 c
Rental income	267	-	267	266	(1)	38 d
Cost recovery income	600	-	600	152	(448)	38 e
Other income	153	-	153	3 899	3 746	38 f
Lab analysis	1 901	-	1 901	2 693	792	38 g
Deferred income	17 624	-	17 624	20 373	2 749	38 h
Finance income	24 685	-	24 685	30 343	5 658	38 i
Total revenue from exchange transactions	885 374	-	885 374	841 344	(44 030)	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants and subsidies	-	-	-	91 018	91 018	38 j
Total revenue	885 374	-	885 374	932 362	46 988	
Expenditure						
Personnel	(136 411)	-	(136 411)	(145 322)	(8 911)	38 k
Depreciation and amortisation	(9 160)	-	(9 160)	(7 650)	1 510	38 l
Impairment of assets	-	-	-	(2 478)	(2 478)	38 m
Cost of sales	(572 789)	-	(572 789)	(566 869)	5 920	38 n
General Expenses	(104 117)	-	(104 117)	(87 499)	16 618	38 o
Total expenditure	(822 477)	-	(822 477)	(809 818)	12 659	
Operating surplus	62 897	-	62 897	122 544	59 647	
Gains on disposal of assets	-	-	-	4 498	4 498	38 p
Net surplus	62 897	-	62 897	127 042	64 145	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	62 897	-	62 897	127 042	64 145	

ACCOUNTING POLICIES

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of Water Services Act No 108 of 1997 and Section 91(1) of the Public Finance Management Act (Act 1 of 1999).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. The cash flow statement is presented on cash basis using direct method. The annual financial statements are presented in South African Rand, rounded to the nearest thousand, unless stated otherwise.

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.

1.2 Going concern assumption

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

1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

ACCOUNTING POLICIES

1.4 Significant judgements and sources of estimation uncertainty

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

- Significant judgements include:
- Depreciation methods
 - Residual values
 - Impairment of assets
 - Provision for doubtful debt

Trade receivables

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

Valuation of inventory

Inventory is measured at lower of cost or net realisable value. Net realisable value assessment requires management to make estimates about future inventory replacement cost and future use of inventory in order to determine net realisable value.

Impairment testing

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

Allowance for doubtful debts

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

ACCOUNTING POLICIES

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, short term cash investments and bank balances and are initially measured at fair value and subsequently measured at amortised cost.

Payables from exchange transactions

Payables from exchange are initially measured at fair value and subsequently measured at amortised cost.

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.

Property, plant and equipment is initially measured at cost.

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

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

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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

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.

ACCOUNTING POLICIES

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

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

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

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

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

Item	Depreciation method	Average useful life
Buildings and other infrastructure	Straight-line	40 - 55 years
Plant and machinery	Straight-line	15 - 55 years
Furniture and fixtures	Straight-line	6 - 30 years
Mobile equipment and motor vehicles	Straight-line	4 - 35 years
Office equipment	Straight-line	3 - 35 years
IT equipment and accessories	Straight-line	3 - 10 years
Pipelines and reservoirs	Straight-line	45 - 85 years
Laboratory equipment	Straight-line	5 - 10 years

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

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

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

The entity assesses at each reporting date whether there is any indication that the entity expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication

ACCOUNTING POLICIES

exists, the entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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

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

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

1.6 Intangible assets

An asset is identifiable if it either:

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

An intangible asset is recognised when:

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

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

Acquired computer software is capitalised on the basis of costs incurred to acquire and bring into use the specific software. Costs associated with maintaining computer software programs and acquisition of licences are recognised as an expense when they are incurred.

Servitudes are rights granted to Magalies Water for an indefinite period of time. The life of the servitude will remain in force as long as the relevant infrastructure is still in use. A servitude will only become impaired if the infrastructure to which the servitude is derecognised.

ACCOUNTING POLICIES

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	Depreciation method	Average useful life
Computer software	Straight-line	3 - 15 years
Servitudes	Straight-line	Indefinite

Intangible assets are derecognised:

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

The gain or loss arising from the derecognition of intangible assets is included in surplus or deficit when the asset is derecognised.

1.7 Financial instruments

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

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

ACCOUNTING POLICIES

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Classification

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place as initial recognition. The entity classifies the financial instruments, or their components parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Financial assets class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Financial liability class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Deposits received	Financial liability measured at cost

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.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available for sale financial assets.

ACCOUNTING POLICIES

Subsequent measurement of financial assets and financial liabilities

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

The entity subsequently measures financial liabilities at amortised cost, using the effective interest method.

Cash and cash equivalents are subsequently measured at fair value.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired.

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

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit. Where such assets are written off, the write off is made against the relevant allowance account. The amount of reversal is recognised in surplus or deficit.

Derecognition of financial assets

The entity derecognises financial assets when the right to receive cash flows from the financial asset have expired or have been transferred and the entity has transferred substantially all risks and rewards of ownership.

Derecognition of financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished - i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

ACCOUNTING POLICIES

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

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.

Operating leases - lessor

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

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

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

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

Income for leases is disclosed under other income in the statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

ACCOUNTING POLICIES

1.9 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

The cost of inventories 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.

1.10 Employee benefits

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

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

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

Short-term employee benefits

The cost of short-term employee benefits, (those payable within twelve 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.

ACCOUNTING POLICIES

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 performance 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

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

The entity contributes towards Magalies Water Retirement Fund and the fund is registered and controlled in terms of the Pension Fund Act 24 of 1956. The entity is under no obligation to cover any unfunded benefits.

1.11 Provisions and contingencies

A contingent liability is a possible obligation that arises from past events and whose events will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within control of the entity.

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 25.

1.12 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

- Contracts should be non-cancellable or only cancellable at significant cost; and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts are excluded.

ACCOUNTING POLICIES

1.13 Revenue from exchange transactions

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

An exchange transaction is one in which the entity 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.

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

Measurement

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

Sale of goods

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

- the entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

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

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



ACCOUNTING POLICIES

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

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

1.14 Revenue from non-exchange transactions

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

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

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity.



ACCOUNTING POLICIES

When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

1.15 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all surplus (deficit) of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

Cost of sales includes the cost of raw water, chemicals, electricity and all other direct operating costs associated with the production of water.

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

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

1.18 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

ACCOUNTING POLICIES

At each reporting date:

- foreign currency monetary items are translated using the closing rate;

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous annual financial statements are recognised in surplus or deficit in the period in which they arise.

1.19 Transfer of assets from customers

Transferred assets from customers are recognised and initially measured at fair value. The corresponding amount is recognised as deferred income. Deferred income is recognised as revenue on a systematic basis over the useful life of the asset.

The contributions are recognised as revenue on a systematic basis over the useful life of the assets when the assets are brought into use.

1.20 Capital contributions

Capital contributions are monetary contributions by customers towards development of water infrastructure. Customers that provide capital contributions and the derive benefits from provision of water as well as reduced tariff charges over the useful lives of assets constructed from the contributions.

The contributions are recognised as revenue on a systematic basis over the useful life of the assets when the assets are brought into use.

1.21 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.22 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.

ACCOUNTING POLICIES

1.23 Irregular expenditure

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

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

1.24 Offsetting

Financial assets and liabilities are offset and a net amount is reported in the statement of financial position when there is legally enforceable right to set off the recognised amounts and the entity intends either to settle on a net basis, or to realise the net asset and settle the liability.

1.25 Budget information

The approved budget is prepared on accrual basis and presented by functional classification.

The approved budget covers the fiscal period from 2021/07/01 to 2022/06/30.

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

1.26 Related parties

Magalies Water is a state controlled entity and has related party relationships with all other entities within the sphere of government. Unless otherwise disclosed, all transactions with related parties are on arm's length basis at market related prices and in the ordinary course of the business.



ACCOUNTING POLICIES

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

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.

1.27 Events after reporting date

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

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

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

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

1.28 Transfer of assets from customers

Transferred assets from customers are recognised and initially measured at fair value. The corresponding amount is recognised as deferred income. Revenue is recognised on a systematic basis over the useful life of the asset.

1.29 Expenditure

Expenditure is recognised when Magalies Water is deemed to have been supplied or has control of the goods or services supplied.



NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. Property, plant and equipment

	2022			2021		
	Cost /	Accumulated	Carrying	Cost /	Accumulated	Carrying
	Valuation	depreciation and impairment	value	Valuation	depreciation and impairment	value
Land	4 564	-	4 564	4 564	-	4 564
Buildings and other infrastructure	299 320	(93 374)	205 946	298 969	(86 453)	212 516
Plant and machinery	907 165	(285 031)	622 134	744 004	(243 069)	500 935
Furniture and fixtures	21 904	(11 910)	9 994	18 465	(10 288)	8 177
Mobile equipment and motor vehicles	35 286	(27 786)	7 500	29 608	(25 647)	3 961
IT equipment and accessories	25 903	(21 394)	4 509	24 870	(19 530)	5 340
Pipelines and reservoirs	2 486 526	(589 876)	1 896 650	2 264 060	(539 359)	1 724 701
Capital work in progress	272 543	-	272 543	506 327	-	506 327
Total	4 053 211	(1 029 371)	3 023 840	3 890 867	(924 346)	2 966 521

Laboratory equipment

Plant and Machinery is Laboratory Equipment

Capital work in progress

Included in Capital work in progress is the cost incurred on capital projects that are still under construction or design stage and have not been brought into use.

Property, plant and equipment pledged as security

Property, plant and equipment was not pledged as security.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	4 564	-	-	-	-	-	4 564
Buildings and other infrastructure	212 516	471	-	(111)	(6 873)	(57)	205 946
Plant and machinery	500 935	8 441	(23)	154 936	(40 572)	(1 583)	622 134
Furniture and fixtures	8 177	3 288	-	172	(1 643)	-	9 994
Mobile equipment and motor vehicles	3 961	4 760	(218)	1 007	(2 010)	-	7 500
IT equipment and accessories	5 340	1 103	(2)	(19)	(1 913)	-	4 509
Pipelines and reservoirs	1 724 701	300	(432)	224 777	(51 858)	(838)	1 896 650
Capital work in progress	506 327	146 978	-	(380 762)	-	-	272 543
	2 966 521	165 341	(675)	-	(104 869)	(2 478)	3 023 840

Impairment of assets

At the end of the current financial year, property, plant and equipment was assessed for impairment as required by GRAP 21.

Assets were determined to be impaired due to factors such as poor working condition of assets, utilisation of assets being below expectation, performance of the asset being below expectation as well as cost of repairs and maintenance of assets being significantly high.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	4 564	-	-	-	-	-	4 564
Buildings and other infrastructure	216 246	3 027	-	70	(6 827)	-	212 516
Plant and machinery	528 073	10 159	(155)	786	(37 920)	(8)	500 935
Furniture and fixtures	9 355	428	-	2	(1 608)	-	8 177
Mobile equipment and motor vehicles	6 107	419	(47)	-	(2 518)	-	3 961
IT equipment accessories	7 105	1 262	-	5	(3 032)	-	5 340
Pipelines and reservoirs	1 774 759	-	-	15	(50 073)	-	1 724 701
Capital work in progress	406 023	101 182	-	(878)	-	-	506 327
	2 952 232	116 477	(202)	-	(101 978)	(8)	2 966 521

Property, plant and equipment in the process of being constructed or developed

Cumulative expenditure recognised in the carrying value of property, plant and equipment

	2022	2021
Infrastructure	272 543	506 327
Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
Capital Work in Progress - Moretele South Pipeline	-	320 977

Reasons for delay in completion of the project

The project was completed during the current financial year, which was after planned completion date. The reasons for delay in completion of the project were as follows:

The project is funded jointly by Magalies Water and Department of Water and Sanitation through grant funding.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Funding for the project is allocated on an annual basis for the project, which then result in project time being extended.

When the project started, one of the unsuccessful bidders applied for court interdict, which stopped the project from being implemented, which then contributed to extension of project timelines.

There were protest actions by communities where the pipeline is being constructed, which resulted in project being delayed as work does not continue during the protest and engagements need to be held with communities before the project can continue again.

During COVID-19 there were periods where construction work could not be carried out due to lock down regulations.

3. Intangible assets

	2022			2021		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	49 889	(33 391)	16 498	49 582	(27 983)	21 599
Servitudes	1 189	-	1 189	1 189	-	1 189
Total	51 078	(33 391)	17 687	50 771	(27 983)	22 788

	Opening balance	Additions	Amortisation	Total
Reconciliation of intangible assets - 2022				
Computer softwares	21 599	307	(5 408)	16 498
Servitudes	1 189	-	-	1 189
	22 788	307	(5 408)	17 687
Reconciliation of intangible assets - 2021				
Computer softwares	26 879	300	(5 580)	21 599
Servitudes	1 189	-	-	1 189
	28 068	300	(5 580)	22 788

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Pledged as security

Intangible assets were not pledged as security.

4. Inventories

	2022	2021
Chemicals	10 889	8 764
Spares and consumables	28 544	26 303
Water inventory	3 251	2 327
	42 684	37 394

Inventory pledged as security

Inventory was not pledged as security.

5. Receivables from exchange transactions

	2022	2021
Trade receivables	591 332	420 306
Impairment of receivables	(46 074)	(43 943)
Sundry debtors	16 210	13 777
Deposits	4 410	4 225
Prepayments	1 617	1 733
	567 495	396 098

Prepayments

Prepayments relate to insurance premiums paid in advance. Insurance premium is paid in November each year covering a period of 12 months ending in October of the following year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Reconciliation of provision for impairment of trade and other receivables

	2022	2021
Opening balance	43 943	30 736
Provision for impairment	2 131	15 841
Amounts written off as uncollectible	-	(2 634)
	46 074	43 943

Receivables impaired

During the year, trade and other receivables to the value of R613,5 million were assessed for impairment. Impairment to the value of R46 million was determined and the aging of trade and other receivables where impairment was determined is as follows:

	2022	2021
Current	438	353
30 days past due	213	173
60 days past due	185	638
90 days past due	399	408
120 days past due	216	456
Over 120 days past due	44 623	41 915

Trade and other receivables not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired unless there is objective evidence indicating existence of impairment.

The ageing of amounts not impaired is as follows:

	2022	2021
Current	197 015	159 448
30 days past due	45 106	22 201
60 days past due	49 461	24 348
90 days past due	36 345	10 646
120 days past due	22 701	6 884
Over 120 days past due	216 867	172 571

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Trade and other receivables assessed for impairment

As of 30 June 2022, trade and other receivables of R613,6 million (2021: R440 million) were assessed for impairment

The amount of the provision was R 46 073 628 as of 30 June 2022 (2021: R 43 942 792).

The ageing of these trade and other receivables is as follows:

	2022	2021
Not due	207 453	159 803
30 days past due	45 319	22 374
60 days past due	39 646	24 985
90 days past due	36 744	11 054
120 days past due	22 917	7 339
Over 120 days past due	261 490	214 486

Trade and other receivables pledged as security

Trade and other receivables were not pledged as security.

6. Cash and cash equivalents

Cash and cash equivalents consist of:

	2022	2021
Cash on hand	10	10
Bank balances	25 923	111 480
Short-term deposits	439 273	309 834
	465 206	421 324

Short-term deposits consist of investment held with financial institutions for capital growth. Cash and cash equivalents are not pledged as security.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Cash and cash equivalents pledged as collateral

	2022	2021
Bank guarantee	512	512

A bank guarantee was issued by Magalies Water to cover payments of Eskom accounts in case of default in payment for the account by Magalies Water.

7. Payables from exchange transactions

	2022	2021
Accrual for bonus	27 611	4 453
Accrual for leave	18 242	21 087
Operations and maintenance advances	16 611	5 518
Other payables	186	138
Retentions	14 994	19 489
Trade payables	216 074	209 750
VAT payable	3 328	10 079
	297 046	270 514

Trade and other payables

Trade and other payables are carried at amortised cost and the carrying amount approximates fair value. Trade payables are normally settled within 30 days from the date of receipt of invoice.

Bonus accrual

Included in bonus accrual is provision for thirteenth cheque. Employees have an option to save for thirteenth cheque where a portion of their basic salary is saved on a monthly basis.

Included in bonus accrual is provision for performance bonus. Performance bonus is based on performance agreements signed with employees as well as remuneration and performance rewards policies of the entity.

Accrual for leave

Accrual for leave relates to provision for annual leave accrued to employees at year end. The accrual is determined based on the annual leave days due to the employees but limited to 45 days.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Operations and maintenance advances

Operations and maintenance advances relates to funds received in advance or in access of expenditure already incurred for operations and maintenance work where Magalies Water is performing services for other government institutions.

8. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2022	2021
Unspent conditional grants	173 278	98 000
Movement during the year		
Balance at the beginning of the year	98 000	-
Grant receipts during the year	166 296	124 096
Conditions met and income recognition during the year	(91 018)	(26 096)
	173 278	98 000

Unspent conditional grants relate to transfers received from Department of Water and Sanitation. Funds received will be used for capital infrastructure investments. Grant will be transferred to revenue from non-exchange transactions as the conditions attached to the grant are satisfied.

9. Capital contributions

	2022	2021
Current liability	4 118	3 714
Non-current liability	219 824	208 047
	223 942	211 761

Capital contributions consists primarily of contributions received from Royal Bafokeng Platinum Mine (Maseve Investments) of R96.8M, Bakabung Minerals of R70.4M and Impala Platinum Mine of R69.4M. These contributions are recognised as revenue when the assets are brought into use over the useful life of the assets as per the agreement.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

10. Deferred income

	2022	2021
Current liability	13 909	13 909
Non-current liability	504 462	521 048
	518 371	534 957

Deferred income consists of assets transferred by the mines to Magalies Water. These assets consist of pipelines and reservoir contributed by the Platinum Mine in line with the off take agreement that was signed in 2008 for R123,4 million and R457,3 million received from Barrick, Maseve and Wesizwe mines in the 2016/17 financial year.

Transferred assets from customers are measured on initial recognition at fair value. The corresponding amount is recognised as deferred income. Revenue is recognised on a systematic basis over the useful life of the assets.

11. Deposit received

	2022	2021
Deposit received	63 274	14 934

Deposit received relate to security deposits held by the organisation for active customers. Security deposit is refundable to customers on termination of service if the customer does not have debt due to the organisation.

12. Revenue

The amount included in revenue arising from exchanges of goods or services are as follows:

	2022	2021
Sale of water	779 423	730 211

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

	2022	2021
Government grants and subsidies	91 018	26 095

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Total revenue		
	2022	2021
Revenue from exchange transactions	779 423	730 211
Revenue from non-exchange transactions	91 018	26 095
	870 441	756 306

13. Cost of sales

	2022	2021
Sale of goods		
Chemicals	44 970	42 158
Depreciation	102 627	99 176
Electricity	146 429	126 993
Employee cost	118 179	117 553
Other production overheads	5 100	4 086
Portable water cost (City of Tshwane Augmented)	7 185	11 949
Raw water purchases	87 849	87 988
Repairs and maintenance	54 530	39 743
	566 869	529 646

14. Other operating income

	2022	2021
Cost recovery income	152	395
Deferred income recognised	20 373	20 925
Lab analysis	2 693	1 938
Management fees	3 612	3 614
Rental income	266	267
Sundry income *	3 899	245
Tender fees	583	176
	31 578	27 560

* Sundry income comprise water connections fees, administration fees and other sundry income.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

15. Employee benefit obligations

Defined benefit plan

The entity contributes towards Magalies Water Retirement Fund which is controlled in terms of the Pensions Fund Act 24 of 1956.

The entity is under no obligation to cover any unfunded benefits.

Contribution to the fund

	2022	2021
Payments		
The total contributions paid to pension fund	39 287	33 110
Expenditure		
The amount recognised as an expense for defined contribution plan	42 161	33 110

16. Employee related costs

	2022	2021
Acting allowances	522	466
Basic	66 783	65 510
Bonus	51 040	4 703
Car allowance	332	332
Car allowance - senior management	360	360
Cellphone allowance	1 034	1 055
Company contributions	20 486	17 189
Housing benefits and allowances	2 568	2 402
Medical aid - company contributions	901	927
Other salary expenses	168	7 159
Overtime payments	190	166
Settlement allowance	536	36
Standby allowance	402	292
	145 322	100 597

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

17. General expenses

	2022	2021
Admin overheads	3 618	2 010
Advertising	1 194	528
Auditors remuneration	3 368	2 423
Bad debts	2 131	15 841
Bank charges	188	160
Catering	535	317
Cleaning	189	72
Computer expenses	345	395
Consulting and professional fees	14 953	7 933
Consumables	3 799	2 916
Corporate social responsibility	1 802	670
Electricity	851	649
Insurance	4 839	5 106
Lease rentals on operating lease	599	643
Legal expense	3 554	3 982
License fees	5 051	3 023
Membership fees	276	92
Other operating expenses	6 641	7 459
Promotions and publications	4 985	1 676
Recruitment costs	336	517
Repairs and maintenance (admin)	392	1 102
Security	11 637	10 514
Telephone and fax	3 771	4 358
Training and conferences	8 715	5 782
Travel and accommodation	3 730	2 968
	87 499	81 136

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

18. Depreciation and amortisation

	2022	2021
Property, plant and equipment	2 242	2 803
Intangible assets	5 408	5 581
	7 650	8 384
Depreciation on property, plant and equipment		
Depreciation on buildings and other infrastructure	175	208
Depreciation on mobile equipment and motor vehicles	26	14
Depreciation on furniture and fixtures	618	564
Depreciation on plant and machinery	96	92
Depreciation on IT equipment accessories	1 327	1 925
	2 242	2 803

19. Repairs and maintenance (included in cost of sales and general expenses)

	2022	2021
Buildings	20	362
Plant and machinery	43 056	31 570
Motor vehicles	3 771	2 831
Pipelines and reservoirs	8 075	6 082
	54 922	40 845

20. Gain or loss of disposal of assets

	2022	2021
Gain/(loss) on disposal of assets	4 498	(202)

21. Impairment of assets

	2022	2021
Impairments		
Property, plant and equipment	2 478	8

Refer to note 2 for classes of assets where impairment has been determined

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

22. Investment revenue

	2022	2021
Interest revenue		
Interest on bank balances	508	438
Interest charged on trade and other receivables	16 593	16 168
Interest on short term deposits	13 242	8 210
	30 343	24 816

23. Cash generated from operations

	2022	2021
Surplus	127 042	88 709
Adjustments for:		
Depreciation and amortisation	110 277	107 558
Loss/ (Gain) on disposal of assets	(4 498)	202
Impairment loss	2 478	8
Changes in working capital:		
Inventories	(5 290)	(1 992)
Receivables from exchange transactions	(171 397)	(33 087)
Payables from exchange transactions	26 532	(29 958)
Unspent conditional grants and receipts	75 278	98 000
Capital contributions	(4 405)	119 420
Deposit received	48 340	11 994
	204 357	360 854

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

24. Commitments

	2022	2021
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	174 150	90 005
Total capital commitments		
Already contracted for but not provided for	174 150	90 005

Authorised operational expenditure

	2022	2021
Already contracted for but not provided for		
• Operational commitments	40 637	67 198
Total operational commitments		
Already contracted for but not provided for	40 637	67 198

Other commitments not disclosed in the disclosure balance relates to contractual agreements determined on the hours spent on a project and/or rate of items or services procured. The total contractual obligation could not be determined.

Operating lease commitments

	2022	2021
Minimum lease payments due		
- within one year	18	82
- in second to fifth year inclusive	-	18
	18	100

Operating lease payments represent rentals payable by the entity for office equipment. Leases are negotiated for an average term of three years. The rental periods are in accordance with the contracts per service provider.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

25. Contingencies

	2022	2021
Contingent liabilities		
Litigations by ex-employees	-	540

Legal proceedings have been instituted against Magalies Water by ex-employees. Magalies Water has reasonable defence and the probability of the loss is minimal. The amount claimed by the plaintiffs is R540 000. The matter is being dragging for numbers of years caused by the being applicants (being ex- employees). The applicants have failed to set the matter down for trial and arguments. MW has instructed its attorneys to apply to Court to have the matter struck of the roll due to the delays caused by the applicants.

	2022	2021
Contingent assets		
Legal claims	26 935	26 891
Penalties against suppliers	3 275	3 275
	30 210	30 166

Legal claims

A court interdict was initiated by one of the unsuccessful bidders against Magalies Water to stop the appointed service provider from performing work. The unsuccessful bidder claimed that the procurement process followed for the appointed service provider was not fair, however the court ruled in favour of Magalies Water.

The interdict resulted in Magalies Water incurring cost for standing time and legal cost. Magalies Water initiated a process to recover the cost from the unsuccessful bidder.

Penalties against suppliers

Service provider was contracted to build a 20 mega litre reservoir for the Pilanesburg Scheme. The service provider failed to complete the work on time and penalties were imposed by Magalies Water. The service provider is suing Magalies Water for payment of the last invoice of R3 275 891,29 submitted; despite penalties imposed for the delays being higher than the invoice submitted. The service provider issued summons against Magalies Water, in turn Magalies Water raised counter claim. The application by service provider was dismissed. Service provider appealed against the decision of the High Court. The appeal was dismissed with costs. The matter is currently at the Appellate Division at the instance of service provider of which Magalies Water is opposing.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

26. Related parties

Relationships	
Ultimate controlling entity	National government
Controlling entity	Department of Water and Sanitation

Related party balances

	2022	2021
Amounts included in trade and other receivables		
Rand Water	59 823	27 272
Department of Water and Sanitation	35 758	20 266
Amounts included in trade and other payables		
Department of Water and Sanitation	97 868	103 396
Unspent conditional grants		
Department of Water and Sanitation	173 278	98 000

Related party transactions

	2022	2021
Amounts included in revenue		
Department of Water and Sanitation	91 018	26 095
Rand Water	160 751	153 899
Amounts included in other operating income		
Department of Water and Sanitation	1 463	2 183
Amounts included in cost of sales		
Department of Water and Sanitation	87 849	87 993

	2022	2021
Compensation to board members and key management personnel		
Board members	5 181	5 170
Audit and Risk Committee members	351	246
Executive management	19 755	22 098
	25 287	27 514

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Remuneration of key management personnel

Emoluments

Emoluments: Board members - 2022

Name	Committee				
	Board fees	fees	Other fees*	Expenses**	Total
Ms NRP Mokoto (Chairperson)	225	201	465	4	895
Mr TG Twalo (Deputy Chairperson)	173	162	338	76	749
Mr B Mahlutshana	152	164	176	10	502
Mr MG Shoahle	152	115	181	11	459
Mr I Mosala	152	146	242	24	564
Ms KL Sebego	152	179	242	21	594
Mr EB Mokgatle	152	173	177	4	506
Ms MET Malaka	152	119	131	7	409
Mr DL Morienyane	152	153	186	12	503
	1 462	1 412	2 138	169	5 181

*Other fees consist of compensation for other meeting attended by the Board members

** Expenses comprise of stipend, travel and accommodation and general refunds.

Emoluments: Board members - 2021

Name	Committee				
	Board fees	fees	Other fees*	Expenses**	Total
Ms P Mokoto (Chairperson)	109	46	334	400	889
Dr T Twalo (Deputy Chairperson)	45	124	143	267	579
Dr L Sebego	53	77	112	258	500
Ms B Mokgatle	55	124	112	234	525
Ms E Malaka	55	74	106	228	463
Mr V Magqabi *	26	37	22	84	169
Mr D Morienyane	49	101	96	229	475
Ms B Mahlutshana	49	86	121	248	504
Mr G Shoahle	49	80	67	227	423
I Mosala	36	81	87	238	442
	526	830	1 200	2 413	4 969

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Emoluments: Board members - 2021

Name	Committee				
	Board fees	fees	Other fees*	Expenses**	Total
Adv M. Petlane (Chairperson) #	-	48	-	-	48
Ms P. Nkwinika (Deputy Chairperson) #	-	23	-	-	23
Mr F. Vilakazi #	-	8	-	-	8
Ms M. Mufamadi #	-	9	-	-	9
Mr S. Suping #	-	27	-	6	33
Ms. Y.M. Matolong #	-	8	-	-	8
Mr R.M. Le Roux #	-	16	-	7	23
Ms K.P.N. Mokoena #	-	21	-	-	21
Ms L. Zitha #	-	8	-	-	8
Ms D.M. Manamela #	-	20	-	-	20
	-	188	-	13	201

The minister appointed an interim board for Magalies Water, with effect from 1 July 2020, refer to general information page for a list of interim board members appointed. The previous board served until 30 June 2020.

*Other fees consist of compensation for other meeting attended by the Board members.

** Expenses comprise of stipend, travel and accommodation and general refunds.

The former board members served until 30 June 2020 and there were payments to be made during July 2020.

* Mr Magqabi passed away on 16 January 2021.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Management class: Executive management
Emoluments: Executive staff members - 2022

Name	Acting		Performance		Other		Total
	Salary	allowance	bonus	Expenses	expenses		
Mr S Mkhize - Chief Executive	2 338	-	658	182	565		3 743
Ms M Tabane - Chief Financial Officer	1 705	-	474	71	457		2 707
Ms F Mogamisi - GM Stakeholder and Customer Services	1 546	-	445	46	331		2 368
Mr O Nthutang - GM Engineering #1	1 513	100	327	92	357		2 389
Mr S Ngcobo - Acting GM water services #2	1 074	130	386	68	351		2 009
Mr M Dayanand - Acting COO #3	1 124	144	386	87	359		2 100
Ms B Bingwa - acting GM corporate service #4	1 244	143	286	33	333		2 039
Mr T Mpane - Acting GM PMU #5	864	33	-	63	123		1 083
Mr J Leburu - Acting GM PMU #6	978	79	-	83	177		1 317
	12 386	629	2 962	725	3 053		19 755

#1 Mr O Nthutang was acting COO for the period July 2021 to January 2022.
#2 Mr Ngcobo was Acting GM Water Services for the period November 2021 to June 2022.
#3 Mr Dayanand was Acting GM Water Services for the period July 2021 to October 2021 and was action COO for the period November 2021 to June 2022.
#4 Ms Bingwa was Acting GM Corporate Services from July 2021 to 30 June 2022.
#5 Mr Mpane was acting GM PMU for the period July 2021 to October 2021.
#6 Mr Leburu was acting GM PMU for the period November 2021 to 30 June 2022.
* Expenses comprise of cellphone allowance, travel & accommodation, refunds and settlements.
** Other expenses comprise of leave pay-out and company contribution.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Emoluments: Executive staff members - 2021

Name	Acting		Performance		Other		Total
	Salary	allowance	Expenses *	bonus	expenses **		
Mr S. Mkhize - Chief Executive	2 245	-	142	361	455		3 203
Mr M. Mehlo - Chief Operating Officer #1	643	-	10	316	389		1 358
Ms M. Tabane - Chief Financial Officer	1 552	-	43	194	370		2 159
Ms P. Ratlabala - GM Corporate Services #2	1 206	-	32	275	259		1 772
Ms B. Debeila - Acting GM Corporate Services #3	1 137	45	42	142	274		1 640
Ms T. Zwane - GM PMU #4	1 419	-	39	206	539		2 203
Mr T. Mpane - Acting GM PMU #5	820	24	190	-	212		1 246
Ms L. Morake - GM Water Services #6	1 566	-	102	206	646		2 520
Mr M. Dayanand - Acting GM Water Services #7	1 534	15	34	192	395		2 170
Ms F. Mogamisi - GM Stakeholder & Communications	1 458	-	52	202	270		1 982
Mr O. Nthutang - GM Engineering #8	1 412	111	59	-	263		1 845
	14 992	195	745	2 094	4 072		22 098

* Expenses comprise of cellphone allowance, travel & accommodation, refunds and settlements.
** Other expenses comprise of leave pay-out and company contribution.
#1 Mr Mehlo resigned on 30 September 2020.
#2 Ms Ratlabala resigned on 28 February 2021.
#3 Ms Debeila was appointed as an Acting GM Corporate Services on 1 March 2021.
#4 Ms Zwane's employment contract expired on 30 April 2021.
#5 Mr Mpane was appointed as an Acting GM PMU on 1 April 2021.
#6 Ms Morake resigned on 31 May 2021.
#7 Mr Dayanand was appointed as an Acting GM Water Services on 1 June 2021.
#8 Mr Nthutang has been GM engineering and was also Acting Chief Operations Officer from 1 October 2020.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Emoluments: Independent Audit and Risk Committee Members

Emoluments: Independent Audit and Risk Committee Members 2022

	**Committee fees	*Other fees	**Expenses	Total
Name				
Ms N. Shabalala	86	49	2	137
Mr S. Ngobeni	61	20	3	84
Ms Z. Tshabalala	82	43	5	130
	229	112	10	351

**Committee fees consist of all audit committee meetings.

*Other fees comprise of induction meeting and other non-committee meetings.

**Expenses comprise of travel and accommodation costs.

Emoluments: Independent Audit and Risk Committee Members - 2021

	**Committee fees	*Other fees	**Expenses	Total
Name				
Mr S. Mamothethi #	34	9	2	45
Ms K. Moodley #	29	17	7	53
Mr S. Ngobeni *	16	16	2	34
Ms N. Shabalala *	16	39	1	56
Ms Z. Tshabalala *	16	38	4	58
	111	119	16	246

* Appointed on 1 March 2021.

Appointment expired on 28 February 2021.

**Committee fees consist of all audit committee meetings.

*Other fees comprise of induction meeting and other non-committee meetings.

**Expenses comprise of travel and accommodation costs.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

27. Change in estimate

Property, plant and equipment

The useful life of certain plant and machinery was revised during the year. The change in estimate of useful lives of plant and machinery resulted in decrease in depreciation for the year. The change in estimated useful lives of assets resulted in decreased in depreciation for the year by R1 312 589,73 as estimated useful lives of assets were extended.

28. Prior-year adjustments

Reclassifications

The following reclassification adjustments occurred:

Contingent liabilities

The organisation has contingent assets and contingent liabilities. These contingencies need to be reviewed and assessed from time to time in order to identify potential financial impact these contingencies might have on the organisation.

Based on assessment done for the year ended 30 June 2022, the following items were reclassified:

	Contingent liabilities reported on 30 June 2021	Reclassification to contingent assets	Reclassification to assets pledged as collateral	Amount reported after reclassifications
Guarantee issued by the Standard Bank	512	-	(512)	-
Claims by suppliers	3 276	(3 276)	-	-
Litigations by ex-employees	540	-	-	540
	4 328	(3 276)	(512)	540

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Items reclassified

Guarantee - the organisation has guarantees issued for the benefit of Eskom which allows Eskom to demand payment of up to R512 378,00 in case Magalies Water does not pay for services provided by Eskom. Management considered disclosure of this item as assets pledged as security more appropriate.

Claims by suppliers - Magalies Water received services from the supplier, however the services were not performed according to the service level agreement between the organisation and the supplier. The service level agreement provided for Magalies Water to charge penalties if the service is not according to the service level agreement. Magalies Water charged penalties which resulted in supplier not being fully paid and the supplier is disputing the penalties. Management considered disclosure of this item as contingent asset more appropriate.

29. Financial instruments disclosure

Categories of financial instruments

The carrying values of financial assets and liabilities are presented by class in the tables below:

2022

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	567 495	567 495
Cash and cash equivalents	465 206	-	465 206
	465 206	567 495	1 032 701

Financial liabilities

	At amortised cost	At cost	Total
Trade and other payables from exchange transactions	297 046	-	297 046
Deposit received	-	63 274	63 274
	297 046	63 274	360 320

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2021

Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	396 098	396 098
Cash and cash equivalents	421 324	-	421 324
	421 324	396 098	817 422

Financial liabilities

	At amortised cost	At cost	Total
Trade and other payables from exchange transactions	270 514	-	270 514
Deposit received	-	14 934	14 934
	270 514	14 934	285 448

30. Risk management

Financial risk management

The principal financial risks to which Magalies Water is exposed as a result of its financial instruments are liquidity risk, credit risk and market risk (interest rate risk).

The entity's overall risk management strategy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the entity's financial performance. Risk management is carried out by the entity's investment advisors under policies approved by the Board. The investment policy provides guide for overall risk management, as well as investment of excess liquidity.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Liquidity risk

Liquidity risk is the risk that the entity will encounter difficulties in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Magalies Water's approach to managing liquidity risk is to ensure that the entity will always have sufficient liquidity to meet its liabilities when they fall due.

Magalies Water monitors its risk to shortage of funds using projected cash flows from operations and has provision for cash buffer investment. The entity also manages liquidity risk through as ongoing review of future commitments. Cash flow forecasts are prepared.

The table below reflects Magalies Water's maximum exposure to liquidity risk, which equals the carrying value of trade and other payables at reporting date:

	0 to 30 days	30 to 120 days	Over 120 days	Total
Payables from exchange transactions	209 580	14	87 452	297 046
Deposit received	63 274	-	-	63 274
	272 854	14	87 452	360 320

Credit risk

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

Magalies Water minimize loss by default of customers through implementation of policies and procedures relating to debt collection. All known risks are disclosed to the Board. Interest is charged at prime rate on debt over 30 days from the date of invoice.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument

	2022	2021
Receivables from exchange transactions	567 495	396 098
Cash and cash equivalents	465 206	421 324
	1 032 701	817 422

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Market risk

Interest rate risk

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

Magalies Water is exposed to interest rate as a result of investments held with various institutions. The entity has variable interest rate facilities which are reset on changes in prime interest rate, and therefore exposed to cash flow interest risk.

A sensitivity analysis to a change in interest rate has been performed based on the exposure to interest rates on investments at reporting date. A 1% increase or decrease has been used and represent management's assessment of the reasonable possible change in interest rates. The sensitivity analysis has been performed on the same basis as the previous year.

The following table illustrates the sensitivity of the entity to interest rate changes by 1%:

	2022	2021
1% decrease in interest rates		
Decrease in financial assets	(4 393)	(3 098)
Decrease in comprehensive income	(4 393)	(3 098)
	(8 786)	(6 196)
1% increase in interest rates		
Increase in financial assets	4 393	3 098
Increase in comprehensive income	4 393	3 098
	8 786	6 196

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

31. Going concern

The annual 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.

The going concern assessment was undertaken, taking into consideration the cash flow, budget projections, key financial performance indicators, risks and mitigating controls.

The non-payment of debt by municipalities for bulk water sales remain a concern for entity, resulting in significant increase in receivables from exchange transactions. The impact of customers not paying on time has been considered in cash flow projections used in the assessment of going concern. Management is satisfied with controls implemented to address this risk and has concluded that the organisation is still a going concern.

The disestablishment of Sedibeng Water Board and incorporation of Sedibeng Water’s operations in North West province to Magalies Water effective from 1 August 2022 poses certain risks. The increase in operations requires increase in funding of available to the entity. This risk will be managed and controls will be put in place to ensure financial viability of Magalies water is not threatened and the organisation is able to continue as a going concern.

We draw attention to the fact that as at 30 June 2022, Magalies Water had an accumulated surplus of R2,8 billion. The entity’s current assets exceed its current liabilities by R587 million and a net surplus of R127 million was realised for the current financial year.

The basis assumes that sufficient funds will be available to finance future operational needs that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

32. Events after the reporting date

On 26 July 2022, the Minister of Water and Sanitation disestablished Sedibeng Water Board and Gazette 47094 was published to this effect. Sedibeng Water was disestablished on 31 July 2022

In terms of the Gazette, all assets, liabilities and employees of Sedibeng Water Board in North West province will be transferred to Magalies Water. The date of transfer of assets, liabilities and employees from Sedibeng Water to Magalies Water was 1 August 2022.

The area of operation of Magalies Water has been extended to include area of operation previously serviced by Sedibeng Water. Magalies Water will service customers previously serviced by Sedibeng Water in North West province.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

The impact of transfer of assets, liabilities and employees of Sedibeng Water to Magalies Water will be accounted for in 2022/23 financial year as the disestablishment occurred after 2021/22 financial year end. At the time of preparation of these annual financial statements, it was not possible to make an estimate of what will be the financial implications of incorporating former Sedibeng Water operations into Magalies Water as the operations, assets and liabilities of Sedibeng Water will be split between Magalies Water and another Water Board.

Management did not identify any other subsequent event in addition to incorporation of Sedibeng Water’s operations to Magalies Water as described above.

33. Other income

	2022	2021
Other operating income	31 578	27 560
Gain on disposal of assets	4 498	-
	36 076	27 560

Other income comprises “Other operating income” presented in note 14 and “Gain on disposal of assets” presented in note 20.

34. Operating expenses

	2022	2021
Employee related costs	145 322	100 597
General expenses	87 499	81 136
Depreciation and amortisation	7 650	8 384
Impairment of assets	2 478	8
Loss on disposal of assets	-	202
	242 949	190 327

For further details, refer to the following notes to the annual financial statements:

- Employee related costs - Note 16;
- General expenses - Note 17;
- Depreciation and amortisation - Note 18;
- Impairment of assets - Note 21; and
- Loss on disposal of assets - Note 20.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

35. Fruitless and wasteful expenditure

	2022	2021
Opening balance as previously reported	-	-
Opening balance as restated	-	-
Add: Expenditure identified - current	-	-
Closing balance	-	-

There was no fruitless expenditure incurred in the current and the previous financial year.

36. Irregular expenditure

	2022	2021
Opening balance as previously reported	5 900	5 824
Opening balance as restated	5 900	5 824
Add: Irregular Expenditure - current	10 701	76
Closing balance	16 601	5 900

Irregular expenditure incurred in the previous financial year amounts to R75 681,47 and it is still under investigation in order to implement disciplinary action where necessary and condone the irregular expenditure if necessary. A supplier failed to disclose close relationship with one of the employees and the supplier was awarded work to the value of R75 681,47.

Irregular expenditure for the current year relates to payments made to a supplier which was appointed through a normal competitive bidding process. The organisation applied risk assessment to evaluate suppliers, which resulted in supplier that scored the highest number of points not being awarded the tender. The award was therefore irregular as it does not comply with Preferential Procurement Policy Framework Act which states that the tender must be awarded to the tenderer that scores the highest number of points. The tender was awarded to the value of R13,8 million and during the year ended 30 June 2022 an amount of R10,7 million was paid to the supplier that was awarded the tender.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Opening balance of the previous financial year relates to irregular expenditure which was referred to National Treasury for condonation.

Possible irregular expenditure under investigation

	2022	2021
Possible non-compliance with laws and regulations in extensions or variations of contracts with suppliers	115 831	-

During the audit, possible cases of irregular expenditure were identified. These cases still need to be investigated by management to confirm if there is irregular expenditure or not.

37. Prior period errors

During preparation of annual financial statements for the year ended 30 June 2022, an error was identified where deferred income for prior years was not recognised accurately. Deferred income was recognised over a longer period which is not in accordance with the agreement with the relevant customer. Recognition of deferred income over a longer period resulted in understatement of deferred income recognised in prior years and overstatement of deferred income liability.

The correction of the error results in adjustments as follows:

	2022	2021
Statement of financial position		
Deferred income	-	4 065
Opening Accumulated Surplus	-	(151)
Statement of financial performance		
Deferred income recognised	-	(3 914)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

38. Budget differences

Material differences between budget and actual amounts

- (a) Sale of goods relates to water sales. Water sales volumes were lower than budgeted sales during the year. Power shortages contributed to lower sales as water purification plants operate using electricity. There were plant shut downs as well when repairs and maintenance work was carried out due to other repairs and maintenance needs. High rainy seasons also contributed to lower water demand in farming and industrial customers which reduces water sales volumes.
- (b) Management fees were lower during the year because key projects where Magalies Water charges management fees were not progressing very fast and expenditure incurred on these projects was low, resulting in lower management fees being charged. In addition, the organisation was unable to source additional operations and maintenance contracts as planned, which also contributed towards lower management fees.
- (c) Tender fees income is based on the number of tenders advertised as well as the number of suppliers buying tender documents. Tenders advertised were lower than planned, however the demand for tender documents or interest from suppliers was higher, resulting in more tender documents being purchased by suppliers, which then resulted in tender fees earned exceeding budget.
- (d) Rental income related to rent charged to employees using staff accommodation or houses owned by Magalies Water. Rental income earned is in line with the budget with no material variance between budget and actual.
- (e) Cost recovery income is depended on the amount of work required by clients where services are provided on cost recovery basis. During the year services required resulted in higher cost recovery income.
- (f) Other income includes water re-connections fees, administration fees and other sundry income. Other income exceed budget due to write off of creditors balances where goods and services were received prior to 30 June 2016 and suppliers have not submitted invoices. Water reconnection fees were higher due to more frequent water disconnections for non-paying customers which then resulted in higher income than budgeted income.
- (g) Lab analysis income is depended on customer requests for services. During the year requests for lab analysis services were slightly higher than anticipated at the time of budgeting and much higher than lab analysis fees earned in prior years, which was used as a base for budgeting.
- (h) Deferred income recognised was slightly higher than budget due to recognition of additional deferred income due to review of agreements with one of the customers that contributed assets to Magalies Water.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

- (i) Finance income was higher than budgeted because of customers paying late for goods and services provided. Higher interest was charged on customers with long outstanding debt, which have increased during the year. Investment balances were also slightly higher due to government grants received and invested before payments are made to suppliers.
- (j) Government grants and subsidies income was higher as the department provided grants that had not been budgeted for resulting in a positive variance.
- (k) Personnel cost is 6,5%% above budget. The main contributor to higher personnel cost was the payment of performance bonuses to employee for the year ended 30 June 2021 which was paid during this financial year.
- (l) Depreciation and amortisation cost was lower as some capital project were not completed or were completed late in the financial year resulting in assets not being depreciated as planned.
- (m) Impairment loss was not budgeted resulting in expenditure exceeding budget. Impairment arises from assessment and evaluation of conditions of assets at year end.
- (n) Cost of sales was lower than budget due to lower sales as reflected in revenue.
- (o) General expenses were below budget as some planned projects were not implemented. Cost containment measures are also in place where only critical items are procured.
- (p) Gain on disposal of assets relates to items of property, plant and equipment disposed off. The sale or disposal of these assets was not planned and was therefore not budgeted for.

DETAILED INCOME STATEMENT

Figures in Rand thousand	Note(s)	2022	2021 Restated*
Revenue			
Sale of water		779 423	730 211
Government grants and subsidies		91 018	26 095
		870 441	756 306
Cost of sales			
Cost of water sold		(566 869)	(529 646)
		303 572	226 660
Gross surplus			
Other income			
Cost recovery income		152	395
Deferred income recognised		20 373	20 925
Gains on disposal of assets		4 498	-
Interest received	22	30 343	24 816
Lab analysis		2 693	1 938
Management fees		3 612	3 614
Rental income		266	267
Sundry income		3 899	245
Tender fees		583	176
		66 419	52 376

DETAILED INCOME STATEMENT

Figures in Rand thousand	Note(s)	2022	2021 Restated*
Operating expenses			
Admin overheads		(3 618)	(2 010)
Advertising		(1 194)	(528)
Auditors remuneration		(3 368)	(2 423)
Bad debts		(2 131)	(15 841)
Bank charges		(188)	(160)
Catering		(535)	(317)
Cleaning		(189)	(72)
Computer expenses		(345)	(395)
Consulting and professional fees		(14 953)	(7 933)
Consumables		(3 799)	(2 916)
Corporate social responsibility		(1 802)	(670)
Depreciation, amortisation and impairments		(10 128)	(8 392)
Electricity		(851)	(649)
Employee costs		(145 322)	(100 597)
Insurance		(4 839)	(5 106)
Lease rentals on operating lease		(599)	(643)
Legal expenses		(3 554)	(3 982)
License fees		(5 051)	(3 023)
Loss on disposal of assets		-	(202)
Membership fees		(276)	(92)
Other operating expenses		(6 641)	(7 459)
Promotions and publications		(4 985)	(1 676)
Recruitment costs		(336)	(517)
Repairs and maintenance (admin)		(392)	(1 102)
Security		(11 637)	(10 514)
Telephone and fax		(3 771)	(4 358)
Training and conferences		(8 715)	(5 782)
Travel and accommodation		(3 730)	(2 968)
		(242 949)	(190 327)
Surplus for the year		127 042	88 709

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