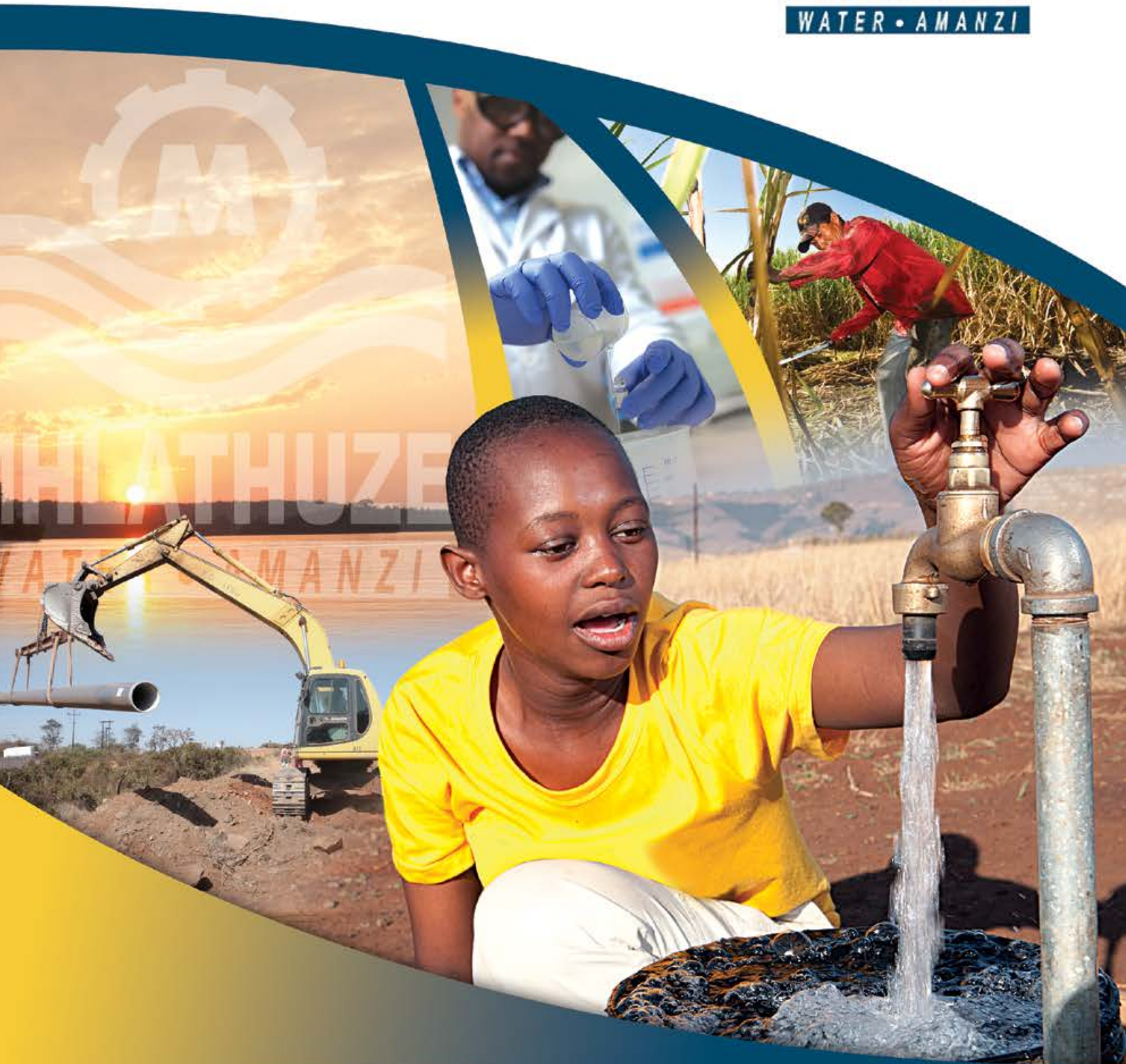
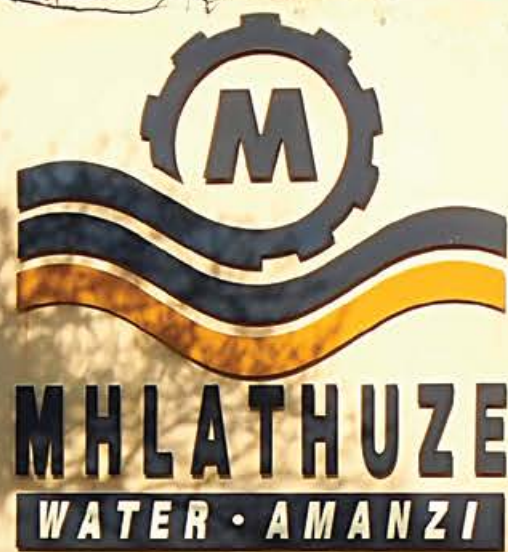


ANNUAL REPORT

2017/2018



WATER: A CATALYST FOR SUSTAINABLE SOCIO-ECONOMIC DEVELOPMENT



MHLATHUZE
WATER • AMANZI

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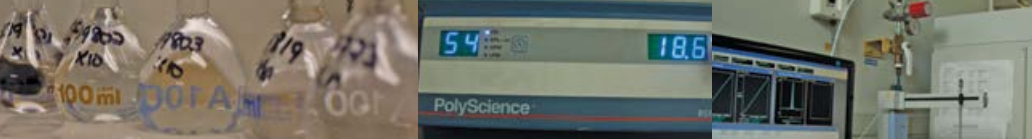
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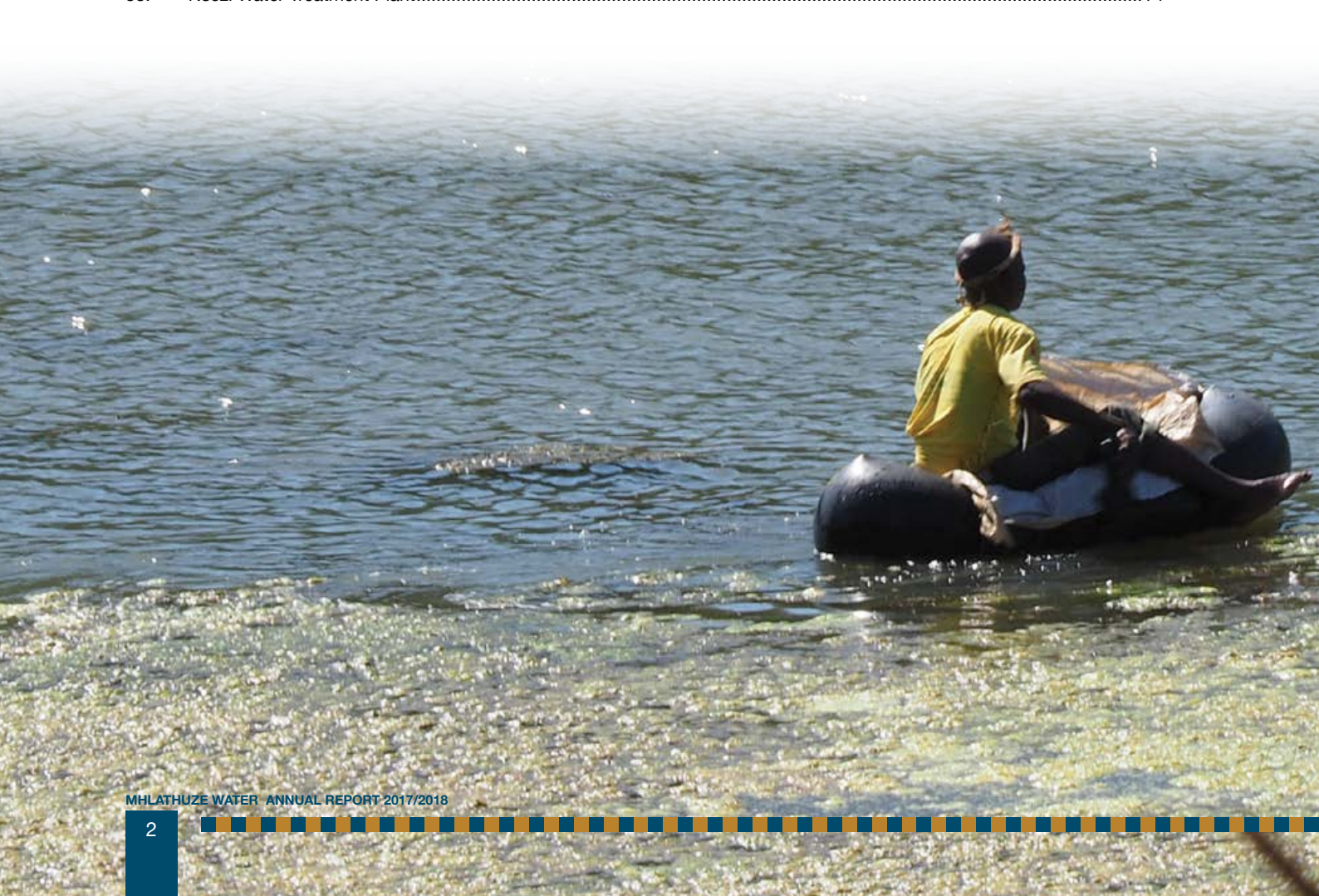


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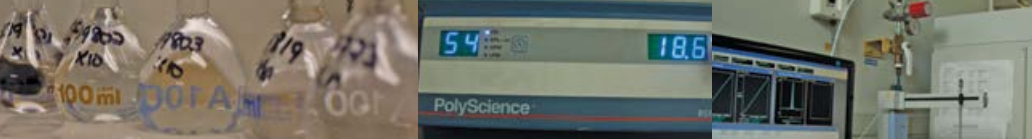
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Water, essential to all aspects of life – from survival to leisure. Pongolapoort Dam in Jozini.



Abbreviations

AC	Audit Committee
ACIP	Accelerated Community Infrastructure Programme
AGSA	Auditor-General South Africa
AMCOW	African Minister Council on Water
ASB	Accounting Standards Board
AFWA	African Water Association
ASIDI	Accelerated Schools Infrastructure Development Initiative
BBBEE	Broad-Based Black Economic Empowerment
BCOM	Bachelor of Commerce
BDS	Blue Drop System
BRICS	Brazil, Russia, India, China, South Africa
BSc	Bachelor of Science
CAPEX	Capital Expenditure
CEPPPAWU	Chemical Energy Pulp, Paper and Printing Allied Workers Union
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CMA	Catchment Management Agency
CMF	Catchment Management Forum
CMMS	Computerised Maintenance Management System
CoGTA	Cooperative Governance and Traditional Affairs
COO	Chief Operations Officer
CoU	City of uMhlathuze Municipality
CSD	Central Supplier Database
CSI	Corporate Social Investment
DBSA	Development Bank of Southern Africa
DBE	Department of Basic Education
DEA	Department of Environmental Affairs
DEDTEA	Department of Economic Development, Tourism and Environmental Affairs
DM	District Municipality
DoE	Department of Education
DOT	Department of Transport
DUT	Durban University of Technology
DWS	Department of Water and Sanitation
ECSA	Engineering Council of South Africa
EIA	Environmental Impact Assessment
EMS	Environmental Management System
EPC	Engineering Procurement and Construction

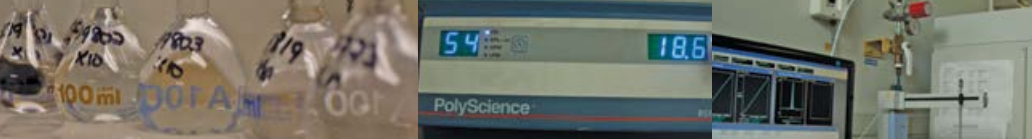
ESD	Enterprise and Supplier Development
EWSETA	Energy and Water Sector Education and Training Authority
EXCO	Executive Committee
FY	Financial Year
GDP	Gross Domestic Product
GIS	Geographic Information System
GRAP	Generally Recognised Accounting Practices
HoD	Head of Department
HR	Human Resources
IAS	International Accounting Standards
ICC	International Convention Centre
IDZ	Industrial Development Zone
IFRS	International Financial Reporting Standards
INCA	Infrastructure Finance Corporation Limited
ISA	International Standard on Auditing
ISO	International Organisation for Standardisation
KZN	KwaZulu-Natal
LIMS	Laboratory Information Management System
LM	Local Municipality
m³	Cubic Metres
m³/s	Cubic Metres per Second
ML	Megalitre
ML/day	Megalitres per Day
MANCO	Management Committee
MBA	Master of Business Administration
MBL	Master of Business Leadership
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MW	Mhlathuze Water
MWIG	Municipal Water Infrastructure Grant
NEMP	National Eutrophication Monitoring Programme
NERSA	National Energy Regulator of South Africa
NGO	Non-Governmental Organisation
NMMP	National Microbial Monitoring Programme
NT	National Treasury
NQF	National Qualifications Framework
O and M	Operations and Maintenance
OHSAS	Occupational Health and Safety Assessment Series

PCCAA	Prevention and Combating of Corrupt Activities Act
PDA	Protected Disclosure Act
PFMA	Public Finance Management Act
RBM	Richards Bay Minerals
RBIG	Regional Bulk Infrastructure Grant
RMB	Rand Merchant Bank
SA GAAP	South African Statements of Generally Accepted Accounting Practices
SAAWU	South African Association of Water Utilities
SAA	South African Airways
SAICA	South African Institute of Chartered Accountants
SAICEE	South African Institute of Electrical Engineers
SANS	South African National Standards
SARB	South African Reserve Bank
SCADA	Supervisory Control and Data Acquisition
SHC	Shareholders Compact
SHEQ	Safety, Health, Environmental and Quality Management
SCM	Supply Chain Management
SLA	Service Level Agreement
SOE	State-Owned Enterprise

SMME	Small, Medium and Micro-Enterprise
TGS	Tugela-Goedertrouw Transfer Scheme
TR	Treasury Regulations
UN	United Nations
uPVC	Unplasticised Polyvinyl Chloride
UTDM	uThungulu District Municipality
UKDM	uMkhanyakude District Municipality
WfW	Work for Water
WISA	Water Institute of South Africa
WMA	Water Management Areas
WSA	Water Services Authority
WSIG	Water Services Infrastructure Grant
WRM	Water Resource Management
WUL	Water Use License
WTP	Water Treatment Plant
WTW	Water Treatment Works
WWDS	Waste Water Disposal Scheme
WWTP	Waste Water Treatment Plant
YE	Year End
ZCCI	Zululand Chamber of Commerce and Industries
ZDM	Zululand District Municipality



Mhlathuze bottled water produced at the Nsezi Water Treatment Plant.



Water: A Catalyst for Sustainable Socio-economic Development

Our country recognises the critical importance of an adequate water supply to the attainment of its developmental objectives. The National Development Plan singles water scarcity as the biggest threat to inclusive development and proposes interventions that will support a water secure future and ensure that the country's economy and the livelihoods of its people are not adversely affected due to a lack of water supply and decent sanitation.

As one of the largest state owned entities in KwaZulu-Natal, with close to four decades experience in the water sector, Mhlathuze Water rallies behind the call to prioritise water security and is uniquely positioned to drive its mandate of being a regional water and waste water service provider of choice for all stakeholders in the water value chain.

Mhlathuze has a current staff compliment of 230. The organisation has mastered the art of balancing the often different needs of its wide variety of customers to consistently deliver a water service that is dependable. The utility meets the highest international standards and maximises every drop of the precious resource entrusted to its care.

A world-class team of specialists work together on a daily basis to ensure the different parts of the water supply puzzle, from bulk sourcing to treatment and disposal, are always in the correct place so as to make every drop count.

Mhlathuze Water operates an inter-basin transfer scheme, a major water treatment plant, an offshore waste water disposal system, and also manages water treatment and sewage plants on an agency basis for industry and municipalities.

Our Stakeholders

The mandate of Mhlathuze Water during the year under review could not have been fulfilled without the support, co-operation and contribution of the following stakeholders:

- The Department of Water and Sanitation;
- His Majesty, King Goodwill Zwelithini ka Bhekuzulu;
- The Accounting Authority;
- The Department of Cooperative Governance and Traditional Affairs;
- The Department of Higher Education;
- The Department of Basic Education;
- The Department of Environmental Affairs;
- The Office of the Premier in KwaZulu-Natal;
- Amakhosi;
- Municipalities;
- Contractors;
- Customers;
- The media;
- The National Treasury;
- The Auditor-General South Africa;
- Financial institutions;
- Professional bodies;
- Trade unions; and
- Employees of Mhlathuze Water.



FOREWORD BY THE MINISTER – DEPARTMENT OF WATER AND SANITATION

HONOURABLE MR GUGILE E. NKWINTI | MINISTER OF WATER AND SANITATION

The Department of Water and Sanitation and its entities are seeking innovative strategies that are aimed at sustainable, efficient and effective water use whilst, simultaneously, they are building collaborative partnerships with like-minded stakeholders inside the country and internationally. To achieve those objectives, they must maintain a delicate balance between achieving the infinite provision of quality water and sanitation services with the finite financial resources at our disposal.

In the financial year under review, Mhlathuze Water has expanded the sustainable supply of affordable, quality water and waste water in order to change the livelihoods of communities and the economy for the better.

Notwithstanding the challenges attendant to the constitution of its Board and Chief Executive management in the organisation, Mhlathuze Water has striven to prudently discharge its mandate and to address irregularities that may have risked putting the utility in an adverse financial position.

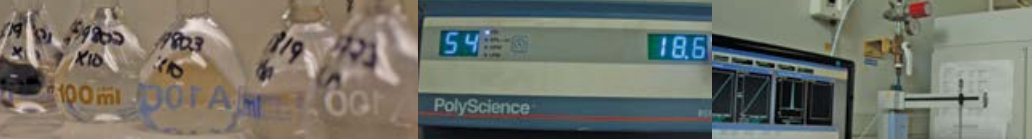
This has contributed to the overall imperative of the Department of Water and Sanitation and the water sector to reprioritise and

streamline the spending of water utilities to align their annual performance plans and, more importantly, to effectively curb unauthorised, fruitless and wasteful expenditure.

In this regard, I commend Mr Mthokozisi Duze for holding the fort in the absence of the Chief Executive Officer and the Board for the utility in the period under review. I also commend the executive management team and all staff members of Mhlathuze Water for ensuring that this entity retains its strategic ideal to consistently supply water in a financially sustainable manner.

I look forward to the growth and strengthening of Mhlathuze Water now and in the future.

Honourable Mr Gugile Nkwinti
Minister of Water and Sanitation
31 October 2018



FOREWORD BY THE INTERIM CHIEF EXECUTIVE OFFICER

MR MTHOKOZISI P. DUZE | INTERIM CHIEF EXECUTIVE OFFICER

The reporting period under review has been marked by a number of challenges on the ecological and economic fronts. In order to adequately respond to these rigours, we were compelled to reconfigure our operations – a feat which required us to abandon our comfort zones and adopt a business unusual approach.

With the Ministry for Water and Sanitation having given us the unambiguous edict of responding to the needs of our poorest communities in rural areas – already feeling the effects of a diminished access to water due to the unrelenting drought – we had little choice but to ensure that every cent spent was channelled towards lessening the burden on these communities.

To paraphrase a line attributed to the character of Laertes in the Shakespearean tragedy, Hamlet, the imploration made to Mhlathuze Water was simple: we had to go far with little.

This was a call which found resonance with Minister of Water and Sanitation, Honourable Gugile Nkwinti who in his budget speech emphasised the need for prudent financial controls and the careful management of water.

Thus, for us as Mhlathuze Water, the year under review has been about making concerted efforts to manage our overall expenditure and improving efficiencies.

It also meant adopting a proactive and competitive culture of Risk Management which would allow us to not only identify but also adequately respond – within the appropriate timeframe – to any potential risk which could impair the ability of the Organisation to deliver on its objectives.

Notwithstanding the matter identified by the Auditor-General as the basis for a qualified opinion, I am satisfied that Mhlathuze Water has planted the seeds for a future of improved performance and remains on course to effectively discharge its mandate.

Our turnaround efforts have included effectively attacking fruitless and wasteful expenditure and also accurately updating our assets register which is currently just under R1 billion.

This was done without losing sight of our grand goal of using water and sanitation provision as a catalyst for sustainable socio-economic development. Looking ahead, we want to work towards decreasing our exposure to unauthorised or irregular spending and working towards the realisation of a budget surplus.

Therefore, beyond constructing and maintaining our infrastructure or ensuring that our stakeholders have access to safe drinking water, we have remained acutely aware of

the imperative of ensuring that in all that we do – be it the construction of sanitation facilities or the maintenance of water infrastructure – we were also able to contribute to government's call for the radical economic empowerment of our communities in a financially sustainable manner.

I am happy to report that in line with this ideal, Mhlathuze Water has in the year under review spent 53.14% of its procurement for the direct benefit of contractors from previously marginalised groupings, including women and youth owned entities.

We have also embarked on a contractor participation programme where established enterprises conducting projects on behalf of Mhlathuze Water are compelled to empower emerging contractors by engaging them as sub-contractors.

Beyond servicing our communities, Mhlathuze Water also embarked on a number of internal projects aimed at ensuring that its plants operate optimally which would, in turn, ensure an unhindered supply to our large industrial clients and result in additional revenue generation.

I would also like to reassure our stakeholders that Mhlathuze Water, as a forward-looking organisation, is constantly working towards crisis-proofing itself by putting in place measures to ensure the sustained availability of a reliable water supply, even during periods of diminished rainfall.

Our medium to long term goals include placing a renewed focus on improving the quality of our water infrastructure so that we are able to meet the demands of all our customers. Noting the devastations of the drought on our province in previous years, we have accelerated the pace of work at our Tugela-Goedetrouw Transfer Scheme upgrade and we remain upbeat that work on the scheme will be completed by 2019. Progress has also been made on alterations and upgrades to our Weir in order to improve its overall integrity.

These interventions will doubtless put us in a better position to meet the steep increase in demand for water, particularly among our municipal and industrial stakeholders.

We can also highlight the following projects which were undertaken in the year under review:

Internally funded projects:

• *Reservoirs at Nsezi Water Treatment Plant*

The project entailed the construction of two 20MI reservoirs in order to provide an additional 40MI on site storage of potable water to ensure uninterrupted supply to Mondli. The construction of the two reservoirs has been finalised and the system has been commissioned.

• *Tronox Pump Station Upgrade*

Mhlathuze Water upgraded the water capacity of the Tronox Pump Station to meet future raw water demands for the CoU (Esikhaleni Water Treatment Works) and Tronox Fairbreeze Mine. The project was commissioned in February 2018.

• *Mondli Pump Station Upgrade*

The upgrade of the electrical works and pumps at the Mondli Pump Station is complete, with the infrastructure commissioned and operational and potable water being fed to the two new 20MI reservoirs at Nsezi.

• *Mhlathuze Weir Structure*

The Mhlathuze Weir was constructed in 1983 and during severe floods of September 1987, the weir was structurally damaged. Over the 30 years since the 1987 floods, the weir has been repaired, strengthened, supported and protected against failure. These measures were however all interim and the demand to supply raw water is also significantly increasing.

In view of the risks attached to the failure of the current weir, it was resolved that a new structure supplementing the existing one be constructed.

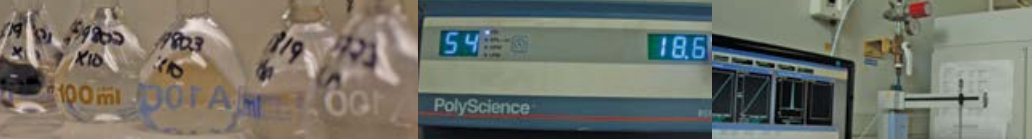
The construction of the Mhlathuze Weir Structure commenced in June 2018 for a construction period of 65 weeks.

• *Empangeni Pumpstation Upgrade*

The project was successfully and commissioned in February 2018. The project is currently in the Defect Liability period which expires on the 1st of September 2018.

Progress on Ministerial Directives:

Mhlathuze Water has also done commendably well to execute all directives issued by the Department of Water and Sanitation geared towards providing water relief to largely rural communities.



To this end, considerable progress has been made towards the completion of projects that were handed over to Mhlathuze Water in the Nongoma and Abaqulusi municipalities under the Zululand District. This project included: the assessment and refurbishment of boreholes, springs and reticulation systems.

Notwithstanding budget limitations that were incurred along the way, we can report the following progress:

- **Nongoma Water Supply In Ward 5, 10 & 11, 14 and 17**

A total of 1 537 households are benefitting from this project. Ward 5, 10 and 11 water supply schemes are being implemented planned for completion in the current financial year.

A further of 1 583 households are benefitting from this project in wards 14 and 17. Notwithstanding periodic challenges experienced on the side of the Zululand District in relation to the operation and maintenance of this project, Mhlathuze Water is on course to ensure that the project meets the demands of the communities.

- **Abaqulusi**

Abaqulusi ward 5, 6 and 7 benefited from the Nongoma and Abaqulusi Water Supply directive. The defined scope of work was completed for 17 springs however due to drought 10 springs dried out and only 7 springs out of original scope was planned for implementation. The implementation of the 7 springs was successful with all springs completed and a total of 259 households are benefitting from this project.

- **Jozini/Ingwavuma Projects**

The water treatment works project is now complete and was launched in 2017. Mhlathuze Water was given a mandate to continue operating and maintaining the Water Treatment Works, and assist to build capacity within the Umkhayakude District Municipality. Mhlathuze Water is in the process of finalizing the necessary operational arrangements with uMkhanyakude District Municipality for operating the plant.

- **Equipping of Bulk Water Pump Stations**

The project of equipping four pump station on the bulk water System is at procurement stage. The tender is at adjudication phase. The department of Water and Sanitation has made a

commitment of the budget for the equipping of the pump station to ensure completion of the Jozini bulk Water Supply Scheme by March 2019.

- **KwaSani Bucket Eradication System Project**

A bucket eradication project was undertaken on behalf of the KZN Department of Co-operative Governance and Traditional Affairs. The project was completed in December 2017 and handed over to the Harry Gwala District Municipality for operation and maintenance.

The commendable progress made on the implementation of these projects attests to our efforts of addressing the disjuncture between water provision utilities and municipalities, which, as poignantly noted by Minister Nkwinti, only served to delay the completion of projects, thereby hindering our mission of changing people's lives for the better.

Ultimately, and while we readily concede that there are challenges that lie ahead, these are not insurmountable. Through the unwavering support and guidance from the Department of Water and Sanitation, we are confident that we will continue to meaningfully contribute to the ideals of the National Water and Sanitation Master Plan of ensuring effective and efficient water delivery to our communities.

I would like to take this opportunity to thank the Minister of Water and Sanitation for affording me the opportunity to lead Mhlathuze Water as both the Interim CEO and Accounting Authority. I equally thank the Audit and Risk Committee which kept us in check and suggested remedial actions as and when the need to do so arose.

Lastly, I acknowledge with gratitude the efforts and support of the entire management team and staff of Mhlathuze Water in the execution of my duties within the organisation.

Mr Mthokozisi P. Duze

Interim Chief Executive Officer

Statement of Responsibility and Confirmation of Accuracy for the Annual Report

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

All information and amounts disclosed in the annual report is consistent with the annual financial statements audited by the Auditor General.

The annual report is complete, accurate and is free from any omissions.

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

The Annual Financial Statements (Section G) have been prepared in accordance with the GRAP standards applicable to the public entity.

The accounting authority is responsible for the preparation of the annual financial statements and for the judgements made in this information.

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

The external auditors are engaged to express an independent opinion on the annual financial statements.

In our opinion, the annual report fairly reflects the operations, the performance information, the human resources information and the financial affairs of the entity for the financial year ended 30 June 2018.

Yours faithfully



Mr Mthokozisi P Duze

Chief Executive Officer

31 October 2018



Mr Mthokozisi P Duze

Accounting Authority

31 October 2018



Entrance to one of the state of the art water treatment plant situated in the heart of Jozini.



SECTION A

PROFILE OF THE ORGANISATION

1. Introduction

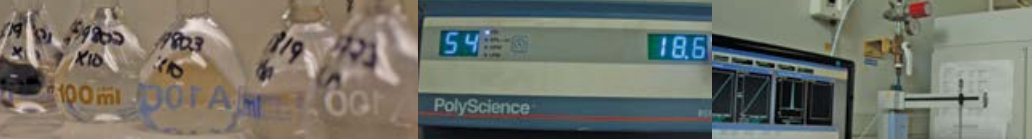
Mhlathuze Water (MW) is a state-owned entity, operating in Richards Bay, KwaZulu-Natal. Richards Bay is supplied by three dominant water sources, namely: the Mhlathuze River, Lake Mzingazi and Lake Nsezi. The Organisation's business activities include untreated, purified and clarified water supply, disposal of industrial and domestic waste water and scientific services. The Entity provides service delivery initiatives on behalf of the Department of Water and Sanitation (DWS) and the Department of Cooperative Governance and Traditional Affairs (CoGTA). The Organisation's clients include Foskor, Richards Bay Minerals, City of uMhlathuze, Tronox and Mondi.

Mhlathuze Water strives to achieve its role as a water board by:

- Acting as a responsible water service provider in terms of the Water Services Act, 1997 No. 108 of 1997, by supporting and assisting local water service authorities with planning, development, operation and maintenance of water services schemes;
- Providing all levels of water services (water supply, offshore waste water disposal, sanitation, sewerage treatment, water transfer schemes, water quality management, etc.) in a sustainable and cost-effective manner;

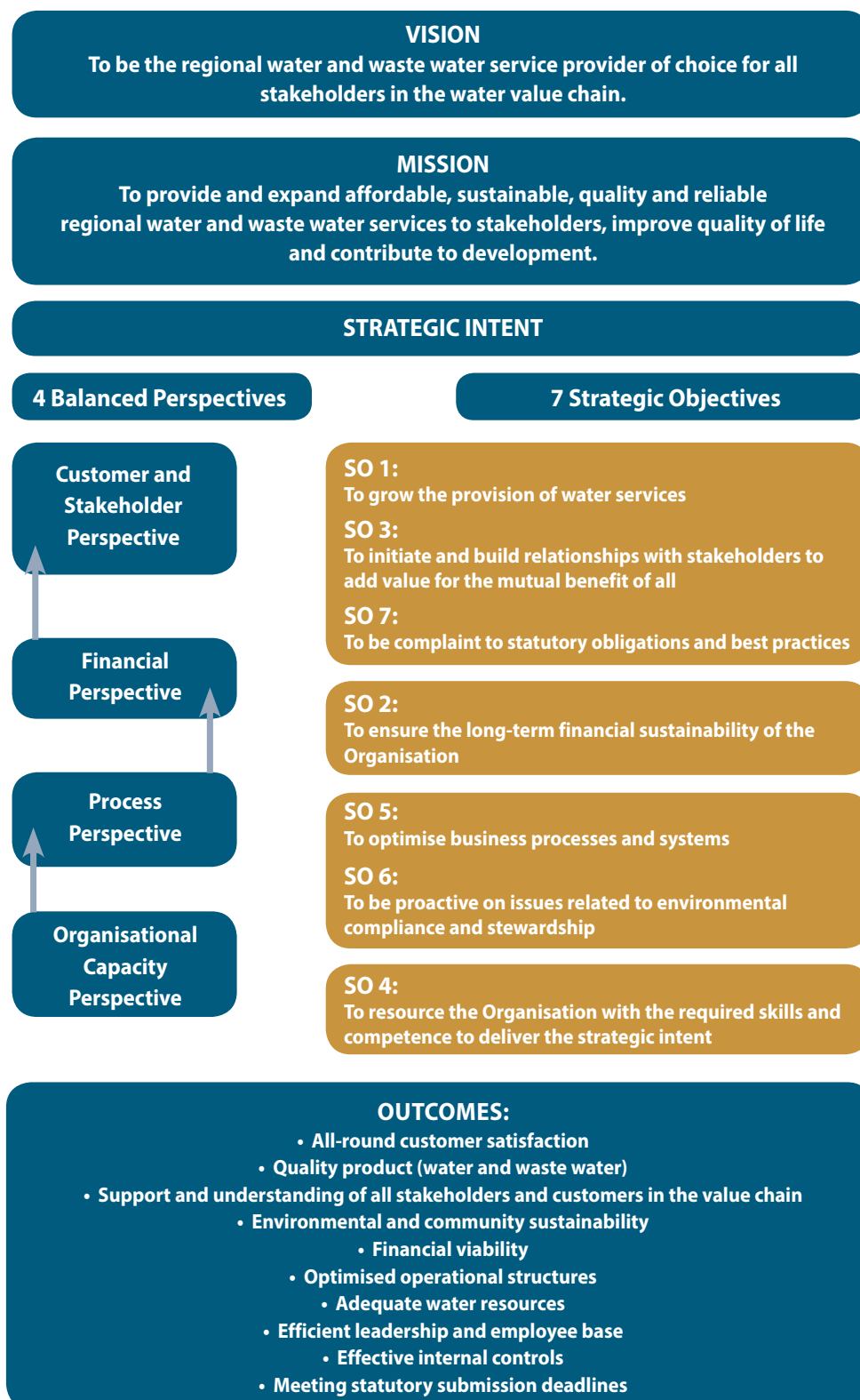
- Maintaining and expanding good relationships with its customers;
- Contributing towards economic growth through the supply of services to new investors who establish industrial facilities within Mhlathuze Water's area of operation;
- Protecting environmental and water resources;
- Ensuring that its most important resource – employees – are managed, supported, developed and rewarded in a responsible, transparent and unbiased manner and by implementing appropriate human resources policies and partnerships with employees in order to set the tone for commitment and transformation.

The Annual Report delineates information on performance, key achievements and financial position for the 2017/2018 financial year. The Annual Report is presented in the format prescribed by the National Treasury guidelines for public entities. Mhlathuze Water complies with statutory disclosure prescribed in the Water Services Act, 1997 (Act. 108 of 1997) and the Public Finance Management Act, 1999 (Act 1 of 1999 (as amended)).



2. Vision, Mission, Strategic Objectives, Key Outcomes Values and Critical Success Factors

2.1 Vision, Mission, Balanced Perspectives and Strategic Objectives



2.2 Values

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

- **Excellence**

We will continue to maximise the use of available resources so that Mhlathuze Water continues to produce work of an excellent quality.

- **Fairness**

We will maintain high ethical standards and allocate and share responsibilities in a fair and equitable manner.

- **Accountability**

We will make ourselves available to our customers and remain accountable to all our stakeholders at all times.

- **Creativity and Innovation**

We will continually strive for new, different and efficient ways of doing what we do, challenging the status quo, mindsets and assumptions.

- **Enthusiasm (Play, Fun, Passion)**

We will treat all people with respect, warmth, integrity, passion, courtesy and enthusiasm to make them feel special.

2.3 Critical Success Factors

Customers

- To reach and deliver water and related services to every possible customer with warmth, enthusiasm, sensitivity and courtesy as a preferred water service provider in a responsible, effective and sustainable manner.

Financial

- To optimise available resources through sound financial management and ensure financial viability through the establishment of sustainable tariffs.

Human Resources

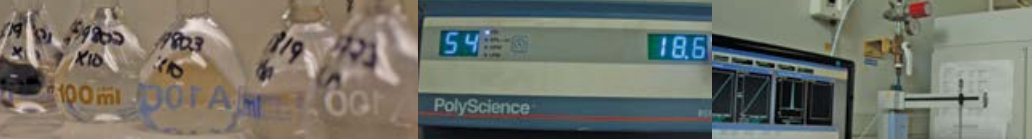
- To attract, develop and retain human capital that works with visionary leadership to ensure a diverse, skilled and competent workforce to achieve business objectives and goals.

Operations

- To provide quality water, waste water and related services in an environmentally friendly, socially responsible, innovative and cost-effective manner.

The 1-mega litre storage reservoir at the Jozini pump station.





3. Legislative and Other Mandates

3.1 Legislative Mandates Relevant to Mhlathuze Water

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

The Constitution of the Republic of South Africa 1996 (Act 108 of 1996) is the supreme law of the Republic. Along with the Bill of Rights, the Constitution forms the legal foundation of a democratic South Africa and sets out the rights and duties of its citizens and defines the structure of the government. Section 27 (1) (b) of the Constitution of South Africa states that everyone has the right to have access to sufficient food and water. Section 27 (2) further indicates that the State must take reasonable legislative and other measures, within its available resources, to achieve the progressive realisation of this right.

3.1.2 Water Services Act, 1997 (Act No. 108 of 1997)

The Water Services Act, 1997 sets out objectives to provide for the:

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

In addition, section 30 of the Water Services Act enables Mhlathuze Water to undertake any other activities, provided that these do not impact negatively on the Entity's ability to perform its primary activities. These include:

- Supplying water directly for industrial use, accepting industrial effluent and acting as a water services provider to consumers; and

- Providing water services in joint venture with water services authorities and other stakeholders.

According to Section 29 (1) The Minister may make regulations relating to (c) the information to be supplied in the financial statements of a water board; (d) the information to be supplied in the annual report of a water board; and (e) any other matter relating to the functioning of the water board and to the exercise of its powers which the Minister may consider advisable to ensure the water board's efficiency and to promote good order. Section 44 (1) A water board must, within four months after the end of each financial year, issue a report on the activities of the water board for that financial year. (2) The report (a) must be accompanied by the audited financial statements for that financial year; (b) must be submitted to the Minister, any relevant Province and Parliament; and (c) must be accessible to the public. (3) The report must contain sufficient information to allow (a) the Minister; (b) any relevant Province; (c) any relevant water services institutions; and (d) the public, to assess the performance of the water board.

3.1.3 National Water Act, 1998 (Act 36 of 1998)

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

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

According to the Public Finance Management Act (PFMA) (Act 1 of 1999) Section 55 (1) The accounting authority for a public entity (a) must keep full and proper records of the financial affairs of the public entity; (b) prepare financial statements for each financial year in accordance with generally accepted accounting practice. (2) The annual report and financial statements referred to in subsection (1) (d) must (a) fairly present the state of affairs of the public entity, its business, its financial results, its performance

against predetermined objectives and its financial position as at the end of the financial year concerned; (b) include particulars of (i) any material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the financial year; (ii) any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure; (iii) any losses recovered or written off; (iv) any financial assistance received from the state and commitments made by the state on its behalf; and (v) any other matters that may be prescribed; and (c) include the financial statements of any subsidiaries. (3) An accounting authority must submit the report and statements referred to in subsection (1) (d), for tabling in Parliament or the provincial legislature, to the relevant executive authority through the accounting officer of a department designated by the executive authority.

3.2 Other Legislative Mandates Relevant to Mhlathuze Water

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

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

The NWRS2 sets out the vision, principles, goals and strategic actions for achieving effective developmental water management, with a particular, but not exclusive, focus on the role of the State, specifically the Department of Water and Sanitation (as water sector leader), associated sector departments (impacting water resources and its management), catchment management agencies, water services authorities, water boards, and other organs of State with a responsibility for water management. It also focuses on the importance of water use sectors, communities, civil society, and the private sector becoming involved in and committing to developmental water resource management.

3.2.2 National Priority Outcomes

Out of the 14 National Priority Outcomes, Mhlathuze Water contributes directly to the following outcomes:

Outcome 2: A long and healthy life for all South Africans. Water is a fundamental requirement for human health and well-being. Mhlathuze Water is mandated to provide water to meet basic human needs.

Outcome 5: A skilled and capable workforce to support an inclusive growth path. Mhlathuze Water recognises the importance of a technically competent workforce and contributes in building capacity within the water sector.

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

Outcome 8: Sustainable human settlements and improved quality of household life. Mhlathuze Water provides water and sanitation services to meet basic human needs.

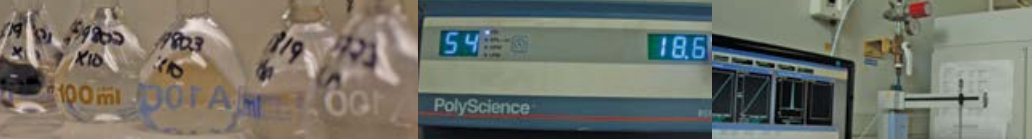
3.2.3 National Development Plan

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

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

2030 NDP Milestones

- All South Africans will have affordable, reliable access to sufficient safe water and hygienic sanitation;
- Effective management of water and the services will support a strong economy and a healthy environment;
- Establish a national water resources infrastructure agency to support implementation of large projects;
- The country's development will reflect an understanding of available water resources and effective water planning that cuts across different economic sectors and spheres of government;



- All main urban and industrial centres will have a reliable water supply to meet their needs, while increasingly efficient agricultural water use will support productive rural communities; and
- Natural water sources will be protected to prevent excessive extraction and pollution

Economic Infrastructure Objectives

- Ensure that all people have access to clean, potable water and that there is enough water for agriculture and industry, recognising the trade-offs in the use of water; and
- Achieve an average reduction in water demand of 15% below baseline levels in urban areas by 2030.
- Ensure maintenance and supply availability of bulk water resource infrastructure networks to eliminate poverty and inequality.

4. Mhlathuze Water's Business

4.1 Our Services

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

Mhlathuze Water's Management team during a project site visit at Middledrift.



4.2 Mhlathuze Water's Area of Operation





Provision and maintenance of key water supply infrastructure is a key competency of Mhlathuze Water. Bottom of the Pongolapoort Dam.

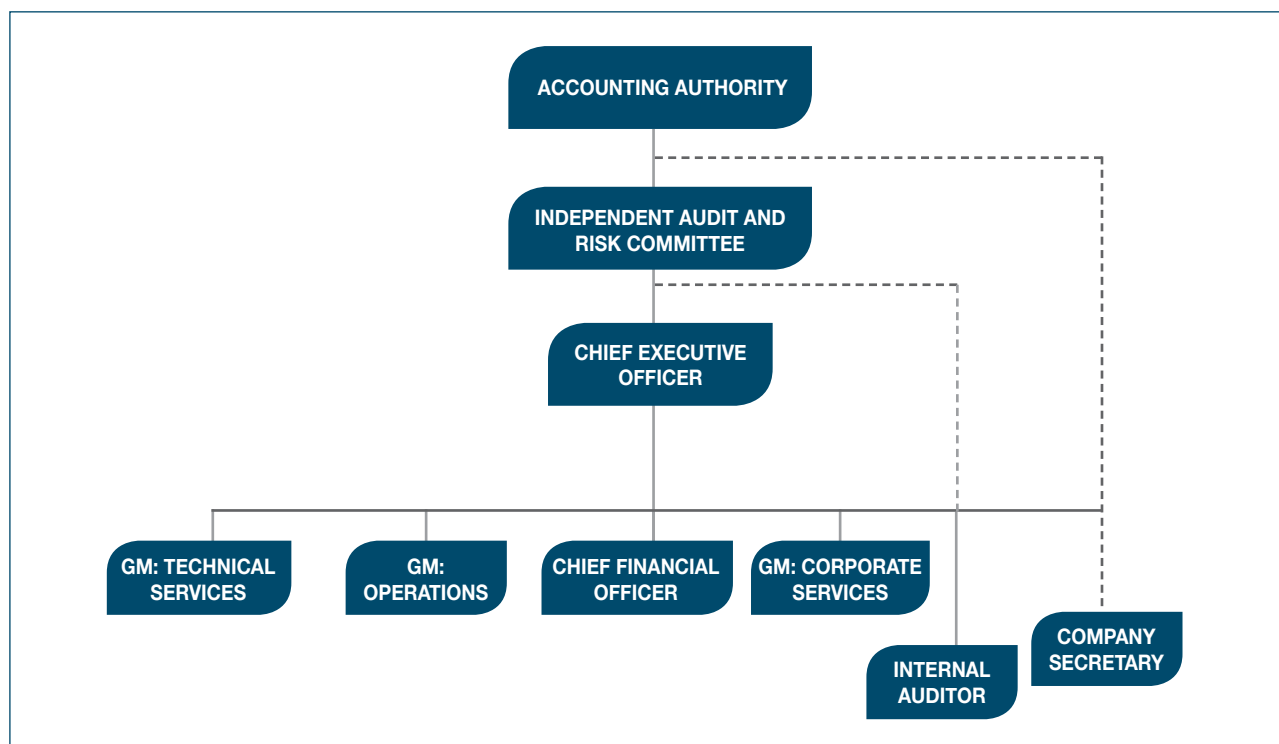


SECTION B

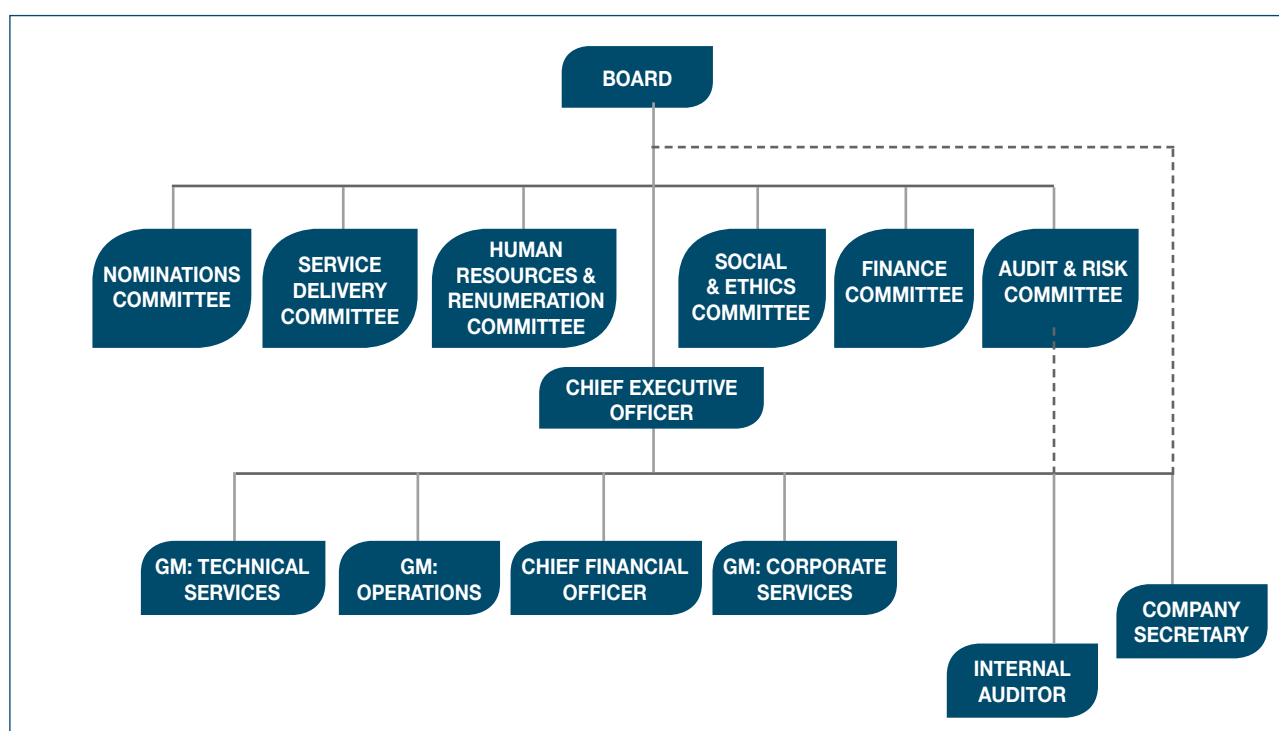
CORPORATE GOVERNANCE

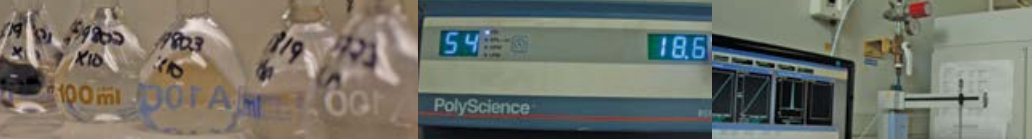
5. High-level Organisational Structure

2017/2018 High-level Organisational Structure



Ideal High-level Organisational Structure





5.1 Accounting Authority

In terms of the Water Services Act (Act 108 of 1997), Board members are appointed by the Minister of Water and Sanitation (DWS). However, the Mhlathuze Water Board was dissolved on 26 April 2017 and the Minister appointed the Interim CEO, Mr M.P. Duze, as an Accounting Authority. The Public Finance Management Act, Act 1 of 1999 (as amended), Section 49 (1) specifies that every public entity must have an accounting authority that must be accountable for the purposes of PFMA, Act of 1999 (as amended). (2) If the public entity (a) has a Board or other controlling body, that Board or controlling body is the Accounting Authority for that entity, or (b) does not have a controlling body, the CEO or the other person in charge of the public entity is the Accounting Authority. Mhlathuze Water is in a process of appointing a new board.

5.2 Committees

5.2.1 Independent Audit and Risk Committee

The Independent Audit and Risk Committee serves as an objective structure that is entrusted with a responsibility of improving the effectiveness of organisational governance, manage organisational risks and internal controls. In terms of the PFMA, 1999 Section 51 (1) The Accounting Authority for a public entity (a) must ensure that the public entity maintains (i) effective, efficient and transparent systems of financial and risk management and internal control; (ii) a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77. Mhlathuze Water complies with Section 77 (1) (a) of the PFMA and the Independent Audit and Risk Committee was appointed from 1 August 2017.

Musa Xulu – Chairperson

Mr Xulu is an Associate Accountant under the SA Institute of Chartered Accountants and a member of the SA Institute of Public Accountants. He has a financial background and brings sales and marketing, auditing and finance expertise to the Committee.



Nica Gevers – Member

Mrs Gevers is a registered Chartered Accountant (CA) and a member of the South African Institute of Chartered Accountants (SAICA). She has financial acumen spanning over 30 years in the retail, engineering and public sectors, most of which have been in management and executive positions. She also sits as an independent member on various audit and risk committees.



Advocate Simo Chamane – Member

Adv. Chamane is an Associate Member of the Society of Advocates, KZN Durban Bar. He has vast knowledge and extensive experience in the field of law and public administration. He is currently the Deputy Director-General in the Office of the Premier KZN and Special Legal Advisor to the Minister of Police.



Brian Rawlins – Member

Mr Rawlins hails from an academic background and further offers hydrological research and training services. He is currently a senior lecturer in the Hydrology Department at the University of Zululand. Mr Rawlins' expertise in hydrology, environmental impact assessments, water resource management and geohydrology adds great value to the Committee.



Poppy Dlamini – Member (resigned on 9 March 2018)

Ms Poppy Dlamini was a member of the Independent Audit and Risk Committee since August 2017 and resigned in March 2018. She was actively involved in the environmental and conservation sectors for over 20 years at grassroots, professional and executive levels. She project managed the highly acclaimed Umgeni Water Sustainability Report, which won several international awards. She introduced and led the implementation of global best practice and environmental conservation management, including the global reporting initiative pertaining to corporate governance. She currently serves on the Board of iSimangaliso Wetland Park.



Neli Shezi – Member (appointed on 25 April 2018)

Mrs Shezi has, amongst others, a Bachelor of Social Science and Masters Degree in Economics. She currently holds the position of Deputy Director General: Fiscal Resource Management at KZN Provincial Treasury responsible for Public Finance, Municipal Finance and Infrastructure and Economic Analysis. Her vast knowledge and expertise in the financial profession brings a valuable skill to the Independent Audit & Risk Committee.



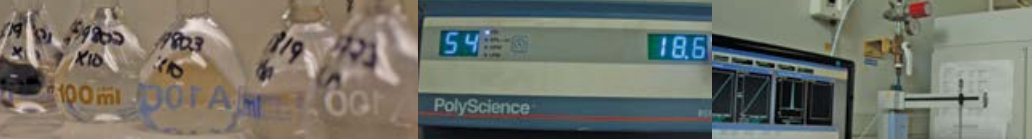


Table 1: Independent Audit and Risk Committee Meetings: 01 August 2017 to 30 June 2018

Member	Gender	28 August 2017	07 September 2017	28 September 2017	04 October 2017	17 October 2017	08 November 2017	26 January 2018	10 April 2018	26 April 2018	29 May 2018	14 June 2018
Mr M Xulu ¹	M	•	•	-	•	•	•	•	•	•	•	•
Mrs N Gevers	F	•	•	•	•	•	•	•	•	•	•	•
Adv S Chamane	M	•	-	•	•	•	-	•	•	•	-	•
Mr B Rawlins	M	•	-	•	•	•	•	-	•	•	•	•
Ms P Dlamini ²	F	•	•	•	•	•	•	•				
Mrs N Shezi ³	F									-	-	•

KEY:

- Attendance
- Non-attendance with apology
- 1 Chairperson
- 2 Resigned on 9 March 2018
- 3 Appointed on 25 April 2018

5.2.2 Management Committees

Executive Committee (EXCO)

The Accounting Authority delegates the day-to-day running of the Organisation to the CEO, who is assisted by the executives, each heading up a department (EXCO).

Risk, Information Technology (IT), Health and Safety Committee

The Risk, IT, Health and Safety Committee is tasked with managing issues of risks, IT governance and health and safety. The Committee meets quarterly to discuss reports on risk, IT governance and health and safety. The Committee comprises EXCO members and is chaired by the CEO.

Management Committee (MANCO)

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

5.2.3 Other Committees

Bid Committees

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

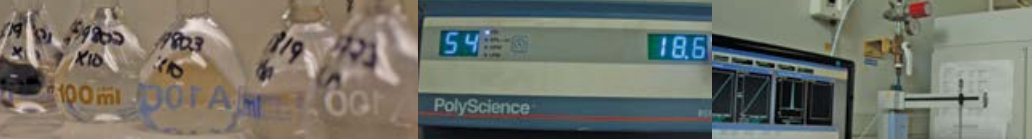
- Bid Adjudication Committee: Consists of Executive Management and Supply Chain Manager
- Bid Evaluation Committee: Consists of cross-functional teams with different expertise from various departments and the Supply Chain Specialist
- Bid Specification Committee: Consists of the representative from Supply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

Employment Equity Committee

The Employment Equity Committee was established in order to comply with Section 16 of the Employment Equity Act 55 of 1998. The Committee consists of employees or their nominated representatives who are from designated groups. The Committee was established for the purpose of enabling the employer to consult with the employees in terms of Section 17 of the Act and to implement affirmative action measures. The Committee meets on a quarterly basis



*Water ready for distribution at one of our unique
Pop-up Water Treatment plant in KwaSani.*



6. Disclosure of Interest

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

7. Conflict of Interest

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

Objectives of this Code, among others, are to:

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

By implementing the above, the Organisation is in a position to:

- Allow individuals, where appropriate, to acquire and maintain personal outside interests, provided that these

do not interfere with, or have the potential to interfere with, their duties to the Company, or improperly influence the judgements expected of them when acting on behalf of the Company;

- Protect individuals from misplaced charges of any conflict of interest by providing a mechanism for the objective review and approval (including conditional approval) of appropriate personal outside interests held by individuals.

8. Internal Control

Internal control systems, for which the Accounting Authority (Board) is accountable, are designed to provide reasonable assurance that assets are safeguarded and that liabilities and working capital of the Organisation are efficiently managed.

Features of Mhlathuze Water's internal controls are:

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

Internal audit performs an independent assessment of the internal control systems and business risks and reports to the Accounting Authority (Board) through the Independent Audit and Risk Committee.

Evening sun rays penetrating through the wall of the Pongolapoort Dam.



9. Meet the Executive Committee

The Executive Committee (EXCO) is the highest operational decision-making structure in the Organisation, which plays an important role in the formulation and implementation of the Accounting Authority's strategy and ensuring that all business activities are aligned.



Mthokozisi P. Duze – Interim CEO

Qualifications: Masters in Development Studies (cum laude)
Bachelor of Arts in Human and Social Studies
Enrolled for PhD in Security Studies: Kings College, UK

Area of Expertise: 17 years of Programme and Project Management Development
Planning Practitioner

Years of Service at Mhlathuze Water: 2 years

Position on other Boards: Non-Executive member: The 911 Fund Foundation (New York)



Babongile Mnyandu – Chief Financial Officer

Qualifications: Chartered Accountant of South Africa, Registered with South African Institute of Chartered Accountants

Area of expertise: Financial Management, Accounting and Auditing

Years of service at Mhlathuze Water: 2 years

Positions on other Boards: UYCPMA, Coastal TVET College, Africa Alliance of YMCA, South Africa YMCA



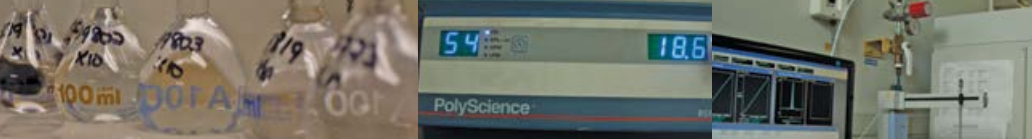
Celimpilo Cele (Pr. Eng.) – Interim GM: Technical Services

Qualifications: B Sc Degree in Mechanical Engineering
Holds a Mechanical Engineer's Certificate of Competency (GCC)
Enrolled for Masters in Engineering

Area of Expertise: Maintenance Engineering and Project Management

Years of Service at Mhlathuze Water: 7 years

Position on other Boards: None



Swaswa Ntlhoro – Interim GM: Operations

Qualifications: BSc (Hons) Degree
Postgraduate Diploma in Management

Area of Expertise: Chemistry and Applied Chemistry

Years of Service at Mhlathuze Water: 10 years

Position on other Boards: None



Mandla Myeni – GM Corporate Services

Qualifications: Bachelor of Technology Degree in Management
BCom Degree (Industrial Psychology)
Diploma in Personnel Management

Area of Expertise: Human Resources

Years of Service at Mhlathuze Water: 23 years

Position on other Boards: None



Duduzile Mathenjwa – Acting Company Secretary

Qualifications: LLB Degree (Admitted Attorney)
Master of Commerce in Maritime Studies (Course-work completed)
Postgraduate Diploma in Contract Drafting
Certificate in Legislative Drafting
Secondary Teachers' Diploma

Area of Expertise: 11 years post admission experience in Family Law, Litigation and Contract Drafting

Years of Service at Mhlathuze Water: 6 months

Position on other Boards: KwaZulu Regional Christian Council

10. Company Secretariat

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

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

11. Legal Framework

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

These are prescribed within a specific, applicable legal and regulatory framework for public entities such as the Public Finance Management Act 1999 (Act 1 of 1999), the Water Services Act, 1997 and the King IV Report, which are the cornerstones of these prerequisites.

Changes to the accounting standards that impacted on the financial reporting have been acknowledged to ensure minimal deviations from the requirements. Mhlathuze Water realises that compliance is an ongoing process and will, therefore, continue to seek sound and innovative ways to ensure full compliance in all the reporting obligations to both its customers and stakeholders to maintain transparency, effectiveness and accuracy.

12. Materiality and Significance Framework

The National Treasury Regulation Section 28.3.1; specifies that for purposes of material (Section 55 (2); Section 54 (2) of the Public Finance Management Act) the Accounting Authority must develop and agree on a framework of acceptable levels

of materiality and significance for the Public Entity with the relevant Executive Authority. The Board approved a Materiality and Significance Framework Policy on 26 May 2016. The policy defines both the levels of significance and materiality. The Delegation of Authority Policy is aligned to the framework. The purpose of the framework is to record the levels of materiality and significance for consideration by the governance structures of Mhlathuze Water and for submission to and approval by the executive authority. The framework is in line with the Mhlathuze Water Policy on Materiality and Significance Materiality.

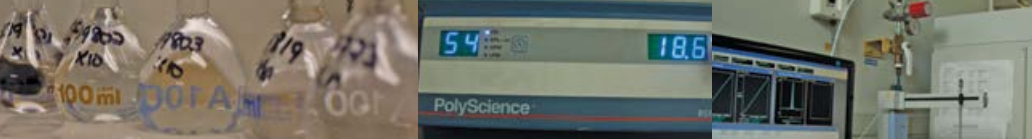
13. Risk Management

The Accounting Authority is ultimately accountable for risk management and the system of internal control at Mhlathuze Water. The Accounting Authority has reviewed the Risk Management Policy and Plan, which has been implemented by management. This includes continuous risk identification and assessment and internal control embedment, risk reduction and insurance strategies. Risk management is recognised as an integral part of responsible management and good corporate governance, hence Mhlathuze Water adopts a comprehensive approach to risk management to balance its opportunities and minimise threats. The purpose of the Enterprise Risk Management (ERM) policy and framework is to provide guidance to management and employees regarding the implementation of enterprise risk management within the culture of Mhlathuze Water.

13.1 Risk Management Policy and Framework

The underlying premise of enterprise risk management is that every entity exists to provide value for its stakeholders. All entities face uncertainty and the challenge for management is to determine how much uncertainty to accept as they strive to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. Enterprise risk management enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.

The Accounting Authority is responsible for the governance of risk and continuous review of the organisational risk profile. The Independent Audit and Risk Committee has been delegated by the Accounting Authority to ensure that adequate and suitable internal controls are in place to mitigate identified risks.



The Risk Manager, with the support of Management, evaluates and monitors the identified risks on an ongoing basis. In addition, the Risk Champion Forum, which is constituted by departmental representatives, ensures that appropriate procedures are in place to identify, assess and manage risks. The Forum also monitors the implementation of Risk Management Procedures and Reporting as well as assists with annual risks assessments.

Departmental risk registers are compiled and significant risks elevated and incorporated into a consolidated risk register for the Organisation. This is done to ensure that significant risks identified are monitored and mitigating controls put in place to manage risks that might affect the Organisation in meeting set objectives. The Company's internal and external auditors, along with management, are tasked to render combined assurance reports to the Independent Audit and Risk Committee.

13.2 Risk Assessments Conducted

13.2.1 Strategic, Fraud and Operational Risk Assessments

The purpose of the annual risk assessments is to identify and assess, through a structured and facilitated process, the business risks, which may prevent Mhlathuze Water from achieving its strategic objectives. Through this process, the Organisation has identified several key risks, which it monitors on an ongoing basis.

13.3 Management of Risks

13.3.1 Current Controls and Further Action Plans

The purpose of monitoring the risks identified by management on a quarterly basis is to ensure that controls that have been put in place are effective and identified corrective actions are implemented through a structured and facilitated process. The Accounting Authority has delegated this close monitoring to the Independent Audit and Risk Committee.

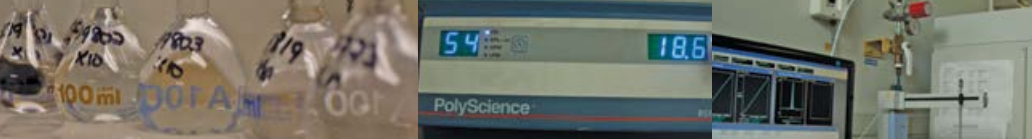
A panoramic view of the Jozini Water Treatment Plant.



The table below shows Mhlathuze Water key strategic risks and mitigation measures.

Table 2: Mhlathuze Water Key Strategic Risks and Mitigation Measures

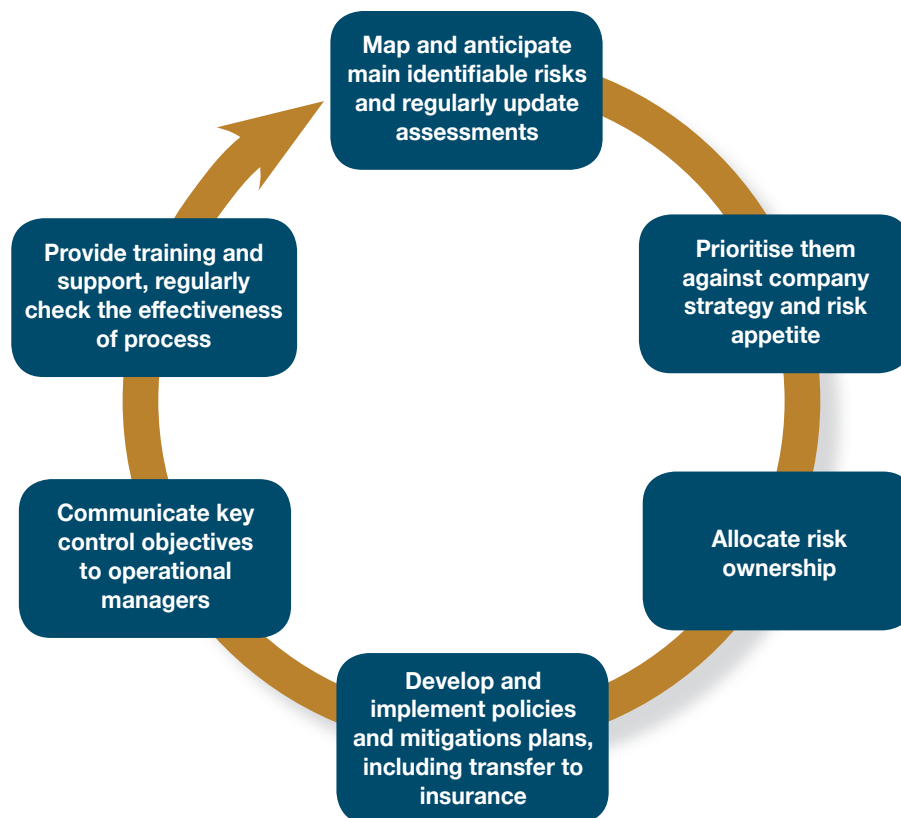
Strategic Risks	Existing/planned mitigation measures
Negative Effects of Climate Change	<ul style="list-style-type: none"> • Inclusion of climate change in Business Continuity Plan. • Consider alternative sources of water (desalination plants as back up). • Involvement in climate change initiatives.
Delays in Implementation of Infrastructure Projects	<ul style="list-style-type: none"> • Implementation of projects Ministerial directives is subject to confirmation of budget (funds) allocation by Department of Water and Sanitation. • Community buy in (social contracts) and engagements during project delays (through progress updates meetings). • Constant follow ups and escalation for timely resolution of project hindrances. • Insurance of work-in-progress. • Fencing and security personnel on construction sites.
Non-Compliance with Effluent Discharge Rules and Regulations including resulting environmental damages	<ul style="list-style-type: none"> • Periodic offshore pipeline integrity and associated infrastructure diving surveys/ inspections and timely resolution thereof. • Annual marine impact assessments done including subsequent timely follow up and resolution of possible negative effects with all stakeholders. Environmental contingency plan is in place (tested periodically) to effectively respond to emergencies. • Conduct feasibility studies for pre-treatment options prior to effluent discharge. • Mhlathuze Water and its customers have effluent discharge agreements which are monitored by relevant personnel. • Effluent penalty system is in place for non-complying customers. Adherence to ISO14001 Certification (Quality Standard for Effluent Disposal).
Cyber Attacks	<ul style="list-style-type: none"> • Back Up Disaster Recovery Plan is in place (tested periodically). • Firewall is in place and is continually updated to respond to latest threats. • Latest Anti-virus installed on all servers and equipment. • Implementation of Information Technology (IT) Security Policy. • Regular user IT awareness campaigns and training. • Bi-annual testing of IT systems for vulnerability. • Offsite back up and inclusion of IT in Business Continuity Plan.
Shortage of Appropriate Skills and Competence to deliver objectives	<ul style="list-style-type: none"> • Staff retention policy and Succession plans in place. • Bi-annual Skills audit to develop action plans to ensure availability of skilled staff. • Remedial and follow up actions from exit interviews. • Relocation allowance (for qualifying staff) including Bursary Scheme to help up-skill employees. • Offering internship opportunities to potential employees.



13.3.2 Risk Assessment and Mitigations

Our risk management process has six key elements and is a continuous process:

Figure 1: Risk Management Process



13.4 Whistle-Blower

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

A single matter that was brought to the Accounting Authority's attention during the year under review was thoroughly investigated and finalised.

14. Internal Audit

Internal audit is an independent out-sourced appraisal function that provides assurance, reports administratively to the CEO and functionally to the Independent Audit and Risk Committee. The internal audit charter approved by the Independent Audit and Risk Committee defines internal audit responsibility. Mhlathuze Water's internal audit function is governed by professional standards and completed by accredited individuals independent of the controls, processes and systems being audited.

Internal audit uses a risk-based combined assurance approach and reviews the adequacy of control design to ensure that risks are effectively managed and then test the operation of key controls to ensure they are in place and operating as intended and, therefore, are effective in managing Mhlathuze Water's risks. Internal audit operates in adherence to a three-year rolling Internal Audit Plan aligned to Mhlathuze Water's Corporate Strategy that seeks to achieve the following objectives:

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

In line with the Institute of Internal Auditors, the PFMA and the King IV requirements, internal audit provides assurance on the state of governance, risk management and control effectiveness, and processes to management and the Accounting Authority via the Independent Audit and Risk Committee. The Committee is responsible for ensuring that the Company's internal audit function is independent, has appropriate authority within Mhlathuze Water and is adequately resourced to carry out its mandate.

The internal audit manager has direct access to the CEO, including the Independent Audit and Risk Committee.

The Independent Audit and Risk Committee is satisfied that the internal audit function has been adequately resourced and has the necessary standing in Mhlathuze Water throughout the year under review to discharge its mandate effectively.

Risks that have been identified and reported by internal audit during the year have either been addressed or are being addressed.

Figure 2: Internal Audit Cycle





Mhlathuze Water participates in key platforms that promote best practices in the water sector. Pictured: Mhlathuze Water's exhibition stand at the Water Institute of Southern Africa (WISA) Conference in Cape Town.



SECTION C

OVERVIEW OF ORGANISATIONAL PERFORMANCE

15. Situational Analysis

15.1 Service Delivery Environment

15.1.1 Corporate Social Investment

Mhlathuze Water prides itself on the passion it has for the communities within its area of operation. It strives to motivate and encourage growth and development of the youth as well as the upliftment of communities within the Organisation's area of supply.

The focus areas of the CSI strategy are as follows:

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

Five CSI initiatives were conducted during the year under review. Monetary donations were given to Exhaphozini Primary School and Ekuphakameni Primary School. Soccer kits were donated to Mevamhlophe Community Development and Phuma United Football Club. Ablution facilities were refurbished at Nguluzana Primary School and an official handover by the CEO

of Mhlathuze Water accompanied by the executive team was conducted on 13 June 2018.

15.1.2 Internally Funded Projects

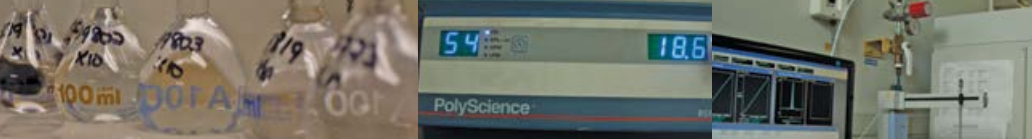
The following internally funded capital projects were completed in the current financial year:

- Nsezi WTW and Associated Bulk Infrastructure- Construction of 20ML Reservoir
- Nsezi WTW and Associated Bulk Infrastructure- Construction of second 20ML reservoir
- Nsezi TIE - INS & additional work
- Supply & Installation of Mondi Potable Water pumps at NSEZI
- Supply & Installation electrical equipment upgrade for the Mondi pump station at Nsezi WTW
- SCADA phase 2

The Ministerial directives projects still active in the year under review were successfully implemented. Detailed information mentioned on externally funded projects and Ministerial Directives is provided on the Section: Infrastructure Development and Water Supply.

Hand-over of ablution facilities at the Nguluzana Primary School as part of Mhlathuze Water's CSI initiative.





15.2 Organisational Environment

15.2.1 Resignation and Key Appointment of Personnel during the Year under Review

Mr Brian Ndaba was the Chief Financial Officer at Mhlathuze Water and resigned in December 2017. Ms Babongile Mnyandu CA (SA) was appointed as the Acting Chief Financial Officer (CFO) in December 2017 and was appointed as the CFO in April 2018.

Ms Nokubonga Ndlovu was appointed as the Company Secretary and resigned in April 2018. Mrs Duduzile Mathenjwa was appointed as the Acting Company Secretary until the end of the Financial Year.

15.2.2 Key Policy Developments

The following policies were reviewed during the year:

- Environmental Sustainability Policy
- Employee Wellness and Disease Management Policy

- Employee Performance Management Policy
- Grievance Policy & Procedure
- Ideas for Innovation Policy
- Fraud Prevention Policy
- Risk Management Policy (Enterprise Risk Management)

15.2.3 Amendments of Planned Targets during the Year under Review

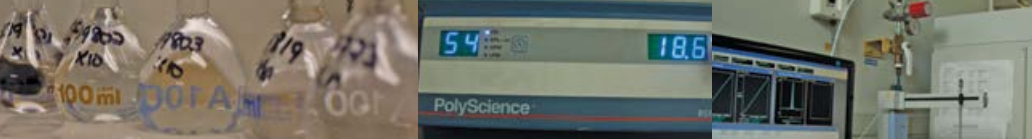
Subsequent to the external audit, Mhlathuze Water Management reviewed targets and indicators; and unpacked the logical framework that underpins outcomes and strategic objectives. This exercise was conducted to ensure that the targets are Specific, Measurable, Achievable, Relevant and Time-bound (SMART); and indicators are well-defined. The letter requesting approval to amend targets and indicators was forwarded to the Office of Minister of Water and Sanitation. Approval to amend the targets was granted by the Minister of Water and Sanitation. The table below shows the amended targets and indicators.



A 200kl steel tank reservoir constructed in Nongoma to distribute water to the community.

Table 3: 2017/2018 Amended Targets

Previous indicator	Previous annual target	Current indicator	Current annual target
Percentage of avoidable water losses as per water produced	<5% water losses as per water produced by 30 June 2018	Percentage of water losses on water abstracted	≤5% water losses on water abstracted by 30 June 2018
Percentage of unplanned water supply interruptions	<1% unplanned water supply interruptions based on the operating hours by 30 June 2018	The number of instances of unplanned supply interruptions exceeding 24hours (1 day)	≤3 instances of unplanned supply interruptions exceeding 24hours (1 day) by 30 June 2018
Percentage of new Ministerial directives issued implemented on time	80% of new Ministerial directives issued implemented on time by 30 June 2018	Percentage of Ministerial directives implemented against allocated budget	80% Ministerial directives implemented against allocated budget by 30 June 2018
Percentage of overall expenditure in rands	80% overall expenditure by 30 June 2018	Percentage of CAPEX spent on internally funded projects against budget	80% CAPEX spent on internally funded projects against budget by 30 June 2018
Percentage of project completion dates within targets	85% of project completion by 30 June 2018	Percentage of internally funded capital projects completed within targeted dates	80% of internally funded capital projects completed within targeted dates by 30 June 2018
Percentage of repairs and maintenance of PPE and investment property	5% Repairs and maintenance of PPE and investment property by 30 June 2018	Percentage of repairs and maintenance of PPE and investment property	≥2% Repairs and maintenance of PPE and investment property by 30 June 2018
Percentage of staff remuneration of total operating expenditure	16% Staff remuneration of total operating expenditure by 30 June 2018	Percentage of staff remuneration of total operating expenditure	≤30% Staff remuneration of total operating expenditure by 30 June 2018
Percentage of actual expenditure compared with budget	Actual expenditure within 5% of total budget by 30 June 2018	Percentage of actual expenditure compared with budget expenditure	Actual expenditure within ±10% of total budget expenditure by 30 June 2018
Percentage of growth in turnover secondary other activities	53% growth in turnover from secondary other activities by 30 June 2018	Percentage of turnover from secondary other activities	10% of turnover from secondary and other activities (IA fee) by 30 June 2018
Approved MW Business Plan	2018/19 Business plan approved by the board by 30 June 2018 2018/19 Business plan submitted to the DWS by 30 June 2018	Approved MW Business Plan	2018/19-2023/22 Business Plan approved by the Accounting Authority by 15 April 2018 2018/19-2023/22 Business Plan submitted to the DWS by 15 April 2018
Approved shareholder Compact	2018/19 Shareholder Compact approved by the Board by 30 June 2018 2018/19 Shareholders Compact submitted to the DWS by 30 June 2018	Approved Shareholder Compact	2018/19-2023/22 Shareholder Compact approved by the Accounting Authority by 15 April 2018 2018/19-2023/22 Shareholders Compact submitted to the DWS by 15 April 2018
Annual report	MW 2016/17 annual report submitted to the DWS by 31 December 2017	Approved Annual Report	MW 2016/17 annual report submitted to the DWS by 30 October 2017
Number of learnerships awarded	10 learnerships awarded by 31 March 2018	Number of learnerships awarded	6 Learnerships awarded by 30 June 2018
Number of graduates that participate in MW graduate programme	Four graduates that participate in MW graduate programme by 30 June 2018	Number of graduates that participate in MW graduate programme	2 Graduates that participate in MW graduate programme by 30 June 2018
Percentage of attendance rate of board members	100% attendance of board committee members by 30 June 2018	Percentage of attendance rate at Accounting Authority meetings	100% attendance at Accounting Authority meetings by 30 June 2018



16. Performance Information

16.1 Strategic Objectives Key Outcomes

The Public Finance Management Act, 1999 (as amended); Section 55 (2) (a) specifies that the annual report must fairly present the state of affairs of the public entity, its business, its financial results and its performance against predetermined objectives. The National Treasury guidelines indicates that the particulars of the public entity's strategic objectives and outcomes as identified and agreed on by the Accounting Authority and Executive Authority; the key performance measures and indicators for assessing the entity's performance in delivering the desired outcomes and actual performance against strategic objectives must be incorporated in the annual report.

Table 4: Strategic Objectives and Key Outcomes

SO1:	To grow the provision of water services	Outcome:	MW infrastructure meets current and future demands by providing reliable water supply
SO2:	To ensure long-term financial sustainability of the Organisation	Outcome:	Effective and efficient mechanisms to ensure financial sustainability
SO3:	To initiate and build relationships with stakeholders to add value for the mutual benefit of all	Outcome:	MW positioned as the preferred service provider
SO4:	To resource the Organisation with the required skills and competence to deliver the strategic intent	Outcome:	Learners, graduates and employees trained and equipped with the required skills
SO5:	To optimise business processes and systems	Outcome:	Reviewed business processes
SO6:	To be pro-active on issues related to environmental compliance and stewardship	Outcome:	Safe work environment Compliance with water quality standards, certification and accreditation maintained
SO7:	To be compliant to statutory obligations and best practices	Outcome:	Effective internal controls Meeting statutory submission deadlines

16.2 Business Units within Mhlathuze Water

16.2.1 Chief Executive Unit

The Chief Executive Unit oversees the execution of all strategic objectives through the support of various functions namely:

- **Company Secretary** - responsible for overall governance and legal compliance of the organisation.
- **Internal Audit** - responsible for assurance and risk management in the organisation.
- **Performance, Monitoring and Evaluation** - responsible for ensuring performance of the organisation in line with the strategic goals that were set.
- **Communication and Public Relations** - responsible for managing communications to stakeholders and maintaining the brand of Mhlathuze Water.

- **Office of the Chief Executive (CE)** - responsible for administrative support for the CE and the sections within the CE's department.
- **Risk Management** - provides advice on governance issues, compliance matters and updates quarterly and annual risk registers.

16.2.2 Corporate Services Unit

The Corporate Services Unit provides a range of corporate services functions at strategic and operational level. The Unit manages human resources operations, training and development, employee relations, employee wellness, health and safety, document control and individual employee performance management system. The Unit is also responsible for providing effective legal services to the organization.

The Unit's strategic intent is driven mainly by the following MW Strategic Objectives:

- To resource the organisation with the required skills and competence to deliver the strategic intent,
- To initiate and build relationships with stakeholders to add value for the mutual benefit of all,
- To optimise business processes and systems, and
- To be proactive in issues related to environmental compliance and stewardship.

The functions within Corporate Services are as follows:

- **Human Resource** – provides professional services through consistent and best employment practices which are aimed at supporting the achievement of the organisation's strategic objectives; and attract and retain employees
- **Legal Services** – responsible for providing effective and legally sound contracts in order to ensure that the interests of the organisation are protected against any legal risk.
- **Information Technology** – responsible for the delivery of services that support the Organisation's strategic plan and individual department's objectives through the effective use of information technology
- **Occupational Health and Safety** – provides an effective and efficient support to the organisation through the provision of safety and security management services

16.2.3 Operations Unit

The Operation's Unit provides water quality sampling and testing services for Mhlathuze Water and external stakeholders through its state-of-the art ISO 17025 accredited laboratory facility, environmental management services, and manages Safety, Health, Environment & Quality (SHEQ) systems for Mhlathuze Water. These support services ensure that the organisation complies consistently with drinking water standards, effluent disposal requirements, and other environmental legislative requirements.

The Operation's Unit strategic intent is driven mainly by the following MW Strategic Objectives:

- To be proactive on issues related to environment compliance and stewardship
- To grow the provision of water services

The functions within Operations Unit are as follows:

- **Laboratory Services** – provides water quality sampling and testing services to the organisation and external clients through its state of the art laboratory facility

- **SHEQ Services** – ensures that the organisation has certified management systems for Safety, Health, Environment and Quality
- **Environmental Services** – ensures that the organisation complies with applicable environmental legislation, regulations and other international best practices to ensure that the business avoids and or minimises the environmental impacts of its activities
- **Operations** – responsible for all operational activities in transfer pumps stations, water treatment plants and waste water systems in order to meet contractual requirements and legislative requirements (SANS241:2015 and effluent disposal permit).

16.2.4 Technical Services Unit

To provide engineering expertise to deliver Mhlathuze Water's water service provider objectives. The Technical Services Unit's mandate is as follows:

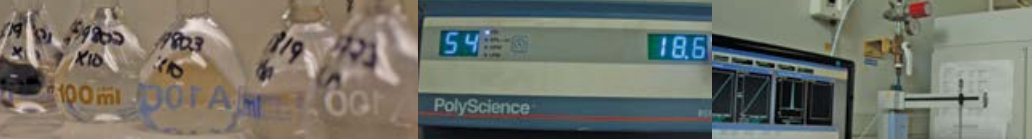
- To conduct the planning and development functions for Section 29 and Section 30 projects;
- To implement capital projects under Section 29 and Section 30 as per the Water Services Act;
- To ensure supply of raw; clarified and potable water to Mhlathuze Water's bulk customers;
- To ensure the disposal of effluent as per the guidelines of the disposal permit as per the Department of Environmental Affairs;
- To effectively maintain Mhlathuze Water's engineering infrastructure as well as physical assets; and
- To provide operation and maintenance services to Water Services Authorities within Mhlathuze Water's area of operation.

The Technical Services Unit's strategic intent is driven mainly by the following MW Strategic Objectives:

- To grow the provision of water services
- To resource the organisation with the required skills and competence in order to deliver the strategic intent
- To ensure the long term financial sustainability of the organisation.

The functions within Technical Services Unit are as follows:

- **Planning and Development** – responsible for the engineering planning and development for the organisation
- **Projects** – responsible for the implementation of capital projects. Projects are implemented in line with MW capital budget plans



- **Maintenance** - ensures that all plant and machinery is maintained and in good working order so that Operations can supply clients with water and waste water services as per contract agreements.

16.2.5 Finance Unit

The Finance Unit provides efficient and effective financial resources, financial planning and budgeting, monitors and maintains systems of financial and cost control for tangible and intangible assets, financial services, procurement, and financial risk management in line with the requirements of the Public Finance Management Act, 1999. The Unit's core business is ensuring financial viability and sustainability of the organisation, thereby contributing to delivery on the organisation's mandate.

The Finance Unit is indirectly responsible for the execution of all strategic objectives through ensuring that the financial resources are available. The specific strategic objectives that the Financial Unit contributes to are as follows;

- To ensure the long term financial sustainability of the organisation
- To initiate and build relationships with stakeholders to add value for the mutual benefit of all

The functions within Finance Unit are as follows;

- **Financial Accounting Strategic Statement** - responsible for maintaining accurate financial records that comply with relevant accounting standards (i.e. GRAP, Treasury Regulations).

- **Management Accounting Strategic Statement** - responsible for providing an accurate budget and financial forecasts, determine relevant cost effective tariffs, provide management and financial information and; monitor and report on variances
- **Asset Management** - monitors and maintains tangible (property, plant and equipment) and intangible assets (software) for the organisation and also responsible for a systematic process of acquisition, recording and disposal of assets in a cost-effective manner
- **Supply Chain Management** - responsible for Mhlathuze Water procurement activities such as BEE targets, contract management, non-conformances, deviations, bid committees as well as inventory management
- **Enterprise and Supplier Development** - responsible for driving business transformation as part of supporting establishment and participation of black players in the economy in line with B-BBEE Act in order to stimulate economic growth and creation of jobs in communities.

16.3 Pre-determined Objectives

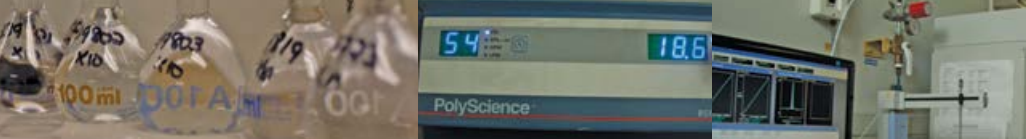
During the year under review, Mhlathuze Water planned to achieve 41 key performance targets. These performance targets are in line with seven strategic objectives and numerous key outcomes that underpin the Organisation's performance areas, indicators and activities.

The Goedetrouw Dam in Eshowe.



Table 5: Performance on Pre-determined Objectives

Strategic Objective: To be proactive on issues relating to environment compliance and stewardship					
Outcome	Performance Indicator	Annual Target	Actual Achievement	Variance from Planned Target to Actual Achievement	Comment on Variance
Compliance with SANS 241:2015 water quality standard for potable water	Percentage of compliance to water purification standard	≥97% water quality compliance with SANS 241:2015 standard for Nsezi WTP for period 1 July 2017 to 30 June 2018	99.9%	None	N/A
Strategic Objective: To grow the provision of water services					
Outcome	Performance Indicator	Annual Target	Actual Achievement	Variance from Planned Target to Actual Achievement	Comment on Variance
Manage avoidable water losses	Percentage of water losses on water abstracted	≤5% water losses on water abstracted by 30 June 2018	2.72%	None	N/A
Reliability of supply	Number of instances of unplanned supply interruption exceeding 24 hours (1 day)	≤3 instances of unplanned supply interruption exceeding 24 hours (1 day) by 30 June 2018	0 instances of unplanned supply interruption exceeding 24 hours	None	N/A
Increased access to services by implementing expansion projects	Percentage of CAPEX budget spend on expansion related projects	80% CAPEX budget spend on expansion related projects by 30 June 2018	100%	20%	Expenditure improved as at the end of the financial year
Ministerial directives implemented	Percentage of Ministerial directives implemented against allocated budget	80% Ministerial directives implemented against allocated budget by 30 June 2018	100%	20%	All directives were implemented as planned. Implementation is measured from when the contractor has commenced construction on site.
Internally funded capital expenditure programme	Percentage of CAPEX spent on internally funded against budget	80% CAPEX spent on internally funded projects against budget by 30 June 2018	80.75%	0.75%	Expenditure improved as at the end of the financial year
	Percentage of internally funded capital projects completed within targeted dates	80% of internally funded capital projects completed within targeted dates by 30 June 2018	100%	20%	Projects that were aimed to be completed by the end of the financial year were completed and capitalised



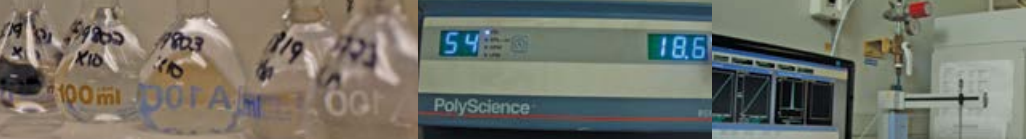
Strategic Objective: To initiate and build relationships with stakeholders to add value for the mutual benefit of all

Outcome	Performance Indicator	Annual Target	Actual Achievement	Variance from Planned Target to Actual Achievement	Comment on Variance
Bulk supply agreements concluded with municipalities/ other customers	Number of signed service level agreement in place	9 bulk supply service level agreements in place by 30 June 2018	7	(2) Bulk Supply Service level agreements	The Tronox agreement was broken down into 3 due to 3 different volumes being supplied in different terms with different tariffs applicable.
Rural development support	Number of municipalities supported through rural development initiatives	2 municipalities supported through rural development initiatives by 30 June 2018	Mhlathuze Water was unable to support 2 municipalities.	2 municipalities not supported	Two municipalities not supported. There were delays with the appointment of the service provider to do the actual construction of the projects as the initial tender advert had errors and it was cancelled and re-advertised. Actual construction is anticipated to commence in during the 2018/19 financial year.
Corporate Social Investment (CSI) initiatives	Number of CSI initiatives undertaken	4 CSI initiatives conducted by 30 June 2018	5	1	Additional donations were made due to requests from beneficiaries
BBBEE spend as per PPPFA compliance requirements	Percentage of BBBEE spend	50.1% BBBEE spend by 30 June 2018	53.14%	3.04%	More business opportunities were awarded to black owned companies.
New entrants awarded contracts	Number of new entrants awarded contracts	15 new entrants awarded contracts by 30 June 2018	63	48	Additional orders were awarded to new companies on the database

Strategic Objective: To be compliant to statutory obligations and best practices

Outcome	Performance Indicator	Annual Target	Actual Achievement	Variance from Planned Target to Actual Achievement	Comment on Variance
Board effectiveness	Percentage of attendance at Accounting Authority meetings	100% Attendance at Accounting Authority meetings by 30 June 2018	100%	None	N/A
Board effectiveness	Percentage of attendance at sub-committee meetings	80% attendance of sub-committee ¹ members by 30 June 2018	82%	2%	Acceptable attendance rate of sub-committee members
	Percentage of resolutions adopted by the Board committee	80% of resolutions adopted by the Accounting Authority by 30 June 2018	100%	20%	All resolutions were adopted
Strategic planning mechanisms and meeting statutory submission deadlines	Approved MW Business Plan	2018/2019-2022/2023 Business Plan approved by the Accounting Authority by 15 April 2018	The 2018/2019-2022/2023 Business Plan was approved by the Accounting Authority on 13 April 2018	None	N/A
		2018/2019-2022/2023 Business Plan submitted to the DWS by 15 April 2018	The 2018/2019-2022/2023 Business Plan was submitted to DWS on 13 April 2018.	None	N/A
Strategic planning mechanisms and meeting statutory submission deadlines	Approved Shareholder Compact	2018/2019-2022/2023 Shareholder Compact approved by the Accounting Authority by 15 April 2018	The 2018/2019-2022/2023 Shareholders Compact was approved by the Accounting Authority on 13 April 2018	None	N/A
		2018/2019-2022/2023 Shareholder Compact submitted to the DWS by 15 April 2018	The 2018/2019-2022/2023 Shareholders Compact was submitted to DWS on 13 April 2018	None	N/A
Approved performance reports and meeting statutory submission deadlines	Number of approved quarterly performance reports submitted to the DWS	Accounting Authority approved 4 MW 2017/2018 quarterly reports submitted at the DWS within 30 days after the end of the quarter	4 Mhlathuze Water quarterly reports were approved by the Accounting Authority and submitted within 30 days after the end of the quarter	None	N/A

1. Members of the Independent Audit and Risk Committee are not board members but were appointed to serve as an objective structure that is entrusted with a responsibility of improving the effectiveness of organisational governance, manage organisational risks and internal controls.

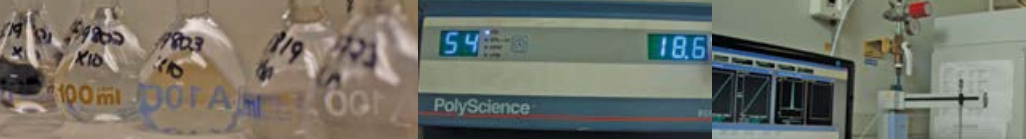


Strategic Objective: To be compliant to statutory obligations and best practices (continued)

Outcome	Performance Indicator	Annual Target	Actual Achievement	Variance from Planned Target to Actual Achievement	Comment on Variance
Approved performance reports and meeting statutory submission deadlines	Annual report	MW 2016/2017 annual report submitted to the DWS by 30 October 2017	The 2016/2017 Annual Report with audited financials was submitted to DWS on 13 November 2017	Unable to meet the compliance deadline for the submission of 2016/2017 Annual Report with audited financials	<ul style="list-style-type: none"> The non-submission was due to the delay in finalising the audit conducted by the Auditor-General A letter formally seeking pardon for not meeting the deadline was forwarded to the Office of the Minister. The Annual Report was submitted to the DWS on 13 November 2017
Unqualified audit report with no matters of emphasis (clean audit)	External audit report	2017/2018 unqualified audit opinion with no matters of emphasis by 30 September 2018	Qualified audit opinion	Qualified audit opinion	The basis for a qualified opinion was receivables from exchange transactions.
Good governance and risk management	Number of breaches of materiality of significance framework	Zero breaches of materiality and significance framework identified by 30 June 2018	8	(8)	Material misstatements on revenue, current assets, current liabilities and disclosure items identified by the auditors in the annual financial statements.
Effective internal controls	Number of internal audit findings	Zero internal audit findings for quarters 1,2,3 by 30 June 2018	A total of 31 internal audit findings were raised for quarters 1, 2 and 3	31	31 Internal audit findings are outlined in the audit reports for the first, second and third quarter. Management has provided response and evidence.
Effective internal controls	Number of unresolved findings	Zero unresolved findings for quarters 1, 2, 3 by 30 June 2018	5 findings were resolved but 26 are work in progress	26	Status review and audit improvement plan work in progress.

Strategic Objective: To ensure the long-term financial sustainability of the Organisation

Outcome	Performance Indicator	Annual Target	Actual Achievement	Variance from Planned Target to Actual Achievement	Comment on Variance
Effective and efficient mechanisms to ensure financial sustainability and viability	Current ratio	≥1.90 ratio on assets over current liabilities that measures liquidity by 30 June 2018	2.78	0.88	<ul style="list-style-type: none"> There is a variance of 0.88, due to delays in capital projects causing cash funds to be more than what was budgeted for.
	Percentage of primary gross profit margin	≥80% gross profit margin ratio on revenue minus cost of sales over revenue, measures profitability on primary activities by 30 June 2018	(57%)	(23%)	<ul style="list-style-type: none"> There is a variance of (23%) due to an increase in cost of sales as it is now aligned to GRAP standards.
Effective and efficient mechanisms to ensure financial sustainability and viability	Percentage of primary net profit margin	≥6% net profit margin ratio on gross profit minus expenditure over revenue, measures profitability on primary activities by 30 June 2018	16%	10%	<ul style="list-style-type: none"> There is a variance of 10%, due under-spending that occurred on various categories i.e. Employee costs, Repairs and Maintenance, Electricity and Water and Other expenses. Expenditure is also monitored to curb excessive spending in line with the cost curtailment strategy.
	Percentage of debt equity	≤0.33% debt equity ratio on total debt liabilities over equity, measures financial leverage and long-term solvency by 30 June 2018	16%	17%	<ul style="list-style-type: none"> There is a variance of 17% due to a decrease in the long term debt.
	Percentage of return on assets	≥2.9% return on assets ratio on net income over total assets, measures profitability by 30 June 2018	6.42%	3.52%	<ul style="list-style-type: none"> There is a variance of 3.52% due to overall savings on expenditure.



Strategic Objective: To ensure the long-term financial sustainability of the Organisation (continued)

Outcome	Performance Indicator	Annual Target	Actual Achievement	Variance from Planned Target to Actual Achievement	Comment on Variance
Effective and efficient mechanisms to ensure financial sustainability and viability	Percentage of repairs and maintenance of PPE and investment property	≥2% repairs and maintenance of PPE and investment property by 30 June 2018	5.01%	3.01%	<ul style="list-style-type: none"> All planned repairs and maintenance of PPE materialised during the financial year
	Number of days to collect primary activities debts	Primary activities debts collected within 45 days by 30 June 2018	Debts were collected within 43 days	None	N/A
	Percentage of staff remuneration of total operating expenditure	≤30% staff remuneration of total operating expenditure by 30 June 2018	31%	(1%)	Provision for city employees resulted to the change of staff cost and change in %
	Percentage of actual expenditure compared with budget expenditure	Actual expenditure within ±10% of total budget expenditure by 30 June 2018	(81.68%)	(18.3%)	<ul style="list-style-type: none"> There is a variance of (18.3%) due to under spending on various categories, including: insurance excess, national development plan, regional bulk studies, way leaves and servitude The variance is also due to Mhlathuze Water's effective internal controls and cost containment strategy implemented to avoid irregular expenditure
Engagement in secondary other activities	Percentage of growth in turnover from secondary and other activities	10% of turnover from secondary and other activities (IA fee) by 30 June 2018	25.35%	15.35%	<ul style="list-style-type: none"> Good performance on section 30 activities

Strategic Objective: To resource the Organisation with the required skills and competence in order to deliver the strategic intent

Outcome	Performance Indicator	Annual Target	Actual Achievement	Variance from Planned Target to Actual Achievement	Comment on Variance
Staff retention	Percentage of staff retention	<5% staff turnover by 30 June 2018	6.99%	(1.99%)	16 unplanned terminations
Learners trained and equipped with skills	Number of learnerships awarded by 30 June 2018	6 Learnerships awarded by 31 March 2018	6	None	None
MW employees trained and equipped with skills	Number of internal bursaries awarded to MW employees	25 internal bursaries awarded to MW employees by 30 June 2018	18	(7)	There was a moratorium on MW study assistance due to organisational needs analysis and skills audit conducted. Programme to be re-opened in the 2018/2019 financial year.
Graduates equipped with skills	Number of graduates that participate in MW graduate programme	2 graduates that participate in MW graduate programme by 30 June 2018	2	None	N/A
Indirect jobs created	Number of indirect jobs created through MW external programme	100 indirect jobs created through MW external programme by 30 June 2018	155	55	Jobs created resulted from construction project in Kwasani wards 2 and 3, Abaqulusi wards 5, 6, 7 and 22 and Jozini (expanded public works), Nongoma wards 5, 10 and 11.

Strategic Objective: To be proactive in issues related to environmental compliance and stewardship

Outcome	Performance Indicator	Annual Target	Actual Achievement	Variance from Planned Target to Actual Achievement	Comment on Variance
Zero incidents on occupational health and safety	Percentage of incidents on occupational health and safety	Zero incidents on occupational health and safety by 30 June 2018	One incident occurred	Maintenance employee injured	One incident occurred and an employee was injured at Middle Drift.



Mhlathuze Water staff members celebrate during an annual Sports and Wellness Day held to promote healthier lifestyle choices among employees.

SECTION D

PEOPLE AND DEVELOPMENT

Human Resources play an important role in securing the future of Mhlathuze Water. In doing so, the human resources function is guided by its vision to create an environment where employees can thrive and are enabled to deliver sustainable organisational performance.

17. 2017/2018 Key Performance Highlights

Mhlathuze Water implemented the following programmes during the year under:

17.1 Artisan Development Programme

The Artisan Development Programme is conducted in compliance with the Skills Development Act No. 97 of 1988. The primary objective of this programme is to contribute towards economic and industrial growth. Mhlathuze Water trained two employees and ultimately qualified as a millwright and a fitter respectively.

The second primary objective of the Artisan Development Programme is to reduce poverty through the creation of jobs and opening access for people to decent work. In line with primary objective 2, Mhlathuze Water, in conjunction with the EWSETA, temporarily absorbed 20 unemployed youth to the Electrical Artisan Development Programme in 2015. The duration of the programme was three years. This programme was completed in May 2018 with 19 students having passed their trade test.

17.2 Skills Development Programme

17.2.1 Internship Programme

Ten interns successfully completed the one-year Internship Programme. This programme aims to provide work experience to the newly qualified graduates in order for them become employable.

17.2.2 Learnership Programme

Furthermore, in order for Mhlathuze Water to provide clean and quality water at all times, a need to upskill water employees was identified. Therefore, a Learnership Programme on Water and Waste Water Treatment has been implemented. During the year under review:

- 10 employees completed the programme and were awarded a National Certificate: Water and Wastewater Treatment Process Operations NQF Level 2;

- 7 employed and 3 unemployed participants completed the programme and were awarded an NC: Water and Wastewater Treatment Process Operations NQF L 3; and
- Six employees are currently undergoing NQF Level 3 Learnership training and are expected to be complete the programme by 31 of October 2018.

17.2.3 Bursaries

One Amanzi Bursary student completed a Mechanical Engineering Diploma at Mangosuthu University of Technology. Two graduate trainees were appointed as mechanical engineers and qualify to register as professional engineering technologists.

17.2.4 Professional Registration

Two employees successfully registered as Pr Engineering Technologist and one registered as Pr Certificated Engineer.

17.2.5 Induction Programme

50 New employees were inducted (including Jozini plant staff and interns).

17.2.6 Compliance Training Programme

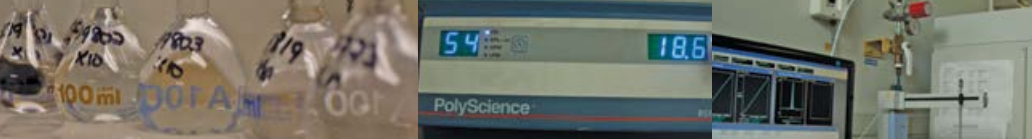
Six compliance trainings were conducted, with 66 employees attending.

17.3 Employee Wellness

The initiatives undertaken to promote the employees' health and wellness in 2017/2018 included:

17.3.1 Financial Wellness Programme

The purpose of the programme was to assist employees to better manage their finances. Among topics covered were budgeting, financial planning in terms of retirement, wills, improving credit scores, debt management as well as general savings and investments. The programme was conducted by First National Bank.



17.3.2 Voluntary Screenings

The wellness screenings conducted during the year under review include; voluntary testing for HIV, blood pressure, cholesterol and sugar levels. These screenings were done at onsite Occupational Health and Wellness Clinic. Assistance with regards to management of chronic disease was provided to affected employees.

17.3.3 Counselling

Affected employees were internally counselled on alcohol management and some were referred to relevant external service providers such as SANCA and psychologists for counselling and rehabilitation for cases related to alcohol abuse, marriage and family matters.

17.3.4 Wellness Publications and other initiatives

Wellness related articles such as; 'Your amazing kidneys', 'Saving money in a recession', 'Count me in: together moving a non-violent South Africa forward', 'What to do after a car accident', 'Quit smoking and breathe easy', were published in the internal staff newsletter throughout the year to keep employees informed.

Randomly informative emails were sent to employees on various topics such as World Aids Day, Mental Health Awareness, Listeriosis, TB, Cancer, etc. 43 Caring tokens (i.e. goodie/flower baskets and blankets) were given to employees in cases of hospitalisation (them and/or their immediate family members), death or newborn babies.

17.4 Events

Mhlathuze Water maintains a keen interest in the physical, emotional and mental wellbeing of its workforce. Mhlathuze Water held the following events during the 2017/2018 financial year

17.4.1 Sport Day

A fun-filled sports day was held in 2018. Employees participated in sporting activities that promoted teamwork, fostered a sense of connectivity and built camaraderie among each other. Employees were able to interact with each other and ventured out of their comfort zones in randomly formed teams.

17.4.2 Bring your Child to Work Day

In order to expose employees' children to work environment and careers, the Bring Your Child to Work Day was held in December 2017 for children between the of five to 12 years. Children were exposed to the working environment and treated to Christmas themed gifts, fun and games.

17.4.3 Long Service Recognition

The long service Recognition event was held in December 2017. The number of employees awarded certificates is provided in the table below.

Table 6: Long Service Recognition

Years	Number of Employees
5	25
10	16
15	2
20	5
25	10

17.5 Organisational Needs Analysis and Skills Audit Completed

A need was identified to conduct a skills audit throughout the Organisation in August/September 2017 in order to assess the existing capacity with a view to producing a 'State of Skills' report. The audit was intended to identify the existing skills of the employees involved and assess these against the skills needs.

In October 2017, Pricewater Coopers (PwC) was engaged by Mhlathuze Water to undertake an Organisational Development Needs Analysis in order to determine the critical skills needed in the next five years. This exercise was necessitated by the need to meet the Organisation's future needs in line with the strategic goals and business plan.

17.6 Employee Engagements with the CEO

In support of the relationship building objective and in order to improve communication, build trust and transparent relationships within the Organisation, a Supervisors' meeting

was held with the CEO, as well as three sessions of tea with the CEO for employees. During these sessions, the CEO gave a business overview of operational and other issues, which assisted in improving relationships between employees and management. Employees were able to engage with the CEO on matters of concern and vice versa.

17.7 Leave Management

To promote healthy bodies and healthy minds in the workplace, employees were encouraged to take annual leave breaks to rest and refresh. Employees and supervisors were assisted with various leave queries. Supervisors were also provided with monthly leave transaction reports in order to monitor their section's leave trends.

18. Employment Changes

18.1 2017/2018 Employment Report

Table 7: Number of Employees disaggregated by gender and race as at 30 June 2018

Employment group	Baseline (at start of the financial year)	Total (end of the financial year)	Reasons for variances
African	202	199	End of contracts and Retirement
Indian	13	10	End of contracts
Coloured	5	3	End of contracts
White	11	8	Resignations, retirement and dismissal

18.2 Filled Positions

A Total of 60 positions were filled during the financial year 2017/2018. These positions are categorised as follows:

Table 8: Positions filled: 01 July 2017 to 30 June 2018

Trainees	18
Filling of existing vacancies	21
Filling of new positions	5
Fixed term contract positions	16

19. Labour Turnover

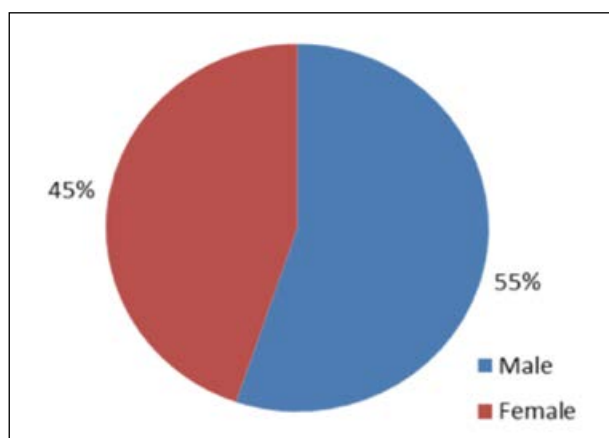
The projected annual labour turnover rate of 5% was not achieved due to unplanned terminations, as shown in the table below.

Table 9: Labour Turnover Rate: 1 July 2017 to 30 June 2018

Unplanned attrition	16
Average complement for the period	220
Labour turnover rate	6.99%
Projected annual labour turnover rate	5%

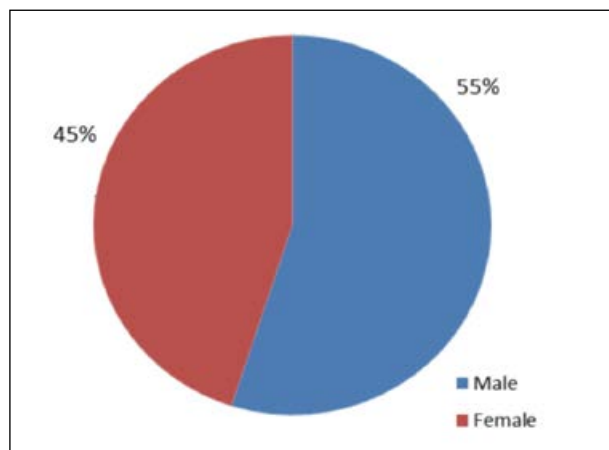
20. Workforce Profile – Mhlathuze Water

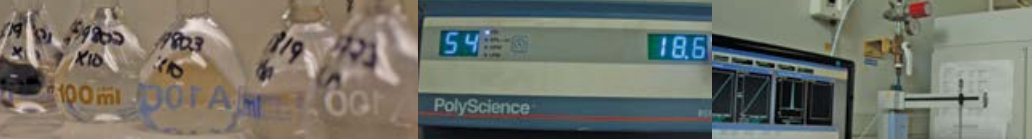
Figure 4: Economically Active Population of South Africa



Source: Commission for Employment Equity – 2015/2016 Report

Figure 5: Gender Profile of Mhlathuze Water Employees as at 30 June 2018





The table below reflects the workforce profile as at 30 June 2018. The total staff complement is 222 employees.

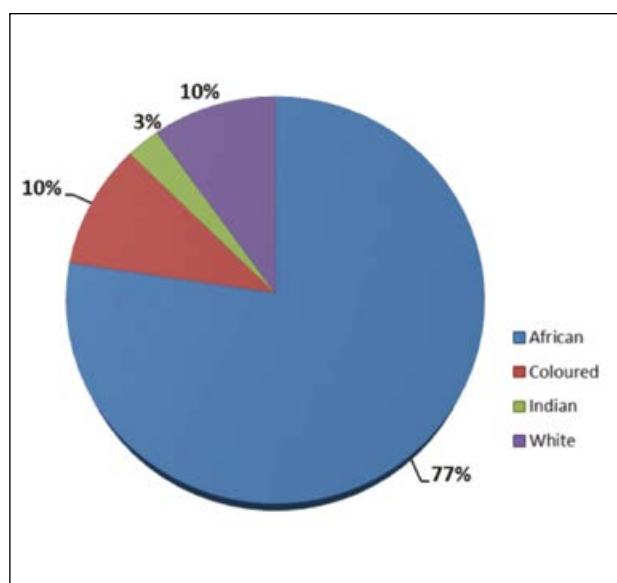
Table 10: Workforce Profile as at 30 June 2018

Occupational Levels	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	Total
Top Management*	2	0	0	0	0	0	0	0	2
Senior Management	3	0	0	1	0	0	0	0	4
Professionals	10	0	1	1	11	0	1	1	25
Skilled Technical & Academically Qualified Workers	30	0	1	2	34	1	6	2	76
Semi-Skilled	52	1	1	0	21	1	0	2	78
Unskilled & Defined Decision-Making	18	0	0	0	19	0	0	0	37
Totals	115	1	3	3	86	2	7	5	222

* Top Management comprises of the Interim Chief Executive and the suspended Chief Executive

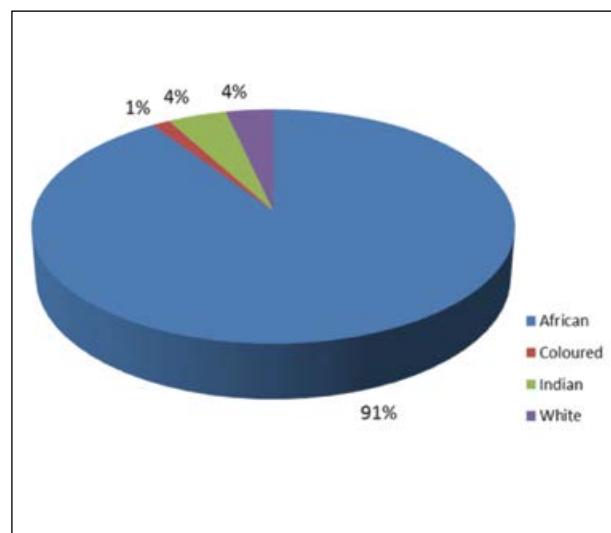
The target for females and males as per the Economically Active Population statistics for South Africa is as shown in the below figure. Mhlathuze Water has as at 30 June 2018 met the Gender Target when compared to the Economically Active Population for South Africa.

Figure 6: Economically Active Population Race Profile of South Africa



Source: Commission for Employment Equity – 2015/2016 Report

Figure 7: Race Profile of Mhlathuze Water Employees as at 30 June 2018



There was 85% achievement in terms of Employment Equity as per Race Groups. Gaps are in terms of:

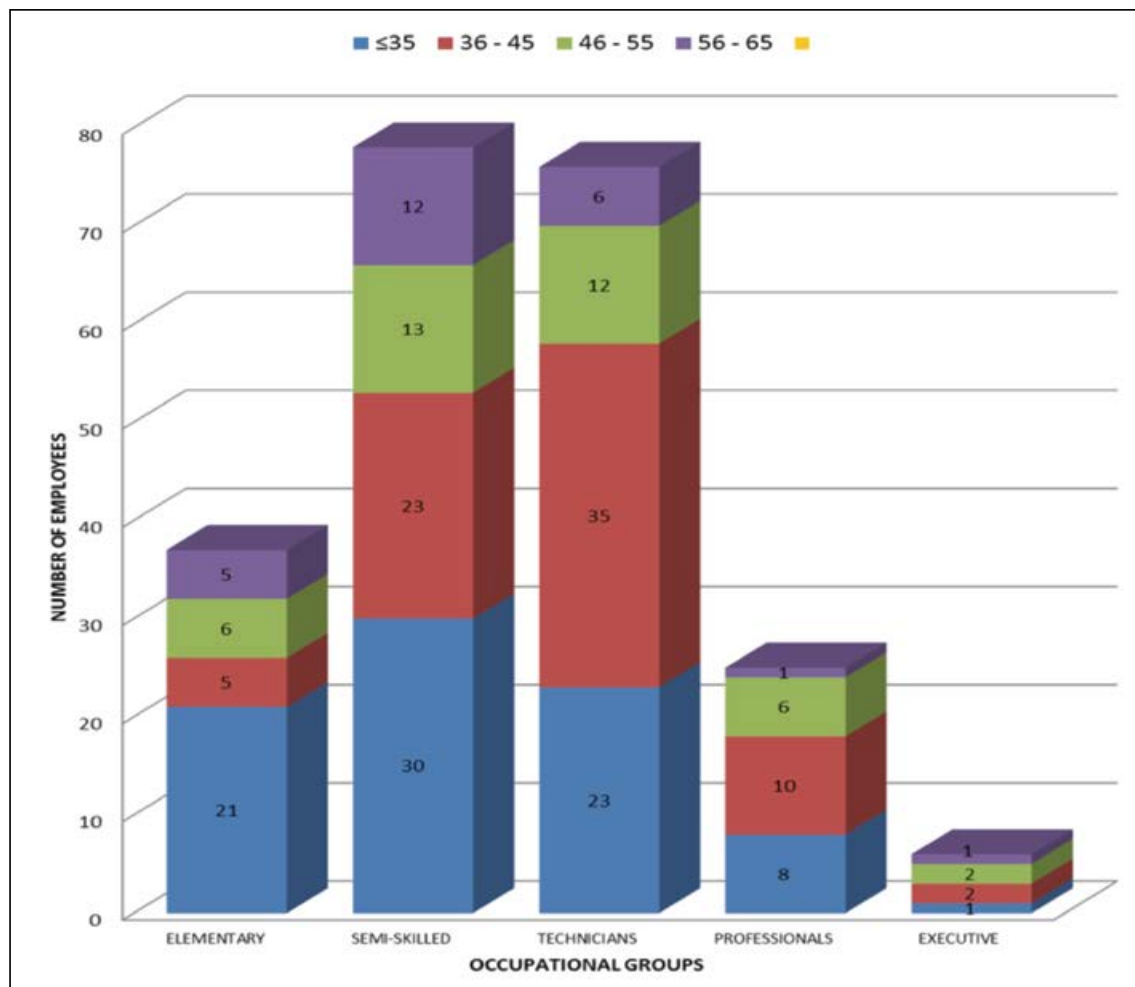
- Coloured persons – below the target by -9%
- White persons – below the target by -6%
- Indian persons – over the target by 2%
- African persons – over the target by 13%

The overall annual target for persons with disabilities was 2% and the target was achieved since there were five employees who declared disabilities, which represented 2.26% of the staff complement.

21. The Age Profile of Mhlathuze Water Employees as at 30 June 2018

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

Figure 8: Age Profile as at 30 June 2017





A view of a canal in Jozini that supplies the local community with water for agricultural use.



SECTION E

WATER QUALITY AND ENVIRONMENT

22. Water Quality and Compliance Product Quality

22.1 Management Approach

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

Each year, water quality monitoring programmes are reviewed for all operational sites to ensure that they continue to provide sufficient information that meets legislative requirements, customer bulk supply agreements and water treatment process requirements, as well as to take into account the risks that have previously been identified in the system.

An Incident Management Protocol, which is aligned to the requirements of SANS241:2015 Drinking Water Specifications, has been developed for the Nsezi Water Treatment Plant. The protocol provides a framework for responding to water quality incidents in a structured manner and it includes a stakeholder communication component.

22.2 Potable Water Quality Performance

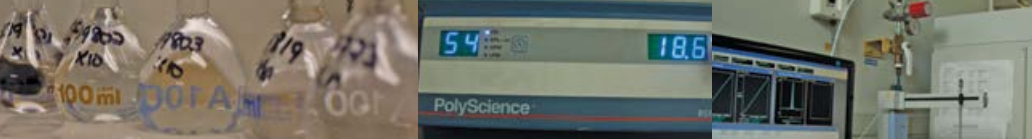
Water quality at Nsezi complies with the South African National Standard (SANS 241:2015), which requires water quality to be evaluated and reported against five risk categories:

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

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

Table 11: Key for Classification of the Performance of Drinking Water Supply Systems according to SANS 241:2015

	Population up to 100 000 Proportion of Samples			Population > 100 000 Proportion of Samples Compliant		
	Excellent	Good	Unacceptable	Excellent	Good	Unacceptable
Acute microbiological health	≥ 97%	≥ 95%	< 95%	≥ 99%	≥ 97%	< 97%
Acute chemical health	≥ 97%	≥ 95%	< 95%	≥ 99%	≥ 97%	< 97%
Chronic chemical health	≥ 95%	≥ 93%	< 93%	≥ 97%	≥ 95%	< 95%
Operational	≥ 93%	≥ 90%	< 90%	≥ 95%	≥ 93%	< 93%
Aesthetic	≥ 93%	≥ 90%	< 90%	≥ 95%	≥ 93%	< 93%



23. Key Highlights: Compliance Report - SANS 241:2015 for Nsezi Water Treatment Plant

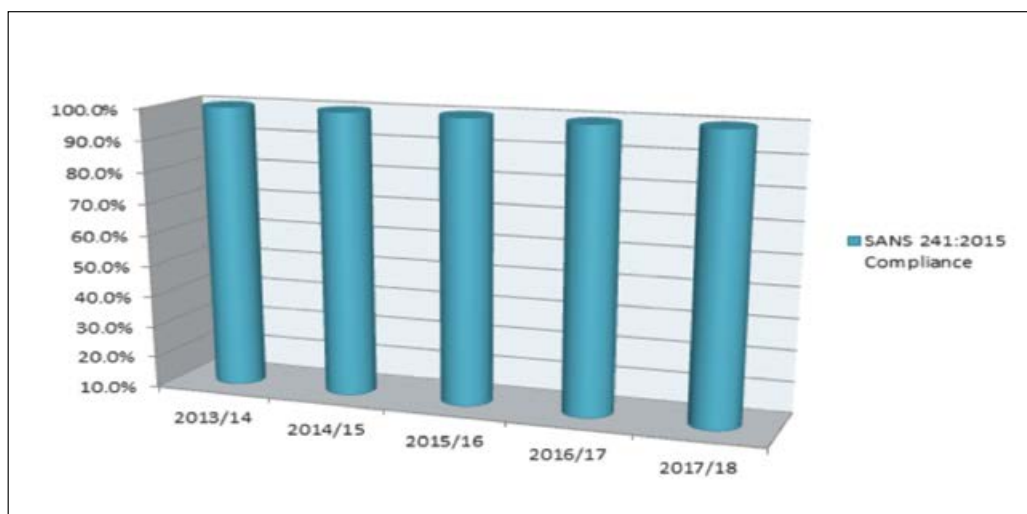
Water quality at Nsezi Water Treatment Plant (WTP) met the requirements of SANS 241:2015 for the period July 2017 – June 2018.

Table 12: Compliance report - SANS 241:2015 for Nsezi Water Treatment Plant

Risk Category	July 2017 – June 2018	Target
Aesthetic	99.9%	≥ 93
Chemical	100.0%	≥ 95
Chronic	99.9%	≥ 93
Microbiological	99.7%	≥ 95
Operation	99.9%	≥ 95

Nsezi WTP has maintained overall compliance above 99% since 2013, as shown below:

Figure 9: Compliance on SANS 241 Drinking Water Spec for Nsezi WTP 2013 – 2018



24. Blue Drop System (BDS)

The Department of Water and Sanitation has established a Blue Drop System (BDS), which enables the Department to monitor performance of every water services institution. The system also allows limited access to members of the public Mhlathuze Water serves with regard to the quality of water supplied to them. Mhlathuze Water has participated in Blue Drop System (BDS) assessments since 2010 where information is uploaded onto the system such as the laboratory used for analysis, supply systems, process controllers data, water quality data, supply systems and water quality monitoring programmes. The Organisation still maintains its blue drop certification status and continuously prioritises its Blue Drop System requirements.

Blue Drop scores are determined based on assessments conducted by a panel of drinking water professionals in five key areas; namely: water safety planning; drinking water quality process management and control; drinking water quality compliance; management accountability and local regulation; and asset management. Compliance in all these areas ensures that not only drinking water quality compliance is taken into account as it was traditionally the case, but also the overall management of the drinking water supply chain and control of risks to water quality is considered.

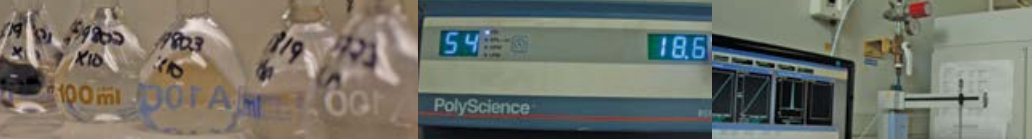
25. Waste Water Quality Monitoring

25.1 Waste Water Disposal Compliance

Mhlathuze Water owns and operates the biggest offshore waste water disposal system in South Africa. Two pipelines (buoyant A-Line and dense C-Line), extending four and five kilometres out to sea, discharge industrial waste water from the neighbouring industries in Richards Bay and surrounding areas, sludge from Nsezi Water Treatment Plant and macerated sewage from the City of uMhlathuze. The Organisation has a permit to dispose industrial waste water in terms of Section 69 of the National Environmental Management: Integrated Coastal Management Act (Act No. 24 of 2008). In line with the discharge permit, samples are taken daily from the contributors and also from the combined diluted effluent at the pump station after it is mixed with seawater before it is pumped into the sea.

Preserved samples for metal analysis.





26. Environmental Management

Mhlathuze Water is committed to the sustainable use of resources, thus contributing, broadly speaking, towards the Millennium Development Goal of 'ensuring environmental sustainability'. The Organisation has developed and is currently implementing an environmental sustainability policy, which is aimed at achieving the following:

- Fostering a culture of sustainability and reducing Mhlathuze Water's ecological footprint;
- Incorporating principles and an understanding of sustainability into all activities, services, operations and stakeholder engagements; and
- Incorporating sustainability performance alongside other key performance indicators of the Organisation.

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

27. Environmental Management Key Performance Highlights

27.1 Commemoration of Environmental Days, General Awareness and Education

The Organisation conducts awareness and education campaigns on environmental protection as well as water and energy conservation. The employees of Mhlathuze Water participate in most of these initiatives. The table below outlines activities undertaken internally and externally during the reporting period.

Table 13: 2017/2018 Environmental Awareness Campaigns and Events

Event	Date	Activities
Arbour Day	September 2017	Arbor Day is dedicated to public tree planting all over the world and is observed on 1-7 September annually. The theme for 2017 was 'Forest and Water'. The idea around the theme was to remind communities that South Africa has not escaped the effects of drought and, therefore, there is a need to find ways to mitigate the impacts of climate change. Trees were planted at Nkolokotho Primary School, outside Mtubatuba
Weedbuster Week	October 2017	The Weedbuster week was commemorated at Lower Umfolozi with the Department of Environmental Affairs' (DEA) Working for Water (WfW) staff, WfW contractors, their employees as well as Mhlathuze Water staff from different departments
Wetlands Day	February 2018	An article was published in the Newsplash (internal newsletter) about the importance of protecting and conserving wetlands. Mhlathuze Water's Environmental Team and representatives from all departments within the Organisation visited the St Lucia Wetlands Park (Ramsar site) to orientate staff on the importance of wetlands and their uses. The Wetland Education Tour was led by Ezemvelo KZN Wildlife
World and Environmental Oceans Day	June 2018	Mhlathuze Water commemorated both Environmental and Oceans Day on 15 June 2018. This special day is an opportunity to celebrate the world's shared oceans and to raise awareness about the crucial role the ocean plays in people's lives. The theme for 2018's Oceans and Environmental days was 'Preventing Plastic Pollution and Encourage Solutions for a Healthy Ocean'.

Rural schools were visited where water conservation and saving tips were shared with the learners. Mhlathuze also collaborates with other local stakeholders and industries to enhance education and awareness within Mhlathuze Water's area of operation on water saving practices, especially during the drought period.

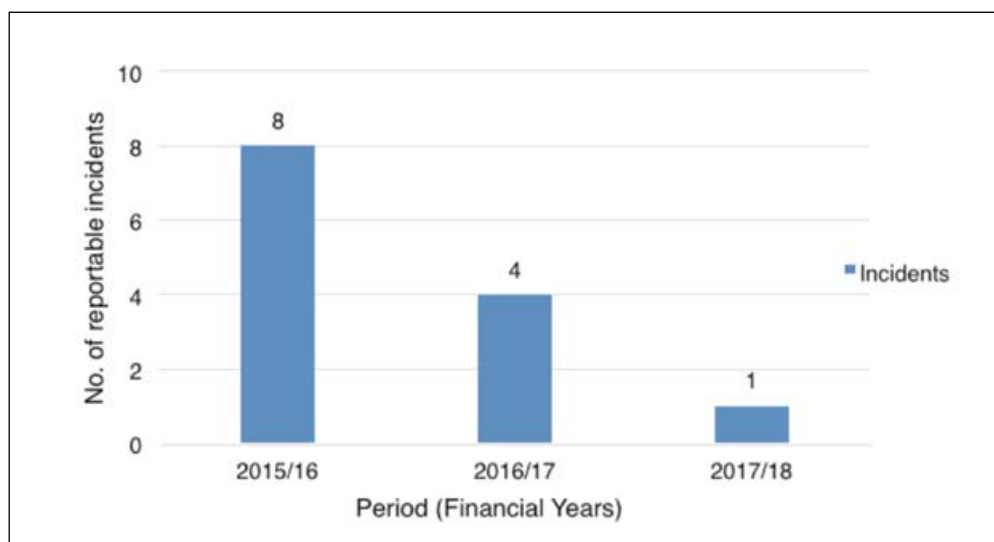
28. Environmental Incidents

An incident is an unplanned or undesired event that adversely affects the organisation's operations. Environmental incidents include property damage, water contamination, effluent and

chemical spillages, or near miss events that could have resulted in any of these.

Incident management systems with protocols are in place to ensure a proper and timeous response to all incidents. Mhlathuze Water continually strives to be environmentally sustainable in all its operations. There has been a substantial decrease in the number of reportable environmental incidents for the reporting period 2017/2018 (one incident) as compared to the last two financial years where four and eight incidents were recorded respectively (figure 10).

Figure 10: Environmental Incidents over a three year financial period



28.1 Tronox Effluent Pipeline Leak

Background of the incident: An effluent pipeline leak was discovered in September 2017 during routine pipeline checks. The incident was promptly reported to the Environmental section which then instituted an investigation.

Root cause of the incident: The leak was caused by corrosion on the welding between the flange and expansion joint coupling.

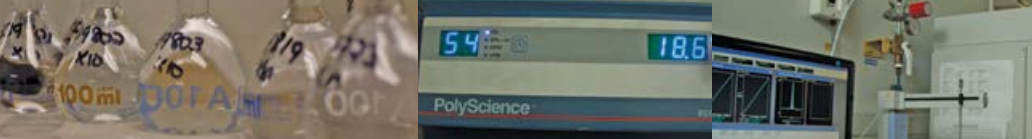
Contributory factors to the incident: Effluent penetrated through the lining of the coupling over a period of time and eventually came into contact with the welding, which initiated the corrosion that caused the leak.

Mitigation measures: Tronox was instructed to stop pumping into the pipeline to avoid further spillage. Repairs began

immediately after the investigation of the leak was completed. Effluent was diverted into the emergency ponds while a maintenance team worked on the pipeline. Excess effluent already in the pipeline was disposed using super-suckers.

Clean-up and/or decontamination: It was not possible to determine the impact on the soil as it was raining on the days before and after incident. Most of the effluent was diverted into the emergency ponds and excess effluent was disposed of using super-suckers.

Preventative measures in place to avoid recurrence: The frequency of the pipeline surveys have been increased with the focus on the flanges and couplings. Stainless steel couplings have been procured and readily available in case of an emergency.



Conclusion: Damage caused on the pipeline resulted in the Tronox effluent being diverted into the emergency ponds to avoid further spillage and contamination to the environment. The maintenance team was assembled and repairs were done on the pipe. Excess effluent already in the pipeline was disposed at the Collecting Chamber using super-suckers.

The incident was reported as per the National Environmental Management Act and other requirements.

29. Waste Management

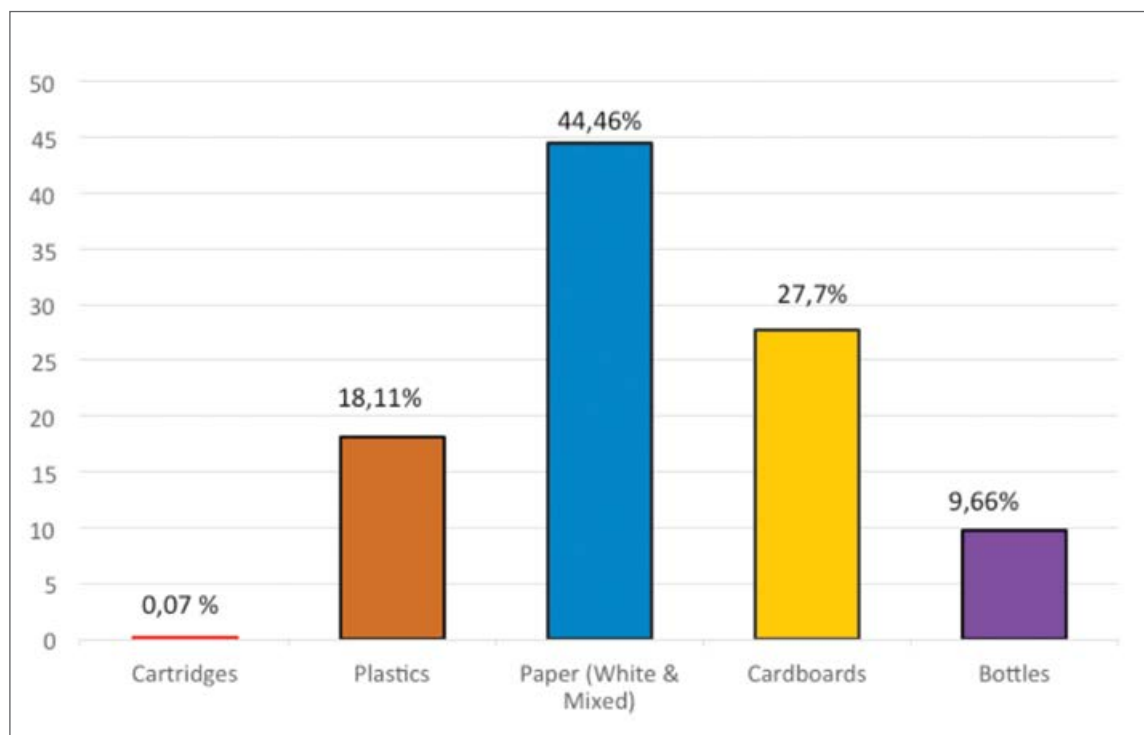
In line with its waste management principles, Mhlathuze Water is currently implementing a Waste Management Plan aimed at reducing the waste that the organisation sends to landfill sites. Mhlathuze Water currently monitors waste that is collected from the offices and from the maintenance work to a minor extent. This waste is sorted and stored in the premises for the recycling purposes.

One element common to most waste producers is a waste hierarchy. This hierarchy is a stepwise approach to waste management in the order of environmental priority for different waste management options. The general principle of the waste hierarchy is as follows:

- Waste minimisation and reuse
- Recovery and recycling
- Safe final disposal

Figure 11 below shows the relative proportions of recycled waste (by weight) that was collected, sorted and stored on site, and which was then sent out through service provider for recycling.

Figure 11: Relative proportions of waste collected and sorted for Recycling during 2017/2018 Financial Year



30. Carbon Footprint and Emissions Reduction Initiatives

In 2015, Mhlathuze Water appointed a service provider who undertook a Carbon Footprint Inventory based on the financial year 2013/14 as the baseline. The Organisation continued to calculate its carbon emissions in response to the Carbon Tax legislation. The exercise provided an improved understanding of the organisation's carbon footprint, with a view to transitioning to be a more environmentally sustainable entity in the face of global climate change risk. Mhlathuze Water's direct carbon emissions (Scope 1) arise from fuel usage for vehicles and generators, while indirect carbon emissions (Scope 2) are primarily due to electricity usage, and to a minor extent, flights.

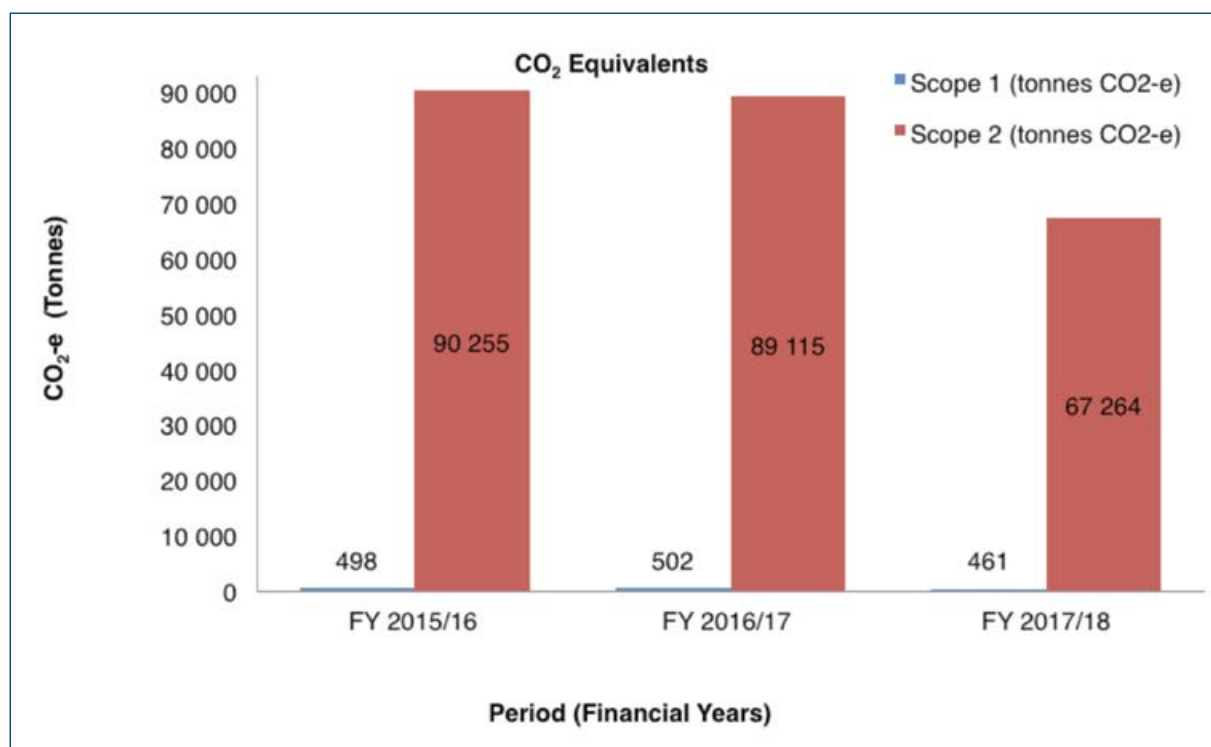
Table 14 and Figure 12 show the organization's carbon

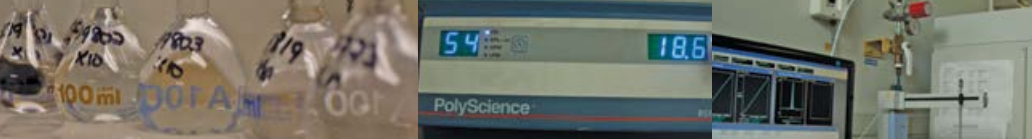
emissions over 3 financial year period. It is noticeable that there is reduction in Scope 1 and Scope 2. The decrease in scope 2 could be attributed to the implementation of the holistic energy reduction initiatives; e.g. replacement of lights by energy saving lights, load shift, etc., even though the impact might not be much when looking at the consumption at each installation.

Table 14: Carbon Footprint Results - CO₂ Equivalents (Tonnes)

	FY 2015/2016	FY 2016/2017	FY 2017/2018
Scope 1 (tonnes CO ₂ -e)	498	502	461
Scope 2 (tonnes CO ₂ -e)	90 255	89 115	67 264
Total (Scope 1 and Scope 2) (T CO ₂ -e)	90 753	89 617	67 725

Figure 12: CO₂ Equivalents (Tonnes) over a three year financial period





31. Environmental Authorisations and Compliance Monitoring

Environmental Impact Assessments are conducted for all construction projects so that environmental impacts can be managed. Where environmental impacts are identified, Environmental Management Plans are developed to mitigate the risk. Projects involving a change of land use, construction or upgrading of infrastructure and storage/handling of hazardous substances are among a number of listed activities that are required to follow the Environmental Impact Assessment process. The service is outsourced to external service providers but the Organisation monitors and audits these to ensure compliance with the Environmental Management Plans during project implementation.

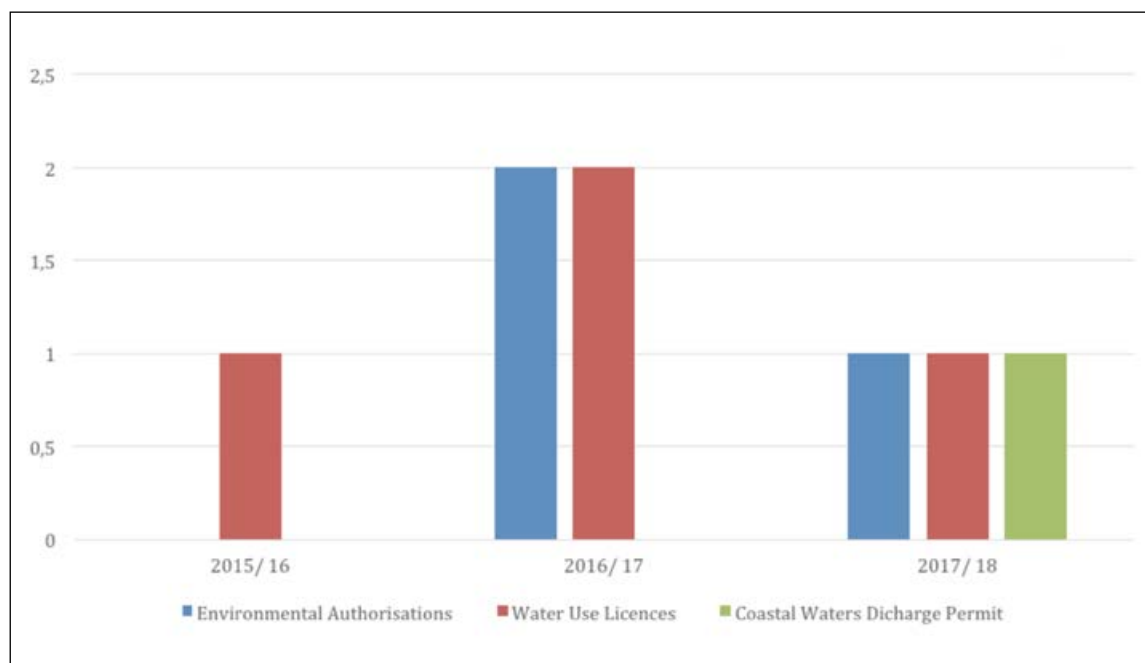
Table 15: 2017/2018 Status of Environmental Permits

Project Name	Date of Authorisation – EA	Date of Authorisation – WUL	Coastal Waters Discharge Permit
Nsezi Pipeline Phase 1	August 2016	March 2018	-
Construction of the new Mhlathuze Weir	March 2018	Not issued*	-
Effluent Disposal	-	-	July 2017

* Subsequently issued on 21 August 2018

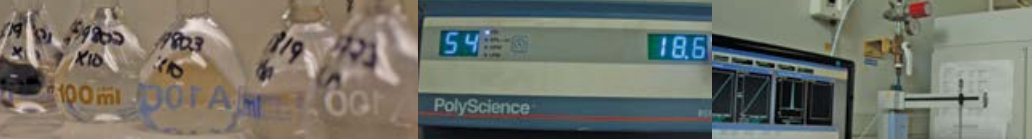
Figure 13 below shows the trend of the number of environmental permits received over a 3 year financial period.

Figure 13: Environmental Permits Received over a 3 year financial period



Testing of pH on water samples against
SANS 241 Drinking Water Standards.





32. Water Conservation

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

- General awareness for all staff through induction, toolbox talks and the internal magazine;
- Installation of water tanks in strategic areas at the Head Office Complex;
- Conduction of water audits to assist in establishing new ways to conserve water in the installations;
- Improved turnaround time in repairing of leaks; and
- Installation of pressure regulating valves.

Promoting water conservation was done among Mhlathuze's own employees as well as community members through exhibitions as well as educational tours. The environmental team took to the Inkwazi Shopping Mall (Boardwalk) in July 2017 in

an attempt to create an awareness of both water and energy conservation under the theme 'Save Water, Save Energy'.

The one-day campaign was aimed at increasing awareness of the need to value water and energy and to use them wisely. Local shoppers had the opportunity of interacting with the team from Mhlathuze Water and sharing ideas and tips on how to save more water. The campaign informed local shoppers of the role water plays in the generation of electricity.

Over and above the awareness campaigns Mhlathuze Water continues to monitor consumption at the Head Office and at the Wastewater Disposal Pump station. The data presented below (figure 14 and 15) was sourced from municipal bills received during the year under review.

Figure 14 and 15 below show water usage at the Effluent Disposal Pump Station and Head Office Complex.

Figure 14: Water Consumption from July 2017 to June 2018

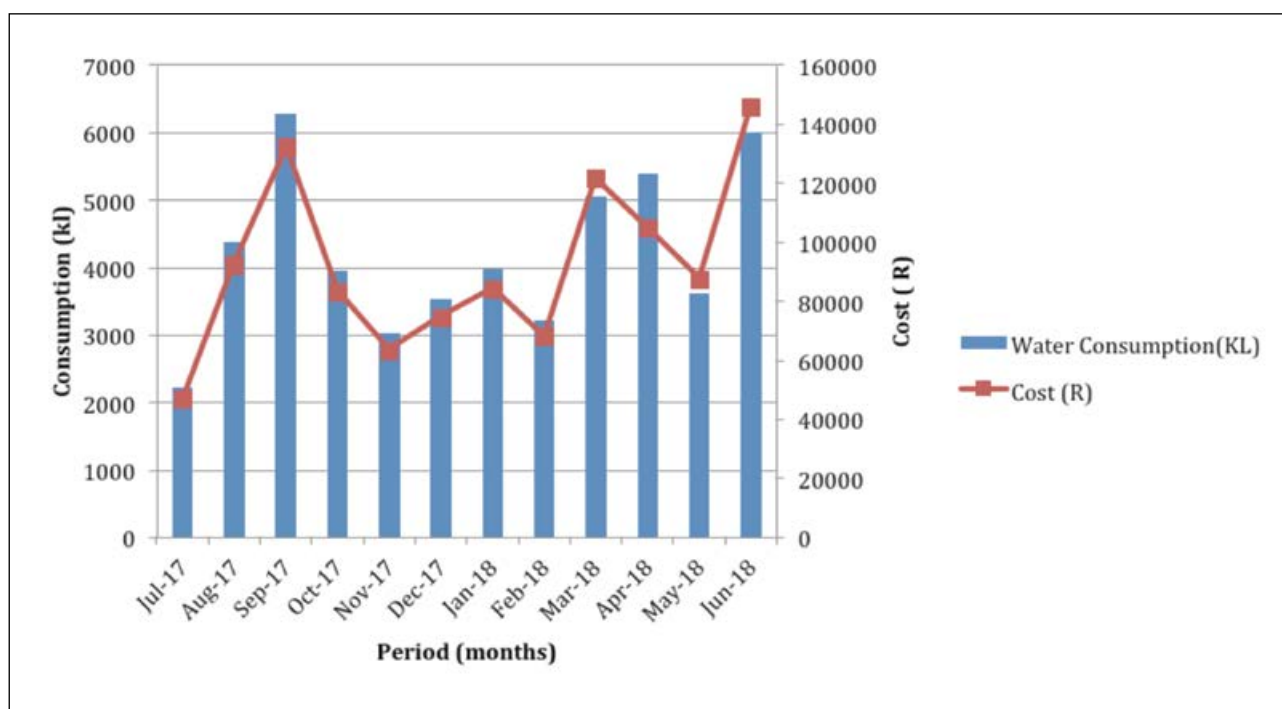
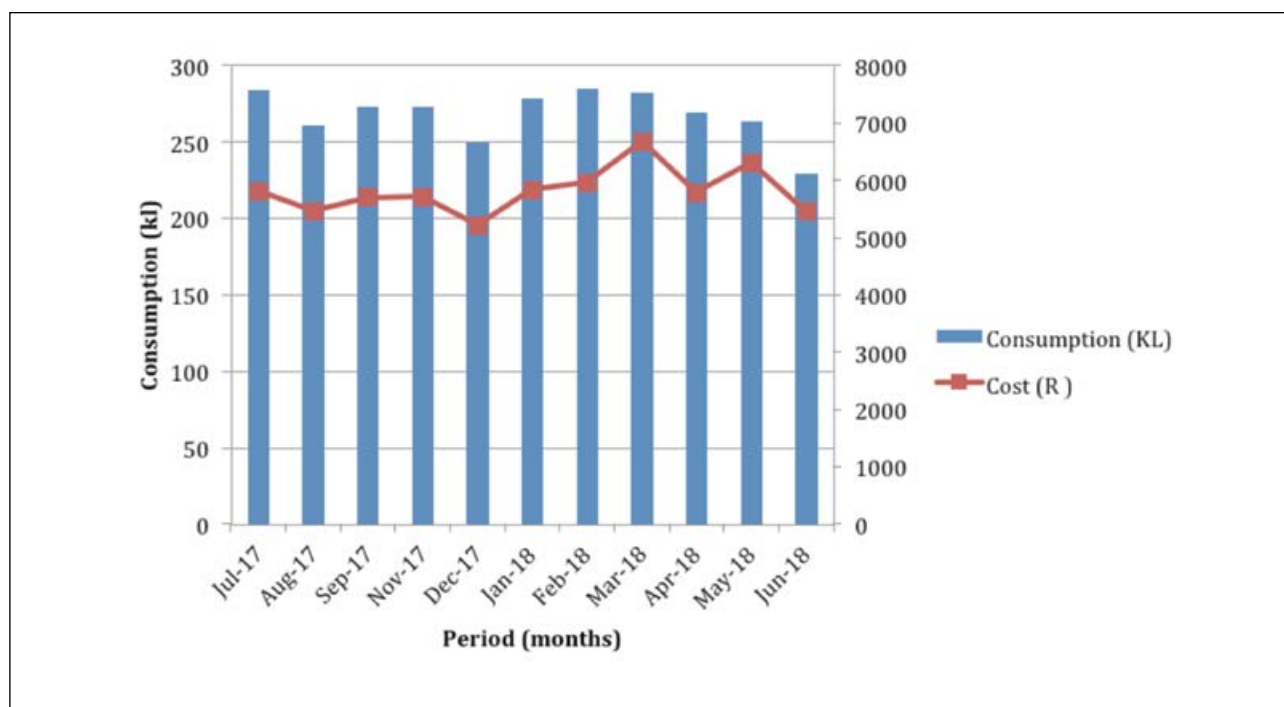


Figure 15: Water Consumption from July 2017 to June 2018 at the Head Office



33. Environmental Forums

Mhlathuze Water participates in a number of relevant environmental forums such as the Catchment Management Forum (CMF), whose main objective is to debate and discuss all water related matters and relevant topics.

The Organisation has established an Effluent Pipeline Forum in line with the requirements of the disposal permit. It serves as a communication tool with customers and interested and affected parties.

34. Alien Plants Management (Working for Water Programme)

This is an Expanded Public Works Programme aimed at alleviating poverty by providing employment for rural communities while assisting in the conservation of water resources through the removal of alien invasive plants. Approximately 455 people have benefitted from this project, including 68% women, 49% youth, and 0.2% people with disabilities.

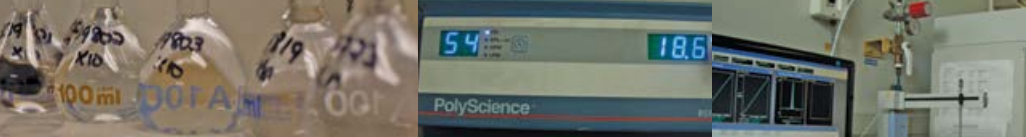
An amount of R15 689 784 was received from DEA to implement the projects during the financial year 2017/2018. The projects that were managed by Mhlathuze Water were Goedertrouw, Mfule, Inkandla, Waterweeds (Mhlathuze River) and Lower Umfolozi.

35. Systems Management

35.1 ISO 17025:2015: Laboratory System Accreditation

Mhlathuze Water has maintained its ISO 17025 accreditation for the Scientific Services Laboratory. The South African National Accreditation System (SANAS) audited the system in February 2018 and findings raised were cleared. The key objectives of the laboratory in support of Mhlathuze Water's primary business are to:

- Provide assurance that water produced is suitable for drinking, thereby assuring that public health is protected. Furthermore, the service gives assurance that the effluent disposed complies with permit requirements;
- Produce scientific data for the development and optimisation of infrastructure; and
- Assess the water quality status in Mhlathuze Water's catchment area.



Supported by Laboratory Information Management Systems (LIMS), water quality results are captured, validated, stored and reported.

35.2 Safety, Health, Environmental and Quality Management Systems (SHEQ)

35.2.1 Occupational Health, Safety and Hygiene

Mhlathuze Water is committed to employee occupational health and safety. This commitment is demonstrated through the implementation of various health and safety programmes that are aimed at the prevention of the occupational exposure of employees. These programmes, include but are not limited to occupational hygiene surveys, risk assessments and medical surveillance programme. The hygiene surveys are carried out by approved inspection authority, using international recognised assessments standards. Our risks assessments are carried out by the registered Occupational Health Medical Practitioner together with the Health and Safety Specialists. Our health and safety management system has been audited and certified to OHSAS 18001:2007 Management System.

35.2.2 Occupational Health and Wellness Clinic

Mhlathuze has shown commitment to employees' health and wellness by opening an Occupational Health and Wellness clinic. The purpose of the clinic is to ensure that employees' health and wellness is taken care of. The clinic provides the following services: wellness assessments; chronic illness management, including (diabetes, hypertension, voluntary HIV/AIDS testing, etc.); incapacity and disability management, etc. The clinic is managed by the registered Occupational Health medical practitioner. All services offered at the clinic are available free of charge to employees.

35.2.3 Occupational Medical Surveillance

Mhlathuze Water has a risk based medical surveillance programme that was implemented as a preventative measure to protect employees against all sorts of workplace health hazards. All employees are placed under medical surveillance programme. Employees who are occupationally exposed undergo periodic medical examinations annually. Employees working at head office and related services undergo medical examination every three years. In addition to the above, other medical examinations and vaccinations will be conducted at Mhlathuze Water as shown in table 16 below.

Table 16: Type of Medical Examinations/ Vaccination Administered

Type of Medical Examination / Vaccination	Administered to	Purpose and Frequency of Medical Examination
Executive Medicals	Senior Staff	When joining MW and thereafter annually.
Pre-employment medicals	All new employees	To establish pre-existing health conditions of all employees and determine level of fitness for the specific job
Periodic medicals	All occupationally exposed employees annually	Intended for early detection of the development of occupationally related diseases.
Exit Medicals	All employees who are leaving the Organisation. Records to be kept for a period of 40 years.	To protect Mhlathuze Water from future claims.
Tetanus injections	Recommended to employees working with the soil and waste water.	When joining the organisation.

35.2.4 Security Measures

Mhlathuze Water has implemented some security improvement measures based on the outcome of the security risk assessment that was conducted. Improvements include, among others, an auto-arm security alarm system, 24 hour security surveillance camera system, electric security fence, etc. The organisation is currently reviewing its security management strategies to ensure an enhanced security management systems.

35.2.5 Quality Management Systems (SHEQ)

In order to ensure compliance with best practices and international standards, the Organisation has certified management systems for safety, health, environment and quality. SHEQ systems aim to integrate all components of the business into a coherent system to enable the Organisation to achieve its mission.

The specific areas of application are:

- OHSAS 18001: Health and safety management within the Organisation to protect the health and safety of workers;
- ISO 14001: Environmental management to limit adverse effects on the environment that may result from Mhlathuze Water's activities; and
- ISO 9001: Quality management to ensure customer satisfaction. The focus is on compliance with customer needs and requirements.

The Organisation was audited on 14-17 May 2018 on all standards and all findings raised were cleared and certifications maintained.

Mhlathuze Water's presence in deep rural areas has ensured the delivery of water to customers such as those serviced by the Jozini Water Treatment Plant.





Water storage tanks at the Abaqulusi Municipality under the Zululand District Municipality.



SECTION F

INFRASTRUCTURE DEVELOPMENT AND WATER SUPPLY

36. Infrastructure Development Projects

In the 2017/2018 financial year, Mhlathuze Water, as part of its core business, made a budget available for the implementation of water infrastructure projects. The Entity conducts this function through the Technical Services Department where, the development of infrastructure for Mhlathuze Water plants is funded through the Organisation itself and development of infrastructure on behalf of government institutions/departments is realised through the appointment of Mhlathuze Water as an implementing agent.

The majority of the multi-year infrastructure development projects that were internally funded by the Organisation were completed during 2017/2018 financial year as follows:

- Tronox Pump Station upgrade
- Empangeni Pump Station upgrade
- Mondi Pump Station upgrade
- 2 x 20Ml reservoir and tie-ins
- SCADA Phase 2

Mhlathuze Water initiated the following new projects for construction:

- New Mhlathuze River Weir
- Weir Standby Generator
- 1 500mm Ø Raw Water Pipeline from Mhlathuze River to Shooting Range

In providing water infrastructure services as an implementing agent, Mhlathuze Water successfully developed infrastructure for the following government institutions:

- DWS – Regional Bulk Infrastructure Grant (RBIG) programme
- DWS – Water Services Infrastructure Grant (WSIG) programme
- DWS – Accelerated Community Infrastructure Programme (ACIP)
- CoGTA – KwaZulu-Natal Drought Intervention Programme
- Department of Basic Education – Schools Water and Sanitation

The effects of the devastating drought experienced in previous years resulted in a number of stakeholder interventions being initiated in the 2016/2017 financial year. Mhlathuze Water played a pivotal role in ensuring the continued engagements

to realising successful implementation of drought alleviation initiatives. Initiatives developed in the prior financial year have been successfully managed to a level that drought alleviation objectives have been realised. The realisation of these initiatives was through collaboration with other stakeholders as follows:

36.1 Water Use Reduction Participants

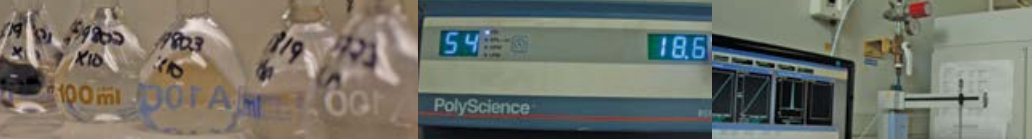
Mhlathuze Water was an active participant in the Mhlathuze Catchment Joint Operating Committee (JOC). The role of the committee was to develop strategies to mitigate the impact of the drought.

36.2 Support to DWS in the Upgrade of the Thukela-Goedertrouw Transfer Scheme

The TGS upgrade is managed and funded by DWS. Construction activities for the pipeline, pump stations, abstraction works – which includes excavation – pipeline delivery and laying, foundation casting are ongoing. Construction progress is at 29%. It is expected that the project will be complete by March 2019.

36.3 Working Together with the CoU on the Investigation into Effluent Reuse

Mhlathuze Water is working together with the City of uMhlathuze (CoU) in investigating the feasibility of re-using waste water and associated by-products. The project is advancing well with investigating industrial/domestic effluent re-use options as a potential Public Private Partnership (PPP). The project aims at treating industrial and domestic effluent for reuse as water supply to industries. The proposed reuse plant is rated 75 Ml/d to be situated between Empangeni and Richards Bay. The CoU commenced with land negotiations with the landowner and has also made significant progress with concluding the terms of contract with targeted off-takers.



37. Mhlathuze Transfer Scheme

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

A total volume of 41 365 901m³ of raw water was pumped from the scheme this financial year, which is 21% lower than the volume supplied in the previous financial year, with 99% being supplied to Nsezi WTP and the remainder to Tronox. The

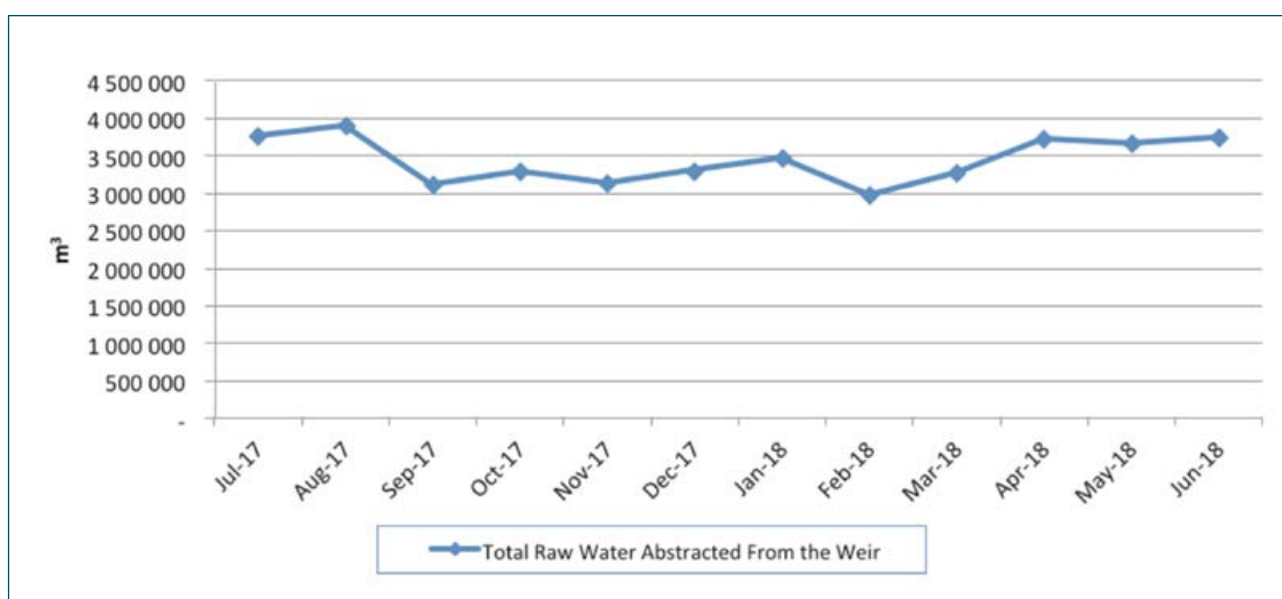
25% reduction was due to some rain received (hence no supply to Tronox and CoU-Esikhaleni) as well as the enforcement of restrictions. No raw water was supplied to Lake Nsezi during the financial year since the lake was full. No raw water was supplied to the CoU for Esikhaleni owing to Lake Cubhu being full after rainfall.

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

- Installation of a standby diesel generator as a back-up power supply;
- Introduction of stability measures at the existing weir;
- Supplementation of the existing weir with a new weir structure;
- Implementation of the Supervisory Control and Data Acquisition System Phase II.

37.1 Raw Water Abstraction Profile

Figure 16: Total Raw Water Abstracted from Mhlathuze Transfer Scheme



38. Nsezi Water Treatment Plant

A total of 41 753 160m³ of raw water was treated at Nsezi Water Treatment Plant, the bulk of it abstracted from Mhlathuze River and the balance from Lake Nsezi. The total volume supplied by Nsezi WTP to customers during the financial year under review declined by 6% compared to 2016/2017 due to the CoU's Mzingazi WTW recommissioning in September 2017 as well as restrictions. Unaccounted water loss during the financial year was 2.72%, and was within the target of 5%.

Meanwhile, Mhlathuze Water continued to supplement the CoU with purified water for Richards Bay. Mzingazi WTW was recommissioned in September 2017, however, the plant could not operate at full capacity due to equipment malfunctions. The remainder of the industrial and domestic customers were supplied as per demand within contracted volumes.

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

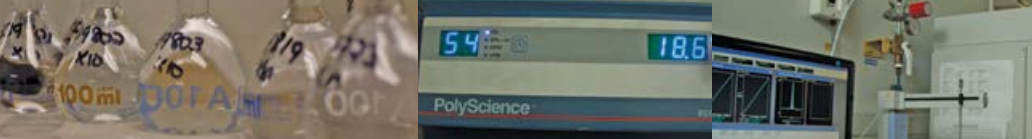
- Upgrade of the Empangeni Pump Station;
- Upgrade of Mondi Pump Station; and
- Implementation of the Supervisory Control and Data Acquisition System Phase II.

39. Effluent Disposal Scheme

A total of 33 667 848m³ (before dilution) was disposed offshore through the Waste Water Disposal System. 75% of this volume was discharged through the buoyant line and 25% through the dense line.

Figure 17: Total Effluent Disposed by Contributors





40. External Operations

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

40.1 Richards Bay Minerals

Mhlathuze Water continues with the operation and quality monitoring of the five Water and Waste Water Package Plants at the Mining Ponds. The five-year contract that expired in June 2017 was extended for a further 3 years.

Furthermore, Mhlathuze Water continues to operate the Water and the Waste Water Treatment Works at the Smelter. The 3 year contract expired in February 2018 and continued on a month to month basis pending the finalisation of a new tender process by Richards Bay Minerals.

40.2 City of uMhlathuze

Mhlathuze Water continues to manage, operate and maintain the CoU Water and Waste Water Treatment Works and associated bulk distribution infrastructure, which commenced in June 2014. An appointment for an 18 month extension was received in February 2018.

40.3 Thukela-Goedertrouw Transfer Scheme

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

41. Key Performance Highlights

41.1 Supervisory Control and Data Acquisition (SCADA) Phase 2

The provision of the SCADA compatible hardware (motor control centres and electrical control panels) and SCADA software is intended for the full automation of the Nsezi Water Treatment Plant and its support infrastructure. The software provides improved data storage and record keeping for plant operating parameters. The project reached completion in June 2018.

41.2 Scientific Services Laboratory Renovations

The refurbishment of the spatial layout, furniture and fittings in the Scientific Services Laboratory was successfully completed in November 2017.

41.3 Water Supply

Mhlathuze Water did not experience any unplanned water supply interruptions in its plants during the 2017/2018 financial year. This was achieved through the implementation of well-structured maintenance strategies and the Computerised Maintenance Management System, with 97.18% plant availability being achieved.

42. Planning

The Planning and Development Section is responsible for strategically leading the project initiation, planning and design development of the infrastructure for the Organisation.

As a key role player in the supply of bulk water and bulk sanitation services in the northern region of KwaZulu-Natal, Mhlathuze Water continues to engage with all water service authorities in the region. This is to ensure that the current water and sanitation services needs are met and that the future needs are timeously identified, planned and implemented.

42.1 Key Performance Highlights

42.1.1 Bulk Water and Sanitation Master Plan

In support of the above role, Mhlathuze Water has successfully completed the development of the Bulk Water and Sanitation Master Plan, which was approved by the Accounting Authority on 29 June 2018. The Master Plan provides an integrated overview of all actions, initiatives and projects that Mhlathuze Water must take to effectively meet current and future bulk water supply and sanitation needs for all customers up to 2040.

In February 2018, DWS commenced with the Implementation and Maintenance of the Water Reconciliation Strategy for Richards Bay and surrounding areas. The main objective for the maintenance of the reconciliation strategy is to review, systematically update and improve the water resource reconciliation so that it remains relevant, technically sound, economically viable, socially acceptable and sustainable, and thus enabling the implementation of the strategy by relevant entities. The implementation and maintenance is planned to be complete by year 2020.

Mhlathuze Water is a key stakeholder to collaborate with the Water Services Authorities within this catchment in ensuring that the priority interventions and projects identified by the reconciliation strategy are implemented and the water resources are secured. Mhlathuze Water is participating in the project steering committee in order to provide executive guidance to the direction and outcomes of the study, incorporate the strategy recommendations into the Mhlathuze Water Master Plan and ensure the implementation of the strategy recommendations.

43. Projects at Design Stage

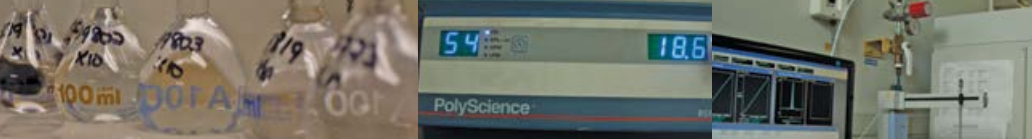
43.1 Augmentation of Nsezi Water Treatment Plant

The objective of the project is to refurbish and upgrade the existing Water Treatment Plant in order to increase the output from 205MI/d to 260MI/d by the 2020/2021 financial year.

The project is at the design phase, following the completion of the study. It is envisaged that the construction phase will commence in the 2019/2020 financial year.

Interior of the Nsezi Water Treatment Plant.





43.2 Water Applications Received

Applications to Mhlathuze Water for the supply of water are received from time to time.

Pending and potential water/effluent applications on record at the present time are as shown in Table 17:

Table 17: Pending and Potential Water/Effluent Applications

Customer		Volumes (m ³ /d)	Volumes (m ³ /annum)	Water Type
1	Tongaat Hullet	2 740	1 000 000	Raw
2	Zulti South Mine - Richards Bay Minerals	28 000	14 600 000	Raw
3	Tronox - Fairbreeze Mine	31 460	11 482 900	Raw
4	City of uMhlathuze - Esikhaleni	25 000	9 125 000	Raw
5	City of uMhlathuze - Foskop	30 000	10 950 000	Clarified
6	Richards Bay Industrial Development Zone	18 000	6 570 000	Clarified

Mhlathuze Water in its Bulk Water and Sanitation Infrastructure Master Plan, has provided sufficient reserves to accommodate future requests from developments being established in Richards Bay and surrounding areas. The organization is currently implementing key projects to increase capacity of supply. These projects includes following:

- The construction of a 1500/1200mm diameter raw water pipeline from Mhlathuze Weir to Nsezi WTW
- The Augmentation of Nsezi WTW from 205 ML/day to 265 ML/day
- Alterations and additions to Mhlathuze Weir Structure

44. Projects at Implementation Stage

44.1 Internally Funded Projects

44.1.1 Reservoirs at the Nsezi Water Treatment Plant

The project entailed the construction of two 20MI reservoirs in order to provide an additional 40MI on-site storage of potable water to ensure uninterrupted supply to Mondi. The construction of the two reservoirs has been finalised and the system has been commissioned.

44.1.2 Tronox Pump Station Upgrade

Mhlathuze Water upgraded the water capacity of the Tronox Pump Station to meet future raw water demands for the CoU (Esikhaleni Water Treatment Works) and Tronox Fairbreeze Mine. The project was commissioned in February 2018.

44.1.3 Mondi Pump Station Upgrade

The upgrade of the electrical works and pumps at the Mondi Pump Station is complete, with the infrastructure commissioned and operational, and potable water being fed to the two new 20MI reservoirs at Nsezi.

44.1.4 Mhlathuze Weir Structure

The Mhlathuze Weir was constructed in 1983 and during the severe floods of September 1987, the weir was structurally damaged. Over the 30 years since the 1987 flood, the weir has been repaired, strengthened, supported and protected against failure.

These measures were, however, all interim and the demand to supply raw water is also significantly increasing. Hence, any failure of the weir will have dire consequences to the supply of water to industrial and domestic customers in Richards Bay. In view of the risks attached to the failure of the current weir, it was resolved that a new structure supplementing the existing one be constructed.

The construction of the Mhlathuze Weir Structure commenced in June 2018 for a construction period of 65 weeks.

44.1.5 Empangeni Pump Station Upgrade

The project was successfully commissioned in February 2018. The project is currently in the Defect Liability period, which expires on 1 September 2018.

44.1.6 Weir Standby Diesel Generator

Mhlathuze Water made provision for a 2.5MVA generator to augment power supply in an event of an Eskom power outage and to ensure reliability of water supply to its customers. The generator project is progressing according to the expected timelines, with 60% of work completed.

45. Key Performance Highlights: Externally Funded Projects

45.1 Department of Water and Sanitation

A directive was received on 11 June 2015 from the Minister of Water and Sanitation for Mhlathuze Water to complete the work that was started by DWS in Nongoma and Abaqulusi municipalities in the ZDM. The scope includes assessment and refurbishment of boreholes, springs and reticulation systems. The funds have been allocated over the previous financial years and the projects are being implemented. Furthermore, some of the project scope was not aligned to budgets, resulting in a need to review the scope as well as align the projects to sustainable sources of water to meet project objectives. This has been addressed and contractors are on site for the implementation of projects.

45.1.1 Nongoma Water Supply in Ward 5, 10 and 11

The project is under implementation with ward 5 completed, a total of 1537 households are benefitting from this project. Ward 10 and 11 water supply schemes are being implemented planned for completion by the 15th of September 2018. The Department of Water and Sanitation has confirmed a budget allocation of R49 370 372.00 for Nongoma and Abaqulusi water supply directive.

45.1.2 Nongoma Water Supply Ward 14 and 17

The project is under implantation with ward 17 completed. A total of 1583 households are benefitting from this project. There is however challenges with regards to Operations and Maintenance in terms of the fuel supply and operation of the diesel generators as ZDM has not availed themselves for handover.

Reticulation network is completed in ward 14, with the water source secured. To enable functioning of this scheme a rising main from the water source (borehole) needs to be installed. A tender for procuring service providers for the construction of the rising main is in progress.

45.1.3 Abaqulusi

Abaqulusi ward 5, 6 and 7 benefited from the Nongoma and Abaqulusi Water Supply directive. The defined scope of work was completed for 17 springs however due to drought 10 springs dried out and only 7 springs out of original scope was planned for implementation. The implementation of the 7 springs was successful with all springs completed and a total of 259 households are benefitting from this project. Additional 2 springs were protected and reticulation system implemented. A total of 177 households benefitted from the further implementation of additional 2 springs.

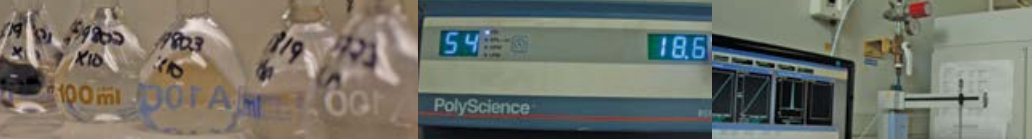
A consultation process is currently taking place between councillors and ZDM in order to further implement the project as the Department of Water and Sanitation has made an allocation of R49 370 372.00 for Nongoma and Abaqulusi Water Supply project directive.

45.2 Jozini/Ingwavuma Projects

45.2.1 Water Treatment Works

The water treatment works project is now complete and was launched by the minister of Water & Sanitation on 19 August 2017 in Jozini, marking the official opening of the facility.

Mhlathuze Water was given a mandate by the minister to continue to operate and maintain the Water Treatment Works, and assist to build capacity within Umkhayakude District Municipality. Mhlathuze Water is in the process of finalizing the necessary operational arrangements with uMkhanyakude District Municipality for operating the plant.



45.2.2 16. 5 MI Command Reservoir

The project recommenced on 05 June 2017 and was successfully completed in December 2017.

45.2.3 Equipping of Bulk Water Pump Stations

The project of equipping four pump stations on the bulk water system is at procurement stage and the tender is at adjudication phase. DWS has made a commitment in the budget for the equipping of the pump station to ensure completion of the Jozini Bulk Water Supply Scheme by March 2019.

45.2.4 Refurbishment of The Waste Water Treatment Works

Mhlathuze Water received a directive from DWS to implement the refurbishment of Ingwavuma Waste Water Treatment Works through the Accelerated Community Infrastructure Programme (ACIP).

The objective of the project is to refurbish the treatment works so that the final effluent meets the Green Drop Standard requirements.

The scope of the project includes:

- Sludge removal and disposal;
- Refurbishment of existing inlet structure;
- Reshaping and relining of waste ponds;
- Outlet channel and chlorination tank.

The project was completed on 20 October 2017 and the plant was handed over to UMkhanyakude District Municipality on 12 December 2017.

45.3 Cooperative Governance and Traditional Affairs

45.3.1 KwaSani Bucket Eradication System Project

The project was completed on 22 December 2017 and handed over to the custodian (Harry Gwala District Municipality) for operation and maintenance of the system. This contract is currently in the Defects Liability Period, which expires on 23 December 2018. The allocated budget was R45.2 million and the project was completed at a total expenditure of R46.1 million where the generated interest was utilised to top up the budget as per the MOU between CoGTA and Mhlathuze Water.

The newly constructed 20ml reservoirs at the NSezi Water Treatment Plant for on-site storage of potable water.



45.3.2 KwaZulu-Natal Drought Intervention Programme

In line with the Disaster Management Act, Act 57 of 2002 the KwaZulu-Natal Department of Cooperative Governance and Traditional Affairs (CoGTA) through the Provincial Disaster Management Centre (PDMC), was mandated to deal with the drought situation experienced throughout KwaZulu-Natal in 2015, 2016 and 2017.

In the latter part of the 2016/2017 financial year, Mhlathuze Water, acting as CoGTA's Implementing Agent, implemented various drought relief interventions throughout the province to communities affected by drought and related water shortages. These interventions took place over a 10 month period and included:

- **Borehole Drilling Programme;**
 - ▶ Total number of boreholes equipped - 99
 - ▶ Total number of boreholes connected to solar panels - 35
 - ▶ Total number of handpumps installed - 25
 - ▶ Total number of boreholes to be powered through Eskom connection - 38
 - ▶ Total number of capped boreholes - 35
 - ▶ Low yield and dry boreholes - 19

- **Emergency Static Tank Intervention**
 - ▶ The distribution and installation of 800 static tanks
- **Installation of Mobile Package Treatment Plants at 3 sites namely:**
 - ▶ Harding Weza;
 - ▶ Charlestown;
 - ▶ Nohhaha.
- **Procurement of Water Tankers**
 - ▶ 9 water tankers were procured and deployed to various needy municipalities
- **Water Storage Facilities**
 - ▶ large storage capacity tanks were erected on 21 sites
- **Desalination Plants Planning**
 - ▶ 4 coastal sites were identified for preliminary studies
- **Wastewater Recycling Planning**
 - ▶ Assessments were undertaken on 4 wastewater treatment works for potential future refurbishment

Mhlathuze Water's interventions on behalf of CoGTA were all concluded by the end of August 2018.

A view of the Nsezi Lake situated at Mhlathuze Water's flagship Nsezi Water Treatment Plant.





A view of the filter gallery at the Jozini Water Treatment Plant.



SECTION G

FINANCIAL INFORMATION

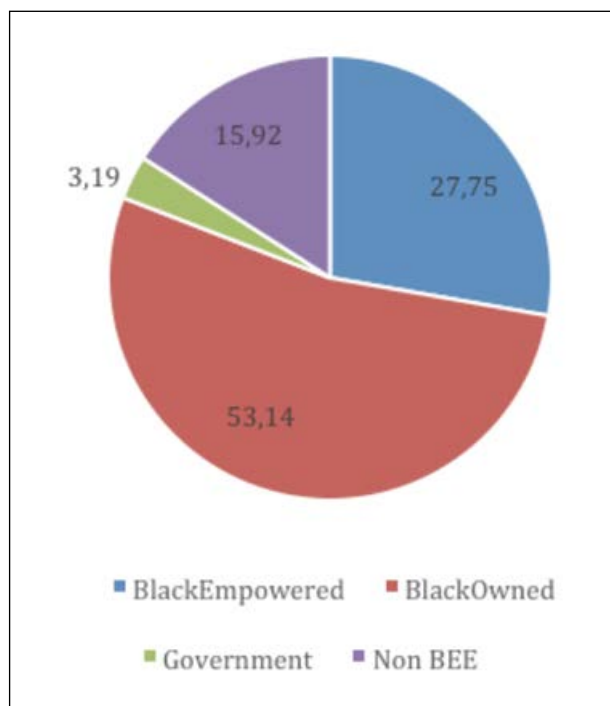
46. Supply Chain

Mhlathuze Water continues to work towards empowering historically disadvantaged individuals and communities through its transformation initiatives. The approval of the Enterprise and Supplier Development Strategy and the B-BBEE Policy are key strategic interventions. This has enabled historically disadvantaged communities to be capacitated, grow their businesses and become strategic partners towards the achievement of Mhlathuze Water's strategic goals.

Mhlathuze Water has appointed an Enterprise and Supplier Development Manager as a means of ensuring the full implementation of the strategy.

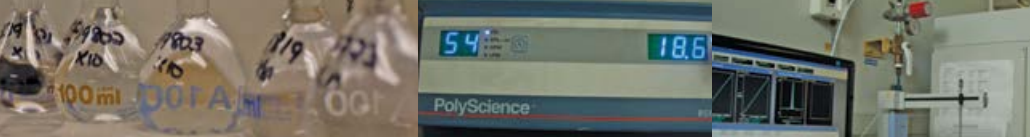
The total spend on goods and services for the 2017/2018 financial year was R365 million, of which R194 million was spent on companies that are more than 50.1% black-owned, and 27.75% (equivalent to R101 million) was spent on black empowered companies. Only 15.92% was spent on non-BEE companies and 3.19% was spent on Government-owned entities. The target for 2017/2018FY was 50.1% of discretionary spend and the actual achieved amount was 53.14%, as per the graph below.

Figure 18: 2017/2018 Total Spend on Goods and Services



Mhlathuze Water is undertaking major upgrades to improve its water infrastructure. This includes refurbishing the Mhlathuze Weir to ensure a quality water supply.





47. Financial Overview

1. Introduction

Despite the negative impact of drought and the resultant imposition of water restrictions in South Africa, Mhlathuze Water continued to sustain some revenue growth. Such revenue growth resulted from the application of the approved tariff increase as per legislative approval requirements.

The financial results for the year are detailed in the Annual Financial Statements set out from page 105 to 156.

2. Operating Performance

Mhlathuze Water's financial performance has consistently grown over the past five years.

Table 18: Statement of Financial Performance

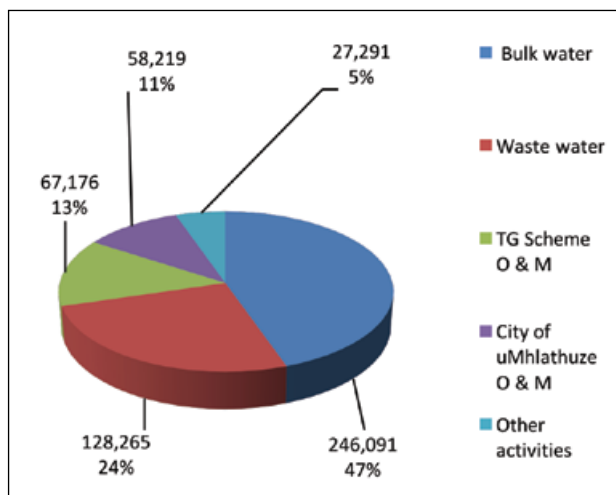
	2014 Actual	2015 Actual	2016 Actual	2017 Restated	2018 Actual	% change
	kl'000	kl'000	kl'000	kl'000	kl'000	%
Volume sold	112 340	136 222	131 295	117 506	110 470	(6%)
	R'000	R'000	R'000	R'000	R'000	%
Revenue from exchange transactions						
Sale of goods and services	349 718	498 765	527 042	533 617	538 996	1%
Cost of Sales	(143 871)	(134 912)	(122 819)	(242 390)	(232 440)	(4%)
Bulk purchases	(42 136)	(59 045)	(51 738)	(44 315)	(44 378)	0%
Electricity and water	(38 484)	(26 369)	(27 654)	(103 738)	(81 239)	(22%)
Chemicals	(8 127)	(12 580)	(11 572)	(16 760)	(17 551)	5%
Employee related costs	(14 187)	(9 501)	(10 774)	(42 160)	(50 804)	21%
Depreciation	(40 937)	(27 418)	(21 081)	(35 418)	(38 469)	9%
Gross Profit	205 847	363 853	404 223	291 226	306 554	5%
Other income	12 553	12 732	13 322	14 414	17 400	21%
Expenditure	(142 220)	(285 089)	(327 218)	(233 386)	(235 947)	1%
Employee related costs	(56 590)	(88 070)	(106 975)	(86 920)	(93 107)	7%
Remuneration of board members	(2 005)	(2 964)	(3 129)	(2 679)	(620)	(77%)
Depreciation and amortisation	(4 039)	(24 384)	(19 278)	(6 386)	(7 852)	23%
Finance costs	(18 452)	(13 069)	(10 205)	(9 850)	(6 021)	(39%)
Lease rentals on operating lease	(2 252)	(2 410)	(2 488)	(2 566)	(2 805)	9%
Debt impairment	271	(144)	(181)	(293)	-	(100%)
Repairs and maintenance	(14 836)	(42 943)	(45 973)	(40 748)	(48 088)	18%
Electricity and water	(1 528)	(49 546)	(72 833)	(2 026)	(1 914)	(6%)
Chemicals	(296)	(1 313)	(3 239)	-	(796)	100%
Other expenses	(42 493)	(60 246)	(62 917)	(81 918)	(74 745)	(9%)
Operating surplus	76 180	91 496	90 327	72 255	88 008	22%
Gain (loss) on disposal of assets	3 019	(1 499)	56 576	(2 815)	(6 058)	115%
Surplus for the year	79 199	89 998	146 902	69 440	81 950	18%

2.1 Revenue from Exchange Transactions Sale of Goods and Services

The approved annual increase in tariffs aided Mhlathuze Water to achieve an overall increase of 1% in revenue despite a decrease of 60% in Secondary activities and 14% decrease in Bulk Water Sales Volumes.

Bulk and Waste water services constitute the majority of revenue.

Figure 19: Sale of Goods and Services per Segment (R'000)



2.2 Volumes Sold/Disposed

Volumes sold and disposed are as per below graphs:

Figure 20: Bulk Water – Volumes Sold (Kilolitre)

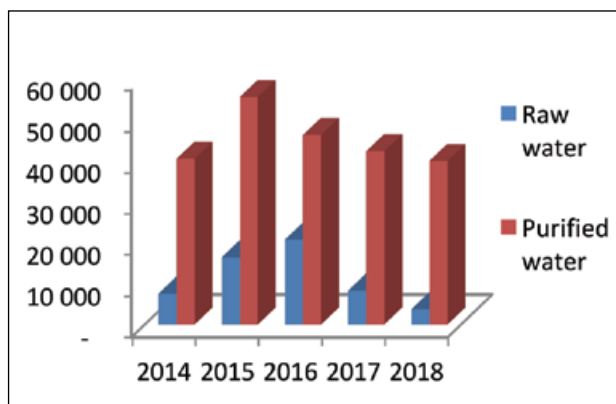
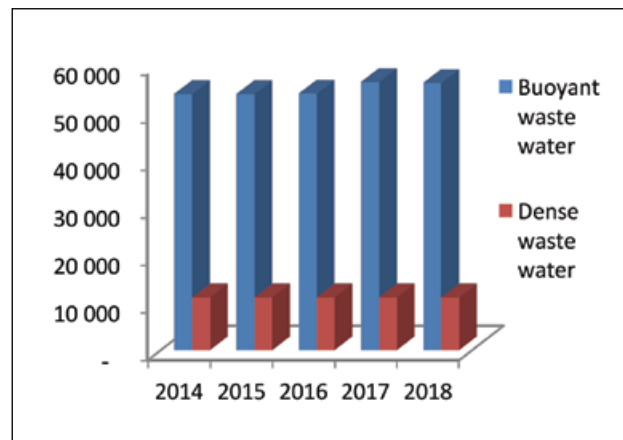


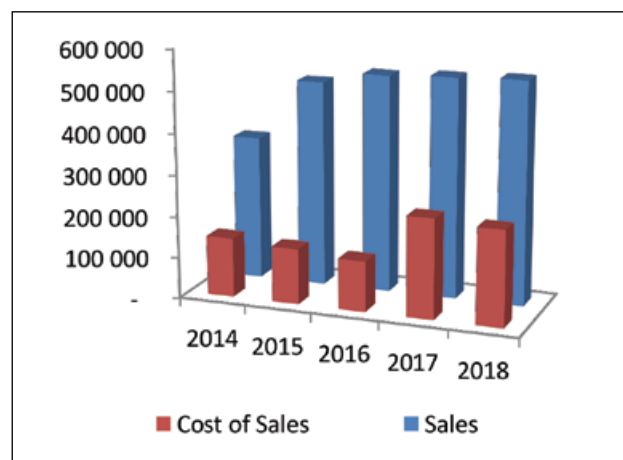
Figure 21: Waste Water – Volumes Disposed (Kilolitre)

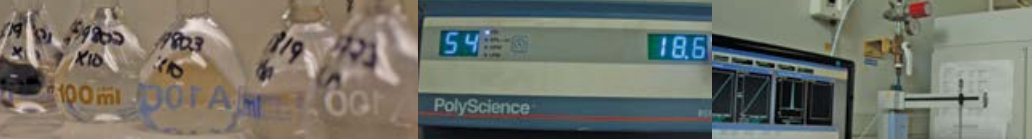


2.3 Cost of Sales

The decrease in Cost of Sales correlates to the decrease in Revenue due to the decrease in volumes sold. This arises out of the sales variable cost which is linked to the volume of purified water sold.

Figure 22: Sales to Cost of Sales Relationship

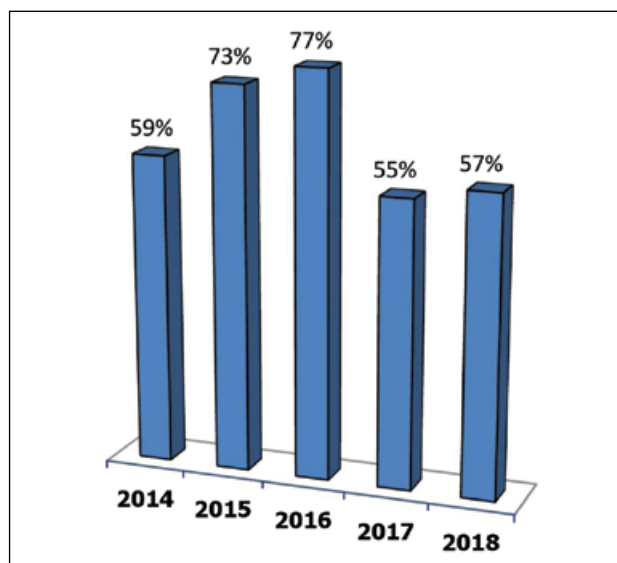




2.4 Gross Profit

The decrease in sales volume resulted in a decrease in gross profit from 77% in 2016 to an average of 56% in 2017 and 2018. Gross profit for the current financial year has recovered in comparison to prior year.

Figure 23: Gross Profit Percentage



2.5 Expenses

The graphs below give an analysis of the organisation's operating expenditure for each financial year reported.

Figure 24: Cost Structure 2018

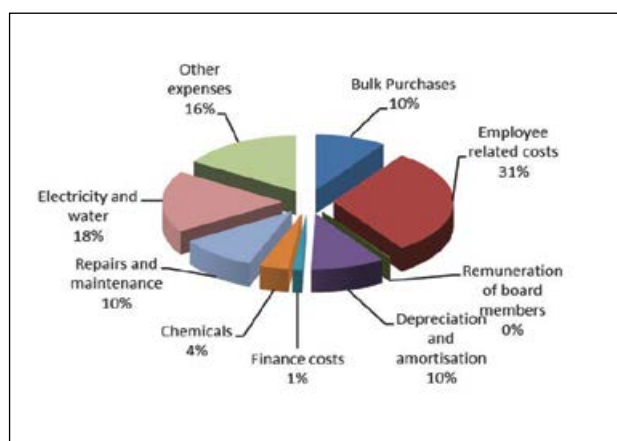
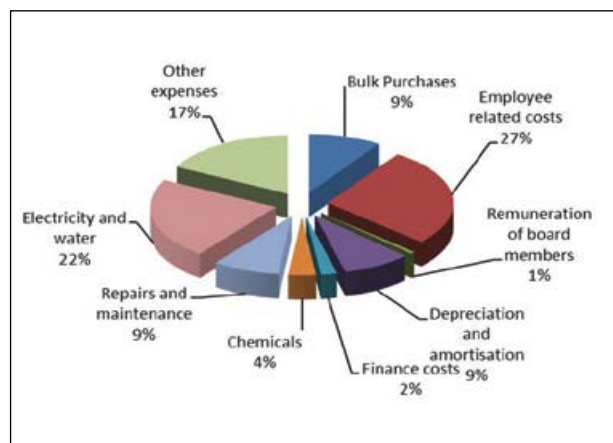


Figure 25: Cost Structure 2017



2.5.1 Employee Related Costs

The 11% escalation of costs emanates mainly from the following:

- A salary increment of 8%, as approved by the Amanzi Bargaining Council;
- All costs associated with the remuneration of the Interim Chief Executive as well as the suspended Chief Executive;
- An increase leave encashment to employees;
- An increase in Workmen's Compensation premiums after revision of the risk rating; and
- Increased overtime claims required operationally.

2.5.2 Remuneration of Board Members

A 77% savings was realised due to the expiration of the term of office for the Mhlathuze Water Board of Directors on 26 April 2017 and no new Board appointed.

2.5.3 Depreciation and Amortisation

Following a re-assessment of the remaining useful lives of assets as well as the re-instatement to fair value of assets acquired at R1, a 11% decrease in Depreciation and Amortisation has resulted.

2.5.4 Repairs and Maintenance

An 18% increase arose due to the implementation of major maintenance projects in the current year, especially in the Nsezi Water Treatment Works; the A-Line Effluent Off-Shore pipeline and, the Head Office complex.

2.5.5 Electricity and Water

The drought restrictions imposed by the Department of Water and Sanitation on water usage resulted in a 6% reduction in volumes which, in turn, translated into a 21% decrease in electricity and water expenses.

2.5.6 Chemicals

The drought adversely affected water turbidity which necessitated increases in purchases of chemicals, thus resulting in the 9% increase from prior year.

2.6 Operating Surplus

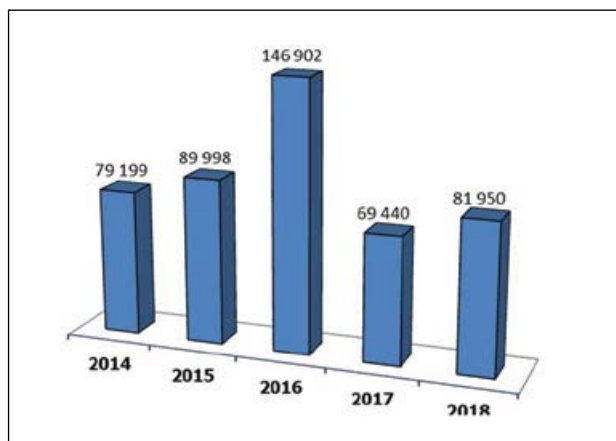
The implementation of cost containment measures and increase in revenue due to tariff increases resulted in the achievement of an increase of Operating Surplus by 22% from prior year, despite the marginally rising costs.

2.7 Surplus for the Year

The current year surplus reflects an increase of 18% from the prior year mainly due to cost cutting measures while revenue increased due to tariff increases.

The graph below depicts the surplus growth over the past five financial years.

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



3. Tariffs

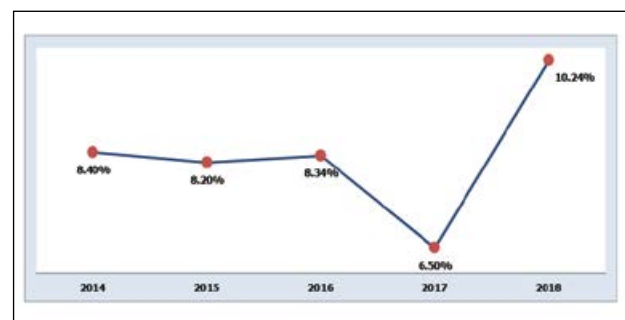
Mhlathuze Water conducts an annual review of its tariffs in line with the guidelines and regulations contained in the Municipal Finance Management Act. In doing so, it calculates its tariff increase proposals factoring into it its Strategic Objective of sustaining financial sustainability.

Mhlathuze Water supplies bulk water and provides waste water facilities to a wide range of customers, thus enabling economies of scale ensuring affordability for all customers.

3.1 Raw Water Tariffs

A raw water tariff increase of 10.24% was implemented as approved by the Minister of Water and Sanitation for the financial year 2017/2018.

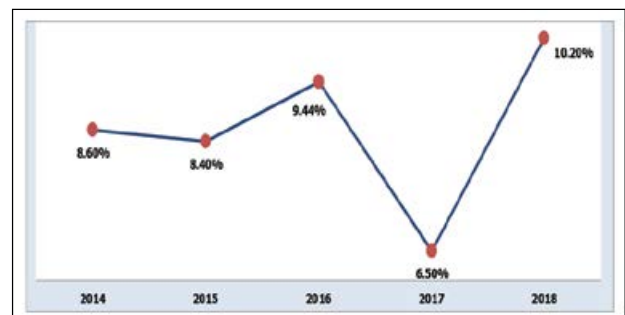
Figure 27: Approved Raw Water Tariff Increases

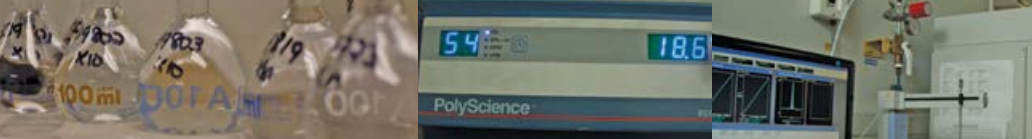


3.2 Purified Water Tariffs

A purified water tariff increase of 10.20% was implemented as approved by the Minister of Water and Sanitation for the financial year 2017/2018.

Figure 28: Approved Purified Water Tariff Increases

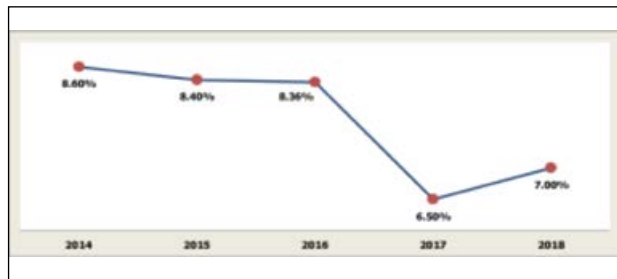




3.3 Buoyant Waste Water Tariffs

A Buoyant Waste Water tariff increase of 7.00% was implemented as approved by the Minister of Water and Sanitation for the financial year 2017/2018.

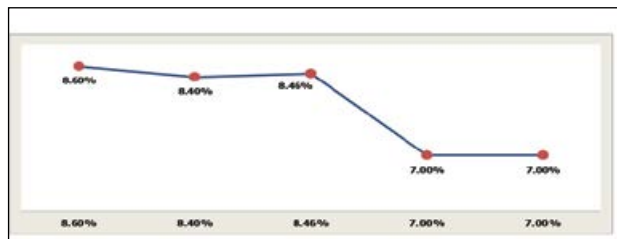
Figure 29: Approved Buoyant Waste Water Tariff Increases



3.4 Dense Waste Water Tariffs

A dense waste water tariff increase of 7.00 % was implemented as approved by the Minister of Water and Sanitation for the financial year 2017/2018.

Figure 30: Approved Dense Waste Water Tariff Increases

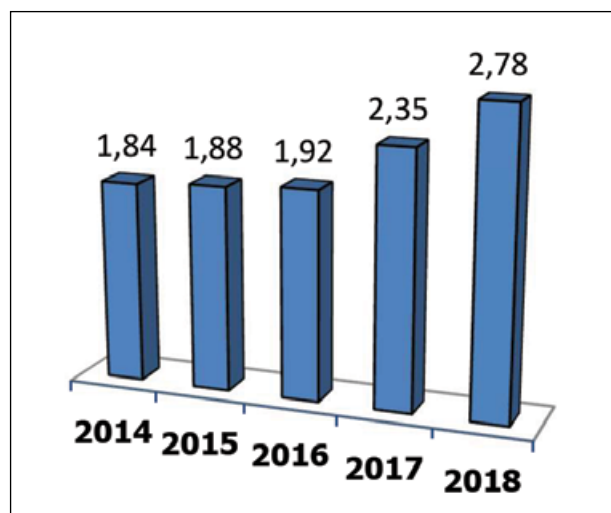


4. Operating Indicators

4.1 Current Ratio

Mhlathuze Water has improved its Current Ratio in the financial year, being the highest in the 5 year period. This illustrates a stronger liquidity status.

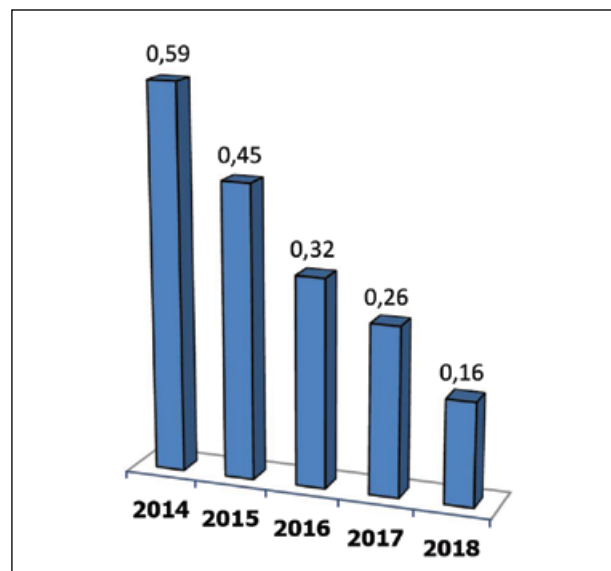
Figure 31: Current Ratio



4.2 Debt Equity Ratio

The Debt Equity Ratio of 0.16 further illustrates the strengthening financial muscle of Mhlathuze Water. It also demonstrate that the organization is reducing reliance on financing its asset acquisitions, thus reducing the risk exposure

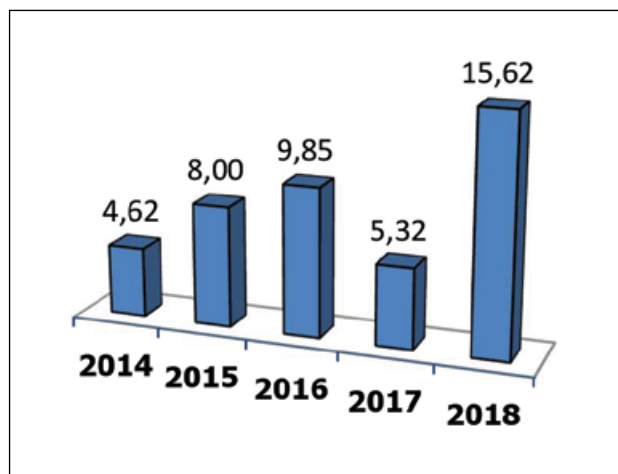
Figure 32: Debt Equity Ratio



4.3 Interest Turnover Ratio

The Interest Turnover Ratio of 15.62 demonstrates Mhlathuze Water's ability to service interest on outstanding debt.

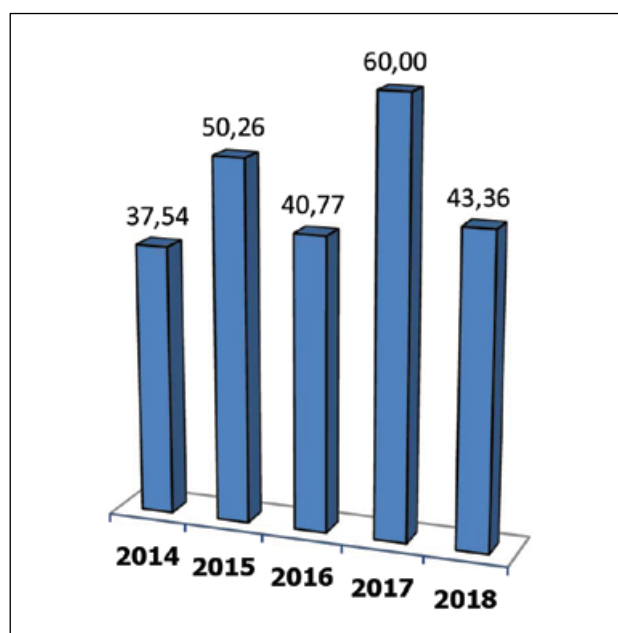
Figure 33: Interest Turnover Ratio



4.4 Debtors Collection Period

In line with the 45-day target, the Debtors' Collection Period was decreased to 43.36 days, due to great effort exerted in collection strategies.

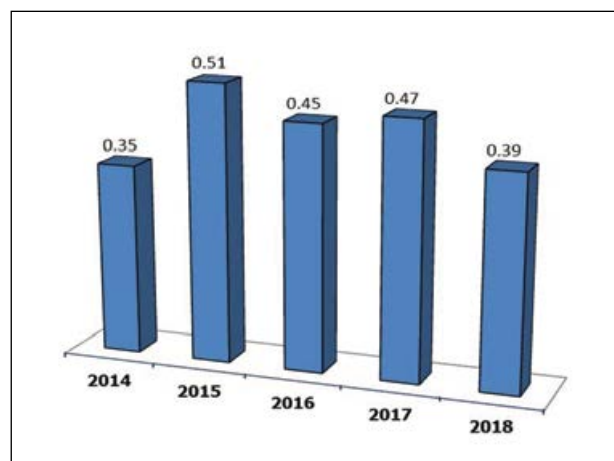
Figure 34: Debtor days



4.5 Asset Turnover Ratio

The Asset Turnover Ratio of 0.39 is due mainly to the increased value of Assets, after the re-assessing of useful lives and the re-instatement of deemed cost to assets originally acquired at R1. This increase in value was not set off as the Revenue increase was marginal.

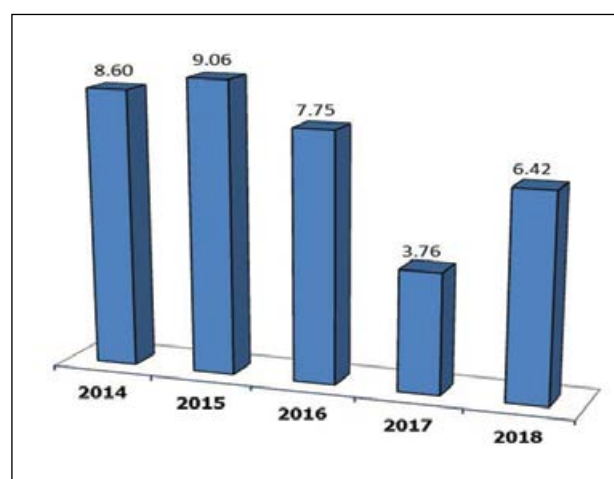
Figure 35: Asset Turnover Ratio

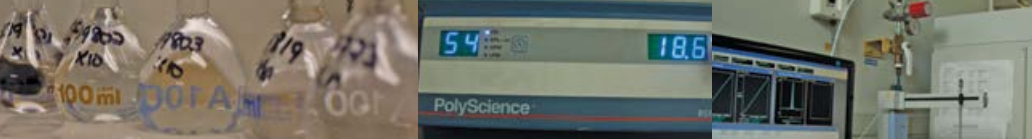


4.6 Return on Assets Ratio

There has been a significant improvement in the efficiencies of management in utilizing assets to generate earnings.

Figure 36: Return on Asset Ratio (%)





5. Cash Flow Analysis

5.1 Cash Flows from Operating Activities

Due to the overall increase of 11% on receipts as a result of interest received from investments and cash received from customers as well as a 9% decrease on payments made to suppliers and employees, the net cash generated from operating activities increased by 237%.

5.2 Cash Flow Utilised in Investing Activities

Net cash utilized in the acquisition of Property, Plant and Equipment and Intangible Assets increased by 73% from the prior year due to increased spending on capital projects.

5.3 Cash Flows from Financing Activities

Due to Capital payments that are fixed as per the Loan agreements, the Cash flow from financing activities has remained constant and the loans decreased as per capital payments made bi-annually.

5.4 Cash and Cash Equivalents

The 19% increase in Cash and Cash Equivalents illustrates how Mhlathuze Water has maintained financial stability despite the prevailing economic and environmental conditions. Furthermore, this demonstrates the ability to meet future obligations arising from approved capital and operational commitments.

6. Funding Requirements

For the period under review no new funding was required for business activities.

The proposed borrowing limits submitted for approval by the National Treasury in concurrence with the Minister of Water and Sanitation and published in the Government Gazette are as follows:

Table 18: Proposed Borrowing Limits

Financial year	Amount
2015/2016	R331,9 million
2016/2017	R430 million
2017/2018	R478 million

The borrowing limits for the period 2019 to 2021 have not yet been approved by National Treasury, however, approval should be forthcoming after the appointment of the new Board by the Minister.

7. Reflections

The Financial Overview has highlighted operational challenges mainly due to the current drought which has exerted some pressure on the financial sustainability of the organization.

The organization has, however, shown great resilience through these turbulent times and remains sustainable in the medium to long term.



Mhlathuze Water's Chief Executive celebrates the delivery of water with the community in Ward 5, KwaNongoma.

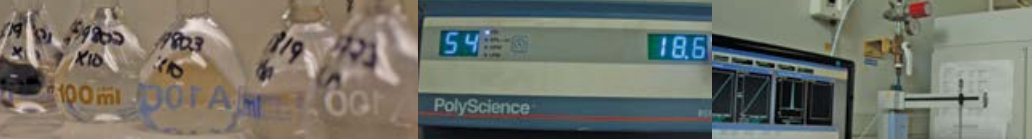


MHLATHUZE WATER

Scientific Services



Entrance to the Mhlathuze Water Scientific
Services Laboratory.



48. Report by the Accounting Authority

The Accounting Authority of Mhlathuze Water hereby presents the report of the entity for the year ended 30 June 2018.

The Board of Mhlathuze Water's term of office came to an end when the Honourable Minister officially terminated the Board in April 2017.

In terms of section 49 2 (b) of the Public Finance Management Act No 1 of 1999, in the absence of a Board, the chief executive officer assumed responsibility as the accounting authority.

1. Review of Activities

Main business and operations

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

2. Going Concern

Establishment of a Single Water Board in KwaZulu-Natal

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

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

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

Interviews were held on 2 and 3 August 2018 and the candidates recommended for appointment were forwarded to the Honourable Minister for Water and Sanitation for consideration. Our Financial records denote that Mhlathuze will be able to fund and sustain its operations henceforth.

Mhlathuze Water prepared and submitted its Business Plan for 2018/2019 to 2022/2023 together with the Shareholder Compact to the Minister of Water and Sanitation on 16 April 2018. The Minister signed the two documents and these were tabled before parliament on 13 June 2018.

The annual financial statements for 2017/2018 have been prepared in line with the accounting standards and policies applicable to the going-concern of this nature.

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

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

- Mhlathuze Water has adequate committed credit facilities from its lenders to fund its operations and meet its financial obligations in the normal course of business for the foreseeable future.
- A funding strategy and plan have been developed to ensure that Mhlathuze Water is able to successfully fund its capital expenditure programme without breaching the set financial parameters.
- The operational and financial risks have been reviewed to determine their impact on the business under various conditions, and mitigating initiatives, strategies and controls are in place as reflected in the business and risk management plans.
- Total reserves have improved by 4% compared to the prior year.
- Interest cover and cash interest cover are still covering over 15.62 times (2017: 5.32)
- Based on the new business plan, the cash flow forecasts reflects that there will be sufficient funds to cover liquidity requirements for the year 2019.

Drought related initiatives

Tugela-Goedertrouw Transfer Scheme upgrade (TGS)

The unrelenting droughts experienced in the province in previous years necessitated that Mhlathuze Water embark on a drive geared towards minimising the effects of a reduced water supply to the public and industrial customers. To this end, and working with the Department of Water and Sanitation, Mhlathuze Water has provided technical support on certain construction activities on the TGS upgrade which included, inter alia, abstraction works and excavations, pipeline delivery and laying and foundation casting. It is expected that this scheme will be completed in early 2019. Upon completion, the scheme will have a yield of 2.4 cubic metres per second which is double the count of the current 1.2 cubic metres.

Mhlathuze Transfer Scheme

Mhlathuze Water continues to abstract water from the Mhlathuze River, which is fed by the Goedertrouw Dam that is augmented by the TGS.

A total of 41 753 160m³ of raw water was treated at Nsezi Water Treatment Plant, the bulk of it abstracted from Mhlathuze River and the balance from Lake Nsezi. The total volume supplied by Nsezi WTP to customers during the financial year under review declined by 6% compared to 2016/2017 due to the CoU's Mzingazi WTW recommissioning in September 2017 as well as restrictions. Unaccounted water loss during the financial year was 2.72%, and was within the target of 5%.

Other Initiatives

In line with our stated objective of using water as a catalyst for sustainable socio-economic development, Mhlathuze Water has continued to implement far-reaching initiatives that brought about discernible and positive change to the lives of the people of KwaZulu-Natal. One such project has been the drought relief intervention undertaken on behalf of the provincial Department of Cooperative Governance and Traditional Affairs (CoGTA).

Some of the successes notched up in this regard include:

Borehole Drilling Programme

- Total number of boreholes equipped - 99
- Total number of boreholes connected to solar panels - 35
- Total number of hand pumps installed - 25
- Total number of boreholes to be powered through Eskom connection - 38

- Total number of capped boreholes - 35
- Low yield and dry boreholes - 19

Emergency Static Tank Intervention

- Distribution and installation of 800 static tanks
- Installation of Mobile Package Treatment Plants at 3 sites namely:-
Harding Weza;
Charlestown;
Nohhaha

Procurement of Water Tankers

- 9 water tankers procured and deployed to various needy municipalities
- Water Storage Facilities
- large storage capacity tanks were erected on 21 sites
- Desalination Plants Planning
- 4 coastal sites were identified for preliminary studies

Wastewater Recycling Planning

Assessments were undertaken on 4 wastewater treatment works for potential future refurbishment

3. Subsequent Events

Subsequent events after the reporting period requiring adjustment are disclosed in the notes of the financial statements.

4. Share Capital and Director's Interests

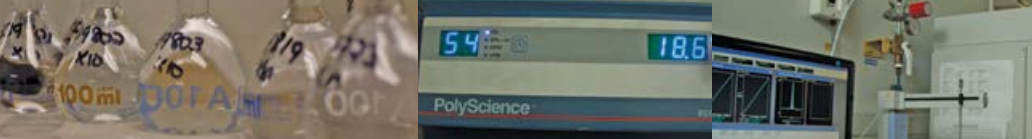
Mhlathuze Water has no share capital and therefore no member has any equity interest in the organisation.

5. Borrowing Limitations

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

Financial year	Amount
2015/2016	R331,9 million
2016/2017	R430 million
2017/2018	R478 million

The borrowing limits for the period 2019 to 2021 have not yet been approved by National Treasury, however, approval should be forthcoming after the appointment of the new Board by the Minister.



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

6. The term of office of the Board of Directors of Mhlathuze Water was terminated by the Minister of Water and Sanitation on 26 April 2017

The Interim Chief Executive of Mhlathuze Water was then appointed as the Accounting Authority pending the appointment of a new Board of Directors.

Executives: **M P Duze** (Interim Chief Executive)
A S Makhanya* (Chief Executive)
C G Cele
B S Ndaba (resigned December 2017) replaced by
B Mnyandu as the CFO in April 2018
M Myeni
B S Ntlhoro
N Ndlovu (resigned April 2018) replaced by
D Mathenjwa was the Acting Company Secretary until the end of the Financial Year

* CEO is on suspension pending the outcome of disciplinary proceedings

7. Corporate Governance and Risk Management

General

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

In order to strengthen internal controls as well as ensure credibility and financial accountability, The Accounting Authority appointed Mr. M Xulu as the Chairperson of the Independent Audit and Risk Committee.

Other members of the committee are:

C Gevers
S Chamane
B Rawlins
N Shezi

8. Bankers

First National Bank Appointed 01 January 2018
 3 year term

9. Auditors

Internal Audit function was outsourced for the period under review.

External Auditors: The Auditor-General

For the period under review the AG performed the external audit function.

10. Compliance with Legislation

The annual financial statements are prepared in accordance with Generally Recognised Accounting Practices (GRAP) and the following relevant Acts:

- Water Services Act No: 108 of 1997;
- Public Finance Management Act (PFMA as amended) No: 1 of 1999.

11. Tariff Policy

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

12. Capital Expenditure and Commitments

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

13. Addresses

Business Address Corner of Battery Bank and South Central Arterial Alton Industrial Area Richards Bay 3900 Postal Address Private Bag x1047 Richards Bay 3900

14. Fruitless and Wasteful Expenditure

Fruitless and wasteful expenditure totalling R25 million relates to costs incurred in the prior years. Expenditure for the prior year 2017 totalling R25 million relates to payments that were made to various suppliers, without appropriately approved variation orders as per the Delegation of Authority. Refer to note 27 for further details.

15. Irregular Expenditure

Irregular expenditure totalling R265 million in the current year is for appointments that were made in prior years but paid for in the current year. This resulted in non-compliance with the supply chain management policy and in payments that were made to various suppliers without appropriately approved variation orders as per the Delegation of Authority. Irregular expenditure for the prior year 2017, of R206 million relates to payments that were made to various suppliers, without appropriately approved variation orders as per the Delegation of Authority and to advance payments that were made to various suppliers not in accordance with contract terms.

Refer to note 27 for further details.

16. Unauthorised Expenditure

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

17. Financial Misconduct

There were various incidents and reports of financial misconduct during the current financial year, as well as the prior year. Refer to note 27 for further details.

Currently, forensic investigations are underway to determine the full extent of the financial misconduct. Disciplinary and potentially civil action will be taken against the offending officials and the recovery of lost resources will get underway.

The internal control environment has been strengthened with stringent systems being put in place to prevent, detect and correct any instances of financial impropriety.

18. Disclosure in Terms of Directive 12

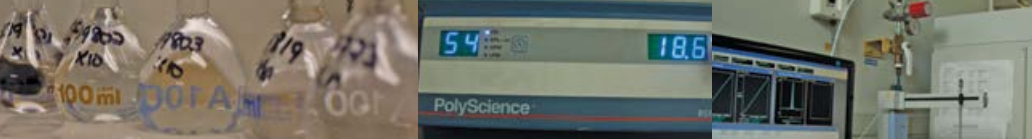
There were no directives received during the current financial year. Information required by the Public Finance Management Act No 1 of 1999, as amended in assessing the materiality framework policy, the following is taken into account: In terms of section 28.3.1 of the regulations of the PFMA, for the purposes of materiality and significance, the Accounting Authority has developed and agreed a framework of acceptable levels of materiality and significance established at 1% of gross revenue which equates to R5.4 million. Management also applies a qualitative aspect to all errors found.



Mr Mthokozisi P. Duze

Accounting Authority

31 October 2018



49. Report of the Independent Audit and Risk Committee for the Year Ended 30 June 2018

This report is provided by the Audit and Risk Committee in respect of the 2017/2018 financial year of Mhlathuze Water, as required by section 76 of the Public Finance Management Act No. 1 of 1999, as amended (PFMA) read with Treasury Regulations 3.1.9 and 27.1 issued in terms of the PFMA.

Audit Committee Members and Attendance

In terms of section 27.1.1 of the Treasury Regulations, the Accounting Authority of a public entity must establish an Audit Committee as a Sub-committee of the Accounting Authority. The Audit and Risk Committee was established on 01 August 2017 and is responsible for the Audit Committee functions of Mhlathuze Water in line with the Audit and Risk Committee Charter, the PFMA and King IV principles of Corporate Governance. The Audit & Risk Committee Charter requires that the committee comprises of not less than three (3) members who are non-executive directors.

The Audit & Risk Committee comprises of five members (taking into consideration the resignation of one member in March 2018), including the Chairperson. In terms of section 77(b) of the PFMA, the Audit Committee must meet at least twice a year. During the period 01 August 2017 to 30 June 2018, the committee met on a number of occasions.

The table below shows the attendance at these meetings:

The meetings of the Audit and Risk Committee included the attendance of the Accounting Officer, Senior Management of Mhlathuze Water, Internal Auditors as well as the External Auditors.

The Audit and Risk Committee consisted of the following members:

- Musa Xulu (Chairperson)
- Brian Rawlins
- Nica Gevers
- Simosenkosi Chamane
- Poppy Dlamini (resigned 09 March 2018)
- Nelisiwe Shezi (appointed 25 April 2018)

All members of the committee are non-executive members of Mhlathuze Water.

Audit Committee's Responsibility

The Audit & Risk Committee has complied with its responsibilities arising from section 51 (1)(a)(ii) and 77 of the PFMA read with Treasury Regulation 3.1.10, 27.1.7 and 27.1.8 and reports that it has operated in terms of the Audit Committee Charter.

Effectiveness of Internal Control

Mhlathuze Water received a qualified audit opinion for the 2017-18 financial year arising from the incorrect accounting treatment

Independent Audit and Risk Committee Meetings: 01 August 2017 to 30 June 2018

Member	Gender	28 August 2017	07 September 2017	28 September 2017	04 October 2017	17 October 2017	08 November 2017	26 January 2018	10 April 2018	26 April 2018	29 May 2018	14 June 2018
Mr M Xulu ¹	M	•	•	-	•	•	•	•	•	•	•	•
Mrs N Gevers	F	•	•	•	•	•	•	•	•	•	•	•
Adv S Chamane	M	•	-	•	•	•	-	•	•	•	-	•
Mr B Rawlins	M	•	-	•	•	•	•	-	•	•	•	•
Ms P Dlamini ²	F	•	•	•	•	•	•	•				
Mrs N Shezi ³	F									-	-	•

KEY:

- Attendance
- Non-attendance with apology
- 1 Chairperson
- 2 Resigned on 9 March 2018
- 3 Appointed on 25 April 2018

of GRAP 109 for receivables from exchange transactions as the accounting records did not clearly distinguish between primary activities and those that relate to secondary activities in respect of receivables from exchange transaction. Management has given assurance that the accounting treatment of receivables from exchange transactions is being addressed and the internal control environment is being strengthened by amongst others the appointment and training of staff in areas where the systems of internal control were found to be weak. The Audit and Risk Committee will continue to monitor these developments going forward. During this year, investigations into breaches of internal control continued to be undertaken and appropriate consequence management have been actioned.

Management has given assurance that the accounting treatment of receivables from exchange transactions is being addressed and the internal control environment is being strengthened by amongst others the appointment and training of staff in areas where the systems of internal control were found to be weak. The Audit and Risk Committee will continue to monitor these developments going forward.

Mhlathuze Water has anti-corruption measures that curb the frequency and magnitude of fraud and corruption. The Audit and Risk Committee is satisfied that the prevention of fraud controls has improved and continues to be monitored. Fraud and other irregular activities are reported through the tip-offs anonymous hotline that is monitored by an independent service provider. In respect of forensic audit, the fraud prevention and ethics programme approach implemented includes prevention, detection, investigation and resolution through the Internal Audit and Risk functions. Effective implementation of the recommendations and outcomes emanating from the investigations are monitored and reported to the Executive Committee and the Audit and Risk Committee.

The Internal Audit function provides a written assessment on the effectiveness of internal controls to the Audit and Risk Committee for recommendation to the Accounting Authority.

Due to the strategic importance of information and communication technology (ICT) at Mhlathuze Water, the Audit and Risk Committee has monitored progress by Management to implement adequate processes and controls to ensure the effectiveness of the IT governance structure. The Committee is satisfied with the progress made and going forward will continue to monitor ICT closely.

Internal Audit Function

During the period under review Mhlathuze Water continued to

outsource the internal audit function. An Internal Audit manager was appointed in June 2018. In-house internal audit capacity is being developed and once this unit is adequately capacitated, the internal audit function will be in-house.

Ngubane and Co were appointed on 21 December 2017 on a short term basis to audit 2017/2018 performance reports for quarters 1 (one) and 2 (two) and to develop a risk based audit plan for that period. Subsequently, Deloitte was appointed with effect from 10 April 2018 as Mhlathuze Water internal auditors for a period of 18 months. Deloitte audited, quarters 3 (three) and 4 (four) of the current financial year in terms of an approved audit plan by the Audit and Risk Committee.

The Audit and Risk Committee is satisfied that given the changes in the provision of the internal audit services, overall, the internal audit function has discharged its functions and responsibilities. However the committee expects that the internal audit function will become more efficient, more responsive to challenges and better able to provide reports of a high quality to management and the Committee on a timely basis. The Audit and Risk Committee supports the direction that the current internal audit function has adopted in providing the necessary skills and agility required for the function to respond quickly and effectively to the demands for internal audit across Mhlathuze Water's various activities.

External Audit Function

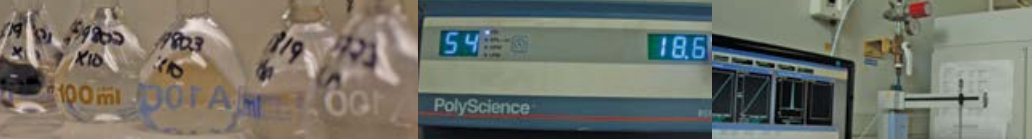
In terms of the Public Finance Management Act, the Auditor-General of South Africa (AGSA) is the appointed external auditor. The committee is satisfied that the external auditor is independent of the organisation.

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

The AGSA is mandated by the Public Audit Act No 25 of 2004 to conduct audits in accordance with the International Standards on Auditing. The AGSA adopted the International Federation of Accountants' Code of Ethics and International Organisation of Supreme Audit Institutions' Code of Ethics to ensure that the audits are conducted in an ethical manner and in accordance with the code. These codes require the AGSA to identify threats to independence and put in place mitigating measures.

The Committee among other matters:

- Recommended the approval of the external audit engagement letter, the plan and the budgeted audit fees payable to the AGSA.
- Considered whether any reportable irregularities were



identified and reported by the external auditors in terms of Auditing Profession Act, 2005, refer to note 27 on the Annual Financial Statements as identified and reported on. Steps are being undertaken to correct, condone and deal with such expenditure.

The audit & risk committee has met with the external auditors to ensure there are no unresolved issues.

Risk Management Function

The Audit & Risk Committee is responsible for the oversight of the risk management function. The Risk, IT, Health and Safety Executive Committee reports to the Audit & Risk Committee on Mhlathuze Water's risk management systems.

Administratively, the risk management function was outsourced to Key Dimensions for a period of 4 months (April 2018 to July 2018). This was done in order to enhance the risk function whilst building internal capacity on risk management.

The Audit & Risk Committee has reviewed the risk registers and the reports from the Risk, IT and Health & Safety Executive Committee and is generally satisfied with the maturity of the risk management process.

In respect of risk management and information technology, the Audit and Risk Committee, insofar as relevant to its functions:

- Reviewed Mhlathuze Water's policies on risk assessment and risk management, including fraud risks and information technology risks as they pertain to financial reporting and the going concern assessment, and found them to be sound.
- Approved the IT Security policy and monitored and evaluated significant IT investments, delivery of services and the management of IT

In respect of the co-ordination of assurance activities, the Audit and Risk Committee reviewed the plans and work outputs of the internal and external auditors and concluded that the appointment of the Internal Audit Manager will enhance the co-ordination of assurance activities to address all significant financial risks facing the business and improve assurance activities. There is ongoing collaboration between Internal Audit, External Audit, Compliance and Risk Management functions to ensure co-ordination of combined assurance activities.

Fraud and Irregular Activities

During the year under review the forensic investigations were conducted by the Accounting Officer and staff were subjected

to disciplinary processes relating to breaches of materiality and non-compliance with supply chain management policies and procedures.

The Audit and Risk Committee reviewed and approved the Fraud Prevention Policy as well as the Fraud Risk Register.

The investigations relating to prior years are still on going and these are being handled by Mhlathuze Water Accounting Authority. The outcome of all these investigations is still in the process of being finalised:

- Current year and prior year irregular expenditure is being followed through on a case by case basis, once necessary actions have been undertaken, condonation is being sought from National Treasury. The current anonymous fraud hotline reporting has not provided any concerning reports.
- The Chief Executive of the entity is currently on suspension, pending finalisation of the legal action that the Chief Executive is pursuing in defence of his suspension.

Fruitless, wasteful and irregular expenditure has been reported during the period under review and details of these are included in note 27 of the Annual Financial Statements.

Evaluation of the Finance Function

The Chief Financial Officer resigned on 4 December 2017 and a new Chief Financial Officer was appointed on 11 April 2018. There has been a strain on the finance function to deliver quality information. The finance function will be enhanced further through the appointment of additional relevant skills and training. The Finance function is expected to improve going forward.

The committee will continue to monitor the quality of financial reporting and recommend improvements where necessary.

Performance Management

Part of the responsibility of the Audit & Risk Committee includes the review of performance management. The Committee has thus:

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

- Reviewed the quarterly performance reports submitted by internal audit.
- Reviewed and commented on the Mhlathuze Water's performance management system and made recommendations for its improvement.

The Audit & Risk Committee is satisfied that the performance report has been prepared in terms of the PFMA and the related Regulations.

Evaluation of the Annual Financial Statements

The committee has reviewed the annual financial statements which focused on the following:

- Confirmed the going concern as the basis of preparation of the annual financial statements. Reviewed compliance with the financial conditions of loan covenants and determined that the capital of Mhlathuze Water was adequate.
- Significant financial reporting judgements and estimates contained in the annual financial statements.
- Reviewed and discussed with the Auditor-General and the Accounting Authority the audited financial statements to be included in the report.
- Reviewed the Auditor-General's management and audit reports.
- Reviewed changes in accounting policies and practices.
- Reviewed significant adjustments resulting from the audit.
- Reasons for major year-on-year fluctuations.
- Write-offs and reserve transfers.
- In respect of legal and regulatory requirements to the extent that they may have an impact on the financial statements, the Audit and Risk Committee:
 - Reviewed, with management, legal matters that could have a material impact on Mhlathuze Water.
 - Reviewed adequacy and effectiveness of Mhlathuze Water's procedures to ensure compliance with legal and regulatory responsibilities.

Except for matters identified by the external auditors in the auditor's report, the Committee is of the view that in all material respects the financial statements comply with the relevant provisions of the Water Services Act, the Standards of Generally Accepted Accounting Practice, and fairly present the financial position at that date and the results of operations and cash flows for the year 30 June 2018.

External Auditor's Report

The Audit & Risk Committee concurs with and accepts the conclusion and audit opinion of the external auditors on the annual financial statements. The committee is of the view that the financial statements be accepted and read together with the report of the external auditors.

Going Concern

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

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

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

Governance

The Mhlathuze Water Board was dissolved on 26 April 2017 and the Minister of Water and Sanitation appointed, per section 49(2)(b) of the PFMA, the current Interim CEO as the Accounting Authority for Mhlathuze Water. The Executive Authority has started the process for the appointment of a new Board.

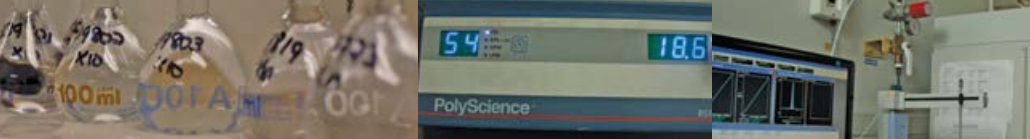
On behalf of the Audit and Risk Committee



Mr Musa M Xulu

Chairperson of the Audit and Risk Committee

31 October 2018



50. Accounting Authority Responsibilities and Approval

The Chief Executive Officer, as the Accounting Authority is required by the Public Finance Management Act (Act 1 of 1999), to maintain adequate accounting records and is responsible for the content and integrity of the Annual Financial Statements and related financial information included in this report. It is the responsibility of the Chief Executive Officer to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the year ended 30 June 2018.

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

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

To enable the Board to meet these responsibilities, the Chief Executive Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner.

The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach.

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

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

The Accounting Authority has reviewed the entity's cash flow forecast for the year ending 30 June 2018 and, in the light of this review and the current financial position, the Accounting Authority is satisfied that the entity has access to adequate resources to continue in operational existence for the foreseeable future.

The Annual Financial Statements set out on pages 105 to 156 which have been prepared on the going concern basis, were approved by the Accounting Authority on 31 October 2018 and were signed on its behalf by:

Mr Mthokozisi P. Duze

Accounting Authority

31 October 2018

51. Report of the Auditor-General to Parliament on Mhlathuze Water

Report on the Audit of the Financial Statements

Qualified Opinion

1. I have audited the financial statements of Mhlathuze Water set out on pages 105 to 156, which comprise statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of Mhlathuze Water as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with Generally Recognised Accounting Practices (GRAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No.1 of 1999) (PFMA).

Basis for Qualified Opinion

Receivables from exchange transactions

3. The entity did not clearly distinguish in their accounting records, transactions which relates to their primary activities and those that relate to their secondary activities (principal-agent arrangement) in order to ensure that the transactions are accounted for in accordance with requirements of GRAP 109 Accounting by Principals and Agents. As a result, I was unable to obtain sufficient and appropriate audit evidence on a receivable of R21 091 680, included in note 3 Receivables from exchange transactions. I was unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the Receivables from exchange transactions.

Context of the opinion

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

Emphasis of Matter

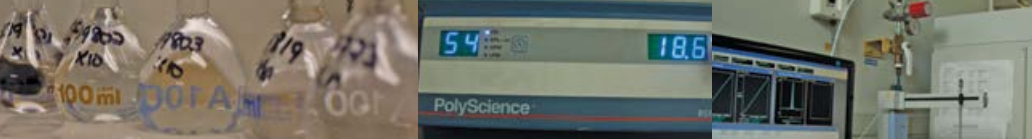
7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Restatement of corresponding figures

8. As disclosed in note 28 to the financial statements, the corresponding figures for the 30 June 2017 have been restated as a result of errors in the financial statements of the entity at, and for the year ended 30 June 2017.

Other Matter

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



Unaudited supplementary schedules

10. The supplementary information set out on pages 79 to 96 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Responsibilities of Accounting Authority for the Financial Statements

11. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with 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.
12. In preparing the financial statements, the accounting authority is responsible for assessing the 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 accounting authority 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

13. My objectives are to obtain reasonable assurance about whether 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.
14. 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

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
16. My procedures address the reported performance information, which must be based on the approved performance planning documents of the entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
17. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity for the year ended 30 June 2018:

Objectives	Pages in the annual performance report
Objective 1– Compliance with SANS 241:2015 water quality standard for potable water	41
Objective 2– Management avoidable water losses	41
Objective 3 – Reliability of supply	41
Objective 4 – Increased access to services by implementing expansion projects	41
Objective 11 – Bulk Supply agreements concluded with municipalities/other customers	42
Objective 12 – Ministerial directives implemented	41
Objective 13 – Rural Development support	42

18. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

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

- Objective 1 – Compliance with SANS 241:2015 water quality standard for potable water
- Objective 2 – Management avoidable water losses
- Objective 3 – Reliability of supply
- Objective 4 – Increased access to services by implementing expansion projects
- Objectives 11 – Bulk Supply agreements concluded with municipalities/ other customers
- Objective 12 – Ministerial directives implemented
- Objective 13 – Support Rural Development

Other Matters

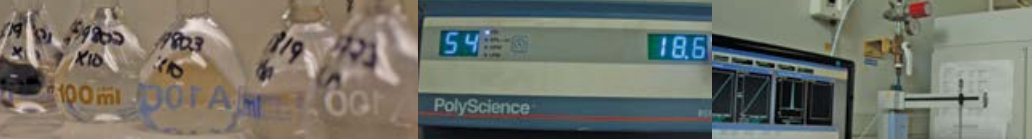
20. I draw attention to the matters below.

Achievement of planned targets

21. Refer to the annual performance report on pages 41 to 47 for information on the achievement of planned targets for the year and explanations provided for the under/ over achievement of a number of targets.

Adjustment of material misstatements

22. I identified material misstatement in the annual performance report submitted for auditing. This material misstatement was on the reported performance information of Bulk Supply agreements concluded with municipalities/ other customers. As management subsequently corrected the misstatements, I did not raise any further material findings on the usefulness and reliability of the reported performance information.



Report on the Audit of Compliance with Legislation

Introduction and Scope

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

Annual financial statements and performance report

25. The financial statements submitted for auditing were not fully prepared in accordance with the prescribed financial reporting framework or supported by full and proper records, as required by section 55(1)(a) and (b) of the PFMA.
26. Material misstatements on revenue, current assets, current liabilities and disclosure items identified by the auditors in the submitted financial statements were corrected, however there were material uncorrected misstatements on current assets identified which resulted in the financial statements receiving a qualified audit opinion.

Expenditure Management

27. Effective steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. This was mainly due to contracts awarded without following supply chain processes which are fair, equitable and transparent and also where payments in excess of contracted amounts were made. Similar non-compliances were noted where the entity was an implementing agent. These non-compliances were also reported in the prior year.

Procurement and contract management

28. Some goods, works or service were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the PFMA, where reasons for deviating from competitive bidding were not justifiable.
29. Payments were made for some goods, works or service in excess of the contracted amount without the necessary scope variation approvals, as required by section 56(1) and (2) of the PFMA and in some instances, payments were made where there were no contracts in place.

Other Information

30. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report, which includes the Minister's and accounting authority's forewords and the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
31. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
32. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

Internal Control Deficiencies

33. I considered internal controls relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion and the findings on compliance with legislation included in this report.

Leadership

Oversight responsibility

34. There was inadequate oversight over the preparation and review of the financial statements before submitting them for audit. As a result, material misstatements were identified in receivables from exchange transactions, cash flows statements, property, plant and equipment, irregular expenditure and disclosures notes.

Financial and Performance Management

Regular, accurate and complete financial and performance reports

35. Management did not perform adequate reviews on the financial statements submitted for audit, against the financial reporting framework, as the financial statements submitted contained material misstatements, which some resulted in a modified opinion and some were corrected as a result of the audit process.

36. Management did not implement proper record management system to maintain information that supported receivables from exchange transactions and to identify and support how the entries were recorded in the general ledger.

37. Management did not perform adequate reconciliations between the submitted financial statements and the underlying supporting schedules as the financial statements submitted contained material misstatements, which some resulted in a modified opinion and some were corrected as a result of the audit process.

Compliance monitoring

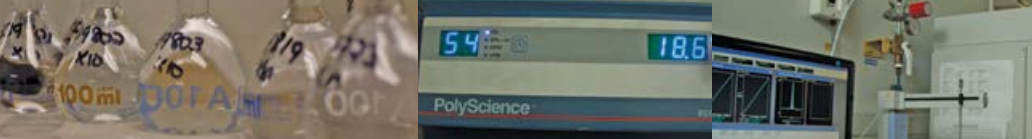
38. Management did not implement adequate controls to prevent and detect non-compliance with laws and regulations, which resulted in irregular expenditure. The entity further incurred a significant amount of irregular expenditure on behalf of its principals, where the entity is an implementing agent.

39. Management did not implement proper contract management and as a result incurred irregular expenditure due to payments to suppliers exceeding the contracted amounts.

Governance

Risk management

40. The risk management function of the entity was not adequately functional for the first nine months of the financial period under review.



Other Reports

41. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
42. The entity initiated various investigations relating to irregular expenditure and fruitless and wasteful expenditure on capital projects. Some of the investigations have been concluded and others are still in progress.

Auditor-General

Pretoria

31 October 2018



Annexure – Auditor-General’s Responsibility for the Audit

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

Financial Statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority.
 - conclude on the appropriateness of the accounting authority’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Mhlathuze Water ability 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 the 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 continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

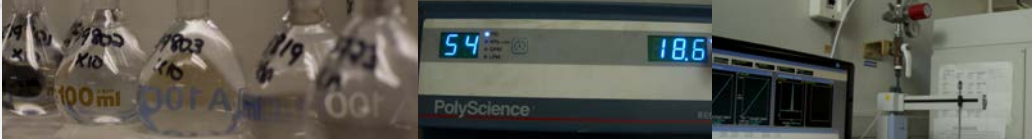
Communication with those Charged with Governance

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



SECTION H

ANNUAL FINANCIAL STATEMENTS



MHLATHUZE WATER

(Registration Number 1996/17276/08)

Annual Financial Statements as at 30 June 2018

ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	2018 R'000	2017 R'000 Restated
ASSETS			
Current assets			
Inventories	2	32 828	30 587
Receivables from exchange transactions	3	114 174	159 516
Cash and cash equivalents	4	265 529	223 987
		412 531	414 090
Non-current assets			
Property, plant and equipment	5	954 318	921 471
Intangible assets	6	4 643	6 645
		958 961	928 116
Total assets		1 371 492	1 342 206
LIABILITIES			
Current liabilities			
Short term interest bearing borrowings	7	22 110	22 110
Payables from exchange transactions	8	100 298	125 912
Vat payable	9	1 389	1 735
Employee benefit liability	10	16 645	13 206
Income received in advance	11	7 965	7 965
		148 407	170 927
Non-current liabilities			
Long term interest bearing borrowings	7	79 679	101 878
Employee benefit liability	10	279	258
Income received in advance	11	63 189	71 154
		143 147	173 289
Total liabilities		291 554	344 216
Net assets			
Reserves			
Capital replacement reserve		235 802	228 900
Business development reserve		17 601	16 220
Self insurance reserve		5 124	4 722
Maintenance reserve		9 514	8 768
Environmental rehabilitation reserve		2 370	1 410
Accumulated surplus		809 527	737 970
Total net assets		1 079 938	997 990
Total net assets and liabilities		1 371 492	1 342 206



MHLATHUZE WATER

(Registration Number 1996/17276/08)

Annual Financial Statements as at 30 June 2018

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 R'000	2017 R'000
Revenue from exchange transactions			
Sale of goods and services	12	538 996	533 617
Cost of Sales	13	(232 440)	(242 390)
Gross Profit		306 555	291 226
Other income	15	17 400	14 414
Expenditure		(235 946)	(233 386)
Employee related costs	16	(93 107)	(86 920)
Remuneration of board members	17	(620)	(2 679)
Depreciation and amortisation	5-6	(7 852)	(6 386)
Finance costs	18	(6 021)	(9 850)
Lease rentals on operating lease		(2 805)	(2 566)
Debt impairment		-	(293)
Repairs and maintenance	20	(48 088)	(40 748)
Electricity and water		(1 914)	(2 026)
Chemicals		(796)	-
Other expenses	21	(74 745)	(81 918)
Operating surplus		88 008	72 255
Gain (loss) on disposal of assets	23	(6 058)	(2 815)
Surplus for the year		81 949	69 440

MHLATHUZE WATER

(Registration Number 1996/17276/08)

Annual Financial Statements as at 30 June 2018

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2018

	Capital replacement reserve	Business development reserve	Self Insurance reserve	Maintenance reserve	Environmental Rehabilitation reserve	Total reserves	Accumulated surplus	Total net assets
	R'000	R'000	R'000	R'000	R'000		R'000	R'000
Balance at 1 July 2016	222 033	15 032	4 375	8 126	-	249 566	491 884	741 450
Surplus for the year	-	-	-	-	-	-	69 440	69 440
Transfer to reserves	6 867	1 188	347	642	1 410	10 454	(10 454)	-
<i>Adjustments</i>								
Re-assessment of useful lives and Re-instatement of PPE and Intangibles							178 687	178 687
Change in Working in Progress							7 722	7 722
Prior year adjustment to Inventory							(611)	(611)
Recovery of fruitless and wasteful expenditure							20	20
Correction of effluent penalty invoices							476	476
Correction of Retention							837	837
Correction of IA fees							(31)	(31)
							-	-
Balance as at 30 June 2017 Restated	228 900	16 220	4 722	8 768	1 410	260 020	737 970	997 990
Transfers to reserves	6 902	1 381	402	746	960	10 391	(10 391)	-
	235 802	17 601	5 124	9 514	2 370	270 411	727 579	997 990
Surplus for the year	-	-	-	-	-	-	81 949	81 949
Balance as at 30 June 2018	235 802	17 601	5 124	9 514	2 370	270 411	809 527	1 079 938

In accordance with GRAP, transfers to the reserves are made from accumulated surplus in the statements of changes in net assets, and not via the statement of financial performance.

Capital replacement reserve

This non-distributable reserve was created to fund upgrades and refurbishments of replacement of the ageing infrastructure and plant modernisation. The balance of the Capital replacement reserve at 30 June 2018 was R235.8 million.

Business development reserve

This non-distributable reserve was created to fund and enable the creation of proactive business relationships with other entities. The balance of the business development reserve at 30 June 2018 was R17.6 million.

Self Insurance reserve

This non-distributable reserve was created to fund large deductibles for insurance claims. The balance of the self insurance reserve at 30 June 2018 was R5.1 million.

Maintenance reserve

This non-distributable reserve was created to fund future significant unexpected maintenance costs. The balance of the maintenance reserve at 30 June 2018 was R9.5 million.

Environmental rehabilitation reserve

This non-distributable reserve was created to fund environmental damage that was caused by factors relating to Mhlathuze Water's business. The balance of the environmental rehabilitation reserve at 30 June 2018 was R2.4 million.



MHLATHUZE WATER

(Registration Number 1996/17276/08)

Annual Financial Statements as at 30 June 2018

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 R'000	2017 R'000 Restated
Cash flows from operating activities			
Receipts			
Sale of goods and services		577 818	520 814
Interest received	15,2	15 955	13 646
		593 773	534 460
Payments			
Cash paid to employees	16	(143 959)	(115 929)
Cash paid to suppliers		(292 812)	(360 784)
Finance costs	18	(6 021)	(9 850)
Finance cost capitalised	18	(6 436)	(4 967)
		(449 228)	(491 530)
Net cash flows from operating activities	24	144 545	42 930
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(79 909)	(46 310)
Proceeds from sale of property, plant and equipment	23	-	85
Purchase of intangible assets	6	(895)	(2 786)
Net cash flows from investing activities		(80 803)	(49 011)
Cash flows from financing activities			
Repayment of other financial liabilities		(22 199)	(22 199)
Net cash flows from financing activities		(22 199)	(22 199)
Net decrease in cash and cash equivalents		41 542	(28 280)
Cash and cash equivalents at beginning of year		223 987	252 267
Cash and cash equivalents at end of year	4	265 529	223 987

MHLATHUZE WATER

(Registration Number 1996/17276/08)

Annual Financial Statements as at 30 June 2018

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 91(1) of the Public Finance Management Act (Act 1 of 1999). (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. They are presented in South African Rand.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the Accounting Authority of Mhlathuze Water has reasonable grounds to believe that the business has adequate resources to continue as a going concern in operational existence for the foreseeable future. Refer to note 37 for more detail.

1.3 Significant judgements and sources of estimation uncertainty

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

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

Trade receivables

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

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

1.4 Cash and cash equivalents

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



MHLATHUZE WATER

(Registration Number 1996/17276/08)

Annual Financial Statements as at 30 June 2018

Accounting Policies continued

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 are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to 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 subsequent to acquisition, improvement and refurbishment. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

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

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

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

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

MHLATHUZE WATER

(Registration Number 1996/17276/08)

Annual Financial Statements as at 30 June 2018

Accounting Policies continued

1.5 Property, plant and equipment (continued)

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

The straight line depreciation method has been used in the table below.

Item	Average useful life
Buildings	20-45 years
Plant and machinery	10-20 years
Furniture and fixtures	3-10 years
Motor vehicles	5-10 years
Office equipment	3-10 years
Library	5 years
Electrical supply	15-20 years
Communication equipment	5 years
Pipelines	20-40 years
Tools and loose gear	5 years

Land is not depreciated.

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

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

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

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

Capital work in progress

Capital work in progress is non-current assets under construction and is stated at cost less accumulated impairment losses
Depreciation is not provided on capital work in progress.

1.6 Intangible assets

An asset is identifiable if it either:

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



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Accounting Policies continued

1.6 Intangible assets (continued)

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.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	3 years

1.7 Financial instruments

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets on the date of origination.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition at amortised cost, which includes receivables from exchange transactions, cash and cash equivalents and payables from exchange transactions.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

De-recognition of financial instruments

The entity derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the entity is recognised as a separate asset or liability.

The entity derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Accounting Policies continued

1.7 Financial instruments (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the entity currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Section 30 financial assets and liabilities

All financial assets and liabilities relating to section 30 activities are measured in accordance with the relevant financial instrument account policies listed above.

Additional detail on section 30 activities are set out in note 25.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

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

Operating leases - lessor

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

Operating leases - lessee

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

1.9 Inventories

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

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

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

Inventories held by the entity comprise of water, maintenance spares, consumables and chemicals.



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Accounting Policies continued

1.10 Impairment

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Objective evidence that financial assets are impaired can include: default or delinquency by a debtor, restructuring of an amount due to the entity on terms that the entity would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security.

The entity considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics. In assessing collective impairment the entity uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Losses are recognised in the statement of financial performance and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. "If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit."

Non-financial assets

The carrying amounts of the entity's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the assets' recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of financial performance.

For impairment of a cash generating unit (CGU), GRAP 26 states that "The impairment loss shall be allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit".

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use and are largely independent of the cash flows of other assets or groups of assets (the "cash generating unit").

Accounting Policies continued

1.10 Impairment (continued)

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell.

In assessing value in use, the estimated future cash flows are discounted to their present value using a risk free discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation if no impairment loss been recognised.

1.11 Payables from exchange transactions

Payables from exchange transactions are not interest bearing and are stated at their nominal value.

1.12 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the statement of financial performance when they are due.

Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.



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Accounting Policies continued

1.13 Employee benefit liability

Employee benefit liability are recognised when:

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

The amount of an Employee benefit liability is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

1.14 Provisions

A provision is recognised if, as a result of a past event, the entity has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate.

1.15 Expenditure

Expenditure is recognised when Mhlathuze Water is deemed to have been supplied with the service or has control of the goods supplied.

1.16 Accrued expenses

The accrual basis recognise expenses in the accounting period in which those transactions, events or circumstances occur (goods or services are received) and become measurable.

1.17 Reserves

Reserves are portions of Mhlathuze Water's profits set aside to strengthen the business's financial position. They are also known as retained earnings.

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Accounting Policies continued

1.18 Revenue from exchange transactions

An exchange transaction is one in which the Mhlathuze Water receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Measurement

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

Sale of goods and services

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

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

In respect of the sale of water, these conditions are met when water is consumed by the end user. For practical purposes revenue is recognised upon billing as there is no significant delay between consumption and billing.

Revenue comprises primarily the net invoiced value of water sales, exclusive of VAT, at declared tariffs arising from normal trading activities.

Interest income

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

- It is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in the statement of financial performance, using the effective interest rate method.



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Accounting Policies continued

Management services

Management services is recognised in the period in which the services are rendered in terms of the agreements with external water services entities.

Laboratory services

Laboratory services are recognised in the period in which the services are rendered in terms of the agreements signed with external stakeholders.

Implementing agency revenue

Implementing agency revenue is recognised by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total service to be provided.

Operation and maintenance services (O & M)

Operation and maintenance services are recognised in the period in which the services are rendered. O & M revenue relates to bulk water and bulk waste water services operated on behalf of water service authorities.

1.19 Cost of Sales

Cost of sales includes the costs of raw water and all other direct operating costs associated with the production processes. The costs directly attributable to sales as defined in Section 30 of the Water Services Act (Act 108 of 1997), are disclosed as cost of sales.

Accounting Policies continued

1.20 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds. Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale where a substantial period of time would usually be in excess of twelve months. These assets comprise items of plant and equipment which the entity would utilize to facilitate the provision of water and other related services.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits or service potential to the entity, and the costs can be measured reliably. The entity applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the entity. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets and Inventories as per accounting policy number 1.8 and 1.9. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.



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Accounting Policies continued

1.21 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Segment Reporting

A segment is a distinguishable component of the entity that is engaged either in providing related products or services (business segment), which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the entity's business segments. The business segments are determined based on the entity's management and internal reporting structure.

Segment results that are reported to the entity's Chief Executive (the chief operating decision-maker) include assets and liabilities and items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment.

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Accounting Policies continued

1.23 Related parties

The entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the entity. Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.24 Bulk purchases

This represents the cost of raw water purchased from the Thukela/Goedertrouw/Mhlathuze River System scheme.

1.25 Income received in advance

The entity measures income received in advance as a financial liability in the statement of financial position. The income received in advance comprise of funds received for which the related goods or services have not been provided at the period end. Thus the entity has an obligation to deliver the related goods or services in the future. Once the goods or services have been delivered, the entity will recognize this revenue in accordance with the manner which most accurately reflects the transfer of risks and rewards.

1.26 Events after balance sheet

Events may occur between the end of the reporting period and the date when the annual financial statements are authorised for issue which may present information that should be considered in the preparation of financial statements.

Only events that provide further evidence about conditions that existed at the end of reporting period are adjusted for in the annual financial statements. Non-adjusting events are disclosed in the annual financial statements accordingly.

1.27 Standard and interpretations issued but not yet effective

GRAP 20- Related Party Disclosures

This standard provides guidance on:

- Identifying related party relationships and transactions;
- Identifying outstanding balances, including commitments, between an entity and its related parties;
- Identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- Determining the disclosures to be made about those items.

The entity currently adopted GRAP 20 to formulate its accounting policies and disclosures in respect of related parties and therefore there will be no impact on application of GRAP 20.

GRAP 32- Service concession arrangements

In recognising certain intangible assets, Mhlathuze Water has adopted the provisions within *AC445 (IFRIC 12): Service concession arrangements* to recognise the right of use of assets owned by the executive authority but utilised by the Board to provide goods and services to its customer.

While the interpretation applies to the public-to-private service concessions, the Group is of the view that the interpretation is relevant and more accurately provides information concerning the transaction.



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Annual Financial Statements as at 30 June 2018

Accounting Policies continued

1.27 Standard and interpretations issued but not yet effective (continued)

GRAP 108- Statutory Receivables

This Standard prescribes the accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables. Specifically it gives requirements on when a statutory receivables should be recognised and derecognised with reference to other GRAP standards i.e. GRAP on Revenue from Exchange Transactions. It also requires that statutory receivables be initially measured at transaction amount and subsequently using the cost method. This standard is in line with the entity's current accounting policy and therefore the impact of the application of this standard is not expected to be significant.

The entity will apply the standard from the effective date. The effective date of this interpretation has not been determined by the Minister of Finance.

GRAP 109- Principles and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. As this Standard does not introduce new recognition or measurement requirements the impact of the application of this standard is not expected to be significant.

The entity will apply the standard from the effective date. The effective date of this interpretation has not been determined by the Minister of Finance.

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NOTES TO THE ANNUAL FINANCIAL STATEMENTS**2. Inventories****2.1 Stores**

Chemicals
Consumables and maintenance spares
Strategic stock

2.2 Water inventory

Water inventory

Total inventories**3 Receivables from exchange transactions**

Trade receivables - primary activities
Trade receivables - secondary activities
Provision for impairment - primary activities
Sundry receivables - primary activities
Staff receivables - primary activities
Prepayments - primary activities
Refundable Deposits - primary activities

Total receivables from exchange transactions**4 Cash and cash equivalents**

Cash and cash equivalents comprises of cash on hand and short-term investments that are held with registered banking institutions with maturities of less than twelve months that are subject to insignificant interest rate risk. The carrying amount of these assets approximates their fair values:

Cash on hand
Credit card
Bank balances
Short-term deposits
Call account - Secondary activities

2018	2017
R'000	R'000
	Restated
3 088	2 479
7 570	6 317
21 996	21 616
32 654	30 412
174	175
32 828	30 587
64 193	88 924
46 535	65 445
(13)	(293)
988	1 639
114	35
1 897	3 322
460	443
114 174	159 516
5	5
-	19
36 247	16 615
224 146	196 062
5 131	11 286
265 529	223 987

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2018	2017
R'000	R'000 Restated
1 610	1 539
1 665	1 886
853	13
1 003	7 848
5 131	11 286

The Department of Water and Sanitation, Department of Education, Department of Affairs, Department of Basic Education and Department of Co-operative Governance and Traditional Affairs approves a budget per annum against which Mhlathuze Water is allowed to incur expenses for the externally funded projects as well as the Working for Water Programme. For this purpose the Government institutions advances cash amounts to Mhlathuze Water and reimburse them as and when cash is expended on these projects.

Advances received from the Department of Water and Sanitation
Thirteen projects are currently being managed.

Advances received from the Department of Education/Department of Basic Education
Two projects are currently being managed.

Advances received from the Department of Environmental Affairs (DEA)
Sixteen projects are currently being managed.

Advances received from the Department of Co-operative Governance and Traditional Affairs (CoGTA)

Two projects are currently being managed.

Cash is invested in separate investment accounts as per Government institution listed above. These funds are restricted for use on the respective projects. Funds are included in cash balances of Mhlathuze Water and recognised as payables from exchange transactions.

Refer to note 8.

Notes to the Annual Financial Statements (continued)

5 Property, Plant and Equipment

Land
Buildings/Civil works
Plant and Machinery
Furniture and fixtures
Motor vehicles
Office equipment
Library
Electrical supply
Communication equipment
Work in progress
Pipelines
Tools and loose gear

2 018			2017 Restated	
Cost R'000	Accumulated R'000	Carrying R'000	Cost R'000	Accumulated R'000
1 780	-	1 780	1 829	-
380 553	(88 475)	292 078	317 084	(79 510)
202 199	(54 528)	147 671	170 553	(54 656)
4 453	(1 513)	2 940	3 162	(1 629)
15 125	(8 388)	6 737	14 986	(7 280)
42 676	(14 192)	28 484	39 880	(14 953)
6	(3)	3	8	(5)
120 239	(22 444)	97 795	84 554	(18 619)
-	-	-	12	(7)
29 542	-	29 542	150 177	-
493 588	(146 882)	346 706	452 244	(136 860)
1 209	(626)	583	1 324	(783)
1 291 370	(337 052)	954 318	1 235 813	(314 342)
				921 471

Total

Reconciliation of property, plant and equipment 30 June 2018

Opening balance R'000	Additions R'000	Disposal R'000	Transfers R'000	Borrowing cost capitalised R'000	Depreciation *** R'000	Impairment loss/Asset write off R'000	Other Adjustments R'000	Closing balance R'000
1 829	-	(49)	-	-	-	-	-	1 780
237 574	-	(1 577)	65 721	-	(9 640)	-	-	292 078
115 898	1 355	(4 432)	41 406	-	(10 913)	(59)	4 416	147 671
1 533	260	(138)	1 683	-	(398)	-	-	2 940
7 706	667	(30)	1	-	(1 607)	-	-	6 737
24 886	913	(1 223)	8 358	-	(4 451)	-	-	28 483
2	-	(0)	0	-	(0)	-	-	2
65 934	-	(1 967)	39 223	-	(5 395)	-	-	97 795
5	-	(3)	-	-	(1)	-	-	0
150 177	71 996	-	(198 706)	6 422	-	-	(346)	29 542
315 383	772	(510)	42 313	-	(11 251)	-	-	346 706
541	74	(33)	1	-	-	-	-	583
921 466	76 037	(9 962)	0	6 422	(43 658)	(59)	4 070	954 318

Land
Buildings/Civil works
Plant and Machinery
Furniture and fixtures
Motor vehicles
Office equipment
Library
Electrical supply
Communication equipment
Work in progress
Pipelines
Tools and loose gear

Notes to the Annual Financial Statements (continued)

Reconciliation of property, plant and equipment 2017 – Restated

Land
Buildings/Civil works
Plant and Machinery
Furniture and fixtures
Motor vehicles
Office equipment
Library
Electrical supply
Communication equipment
Work in progress
Pipelines
Tools and loose gear

Opening balance	Additions	Disposal	Transfers	Borrowing cost capitalised	Depreciation ***	Impairment loss/Asset write off	Other Adjustments*	Closing balance
R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
1 829	-	-	-	-	-	-	-	1 829
176 431	2 431	(437)	13 286	-	(8 008)	(121)	53 993	237 574
99 934	7 440	(3 906)	515	-	(10 302)	(49)	22 286	115 898
1 945	260	(397)	4	-	(212)	-	(67)	1 533
7 935	1 261	-	-	-	(2 496)	-	1 006	7 706
18 828	6 113	(202)	1 005	-	(3 746)	-	2 888	24 886
2	-	-	-	-	-	-	(0)	2
61 131	-	(1 046)	519	-	(4 867)	-	10 197	65 934
1	-	-	-	-	-	-	4	5
136 572	30 875	(424)	(24 486)	4 967	-	(2 270)	4 943	150 177
228 944	772	(27)	9 157	-	(10 403)	-	86 940	315 383
637	613	(2)	-	-	(265)	-	(442)	541
734 189	49 765	(6 441)	-	4 967	(40 299)	(2 440)	181 726	921 471

Included in other adjustments are the following:

- * Prior year error relates to the re-assessment of useful lives of PPE not effected in the correct period
- Prior year error relates to a reinstatement of PPE originally acquired at R1 value to fair value.
- *** Portion of current year depreciation amounting to R38469 is recognised as Cost of Sales (refer to note 13)

Depreciation***

Note	2018 R'000	2017 R'000
13	38 469	35 418
5	7 852	6 386
	-2 664	-333
	43 657	41 471

Cost of Sales
Depreciation
Amortisation
Total

Annual Financial Statements as at 30 June 2018

6 Intangible assets as at 30 June 2018

Computer software
Under development
Total

Computer software*
Under development
Total

Reconciliation of intangible assets 2017 Restated

Computer software
Under development
Total

* included in the disposed intangible asset is R531 339.50 which relates to cost and R493 085.01 which relates to accumulated amortisation previously recognised.

Annual Financial Statements as at 30 June 2018

	2018 R'000	2017 R'000 Restated
7 Interest Bearing Borrowings		
At amortised cost		
Nedbank	23 529	35 294
Rand Merchant Bank	78 260	88 694
Total interest bearing borrowings	101 789	123 988
Debt consists of unsecured interest-bearing liabilities held at amortised cost.		
The fixed term loan for Nedbank is repayable in bi-annual capital repayments with a fixed interest rate of 10.89%, that commenced on 30 June 2012 and matures on 30 June 2020.		
The fixed term loan from Rand Merchant Bank is repayable in bi-annual capital repayments, with a fixed interest rate of 10.54%, that commenced on 30 November 2011 and matures on 28 November 2025.		
Non-current liabilities		
At amortised cost	79 679	101 878
Current liabilities		
At amortised cost	22 110	22 110
Total interest bearing borrowings	101 789	123 988
8 Payables from Exchange Transactions		
Trade payables- primary activities	29 220	20 980
Trade payables - secondary activities	7 884	24 829
Retention monies - primary activities	4 113	3 455
Retention monies - secondary activities	11 974	27 755
Accruals - primary activities	33 704	28 759
Accruals - secondary activities	5 263	11 314
SARS - PAYE, UIF and SDL	2 761	2 260
Sundry creditors- primary activities	781	696
Accrued interest - secondary activities	4 599	5 864
	100 298	125 912
9 VAT (Payable)/Receivable		
VAT payable	1 389	1 735
	1 389	1 735

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10 Employee Benefit Liability

Reconciliation of employee benefit - 2018

Opening balance R'000	Raised R'000	Adjustments R'000	Utilised during the year R'000	Closing balance R'000
314	157	-	(114)	357
6 903	8 221	(468)	(6 435)	8 221
6 246	2 063	37	-	8 346
13 463	10 441	(431)	(6 549)	16 924

Reconciliation of employee benefit - 2017

19 485	19 742	(457)	(6 942)	19 924
314	64	-	(64)	314
6 348	6 884	-	(6 329)	6 903
5 915	-	331	-	6 246
12 577	6 948	331	(6 393)	13 463

2018	2017
R'000	R'000
279	258
16 645	13 206
16 924	13 463

Provision for Staff Bonus

The provision for Bonus is raised to recognise the performance of employees, which is payable at the Board's discretion in line with the Performance Management Policy.

Provision for Leave Pay

The provision for leave pay is based on the number of days leave due to employees at financial year end and their cost to company per day.

Employee Benefit Obligation

Mhlathuze Water Pension Fund - defined contribution plan

The Mhlathuze Water Pension fund was closed in 2015 and was deregistered in 2016.

The members now belong to the Provident Fund and member shares from the Pension Fund have been transferred to the Provident Fund. The fund is governed by the Pension Funds Act, 1956 (Act No. 24 of 1956).

Mhlathuze Water Provident Fund - defined contribution plan

The provident fund is in the nature of a defined contribution plan. The Risk benefits are registered as Group Income Insurance and Group Life Insurance schemes. Funeral benefits are covered through a separate funeral policy. Retirement benefits are determined with reference to the contributions to the fund. Mhlathuze Water has no commitment to meet unfunded benefits of the provident fund. The assets from the Mhlathuze Water Provident Fund were transferred to the Sanlam Umbrella Fund in December 2016. All members belong to the Sanlam Umbrella Fund.

11 Income Received in Advance

- Short-term portion of advances
- Long-term portion of advances

Total income received in advance

2018 R'000	2017 R'000
7 965	7 965
63 189	71 154
71 154	79 119

Income received in advance from Foskor relates to the construction of the B-Line Diffuser Replacement Project, which was commissioned at the end of September 2008. The entity received the total amount upfront. The income is recognised over the period of the agreement based on the usage of the waste water disposal line by Foskor. This balance is measured and recognised in terms of the accounting policy relating to income received in advance.



MHLATHUZE WATER

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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

12 Revenue - Sale of Goods and Services

Sale of Goods and Services

An analysis of tariff income is as follows:

Primary Activities (Section 29)

Bulk water

Waste water

Total Primary Activities

Operating lease income

An analysis of operating lease income is as follows:

Lease income - waste water

Secondary Activities (Section 30)

Operations and Maintenance Agreements

Thukela Goedertrouw Scheme

City of uMhlathuze

Total Operations and Maintenance Agreements

Other Activities

Management fee

Laboratory services

Implementing Agency Fees

Total Other Activities

Total Revenue

13 Cost of Sales

Raw water purchases

Electricity and water

Chemicals

Employee related costs

Depreciation and amortisation

Total Cost of Sales

Note(s)	2018 R'000	2017 R'000 Reclassified
	254 480	238 028
	139 892	129 705
	394 372	367 733
	7 965	7 965
	7 965	7 965
	52 231	73 187
	72 979	56 239
	125 210	129 426
	2 162	1 770
	3 457	4 704
	5 830	22 119
	11 449	28 593
	538 997	533 617
	2018 R'000	2017 R'000 Restated
	44 378	44 315
	81 239	103 738
	17 551	16 760
16	50 804	42 160
5-6	38 469	35 418
	232 440	242 390

MHLATHUZE WATER

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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

14 External Projects (Secondary Activities)

Mhlathuze Water, apart from its primary activities implements External Projects

(Secondary Activities) on behalf of the Department of Water and Sanitation, Department of

Education, Department of Environmental Affairs and the Department of Co-operative Governance and Traditional Affairs. Total expenditure for these projects is fully recovered from these departments.

These amounts are not reflected in the Statement of Financial Performance as Mhlathuze Water is deemed to be an agent in these transactions. Accordingly, the implementing agency fees have been recognised as revenue in the Statement of Financial Performance.

The following project activities took place during the year:

- Department of Education/Department of Basic Education - school sanitation	2 726	10 268
- Department of Water and Sanitation - water infrastructure	95 658	190 505
- Department of Environmental Affairs - alien plant removal	15 690	17 540
- Department of Co-operative Governance and Traditional Affairs- bucket eradication and drought relief.	5 501	137 402
	119 575	355 715

The above amounts have been incurred on behalf of the respective Departments and is recoverable from them.

15 Other income

Included in other income:

15,1 Sundry Income

Handling fees	5	11
Tenders	33	127
Bad debt recovered	280	-
Rent received	7	7
Recycling initiatives	0	1
Proceeds on Insurance claim	-	616
General	1 118	7
	1 444	768

15,2 Interest income

Bank account	165	179
Interest charged on trade and other receivables	60	22
Interest earned on outstanding debtors	86	32
Call accounts/investments	15 646	13 413
	15 956	13 646

Total Other income

17 400 14 414



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Notes to the Annual Financial Statements (continued)

16 Employee related costs

	2018 R'000	2017 R'000 Restated
Basic	101 976	96 825
Independent contractor	1 912	-
Bonus	10 782	8 448
Internship	649	1 000
Shift allowance and overtime	12 736	11 526
Standby allowance	2 066	1 761
Responsibility allowance	1 685	1 051
Cell phone allowance	906	887
Relocation allowance	3	4
Transport allowance	501	741
Housing allowance	1 038	990
Christmas contractors allowance	70	-
Secondment allowance	740	331
Leave	5 551	2 918
Medical aid - company contributions	114	64
UIF - company contributions	532	521
WCA - company contributions	1 415	871
Statutory levies - SDL	1 227	1 133
Statutory levies - AMC	8	8
	143 911	129 080
Direct employee related cost	50 804	42 160
Indirect employee related cost	93 106	86 920
Total employee related cost	143 910	129 080

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17 Board members and executives' emoluments

Members of the Interim Independent Audit and Risk Committee are:

	Appointment Date	Resignation Date
MM Xulu	1st August 2017	Still Appointed
N Gevers	1st August 2017	Still Appointed
Adv S Chamane	1st August 2017	Still appointed
PS Dlamini	1st August 2017	09th April 2018
BK Rawlins	1st August 2017	Still Appointed
N Shezi	25th April 2018	Still Appointed

Non-executive board members *

PS Dlamini
N Gevers
MM Xulu
BK Rawlins
Adv S Chamane

Total non-executive board members

Package earnings	Travel and subsistence allowance	Other services and allowances	Total
R'000	R'000	R'000	R'000
-	12	102	114
-	15	122	137
-	8	118	126
-	8	109	117
-	15	111	126
-	58	562	620

MP Duze (Interim Chief Executive)*

AS Makhanya (Chief Executive)**
BS Ndaba***
M Myeni
BS Ntlhoro ****
N Ndlovu*****
CG Cele *****
B Mnyandu*****

Total executive staff members**Total board members and executive staff members**

Package earnings	Travel and subsistence allowance	Other services and allowances	Total
R'000	R'000	R'000	R'000
964	301	890	2 155
2 022	180	24	2 226
797	144	809	1 750
1 353	25	151	1 529
1 252	3	506	1 761
987	26	285	1 298
1 288	10	606	1 904
399	-	4	403
9 062	689	3 275	13 026
9 062	747	3 837	13 646

***** B Mnyandu was appointed Chief Financial Officer on the 11th of April 2018



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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

17 Board members and executives' emoluments (continued)

2017

Non-executive board members

DC Myeni (Chairperson of the Board)*

BV Mshengu

NN Khumalo

PS Dlamini

N Gevers

A Badul

MM Xulu

BK Rawlins

Adv S Chamane

FG Bosman

Total non-executive board members

Package earnings	Travel and subsistence allowance	Other services and allowances	Total
R'000	R'000	R'000	R'000
62	7	352	421
48	39	284	371
20	5	135	160
36	7	161	204
36	17	205	258
53	25	224	302
42	7	191	240
32	7	199	238
39	19	211	269
38	5	173	216
406	138	2 135	2 679

*included in the total is an amount of R20 000,00 paid in the FY2017/18

Executive staff members

MP Duze (Interim Chief Executive)*

AS Makhanya (Chief Executive)**

SG Xulu (Chief Operations Officer)***

BS Ndaba

M Myeni

BS Ntlhorho

N Ndlovu

CG Cele (Interim Chief Operations Officer)****

Total executive staff members

Total board members and executive staff members

Package earnings	Travel and subsistence allowance	Other services and allowances	Total
R'000	R'000	R'000	R'000
914	330	801	2 045
1 908	180	24	2 112
794	9	280	1 083
1 527	455	217	2 199
1 282	5	232	1 519
1 051	3	294	1 348
1 253	1	93	1 347
1 221	13	505	1 739
9 950	996	2 446	13 392
10 356	1 134	4 581	16 071

* MP Duze was appointed Interim Chief Executive on the 8th of June 2016

**AS Makhanya is on suspension pending outcome of disciplinary proceedings

*** SG Xulu resigned on 11 October 2016

**** CG Cele was appointed Interim Chief Operations Officer on 13th October 2016

Fixed Term Service contracts

Executive

AS Makhanya

MP Duze*

BS Ndaba

Designation	Date of employment	Date of appointment in current position	Duration of contract
CE	19 Jun 2008	01 Sep 2014	5 year contract
Interim CE	08 Jun 2016	08 Jun 2016	-
CFO	01 Nov 2012	01 Nov 2012	Resigned

* MP Duze appointment is based on the suspension of the CEO pending outcome of the CSA and disciplinary proceedings.

MHLATHUZE WATER

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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

18 Finance Costs

Non-current borrowings

Less: borrowing cost capitalised

2018 R'000	2017 R'000
12 457	14 817
(6 436)	(4 967)
6 021	9 850

Capitalisation rates used during the period were 10.62% on specific borrowings for capital projects 10.62% is the weighted average cost of funds borrowed by the entity. (2018: 10.64%)

19 Operating Lease

19,1 Operating Lease - Income

Arrangements with the customers that contained deemed leases and qualify as operating leases are recognised in terms of GRAP 3. The following indicates the future lease rentals receivables:

Within 1 year

Between 1 to 5 years

Beyond 5 years

Total Operating lease commitments

7 026	7 965
20 472	27 498
-	-
27 498	35 463

Mhlathuze Water leases equipment and a pipeline from various institutions for periods ranging from 1 to 20 years. These leases will conclude at the end of the contracted agreement signed with the relevant stakeholders.

19,2 Operating Lease-Expenditure

At the statement of Financial Position date Mhlathuze Water had outstanding commitments under non-cancellable operating leases, which fall due as follows:

Within 1 year

Between 1 to 5 years

Beyond 5 years

Total operating lease commitments

2 801	2 824
9 243	10 095
4 756	7 157
16 800	20 076

Mhlathuze Water leases equipment and a pipeline from various institutions for periods ranging from 1 to 20 years. These leases will conclude at the end of the contracted agreement signed with the relevant stakeholders.

20 Repairs and Maintenance

- Building

- Plant and Machinery

- Electrical Supply

- Furniture and fixtures

- Motor vehicles

- Equipment

- Pipelines

- Tools and loose gear

6 466	3 052
19 540	20 346
5 208	5 140
263	27
667	943
3 352	2 275
12 292	8 622
299	344
48 087	40 749



MHLATHUZE WATER

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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

	2018	2017
	R'000	R'000
21 Other Expenses		
Abnormal expenditure	2 664	2 000
Advertising	-	78
Assessment rates & municipal charges	612	542
Auditors remuneration - external	3 238	3 060
Auditors remuneration - internal	465	793
Bank charges	371	248
Biomonitoring	1 708	2 472
Board members - general expenses	340	1 163
Bursaries	827	1 074
Chemicals Laboratory	723	744
Cleaning	2 608	1 589
Community development and training	446	1 014
Compliance testing	1 494	1 219
Conferences and seminars	662	543
Consulting and professional fees	1 930	1 643
Consumables	883	1 303
Corporate social investment	806	773
Donations	69	-
Fees - special investigation	282	1 336
Fines and penalties	84	79
Fruitless and wasteful expenditure	527	237
Fuel and oil	2 761	2 631
General	3 713	3 181
Ground contractors	3 029	2 829
Insurance	3 010	2 862
IT expenses	8 495	6 566
Learnership	267	1 839
Legal expenses	6 721	7 234
Magazines, books and periodicals	8	9
Merger	1 357	652
Motor vehicle expenses	209	180
Pest control	29	55
Placement fees	965	520
Postage and courier	7	4
Printing and stationary	720	727
Protective clothing	1 390	1 113
Public relations	1 604	1 816
Refreshments	1 418	1 535
Regional bulk studies	2 276	8 266
Security	4 830	4 302
Staff assessments/gradings	30	11
Staff welfare	695	514
Subscriptions and membership fees	568	434
Telephone and fax	758	679
Training	1 979	2 131
Transport and freight	75	75
Travel - local	1 278	2 255
Travel - overseas	927	1 372
Uniforms	254	282
Vehicle Hire	4 207	3 686
Water analysis	426	2 244
	74 745	81 916

MHLATHUZE WATER

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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)**22 Operating Surplus**

Operating surplus for the year is stated after accounting for the following:

Operating lease chargesEquipment

Contractual amounts

540

306

Pipelines

Contractual amounts

2 266

2 260

2 806

2 566

Amortisation on intangible assets 9 (Refer to Note 6)

2 664

1 505

Depreciation on property, plant and equipment (Refer to Note 5)

43 658

40 299

Employee costs and board remuneration

42 923

47 439

23 Gain/(loss) on disposal of assets

Profit on sale of asset

-

85

(Loss) on sale of asset

(6 058)

(2 900)

(6 058)

(2 815)

24 Cash generated from operations

Surplus

81 949

69 440

Adjustments for:

Depreciation and amortisation

46 322

41 804

(Gain)/loss on sale of assets

10 000

6 441

Asset impairment/asset write off

59

2 440

Finance costs - capitalised

(6 422)

(4 967)

Movement in employee benefit liabilities

3 460

6 802

Movement in income received in advance

(7 965)

(7 965)

Changes in working capital:

Increase in inventories

(2 241)

(4 565)

Decrease in receivables from exchange transactions

45 343

(6 271)

Decrease in payables from exchange transactions

(25 613)

(62 377)

Vat payable

(346)

2 149

144 545**42 930**



MHLATHUZE WATER

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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

25 Financial Risk Management

The entity has exposure to the following risks from its use of financial instruments:

- Liquidity risk
- Credit risk
- Market risk

This note presents information about Mhlathuze Water's exposure to each of the above risks, objectives, policies and processes for measuring and managing risk. The methods used to measure risk have been consistently applied in the years presented, unless otherwise stated.

Further quantitative disclosures are included throughout the Annual Financial Statements.

The Board has overall responsibility for the establishment and oversight of the entity's risk management framework. Risk management policies are established to identify and analyse the risks that are faced by Mhlathuze Water, to set appropriate risk limits and controls, and to monitor risks and adherence to these limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the entity's activities.

Presently all risks identified are attended to at departmental level and by a risk management committee. Reports are presented to the Audit and Risk Committee, the Board's delegated structure tasked with the responsibility of reviewing the risk management process.

The Board reviews its enterprise wide risk profile to ensure that critical risks are addressed adequately and to identify and capitalise on opportunities that may be created from these risks. This provides the Board with the opportunity to re-assess the entity's strengths and weaknesses to determine a strategic alignment to the objectives.

Liquidity risk

Liquidity risk is the risk that Mhlathuze Water will not be able to meet its financial obligations as they fall due. Mhlathuze Water is a self-funding entity and does not receive funding in the form of government subsidies. All funding of income generating and operational assets are obtained by way of loan agreements.

The entity's approach to managing liquidity is to ensure as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the reputation of Mhlathuze Water by managing the monthly cash flow throughout the year.

Mhlathuze Water operates a consolidated loan pool and utilises the positive inflows to redeem external borrowings.

MHLATHUZE WATER

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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

Mhlathuze Water operates a consolidated loan pool and utilises the positive inflows to redeem external borrowings.

Finance charges are recovered via tariffs levied against consumers. For the purpose of treasury management all long term loans relating to the core business activities are pooled and an average rate of interest calculated and applied to the schemes for tariff purposes. This achieves better control and ensures a fair and flexible recovery of finance charges, which assist in planning the cash flow requirements.

Bank short-term funding

Mhlathuze Water's main credit facility is with First National Bank and includes the following:

Type of facility

-Credit Card facility

The overdraft facility is only in place for emergency.

Amount R'000
100
100

Exposure to liquidity risk

At 30 June 2018

Interest bearing borrowings
Payables from exchange transactions

Total

At 30 June 2017

Interest bearing borrowings
Payables from exchange transactions
Total

Carrying amount R'000	Contractual amount R'000	< 1 year R'000	2-5 years R'000	> 5 years R'000
(101 789)	(137 474)	(32 672)	(74 847)	(29 955)
(100 298)	(100 298)	(100 298)	-	-
(202 087)	(237 772)	(132 970)	(74 847)	(29 955)
(123 988)	(170 950)	(33 894)	(93 211)	(43 845)
(125 912)	(125 912)	(125 912)	-	-
(249 900)	(296 862)	(159 806)	(93 211)	(43 845)



MHLATHUZE WATER

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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

25 Financial Instruments (continued)

Fair Values

The carrying values of financial assets and liabilities are presented by class in the tables below, and approximate fair values.

30 June 2018

Financial Assets

Receivables from exchange transactions
Bank and cash implementing agent projects
Bank and cash

Financial Liabilities

Interest-bearing borrowing
Payables from exchange transactions

30 June 2017

Financial Assets

Receivables from exchange transactions
Bank and cash implementing agent projects
Bank and cash

Financial Liabilities

Interest-bearing borrowing
Payables from exchange transactions

Financial instruments at amortised cost R'000	Total R'000
114 174	114 174
5 131	5 131
260 398	260 398
(101 789)	(101 789)
(100 298)	(100 298)
177 615	177 615
159 516	159 516
11 286	11 286
212 701	212 701
(123 988)	(123 988)
(125 912)	(125 912)
133 604	133 604

Credit Risk

Credit risk consists mainly of cash deposits, cash equivalents, and trade debtors. The entity only deposits cash with major banks with high quality credit standing approved through the Department of Water and Sanitation by National Treasury.

Receivables from exchange transactions.

The entity's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Board has established a credit policy under which each new customer is analysed individually for creditworthiness before the entity's facilities are offered.

Consideration is given to the external credit ratings, tax clearance certificates and the latest audited annual financial statements of entities not listed on the Johannesburg Stock Exchange. Credit limits are established for non-contractual customers and these limits are reviewed bi-annually.

The average credit period allowed is 30 days from invoice date. Interest is charged at prime rate +2.5% p.a. on overdue debt.

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

MHLATHUZE WATER

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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

25 Financial risk management (continued)

Receivables from exchange transactions (continued)

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

Partnership/Water schemes with external parties

External parties are required to submit guarantees to Mhlathuze Water for all expenses incurred on their behalf. Any amounts outstanding after a period of 30 days will attract interest at the current interest rate as announced by the Minister of Finance.

Exposure to credit risk

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

Financial instrument

Receivables from exchange transactions
Cash and cash equivalents

The maximum exposure to credit risk for receivables from exchange transactions per business segment at reporting date was:

Water supply
Waste water disposal
Thukela Transfer Scheme
Project activities

2018 R'000	2017 R'000
114 174	159 516
265 529	223 987
46 716	56 335
15 170	18 406
3 396	16 297
46 535	70 898
111 817	161 936

Provision for impairment

Not past due
Past due 0-30 days
Past due 30-60 days
Past due 60-90 days
Past due >90 days

Gross 2018 R'000	Impairment 2018 R'000	Gross 2017 R'000	Impairment 2017 R'000
86 312	-	93 620	-
2 774	-	44 249	-
2 152	-	9 633	(4)
13 574	-	1 365	(79)
7 005	-13	13 069	(210)
111 817	-13	161 936	(293)

The current debt for all categories on the age analysis comprises of balances of contracted billing which is recovered timeously as per contracts entered with consumers.

The movement in the provision for impairment

Balance as at 1 July
Movement
Balance as at 30 June

293	399
(280)	(106)
13	293

In assessing the provision for impairment, Mhlathuze Water considered the likelihood of receiving payments from its debtors irrespective of the length of time the debt was outstanding.



MHLATHUZE WATER

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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

25 Financial risk management (continued)

Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risks comprises three types of risk: currency risk, interest rate risk and other price risk. The objective is to manage and control market risk within acceptable parameters, while optimising the return on risk.

The entity does not have any exposure to currency risk (that fluctuation in foreign exchange currency) or any equity price risk, and Mhlathuze Water does not hold any equity investments.

Interest Rate Risk

Mhlathuze Water adopted a policy of limiting exposure to interest rate fluctuations by arranging borrowings on a fixed rate basis.

Cash and short-term investments are invested at variable and fixed interest rates with registered banking institutions.

At the reporting date, the interest rate profile for Mhlathuze's interest-bearing financial instruments was:

Rate Instruments

Receivables from exchange transactions - variable interest rate
Bank and cash - variable interest rate
Bank and cash - fixed interest rate

Financial liabilities

Interest bearing borrowing - fixed interest rate

2018 R'000	2017 R'000
114 174	159 516
102 988	82 998
162 540	140 989
379 702	383 503
(101 789)	(123 988)
(101 789)	(123 988)

26 Segment Information

General Information

Identification of Segments

Information reported about the segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

Mhlathuze Water has two reportable segments:

(i) The primary activities segment as defined by section 29 of the Water Services Act No. 108 of 1997 which is made up of:

(a) Bulk Water

This activity covers the bulk supplies and other related water services made under contract in the Richards Bay/ Empangeni area from plants owned by Mhlathuze Water. It also covers bulk supplies made and other related water services under contract to district municipalities, Water Services Institutions and the Department of Water and Sanitation from plants owned by these bodies.

Revenue generated based on water usage has been reflected under this segment.

(b) Waste Water

This activity covers buoyant and dense effluent disposals under contract to industries and Municipalities in the Richards Bay area from plants owned by Mhlathuze Water.

(ii) The other segment activities as defined by section 30 of the Water Services Act No. 108 of 1997. This business segment consists of non-regulated activities which are mainly defined as services that complement bulk water service provision such as water quality monitoring, environmental management, laboratory services and where Mhlathuze Water acts as an implementing agent for any sphere of government for projects related water service delivery.

MHLATHUZE WATER

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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

26 Segment information (continued)

Segment surplus or deficit, assets and liabilities

2018

The Segmental report is as follows

Revenue from exchange transactions

Sale of goods and services

Cost of Sales

Bulk purchases

Electricity and water

Chemicals

Employee related costs

Depreciation

Gross Profit

Other income

Expenditure

Employee related costs

Remuneration of board members

Depreciation and amortisation

Finance costs

Lease rentals on operating lease

Debt impairment

Repairs and maintenance

Electricity and water

Chemicals

Other expenses

Operating surplus

Loss on disposal of assets

Surplus for the year

Assets

Segment assets

Centralised services

Total assets as per statement of financial position

Liabilities

Segment liabilities

Centralised services

Total liabilities as per statement of financial position

Other information

Capital expenditure

Centralised services

	Primary Activities		Secondary Activities			TOTAL
	Bulk water	Waste water	TG Scheme O & M	City of uMhlathuze O & M	Other activities	
	R'000	R'000	R'000	R'000	R'000	R'000
Revenue from exchange transactions						
Sale of goods and services	254 480	147 858	52 231	72 979	11 448	538 997
Cost of Sales	(114 973)	(36 968)	(42 270)	(35 610)	(2 620)	(232 440)
Bulk purchases	(44 378)	-	-	-	-	(44 378)
Electricity and water	(22 077)	(21 024)	(38 118)	(19)	-	(81 239)
Chemicals	(12 223)	-	-	(5 027)	(300)	(17 551)
Employee related costs	(10 901)	(2 868)	(4 151)	(30 563)	(2 320)	(50 804)
Depreciation	(25 393)	(13 076)	-	-	-	(38 469)
Gross Profit	139 507	110 890	9 961	37 369	8 828	306 556
Other income	9 220	8 172	7	-	-	17 400
Expenditure	(106 983)	(76 202)	(9 755)	(35 254)	(7 753)	(235 947)
Employee related costs	(59 531)	(33 576)	-	-	-	(93 107)
Remuneration of board members	(391)	(229)	-	-	-	(620)
Depreciation and amortisation	(4 388)	(3 463)	-	-	-	(7 852)
Finance costs	(2 891)	(3 130)	-	-	-	(6 021)
Lease rentals on operating lease	(346)	(2 459)	-	-	-	(2 805)
Debt impairment	(0)	(0)	-	-	-	(0)
Repairs and maintenance	(6 459)	(12 448)	(6 137)	(21 437)	(1 606)	(48 088)
Electricity and water	(1 206)	(708)	-	-	-	(1 914)
Chemicals	(374)	(423)	-	-	-	(796)
Other expenses	(31 397)	(19 765)	(3 618)	(13 817)	(6 147)	(74 745)
Operating surplus	41 745	42 860	213	2 116	1 075	88 009
Loss on disposal of assets	(2 892)	(3 166)	-	-	-	(6 058)
Surplus for the year	38 852	39 694	213	2 116	1 075	81 951
Assets						
Segment assets	664 331	274 855	-	-	51 666	990 852
Centralised services						380 640
Total assets as per statement of financial position						1 371 492
Liabilities						
Segment liabilities	32 084	63 275	-	-	29 719	125 078
Centralised services						166 476
Total liabilities as per statement of financial position						291 554
Other information						
Capital expenditure	65 483	9 707	-	-	-	75 190
Centralised services						7 268
						82 459



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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

26 Segment information (continued)

2017 Restated

The Segmental report is as follows

Revenue from exchange transactions

Sale of goods and services

Cost of Sales

Bulk purchases

Electricity and water

Chemicals

Employee related costs

Depreciation

Gross Profit

Other income

Expenditure

Employee related costs

Remuneration of board members

Depreciation and amortisation

Finance costs

Lease rentals on operating lease

Debt impairment

Repairs and maintenance

Electricity and water

Chemicals

Other expenses

Operating surplus

Gain (loss) on disposal of assets

Surplus for the year

Assets

Segment assets

Centralised services

Total assets as per statement of financial position

Liabilities

Segment liabilities

Centralised services

Total liabilities as per statement of financial position

Other information

Capital expenditure

Centralised services

Primary Activities		Secondary Activities			TOTAL
Bulk water	Waste water	TG Scheme O & M	City of uMhlathuze O & M	Other activities	
R'000	R'000	R'000	R'000	R'000	R'000
238 028	137 670	73 187	56 139	28 593	533 617
(117 175)	(31 607)	(65 400)	(27 147)	(1 061)	(242 390)
(44 315)	-	-	-	-	(44 315)
(25 588)	(15 867)	(62 261)	(22)	-	(103 738)
(13 613)	-	-	(3 147)	-	(16 760)
(10 825)	(3 157)	(3 139)	(23 978)	(1 061)	(42 160)
(22 835)	(12 583)	-	-	-	(35 418)
120 852	106 063	7 787	28 992	27 532	291 226
14 702	(295)	7	-	-	14 414
(107 147)	(72 282)	(7 794)	(23 985)	(22 176)	(233 385)
(52 906)	(34 013)	-	-	-	(86 920)
(1 695)	(984)	-	-	-	(2 679)
(3 652)	(2 734)	-	-	-	(6 386)
(10 530)	680	-	-	-	(9 850)
(194)	(2 371)	-	-	-	(2 566)
(185)	(108)	-	-	-	(293)
(9 618)	(14 015)	(5 297)	(11 723)	(95)	(40 748)
(1 276)	(750)	-	-	-	(2 026)
-	-	-	-	-	-
(27 090)	(17 988)	(2 497)	(12 262)	(22 081)	(81 918)
28 408	33 484	-	5 007	5 356	72 254
(2 326)	(488)	-	-	-	(2 814)
26 083	32 997	-	5 007	5 356	69 439
515 541	76 731	-	-	76 762	669 035
					330 461
					999 496
15 296	73 249	-	-	76 762	165 308
					179 130
					344 438
15 505	9 813	-	-	-	25 318
					33 414
					58 732

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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

27 Statutory Information in terms of the Public Finance Management Act No. 1 of 1999 as amended

27 Irregular Expenditure

Opening balance

Add: Irregular expenditure emanating from Prior Years

Add: Current Year

Less: Amounts condoned

Closing balance 30 June

Application of Condonation is underway. Letters requesting condonation have been submitted to National Treasury. Awaiting for a response.

27 Details of Irregular Expenditure

Incident

Irregular Expenditure relates to payments that were made to various suppliers, without appropriately approved variation orders as per the delegation of authority.

In Accordance with the Government Tender Bulletin, bids should be advertised for a minimum period of twenty-one (21) days before closure in order to deem it necessary to endure greater exposure to potential bidder. Irregular Expenditure relates to bids not advertised for the prescribed period of twenty-one (21) days.

Irregular expenditure relates to advanced payments that were made to suppliers, not in accordance with the contract Terms.

There was an irregular appointment of an independent contractor where the procurement procedure was not followed. However, an application for Condonation to regularize the process of the appointment as an Independent Contractor is pending.

Irregular Expenditure relates to ceding of work not as per SCM Policy and documents not signed as per the DOA

Irregular expenditure as a result of professional fee adjustment due to change in construction value, not approved according to the DOA.

Irregular expenditure as a result of extension of contract without approval by the delegated official.

Irregular expenditure relates to orders that were not issued in time, as a result of vehicle contracts that expired whilst the vehicle were in use.

Irregular expenditure as a result of payments that were made to supplier that exceeded the SCM threshold of R500 thousand and payments made post expiry of the contract.

Irregular expenditure as a result of not adhering and deviating to SCM Process

Irregular expenditure occurred as a result of payments that were made to suppliers that exceeded contract value

Irregular expenditure resulted in a contract that was taken over from City of uMhlathuze in 2014 without following the correct SCM process.

Irregular expenditure as a result of no evidence to verify bids and no tender opening register

Irregular expenditure occurred as a result of no competitive bid to enable the the selection of supplier based on competitive and fair process.

Irregular expenditure occurred as a result of the extension of scope contravening the SCM process

Irregular expenditure occurred as a result of expenditure that was incurred without a contract being in place

2018 R'000	2017 R'000
	*Restated
205 951	98 123
42 846	72 910
21 674	35 217
(5 708)	(299)
264 763	205 951
456	33 467
39 716	41 765
-	98 943
177	1 163
-	7 192
4 434	7 729
-	156
948	-
4 860	932
8 270	3 517
4 930	5 963
65	69
344	1 420
-	827
-	2 204
320	902
64 520	206 249



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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

27 Details of Irregular Expenditure condoned

Incident

Non-compliance with SCM Processes and procedures which was as a result of suppliers that were procured without atleast three written quotation for an amount of R399 thousand has subsequently been condoned as valid expenditure incurred in support of Mhlathuze Water's operational requirements.

Condoned by : Accounting Officer

Incident

Irregular expenditure relates to Deviation not approved , for an amount of R2,280 million has subsequently been condoned by the Accounting Officer the fact that the deviation were as a result of emergency work that was performed in support of the the business requirements.

Condoned by : Accounting Officer

Incident

Irregular expenditure relates to variation orders that were not approved according to the DOA for an amount of R1,040 million has subsequently been condoned, VO has been approved Accounting Officer.

Condoned by : Accounting Officer

Incident

There was an irregular appointment of an independent contractor where the procurement procedure was not followed for an amount of R1,340 million. However, an application for Condonation to regularize the process of the appointment as an Independent

Condoned by : Accounting Officer

Incident

Irregular expenditure relates to orders that were not issued in time, as a result of vehicle contracts that expired whilst the vehicle were in use for an amount of R948 thousand, has subsequently been condoned by the Accounting officer.

Condoned by : Accounting Officer

2018 R'000	2017 R'000
	*Restated
100	299
2 280	-
1 040	-
1 340	-
948	-
5 708	299

Annual Financial Statements as at 30 June 2018

	2018 R'000	2017 R'000
27,5 Fruitless and Wasteful Expenditure		Restated
Opening balance	25 203	23 767
Add: Fruitless and Wasteful expenditure - prior year identified in the current year	-	3 851
Add: Fruitless and Wasteful expenditure - current year	328	
Add: Fruitless and Wasteful expenditure - Prior year varied amount		(2 415)
Add: Amounts condoned	(232)	
Add: Amounts written off	(5)	
	25 294	25 203
Total written off		
Accounting Officer has instituted Investigations on reported Fruitless and Wasteful Expenditure on Mhlathuze Water's expenditure. Litigation cases have been opened with the South African Police Services and the Hawks for cases where there were apparent criminal intent.		
27,6 Details Fruitless and Wasteful Expenditure		
Incident		
Fruitless and wasteful expenditure (Prior Year), relates to payments that were made to various suppliers, without appropriately approved variation orders as per then delegation of authority. Currently forensic investigation are underway to determine the full extent of the fruitless and wasteful expenditure; disciplinary measure will be undertaken against the offending officials and the recovery of lost resources will be sought thereafter.	-	18 963
Fruitless and wasteful expenditure occurred as a result of a payment made to a supplier where costs were inflated on the bill of quantities. Currently investigations are underway to determine the full extent of the fruitless and wasteful expenditure; disciplinary measures will be undertaken against the offending officials and the recovery of lost resources will be sought thereafter.	-	2 152
Fruitless and wasteful expenditure for the (Prior Year), related to costs incurred on travel and conferencing facilities for a delegate scheduled to represent Mhlathuze Water at a conference. On commencement of the trip, an emergency situation resulted in the delegate being called back home. After further investigation it was evident that circumstance justified her non-attendance of the conference and a submission for the write off was considered by the Accounting Officer and thus approved.	-	232
Fruitless and wasteful expenditure for the (Prior Year), relates to costs incurred on travel to a training scheduled to be attended by an employee whose authorisation was later withdrawn due to the fact that he was then serving notice to leave the employ of Mhlathuze Water. The employee has left the employ of Mhlathuze Water and these funds were not recovered from him. Mhlathuze Water embarked on attempts to recoup these costs from the former employee, however a resolution was taken to write-off these funds, as costs of recovery out-weighed the funds to be collected.	-	5
Fruitless and Wasteful Expenditure (Prior Year) incurred on a project where the design of pumps and motors was amended after such pumps and motors were procured and delivered, resulting in components of the pumps and motors being redundant. The process of assessing the value of these components has been finalised and these assets were auctioned off during a physical asset disposal auction. These were sold as scrap. Funds recouped from the sale was off-set against this fruitless and wasteful expenditure.	-	2 211
Fruitless and Wasteful Expenditure (Prior Year) incurred on a project where the PLC was acquired through a supplier, which has been deemed inadequate, had to incur further costs to align to organisational needs	-	527
Fruitless and Wasteful Expenditure (Prior Year) incurred due to cost of buildings, the pipeline strage facility due to poor quality	-	334
Fruitless and Wasteful Expenditure incurred due to services rendered on behalf of DWS, in which suppliers were paid using MW which has not been recovered from DWS	328	779
The internal control environment has been strengthened to put systems in place to prevent, detect and correct any fruitless or wasteful expenditure going forward.	-	-
The internal control environment has been strengthened to put systems in place to prevent, detect and correct any fruitless or wasteful expenditure going forward.	1	1
	329	25 204
27,7 Secondary Activities Non-conformances		
Whilst implementing projects on behalf of some Departments (refer to Note 14) management has identified some cases of non-		
27,4 Details of fruitless and wasteful expenditure written off		
Incident		
Fruitless and wasteful expenditure incurred by delegate who did not attend conference to represent Mhathuze Water at a Conference, has been subsequently written off by the Accounting Officer.	(232)	-
Fruitless and wasteful expenditure incurred by employee who did not attend training has been subsequently written off by the Accounting Officer.	(5)	-
	(237)	-
27,8 Losses Recovered or Written-off		
Bad debts provided for	13	293
Bad debts recovered	-	(106)
Totals	13	187



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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

28 Adjustments from prior errors

28.1 Re-assessment of Useful Lives of Property, Plant and Equipment

Completed Assets

Due to the fact that a re-assessment of the useful lives of Mhlathuze Water's assets was not performed annually, the cost and accumulated depreciation expense has been restated and this resulted in an decrease in depreciation in the prior year period.

Carrying amount

2016/17 Audited Financial Statement
2016/17 Restated Financial Statement

Work in Progress

The Work In Progress Balance was restated to correctly state the value of construction projects as at the end of the prior year.

Carrying amount

2016/17 Audited Financial Statement
2016/17 Restated Financial Statement

28.2 Re-assessment of Useful Lives of Intangible Assets

Completed Assets

Due to the fact that a re-assessment of the useful lives of Mhlathuze Water's assets was not performed annually, the cost and accumulated amortisation expense has been restated and this resulted in an decrease in depreciation in the prior year period.

Carrying amount

2016/17 Audited Financial Statement
2016/17 Restated Financial Statement

Work in Progress

The Work In Progress Balance was restated to correctly state the value of construction projects as at the end of the prior year.

Carrying amount

2016/17 Audited Financial Statement
2016/17 Restated Financial Statement

28.3 Inventory

Opening stock for the FY 2016/17 was overstated due to duplicated stock receipt entries

2016/17 Audited Financial Statement opening balance
2016/17 restated opening balance

28.4 Board members and executive's emoluments

Payment of the board allowances was incorrectly included in the current year expenditure incurred in FY2016/17

Expenditure movements

2016/17 Audited Financial Statement
2016/17 Restated Financial Statement

28.5 Correction of receivables from exchange transactions

Trade receivables were billed at a rate lower the contract agreement resulting to an understatement of receivables in the prior year and remapping of AFS for better presentation and disclosure. Furthermore credit notes processed in the currently year as a result of work done which was outside the external project scope.

2016/17 Audited Financial Statement
2016/17 Restated Financial Statement

28.6 Correction of payables from exchange transactions

Correction of the retention liability and customers that were billed at a rate higher than the contract agreement resulting to an understatement of accruals in the prior year and remapping of AFS.

2016/17 Audited Financial Statement
2016/17 Restated Financial Statement

28.7 Correction of Employee benefit liability

Provision for leave liability previously disclosed under payables from exchange transactions

2016/17 Audited Financial Statement
2016/17 Restated Financial Statement

28.8 Cost of sales

Allocation of secondary activities to cost of sales which resulted in an increase in cost of sales and a decrease in operating expenses on employee costs, depreciation and amortisation, chemicals and electricity and water.

2016/17 Audited Financial Statement
2016/17 Restated Financial Statement

-	207 478
-	564 889
-	775 153
-	7 729
-	145 234
-	152 963
-	(1 558)
-	2 631
-	3 859
-	2 786
-	-
-	2 786
-	(611)
-	31 198
-	30 587
-	20
-	2 659
-	2 679
-	6 185
-	165 701
-	159 516
-	14 432
-	140 344
-	125 912
-	(6 246)
-	-
-	6 246
-	(109 005)
-	133 385
-	242 390

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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

Disclosure impact

28,9 Operating lease -income

Mhlathuze Water leases equipment and a pipeline from various institutions

2016/17 Audited Financial Statement
2016/17 Restated Financial Statement

- (35 463)
- -
- 35 463

28,10 Reclassification of Operating lease

Lease income previously disclosed as sale of goods and services

2016/17 Audited Financial Statement
2016/17 Restated Financial Statement

- (7 965)
- -
- 7 965

28,11 Fruitless and Wasteful expenditure

Management has recovered expenditure previously identified as potential fruitless and wasteful expenditure incurred on the construction projects in the FY2015/16. Management further identified fruitless and wasteful expenditure relating to prior year and identified in the current year.

2016/17 Audited Financial Statement opening balance
2016/17 Restated opening balance

1 436
23 767
25 203

28,12 Irregular expenditure

Management has investigated irregular expenditure and identified irregular expenditure relating to prior years and identified in the current financial year.

2016/17 Audited Financial Statement opening balance
2016/17 Restated opening balance

88 027
117 924
205 951

28,13 Related Parties

The Related Party relationships and transactions were reviewed and updated to be in line with GRAP 20.

Amounts included in receivables from exchange transactions

2016/17 Audited Financial Statement opening balance
2016/17 Restated opening balance

(30 666)
105 668
75 002

Amounts included in payables from exchange transactions

2016/17 Audited Financial Statement opening balance
2016/17 Restated opening balance

(3 227)
16 239
13 012

Amounts included in sale of goods and services

2016/17 Audited Financial Statement opening balance
2016/17 Restated opening balance

(184 842)
338 052
153 210

Amounts included in purchases from related parties

2016/17 Audited Financial Statement opening balance
2016/17 Restated opening balance

(32 897)
157 174
124 277

28,14 Cash Flow Statement

The Cash Flow Statement was restated due to the remapping of accounts, however, the net movement in cash and cash equivalents was not restated.

Annual Financial Statements as at 30 June 2018

	2018 R'000	2017 R'000
The impact of these errors is summarised below and the details are as follows:		Restated
Increase/ (Decrease) in assets	-	1 098 653
(Increase) /Decrease in liabilities	-	31 023
Represented by:		
(Increase)/Decrease in accumulated surplus:	-	(1 129 426)
(Increase)/Decrease in revenue	-	(250)
Increase/(Decrease) in expense	-	-
	-	-0
29 Commitments		
29,1 Authorised capital expenditure		
Already contracted for but not provided for		
- Building	65 129	4 837
- Plant and Machinery	3 831	39 031
- Furniture and fixtures	114	-
- Motor vehicles	-	-
- Office equipment	-	3
- Equipment	926	20 459
- Pipelines	-	614
- Tools and loose gear	6 133	-
- Electrical Supply	-	-
- Computer software	289	-
	76 422	64 944
This committed expenditure relates to Capital and will be financed by available bank facilities, retained surpluses and existing cash resources.		
29,2 Authorised Operational expenditure		
Already contracted for but not provided for		
Authorised operational expenditure	18 812	15 975
	18 812	15 975
This committed expenditure relates to operational expenditure and will be financed by available bank facilities, retained surpluses and existing cash resources.		
Total commitments		
Authorised capital expenditure	76 422	64 944
Authorised operational expenditure	18 812	15 975
	95 234	80 919
30 Contingent Assets		
Penalties on Construction Contracts		
- Reservoir no. 1	1 737	1 780
- Reservoir no. 2 *	2 580	2 160
- Empangeni Pumpstation Augmentation	560	412
- Provident Fund Claim **	1 247	1 211
	6 124	5 563

****Mhlathuze Water is involved in litigation against employees who are no longer in the employ of the organisation. An interdict against the release of the said employees provident fund was successfully granted by the High Court. Management's evaluation of the contingent asset at the year end is R1,247,140.76**

Management evaluation of the contingent asset at year end is R1,247,140.76

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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

31 Related party transactions

Relationships

- Controlling entity
- Department of Water and Sanitation
 - Department of Co-operative Governance and Traditional Affairs (COGTA)
 - Foskor Limited
 - South African Association of Water Utilities

Board member	Entity	Position held
DC Myeni	South African Airways South African Association of Water Utilities	Chairperson Chairperson
MM Xulu	Foskor (Pty) Ltd	General Manager: Marketing and Sales
Adv. S Chamane	KZN Office of the Premier	Deputy Director General: Institutional Development and Integrity Management Units
NN Khumalo	Independent Development Trust	Regional General Manager
MP Duze	Department of Co-operative Governance and Traditional Affairs	Deputy Director General: Development Planning

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

Amounts included in receivables from exchange transactions

Department of Water and Sanitation - Water Services TG Scheme	3 396	16 296
Department of Water and Sanitation - External/implementing/laboratory services	30 970	40 948
Department of Co-operative Governance and Traditional Affairs (COGTA) External/implementing	2 789	7 733
Foskor Limited - Effluent/laboratory/advances	5 541	10 025
Total	42 696	75 002

Amounts included in payables from exchange transactions

Department of Water and Sanitation - Water services TG Scheme	3 396	8 422
Department of Water and Sanitation - External/implementing/laboratory services	5 451	4 404
Umgenti Water	-	39
Foskor Limited - Effluent/laboratory/advances	121	147
Total	8 968	13 012

2018 R'000	2017 R'000
3 396	16 296
30 970	40 948
2 789	7 733
5 541	10 025
42 696	75 002
3 396	8 422
5 451	4 404
-	39
121	147
8 968	13 012



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Notes to the Annual Financial Statements (continued)

31 Related party transactions (continued)

Sales of goods/services to related parties

Department of Water and Sanitation - Operations and maintenance	52 231	73 187
Department of Water and Sanitation - Implementing/laboratory services	8 341	10 628
Department of Water and Sanitation - laboratory services (micro biology monitoring programme)	-	358
Department of Co-operative Governance and Traditional Affairs (COGTA) Implementing/laboratory	3 449	8 263
Foskor Limited - Effluent disposal & income received in advance	64 765	60 766
Umgeni Water	-	8

Total

128 786 153 210

Purchases from related parties

Department of Water and Sanitation - Implementing/laboratory services	48 395	49 434
Department of Water and Sanitation - TG Scheme	52 231	73 187
Foskor Limited - Electricity and Repairs and Maintenance	1 029	1 385
South African Association of Water Utilities - Members fees	334	167
Umgeni Water	31	104

Total

102 020 124 277

Remuneration of management and board

Refer to note 17 "Board members and executives' emoluments"

MHLATHUZE WATER

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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

32 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2018

	Note(s)	Actual Mhlathuze Water R'000	Budget Mhlathuze Water R'000	Difference between budget and actual R'000	*Actual City of uMhlathuze R'000	Total Actual
Statement of Financial Performance						
Revenue from exchange transactions						
Sale of goods and services	32,1	466 018	580 063	(114 045)	72 979	538 997
Cost of Sales		(196 831)	(201 018)	4 187	(35 610)	(232 440)
Bulk purchases	32,3	(44 378)	(92 378)	48 000	-	(44 378)
Electricity and water	32,4	(81 219)	(37 235)	(43 984)	(19)	(81 238)
Chemicals		(12 523)	(12 495)	(28)	(5 027)	(17 550)
Employee related costs	32,5	(20 241)	(12 175)	(8 066)	(30 563)	(50 804)
Depreciation and amortisation	32,6	(38 469)	(46 734)	8 265	-	(38 469)
Gross Profit		269 187	379 045	(109 858)	37 369	306 556
Other income	32,2	17 400	8 046	9 354	-	17 400
Expenditure		(200 692)	(356 126)	155 434	(35 254)	(235 946)
Employee related costs	32,5	(93 107)	(106 341)	13 234	-	(93 107)
Remuneration of board members		(620)	(3 836)	3 216	-	(620)
Depreciation and amortisation	32,6	(7 852)	(27 160)	19 308	-	(7 852)
Finance costs	32,7	(6 021)	(3 354)	(2 667)	-	(6 021)
Lease rentals on operating lease		(2 805)	(3 090)	285	-	(2 805)
Debt impairment		(0)	-	(0)	-	(0)
Repairs and maintenance	32,8	(26 650)	(43 972)	17 322	(21 437)	(48 088)
Electricity and water	32,4	(1 914)	(90 139)	88 225	-	(1 914)
Chemicals		(796)	(2 000)	1 204	-	(796)
Other expenses		(60 927)	(76 234)	15 307	(13 817)	(74 745)
Operating surplus		85 894	30 965	54 929	2 115	88 009
Gain (loss) on disposal of assets		(6 058)	-	(6 058)	-	(6 058)
Surplus for the year		79 836	30 965	48 871	2 115	81 951
Statement of Financial Position						
ASSETS						
Current assets						
Total current assets	32,9	412 531	227 542	184 989	-	412 531
Non-current assets						
Total non-current assets	32,10	958 961	842 135	116 826	-	958 961
Total assets		1 371 491	1 069 677	301 814	-	1 371 491
LIABILITIES						
Current liabilities						
Total current liabilities	32,11	148 407	119 951	(28 456)	-	148 407
Non-current liabilities						
Total non-current liabilities		143 147	143 192	45	-	143 147
Total liabilities		291 554	263 143	28 411	-	291 554
Net assets	32,12	1 079 938	806 533	273 405	-	1 079 938
Total net assets and liabilities		1 371 492	1 069 676	301 816	-	1 371 492

*The City of uMhlathuze Operations and Maintenance contract was not budgeted for due to the delay in the signing of a long term agreement. The agreement was concluded on a month to month basis and therefore the expenditure being too unpredictable at the time of the budget process. These items are excluded from the difference between budget and actual column to ensure comparability.



MHLATHUZE WATER

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Notes to the Annual Financial Statements (continued)

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 30 JUNE 2018 (continued)

Notes

- 32,1 **Sale of goods and services** has a negative variance of R114 million as a result of decrease in water volumes sold which was caused by the drought restrictions that were imposed by the Department of Water and Sanitation.
- 32,2 **Other income** has a positive variance of R9,4 million due to excess cash invested and interest earned thereon.
- 32,3 **Bulk purchases** have a positive variance of R48 million is due to the decrease in water volumes sold which was caused by the drought restrictions that were imposed by the Department of Water and Sanitation.
- 32,4 Combined **Electricity cost and water** has a positive variance of R44,2 million mainly due to decrease in water volume energy tariff increase.
- 32,5 Combined **Employee related costs** have a positive variance of R5,2 million, mainly due to vacant positions that were not filled at year end.
- 32,6 **Depreciation and amortisation** has a positive variance of R27,6 million, due to re-assessment of useful life and originally estimated useful life of some asset categories.
- 32,7 **Finance costs** have a negative variance of R2,6 million, due to increase in the capitalisation of the projects and related borrowing cost.
- 32,8 **Repairs and maintenance** has a positive variance of R17,3 million, due to recent refurbishment of infrastructural assets and newly capitalised capital projects thus negating the need for more extensive repairs and maintenance
- 32,9 **Current assets** have a positive variance of R184,9 million mainly due to the increase in trade receivables under the secondary activities, and an increase in short-term deposits.
- 32,10 **Non-current assets** have a positive variance of R116,8 million which is due to reinstatement of PPE originally acquired at R1 value to fair value and re-assessment of useful lives of PPE
- 32,11 **Current liabilities** have a negative variance of R28,4 million due to the increase in trade payables in primary activities.
- 32,12 **Net assets** have a positive variance of R273,4 million due to positive surpluses made as well as interest earned on cash invested for reserves.

MHLATHUZE WATER

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Notes to the Annual Financial Statements (continued)

33 Events after the reporting date

Events occurred after the reporting period are:-

33,1 ICON Construction (Pty) Ltd vs Mhlathuze Water

Mhlathuze Water was served with a summons on the 28th of February 2018 in the amount of R880 440.83 (Eight Hundred and Eighty Thousand, Four Hundred and Forty Rand and Eighty Three Cent only) on interest of invoices that were paid late. Parties entered into a settlement agreement, Mhlathuze Water agreed to pay ICON Construction the amount of R580 000.00 by the 31st of July 2018.

33,2 ICON Construction (Pty) Ltd (MW/25/2013)

On the 9th of July 2018 Mhlathuze Water was served with papers for Application for interdict compelling Mhlathuze to pay ICON Construction the amount of R1 993 449.08 (One Million Nine Hundred and Ninety Three Thousand, Four Hundred and Forty Nine Rand and Eight Cent Only) on interest of invoices that were paid late. The parties have agreed to settle the claim in the amount of R1.2 million full and final settlement of the claim.

33,3 WK Construction vs Mhlathuze Water

Implementation of the Raw Water Pipeline from Weir to Shooting Range: Subsequent to the award of the tender MW/22/2018 to WBHO Construction (PTY) LTD t/a Thekwane Holdings JV, an objection was received from WK Construction. WK Construction was not satisfied with the reasons provided by MW. On the 3rd of October 2018 Mhlathuze Water was served with an urgent application not to proceed with the implementation of the project. The matter was heard on 10 October 2018 at the Durban High Court, and was postponed to 09 November 2018.

34 Financial assistance from the state

Mhlathuze Water did not receive any financial assistance from the state.

35 Taxation

Mhlathuze Water is exempt from taxation in terms of section 10(1)(t) (ix) read with the definition of Water Services Provider in Section 1 of the Income Tax Act, 1962 (Act No. 58 of 1962).

36 Going concern

The minister of Water and Sanitation decided to put the implementation of the Institutional Reform and Realignment (IRR) Program on hold in order to allow for proper consultation with all relevant stakeholders to occur. Mhlathuze Water was directed to initiate the process of the appointment of a new Board for the period commencing 2018 till 2022. The nomination process closed on 17 June 2018 and the shortlisting of candidates was conducted on 23 July 2018. Interviews were held over two days on 02 and 03 August 2018 and the names of the candidates recommended for the appointment were then forwarded to the Minister of Water and Sanitation for consideration.

Mhlathuze Water prepared and submitted its Business plan for 2018/2019 to 2022/2023 together with the Shareholders Compact to the Minister of Water and Sanitation on 16 April 2018. The minister signed the two documents and these were tabled before parliament on 13 June 2018.

The Annual Financial Statements for 2017/2018 have been prepared in line with the accounting policies applicable to the going-concern of this nature. This presumes that funds will be available to finance operations and that the realisation of assets and settlement liabilities, contingent obligations and commitments will occur in the ordinary course of business.



MHLATHUZE WATER

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Annual Financial Statements as at 30 June 2018

Notes to the Annual Financial Statements (continued)

37 Litigation and claims

37,1 AS Makhanya vs Minister of Water and Sanitation and the Board of Mhlathuze Water Application for an Interdict in the Pietermaritzburg High Court

The applicant in this matter applied for leave to appeal at the Supreme Court of Appeals. Mhlathuze Water filed its papers at court during the first week of September 2017. The matter was expected to be set down for February 2018, but the notice of set down has not been received yet. The Applicant moved an application to introduce new evidence on the 4th of April 2018. The matter is set down for 4 November 2018.

37,2 AS Makhanya vs Minister of Water and Sanitation and the Board of Mhathuze Water Application for an Urgent Interdict in the Pietermaritzburg High Court

The applicant made an application for an urgent interdict against Umgeni Water to be restrained from appointing its CEO and the Minister of DWS to be restrained from disestablishing Mhlathuze Water and merging it with Umgeni Water. The matter was concluded on the 2nd of March 2018 on the basis that Umgeni Water provided an undertaking to the effect that if the transfer takes effect and if the applicant is at that stage still employed by Mhlathuze Water that he would be transferred to Umgeni Water.

37,3 ICON Construction (Pty) Ltd vs Mhlathuze Water

Mhlathuze Water was served with a summons on the 28th of February 2018 in the amount of R880 440.83 (Eight Hundred and Eighty Thousand, Four Hundred and Forty Rand and Eighty Three Cent only) on interest of invoices that were paid late. Parties entered into a settlement agreement where Mhlathuze Water is to pay by the 31st of July 2018. Mhlathuze Water paid ICON Construction in terms of the settlement agreement.

37,4 MIS Pipelines vs Mhlathuze Water

The Service Provider lodged claims against MW for breach of contract, loss of profit and non payment of invoices. At the date of reporting the matter was not yet resolved and was due for arbitration. No date for arbitration has been set down.

37,5 ICON Construction (Pty) Ltd (MW/25/2013)

On the 9th of July 2018 Mhlathuze Water was served with papers for Application for interdict compelling Mhlathuze to pay ICON Construction the amount of R1 993 449.08 (One Million Nine Hundred and Ninety Three Thousand, Four Hundred and Forty Nine Rand and Eight Cent Only) on interest of invoices that were paid late. The parties have agreed to enter into negotiations for settlement. Mhlathuze Water agreed to pay ICON Construction the amount of R580 000.00 by the 31st of July 2018.





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