

**Amatola**  
**Water • Amanzi**

*bringing water to life*

# Integrated Annual Report 2021/22

24<sup>th</sup> February 2023

# PURPOSE

The purpose of this presentation is to brief the Parliamentary Portfolio Committee on Water and Sanitation on work performed by Amatola Water Board.

# CONTENTS

- Background
- Part A: Non-Financial Performance
- Part B: Financial Performance
- Part C: Achievements and Challenges
- Recommendation

A photograph of industrial pipes and valves, overlaid with a teal color filter. The pipes are metallic and feature several flanged connections secured with bolts. The background is slightly blurred, showing more of the industrial structure.

# **BACKGROUND**



Figure 1.3 Amatola Water supply scheme

# WATER VALUE CHAIN

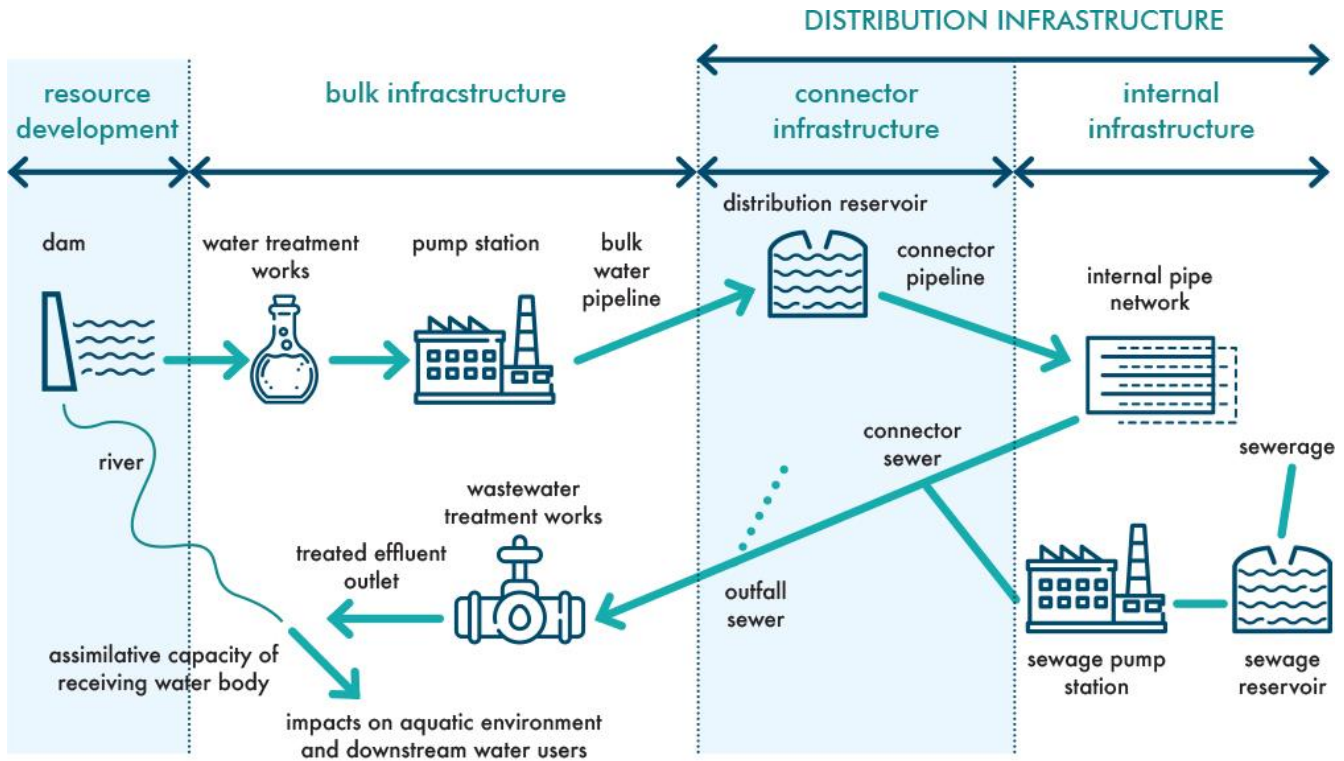
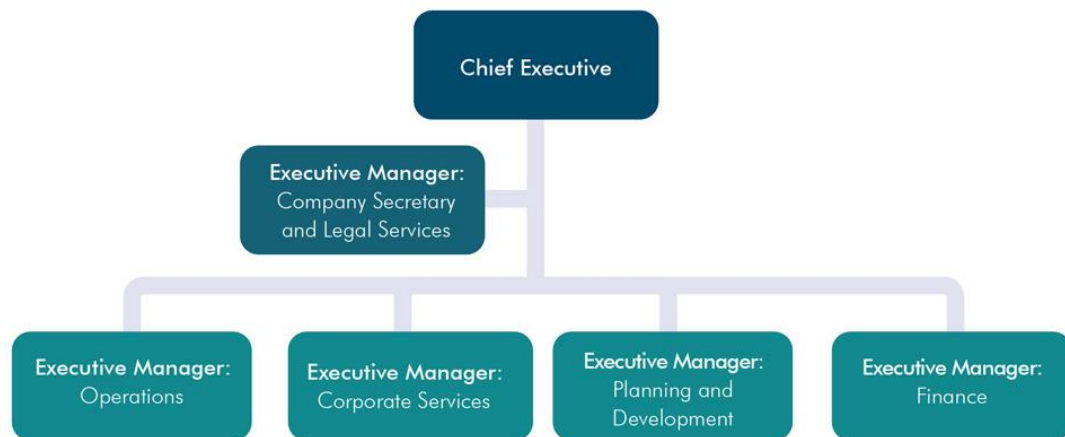
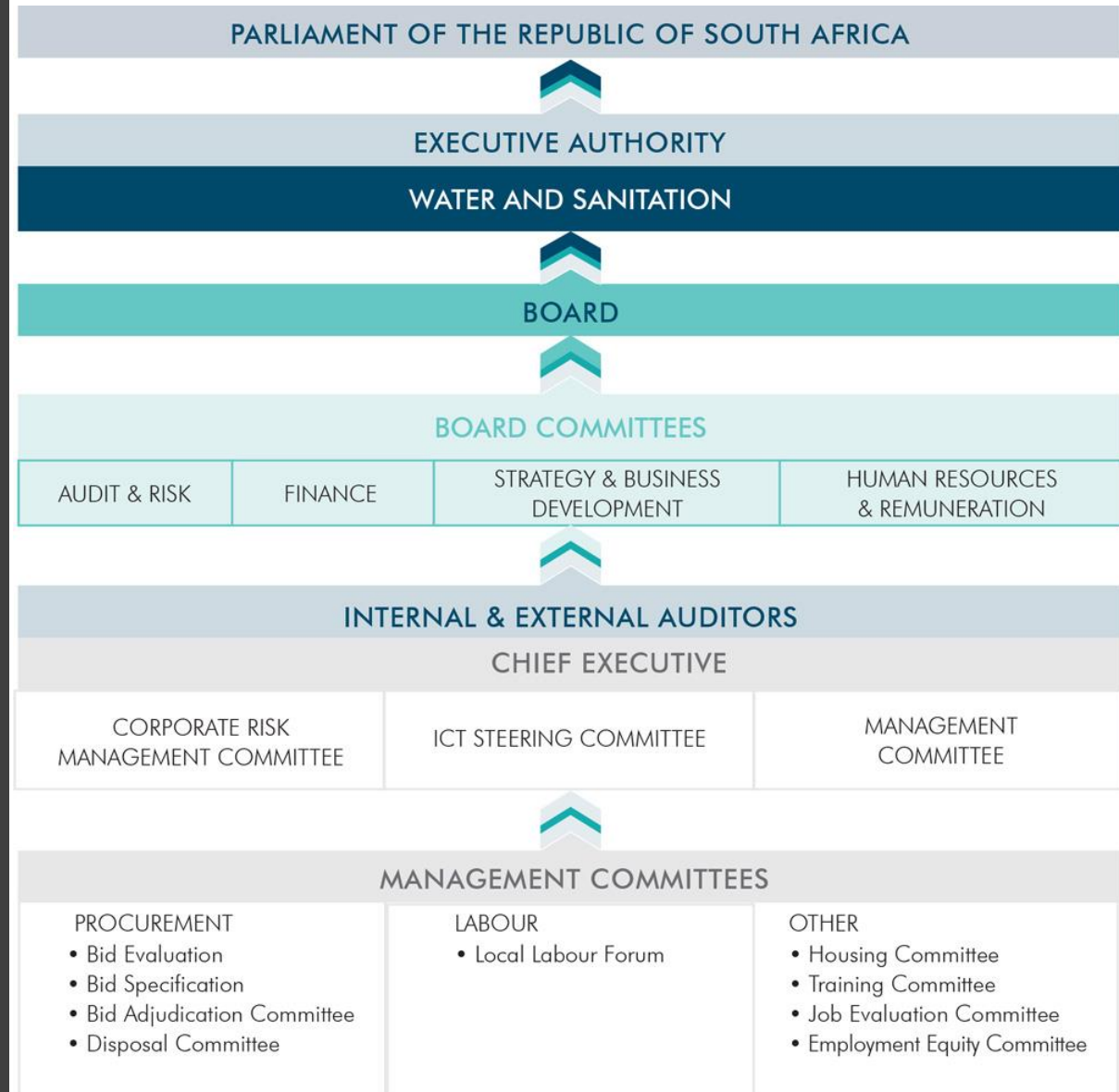



Figure 1.1 Water value chain





Date	Description of the meeting with the Parliamentary Portfolio Committee
01 March 2022	Department of Water and Sanitation (DWS) on projects that are being implemented across all provinces; with Minister and Deputy Ministers
19 April 2022	KwaZulu-Natal floods; Water Board 2022/23 tariffs and South African Local Government Association input, with Deputy Ministers
31 May 2022	DWS briefing: Assessment, evaluation and analysis of the water boards from 2019 to date; with Deputy Ministers
12 May 2022	DWS progress report on current cases investigated by Special Investigating Unit and law enforcement agencies; disciplinary cases; status and cost of fraud and corruption on financial and non-financial performance, with Ministry

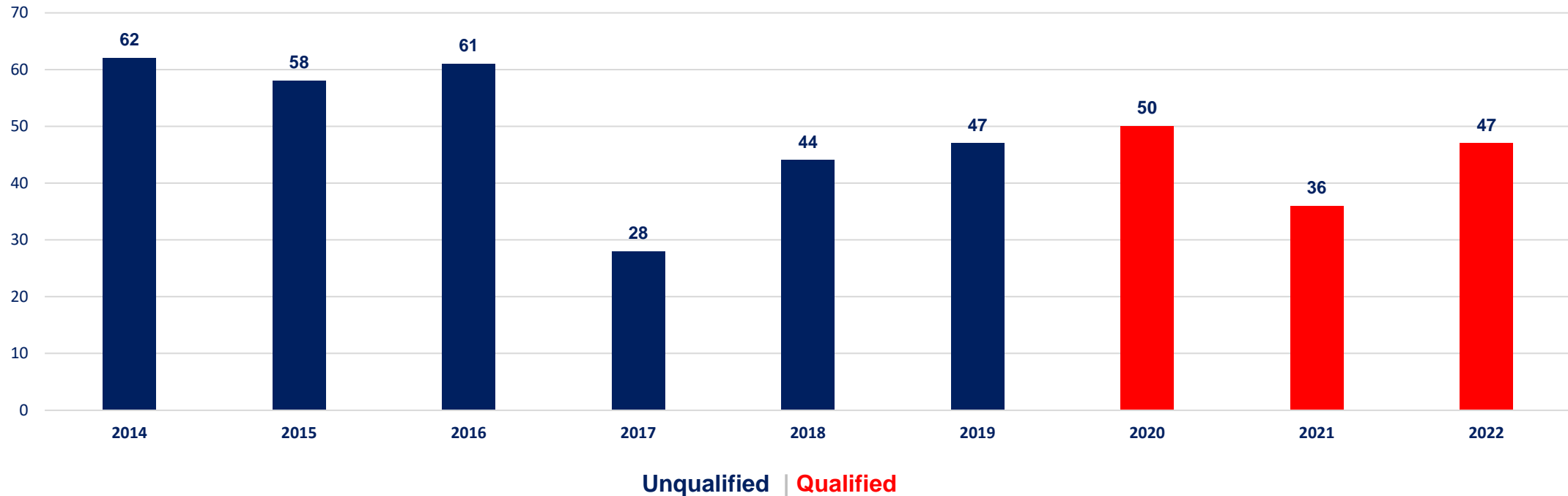


The background of the slide is a photograph of industrial pipes and valves, overlaid with a semi-transparent teal color. The pipes are metallic and have several flanged connections with bolts. The text is centered over this background.

# **PART A: NON-FINANCIAL PERFORMANCE INFORMATION**

# OVERVIEW OF AGSA AUDIT OUTCOMES

TREND ANALYSIS ON THE NUMBER OF AUDIT FINDINGS (2014 -2022)



AOPO 2021/22	AOPO 2020/21	Compliance findings 2021/22	Compliance findings 2020/21
Unqualified	Unqualified	<ul style="list-style-type: none"> <li>Annual financial statements</li> <li>Expenditure management</li> <li>Procurement and contract management</li> <li>Consequence management</li> <li>Revenue management</li> <li>Strategic planning</li> </ul>	<ul style="list-style-type: none"> <li>Annual financial statements</li> <li>Expenditure management</li> <li>Procurement and contract management</li> <li>Consequence management</li> <li>Revenue management</li> </ul>



# OVERVIEW OF AGSA AUDIT FINDINGS 2021/22

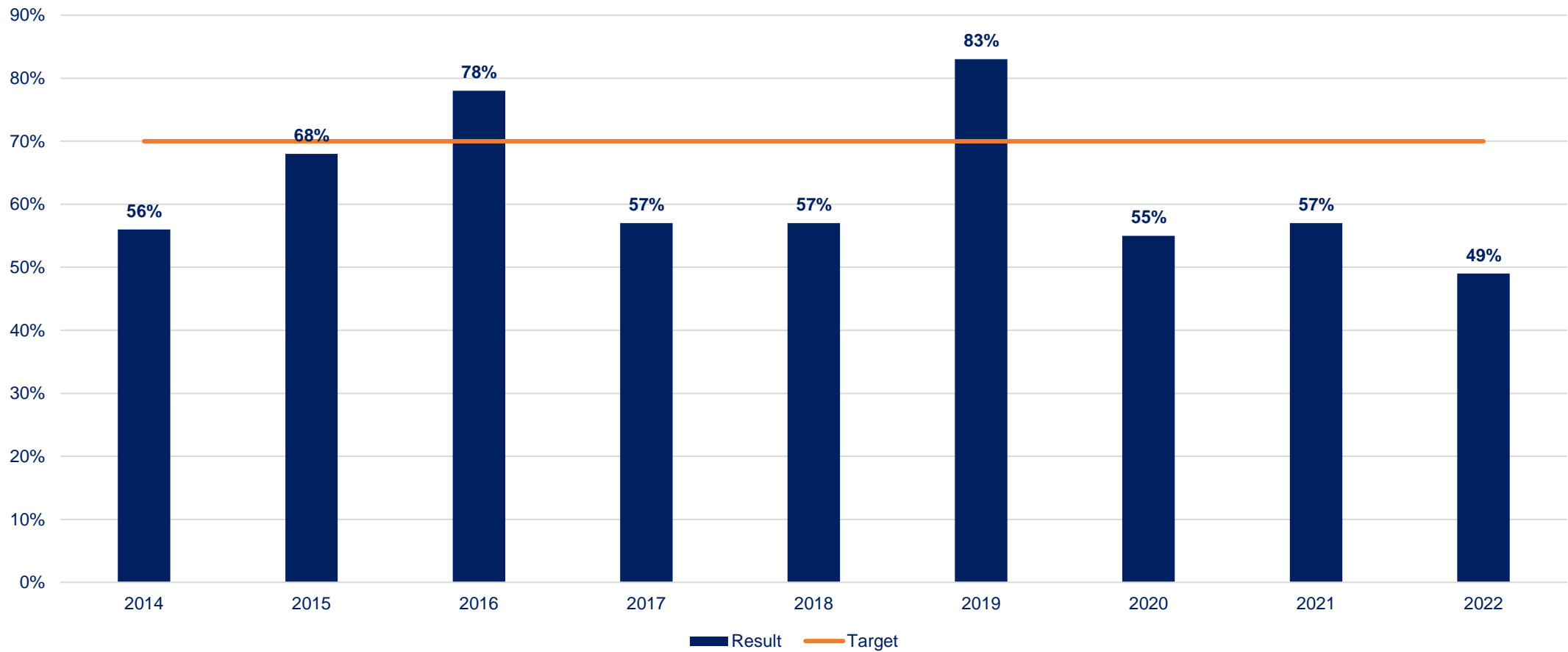
Compliance findings	Nature of the finding	Remedial action plan
<ul style="list-style-type: none"> <li><b>Annual financial statements</b></li> </ul>	<p>The following misstatements from prior year were not corrected in preparing the current year AFS:</p> <ul style="list-style-type: none"> <li>Irregular expenditure</li> <li>Commitments</li> <li>Cash flow</li> <li>VAT on advance payments</li> </ul>	<ul style="list-style-type: none"> <li>Revisit the irregular expenditure population from 19/20</li> <li>Management to consider the 19/20 findings relating to commitments and irregular expenditure when populating the commitments and irregular expenditure registers.</li> <li>Appoint a VAT specialist to assist with the VAT issue</li> </ul>
<ul style="list-style-type: none"> <li><b>Expenditure management</b></li> </ul>	<ul style="list-style-type: none"> <li>General ledger not prepared in a manner that is understandable/ that facilitates the gathering of sufficient audit evidence</li> </ul>	<ul style="list-style-type: none"> <li>Management to engage the software provider to customize the General ledger to include more information that will enhance easier understanding and review of the transactions.</li> </ul>
	<ul style="list-style-type: none"> <li>Payables - no existing obligation for creditor at year end</li> </ul>	<ul style="list-style-type: none"> <li>Process a correcting journal to correct the misstatement.</li> </ul>
	<ul style="list-style-type: none"> <li>Payments received in advance: VAT incorrectly charged</li> </ul>	<ul style="list-style-type: none"> <li>Procurement process is in progress for the appointment of a VAT specialist service provider to investigate the options the entity has.</li> <li>Implementing the recommendations of the VAT Specialist.</li> <li>Management will not declare VAT output on advances</li> </ul>
	<ul style="list-style-type: none"> <li>Cost of Sales - Differences noted in cost of sales</li> </ul>	<ul style="list-style-type: none"> <li>Expenditure supervisor will ensure all invoices are recorded in the correct account</li> </ul>
	<ul style="list-style-type: none"> <li>Operating leases: Leases and expenses classification</li> </ul>	<ul style="list-style-type: none"> <li>Ensure the correct allocation of monthly rates and electricity charged into the ledger accounts via a journal every month.</li> </ul>
<ul style="list-style-type: none"> <li><b>Procurement and contract management</b></li> </ul>	<p>There are no measures to ensure timely delivery of services contracted for.</p>	<ul style="list-style-type: none"> <li>The contract management unit will monitor ongoing contracts to ensure service providers perform within the agreed timelines.</li> </ul>

# OVERVIEW OF AGSA AUDIT FINDINGS 2021/22

Compliance findings	Nature of the finding	Remedial action plan
<ul style="list-style-type: none"> <li><b>Consequence management</b></li> </ul>	<ul style="list-style-type: none"> <li>Lack of measures to ensure effective consequence management</li> </ul>	<ul style="list-style-type: none"> <li>Establish a committee that deals with consequence management that includes human resources, legal and finance executives including union representatives</li> <li>Investigate all financial misconduct issues (irregular and fruitless and wasteful expenditure)</li> <li>The reviewed and updated irregular expenditure schedules will be provided to Internal Audit for conducting of determination exercise.</li> </ul>
<ul style="list-style-type: none"> <li><b>Revenue management</b></li> </ul>	<ul style="list-style-type: none"> <li>The entity did not take effective and appropriate steps to collect all revenue due</li> </ul>	<ul style="list-style-type: none"> <li>Management to review the debtors ageing monthly and follow up on outstanding accounts in line with the debt collection policy.</li> </ul>
<ul style="list-style-type: none"> <li><b>Strategic planning</b></li> </ul>	<ul style="list-style-type: none"> <li>The entity does not have an approved action plan to address the non-achieved indicators.</li> <li>A remedial action plan exists however does not facilitate adequate monitoring of non-achieved indicators in terms of monitoring quarterly, following up on reasons documented in the previous periods and tracking of reasons and implementing actions to ensure improvement in performance of indicators.</li> </ul>	<ul style="list-style-type: none"> <li>Compilation of a remedial plan for all variances (under achievements) to formulate corrective actions required to mitigate the future risks involved in the re-occurrence of such variances.</li> <li>A standard operating procedure will be developed and aligned to the Organizational Performance Information Management Policy.</li> <li>Ensure monitoring of the implementation of approved remedial and corrective action plans.</li> </ul>

# PERFORMANCE INFORMATION

ORGANISATIONAL PERFORMANCE OVERVIEW  
(2014-2022)



# PERFORMANCE INFORMATION REPORT OVERVIEW

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The entity's performance has declined by 11% on the shareholder's compact indicators and by 8% on those in the Annual Performance Plan which is attributable to the following factors:

- Water restrictions imposed by DWS during 2021/2022 have resulted in the reduction of revenue and mega litres sold.
- The national crisis of chlorine shortages affected water quality.
- There was a prolonged drought that left the Debe Dam empty and affected the assurance of water supply.
- Ageing infrastructure has reduced the water supply and increases in water losses.

## PRODUCTION QUALITY

Amatola Water's water quality compliance at all its water treatment works and its distribution network was in line with the SANS 241:2015 Part 1 and 2, which is a national standard used to measure water quality compliance.

Seven plants achieved excellent water quality while one plant achieved "good" water quality during the year against a set target of seven plants achieving "good/better" water quality. Debe plant did not achieve any results because the plant has been down due to the dam being empty.

The failures were mainly due to network pipe breaks and high electric conductivity failures at the Albany Reverse Osmosis Plant that blends water supplies from the Diaz Cross Dune Wells and the reverse osmosis product water.



*Figure 7.2: Number of plants and water quality results achieved 2021/22*



## TOTAL WATER LOSSES COMPARED TO ANNUAL TARGET

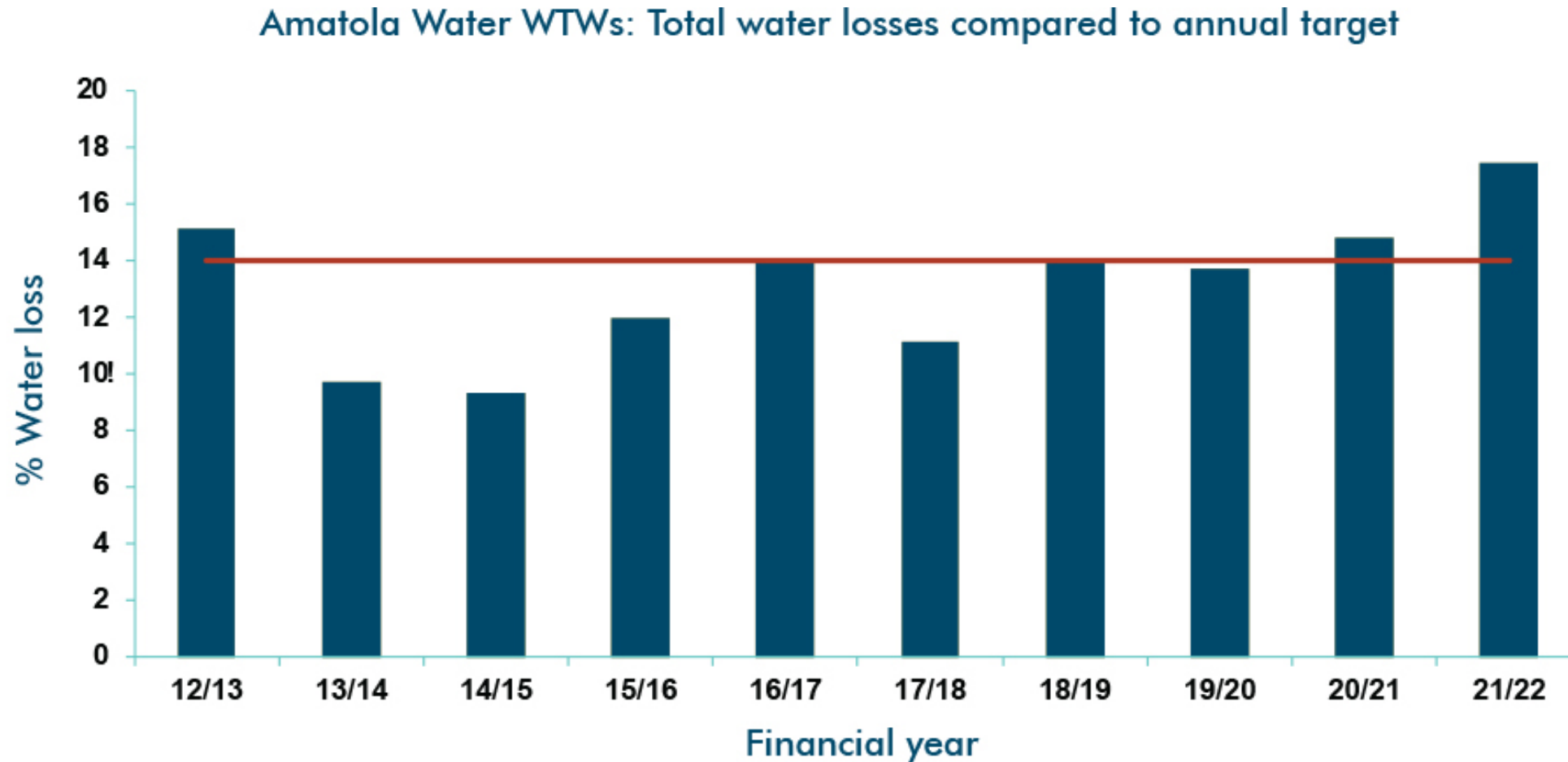


Figure 6.7: Amatola Water WTWs: Total water losses compared to annual target



# **PART B: FINANCIAL PERFORMANCE**

# STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

		2022	2021
	Note(s)	R '000	Restated* R '000
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	3	5,281	4,535
Receivables from exchange transactions	4	225,631	243,884
Statutory receivable	6	26,23	33,551
Cash and cash equivalents	7	252,445	417,51
		<b>509,587</b>	<b>699,48</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	8	1,707,663	1,822,320
Intangible assets	9	2,545	3,228
		<b>1,710,208</b>	<b>1,825,548</b>
<b>Total Assets</b>		<b>2,219,795</b>	<b>2,525,028</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	10	373,558	497,993
Provisions	11	532	536
		<b>374,09</b>	<b>498,529</b>
<b>Total Liabilities</b>		<b>374,09</b>	<b>498,529</b>
<b>Net Assets</b>		<b>1,845,705</b>	<b>2,026,499</b>
Share capital / contributed capital		274,557	274,557
Accumulated surplus		1,571,148	1,751,942
<b>Total Net Assets</b>		<b>1,845,705</b>	<b>2,026,499</b>

# STATEMENT OF FINANCIAL PERFORMANCE

		2022	2021
	Note(s)	R '000	Restated* R '000
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Revenue	12	388,534	391,535
Cost of sales	13	-386,053	-371,393
<b>Gross surplus</b>		<b>2,481</b>	<b>20,142</b>
Other income	14	3,721	5,459
Finance income	15	32,008	29,389
<b>Total revenue from exchange transactions</b>		<b>38,21</b>	<b>54,99</b>
<b>Revenue from non-exchange transactions</b>			
<b>Transfer revenue</b>			
Public donations	16	-	25,611
<b>Total revenue</b>	12	<b>38,21</b>	<b>80,601</b>
<b>Expenditure</b>			
Employee related costs	17	-64,652	-59,631
Non- executive members emoluments	18	-4,934	-5,017
Depreciation and amortisation	9&8	-837	-516
Impairment loss	19	-48,569	-878
Finance costs	20	-19	-14,56
Lease rentals on operating lease	21	-10,467	-9,844
Debt impairment	5	9,802	-24,107
Repairs and maintenance	22	-17,222	-14,743
Loss on disposal of assets	8	-6,802	-
General expenses	23	-56,327	-49,857
<b>Total expenditure</b>		<b>-219,008</b>	<b>-179,153</b>
<b>Deficit for the year</b>		<b>-180,798</b>	<b>-98,552</b>

# STATEMENT OF CHANGES IN NET ASSETS

	Note(s)	Share capital / contributed capital	Accumulated surplus / deficit	Total net assets
		R '000	R '000	R '000
<b>Balance at 01 July 2020</b>		<b>274,557</b>	<b>1,900,842</b>	<b>2,175,399</b>
Changes in net assets				
Deficit for the year		-	-98,552	-98,552
<b>Total changes</b>		<b>-</b>	<b>-98,552</b>	<b>-98,552</b>
 Balance at 01 July 2021		 274,557	 1,802,290	 2,076,847
Correction of prior period errors	28	-	-50,348	-50,348
 <b>*Balance at 01 July 2021 as restated*</b>		 <b>274,557</b>	 <b>1,751,942</b>	 <b>2,026,499</b>
Changes in net assets				
Deficit for the year		-	-180,797	-180,797
<b>Total changes</b>		<b>-</b>	<b>-180,797</b>	<b>-180,797</b>
 <b>Balance at 30 June 2022</b>		 <b>274,557</b>	 <b>1,571,148</b>	 <b>1,845,705</b>

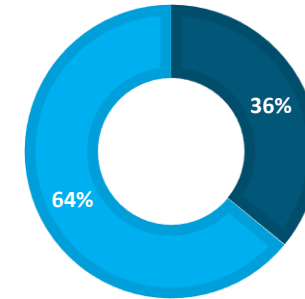


# CASHFLOW STATEMENT

		2022	2021
	Note(s)	R '000	Restated* R '000
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Cash receipts from customers		432,895	366,707
Grants		-	25,611
Other receipts		3,721	5,459
		<b>436,616</b>	<b>397,777</b>
<b>Payments</b>			
Cash paid to employees		-204,727	-188,877
Cash paid to suppliers		-392,550	-283,201
		<b>-597,277</b>	<b>-472,078</b>
<b>Net cash flows from operating activities</b>	24	<b>-160,661</b>	<b>-74,301</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	-13,316	-32,2
Additions to work-in-progress		-4,309	-12,564
Purchase of other intangible assets	9	-	-768
<b>Net cash flows from investing activities</b>		<b>-17,625</b>	<b>-45,532</b>
<b>Cash flows from financing activities</b>			
Finance income	15	13,221	13,393
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>-165,065</b>	<b>-106,44</b>
Cash and cash equivalents at the beginning of the year		417,51	523,95
<b>Cash and cash equivalents at the end of the year</b>	7	<b>252,445</b>	<b>417,51</b>

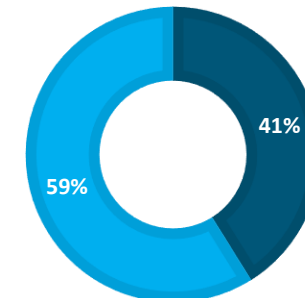
## PAYMENTS TO EMPLOYEES & SUPPLIERS 2021/22

■ Compensation to employees ■ Goods and services



## PAYMENTS TO EMPLOYEES & SUPPLIERS 2020/21

■ Compensation to employees ■ Goods and services



# PRIMARY AND SECONDARY REVENUE

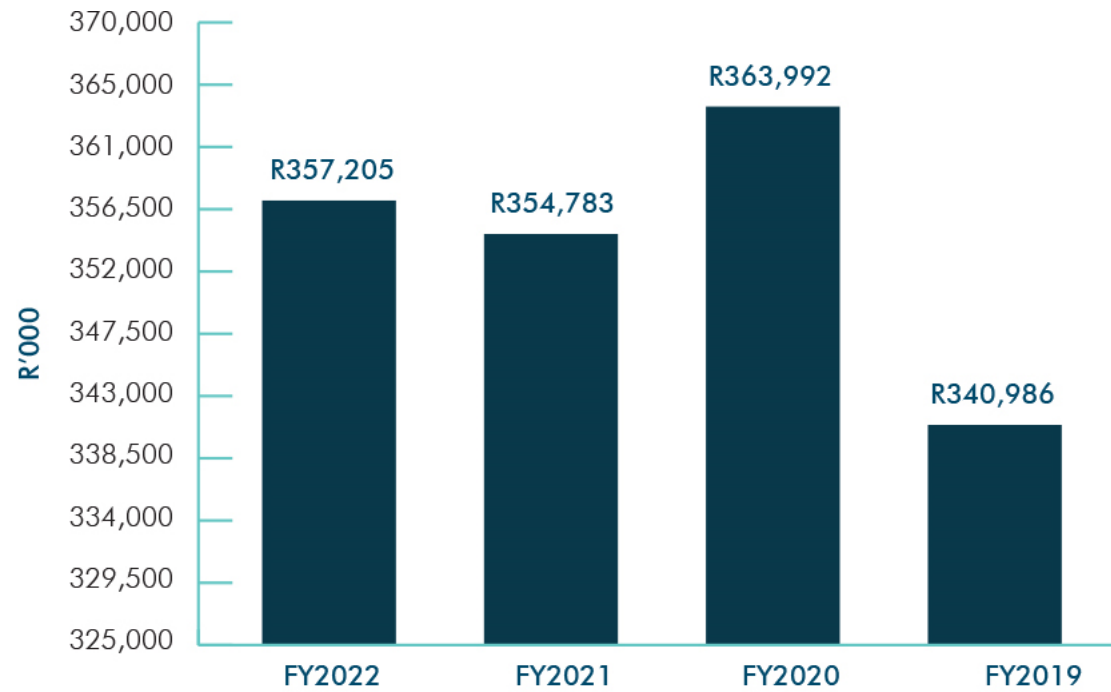


Figure 8.1: Primary revenue (2019-2022)

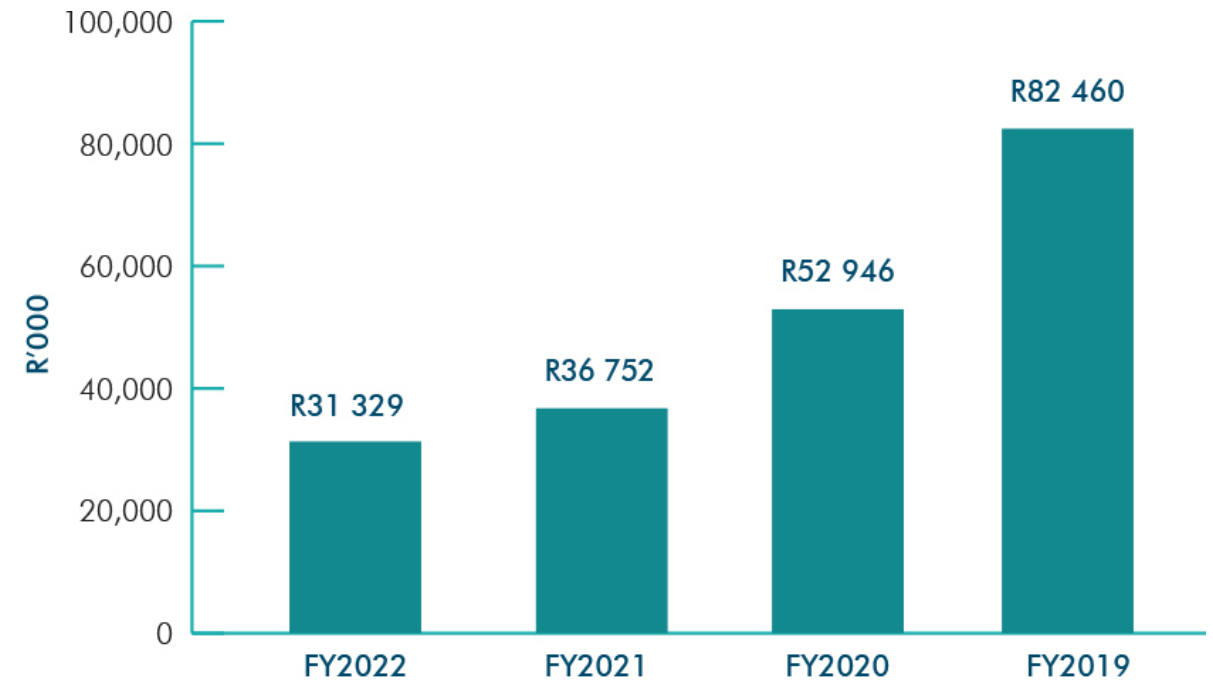


Figure 8.3: Secondary revenue (2019-2022)

# MUNICIPAL DEBT AS AT 30 JUNE 2022

Name of Municipality	Amount
Buffalo City Metropolitan Municipality	21 128 498
Amathole District Municipality	267 418 662
Ndlambe Local Municipality	203 908
<b>Bulk Water Supply</b>	<b>288 751 067</b>
Joe Gqabi District Municipality	1 630 985
OR Tambo District Municipality	43 313 077
Makana Local Municipality	10 841 998
Ndlambe Local Municipality	154 686
Dr Beyers Naude Local Municipality	135 819
Koukama Local Municipality	32 127
<b>Other services</b>	<b>56 108 692</b>
<b>Total Debtors book</b>	<b>344 859 759</b>

Aging	Bulk Water Supply	Other services	Total	Percentage
Current	29 960 368	30 537 806	60 498 173	<b>18%</b>
30 days	9 671 389	4 138 756	13 810 145	<b>4,0%</b>
60 days	(8 124 129)	277 845	(7 846 283)	<b>-2,3%</b>
90 days	11 382 308	780 720	12 163 027	<b>3,5%</b>
120 days+	245 861 131	20 373 565	266 234 696	<b>77,2%</b>
	<b>288 751 067</b>	<b>56 108 692</b>	<b>344 859 759</b>	<b>100%</b>

Name of Municipality	Current	30 days	60 days	90 days	120 days+	Total	Attribution
Buffalo City Metropolitan Municipality	21 130 365	-	-	-	(1 867)	21 128 498	6%
Amathole District Municipality	8 626 095	9 671 389	(8 124 129)	11 382 308	245 862 998	267 418 662	78%
Ndlambe Local Municipality	203 908	-	-	-	-	203 908	0%
Joe Gqabi District Municipality	795 023	4 109	10 259	10 601	810 994	1 630 985	0%
OR Tambo District Municipality	29 684 247	4 093 044	260 645	525 868	8 749 272	43 313 077	13%
Makana Local Municipality	7 173	7 412	6 941	7 173	10 813 299	10 841 998	3%
Ndlambe Local Municipality	33 997	1 042	-	119 647	-	154 686	0%
Dr Beyers Naude Local Municipality	748	17 640	-	117 431	-	135 819	0%
Koukama Local Municipality	16 618	15 510	-	-	-	32 127	0%
<b>Total Debtors book</b>	<b>60 446 810</b>	<b>13 775 954</b>	<b>(7 846 283)</b>	<b>11 925 949</b>	<b>266 234 696</b>	<b>344 859 759</b>	<b>100%</b>

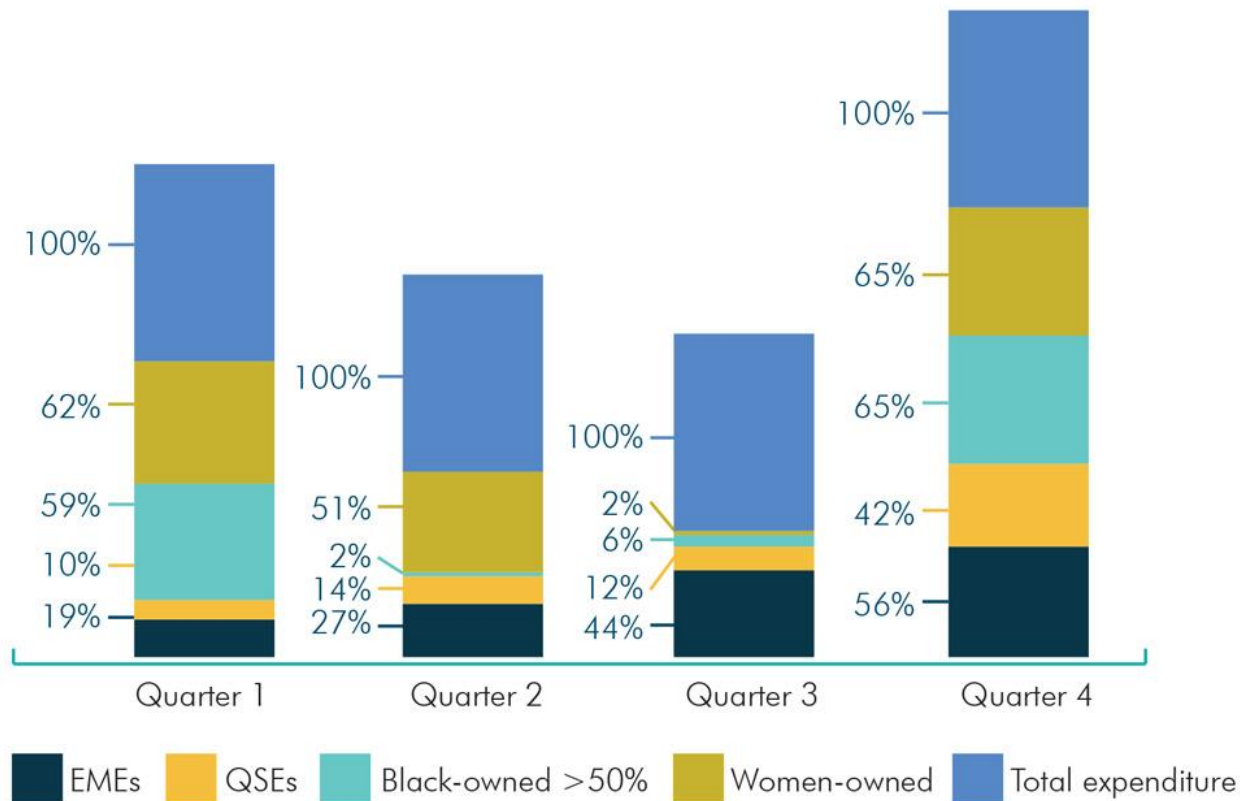
# KEY FINANCIAL RATIOS

RATIOS	FY2022	FY2021	FY2020	FY2019
Current ratio	1,340	1,419	1,427	1,545
Trade debtors (days)	198,86	230,49	118,91	69,65
Return on assets	-8,87%	-3,83%	-3,53%	18,79%
Debt-equity ratio	-	-	-	-
Acid - test ratio	1,33	1,48	5,48	1,54
Cost of sales (R/kl)	7,38	5,39	9,16	5,39
Electricity cost (R/kl)	1,95	1,04	1,50	1,04
Chemical costs (R/kl)	0,39	0,26	0,21	0,26
Raw water purchases (k/l)	2,54	2,15	2,75	2,15
Water research levies (k/l)	0,08	0,08	0,09	0,08
<b>PRODUCTIVITY</b>				
Number of employees	333	333	332	365
Average revenue per employee (R'000)	1,167	1,176	811	1,431

Table 8.1: Key financial ratios

# ECONOMIC EMPOWERMENT

ACCUMULATIVE B-BBEE EXPENDITURE  
AS A % OF TOTAL EXPENDITURE 2021/22



Through economic empowerment programmes and initiatives, Amatola Water aims to achieve the following key objectives:

- Facilitating access of B-BBEE compliant suppliers to the entity's procurement activities
- Developing or establishing new, sustainable businesses with black entrepreneurs, through the procurement process and empowerment of MSMEs
- Contributing to skills development and job creation through the employment of targeted labour and designated groups which includes the youth, women, and people living with disabilities.



The background of the slide is a photograph of industrial machinery, specifically large pipes and valves, overlaid with a semi-transparent teal color. The pipes are metallic and feature various flanges and bolts. The overall scene suggests a manufacturing or processing environment.

# **PART C: ACHIEVEMENTS & CHALLENGES**

# ACHIEVEMENTS

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1. The appointment of the Chief Financial Officer and officials in senior management positions (i.e. Supply Chain Manager, Human Resources Manager and Programmes Management Unit Manager).
2. Retention of the ISO 45001: 2018 certification for Occupational Health and Safety Management Systems (Registration Number: OHS180175).
3. Approval of nine organizational policies by the Board.
4. Turn around of the project portfolio:
  - Practical completion of the Nooitgedagt Coega Low Level Scheme Phase.
  - Appointment of the replacement contractor for the James Kleynhans Water Treatment Works Phase 2
  - Continuation of the Sarah Baartman District Municipality projects (Misgund, Kirkwood & Paterson).
  - Strengthening of the project management office with the appointment of five support professional engineers.

# CHALLENGES

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1. Eskom load shedding
2. Aging infrastructure
3. Climate change (prolonged drought and floods)
4. Long outstanding municipal debt (Amathole District Municipality debt)
5. Low levels of stakeholder confidence
6. Financial deficits reported in three consecutive years
7. Declining organizational performance
8. Qualified audit outcomes in three consecutive years
9. Outdated organizational policies

## THREE PILLARS OF THE INTERIM BOARD INTERVENTION PLAN TO STABILISE THE INSTITUTION AND TO HALT THE DECLINING PERFORMANCE

Pillar 1: Creating Primary Business Focus	Pillar 2: Strengthen Governance	Pillar 3: Leadership Restoration
<ul style="list-style-type: none"> <li>• Resolve Amathole District Municipality issues</li> <li>• Resolve Buffalo City Metropolitan Municipality additional capacity request</li> <li>• Upgrade Buffalo City Municipality Metropolitan servicing plant</li> <li>• Resolve Ndlambe Local Municipality water supply issues</li> <li>• Stakeholder management (political, clients and public)</li> <li>• Financial consolidation and improvement</li> <li>• Increase awareness of the effects of climate change.</li> </ul>	<ul style="list-style-type: none"> <li>• Board functioning is restored to normalcy</li> <li>• Audit improvement plan</li> <li>• Consequence management</li> <li>• Reorganisation for modernisation</li> <li>• Restoration of systems, policies and standard operation procedures across the organisation including systems of internal controls</li> </ul>	<ul style="list-style-type: none"> <li>• CEO and CFO posts filled</li> <li>• Critical core functions post filled (and governance related posts)</li> <li>• Leadership training</li> <li>• Building organisational capability</li> </ul>

# THANK YOU



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