



LEPELLE NORTHERN WATER ANNUAL REPORT

2021/22

“Water is our passion”

TABLE OF CONTENTS



Introduction



Performance Environment



Organisational Environment



Non-Financial Performance



Financial Performance



INTRODUCTION



In delivering on our strategy in the 2021/22 financial year, the annual report highlights the progress made by LNW in achieving its overall organizational performance.



The AR provides an opportunity to identify areas of improvement where noted.



On targets achieved it gives an indication of the good work being done



On targets not achieved it gives an indication on the challenges faced in the implementation process and measures that will be taken for corrective action.

PERFORMANCE ENVIRONMENT



Operating in a province with scarce water resources, requiring that the entity optimise the little water that is available.



The LNW operates within municipalities that have high rate of indigents and high rate of unemployment.



These puts pressure on the entity to set tariffs that are affordable yet sustaining the existence of the organisation.



Most of the water and wastewater infrastructure have reached their maximum capacities, ageing and dilapidated affecting the raw water quality.



Collaboration within the sector is crucial for the continued supply of water services in all areas of Limpopo Province.



The Board

- The Minister: Water and Sanitation is the Executive Authority of LNW.
- The LNW Board is its Accounting Authority.
- The LNW Board is appointed by the Minister: Water and Sanitation to whom it is accountable.
- It ensures the development of business strategies, policies and procedures, monitors and reviews management's implementation of these policies and procedures.
- Permanent LNW Board has been appointed and commenced its fiduciary duties on the 4th August 2021. The appointment is for the period of four (4) years.

BOARD COMMITTEES

HR & Ethics Com.

Audit & Risk Com.

LNW Board

Infrastructure, Ops
& Stakeholder Com.

Finance Com.



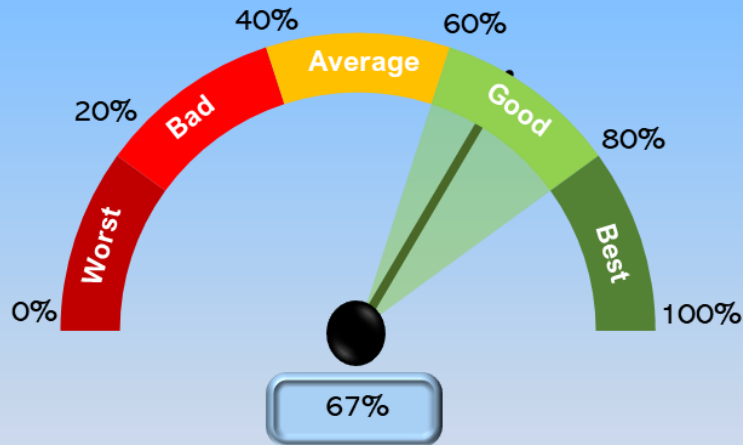
NON-FINANCIAL PERFORMANCE

“Water is our passion”

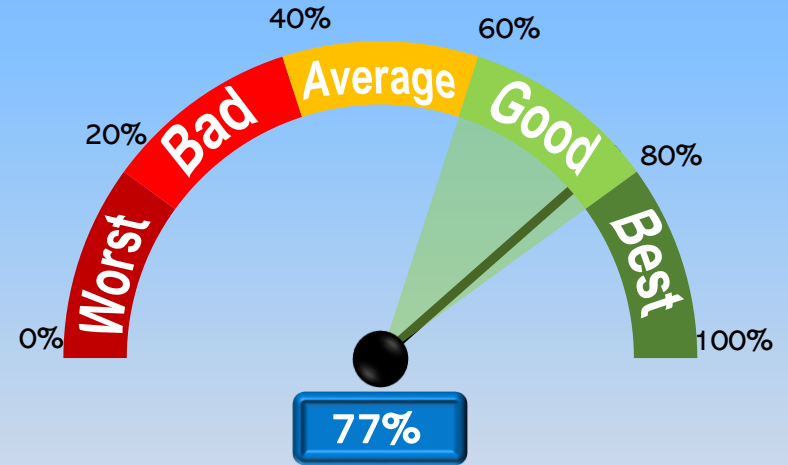
NON-FINANCIAL PERFORMANCE

Water is our Passion

2020/21



2021/22



STAKEHOLDER RELATIONS

Water is our Passion

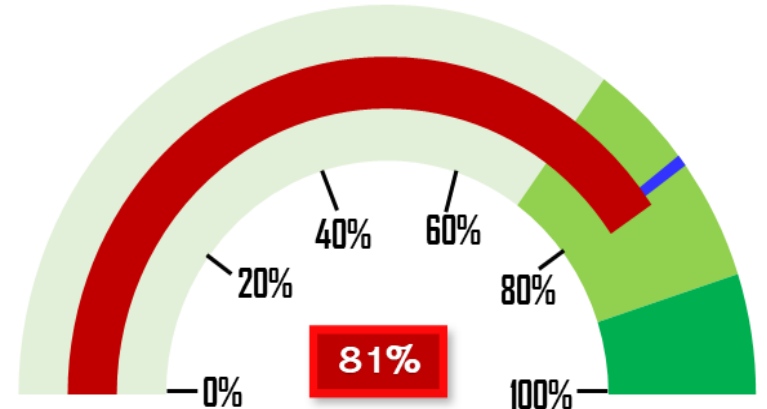
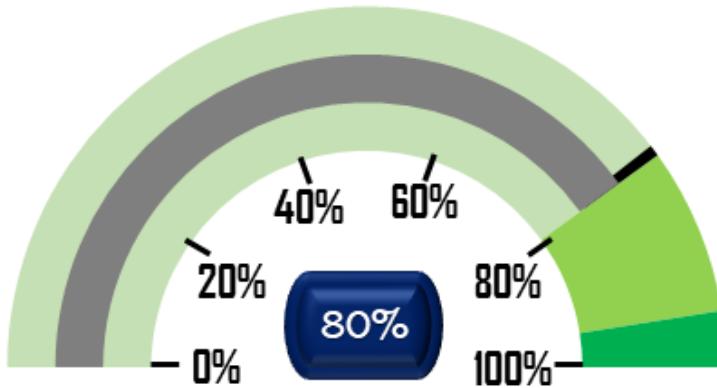


CUSTOMER SATISFACTION

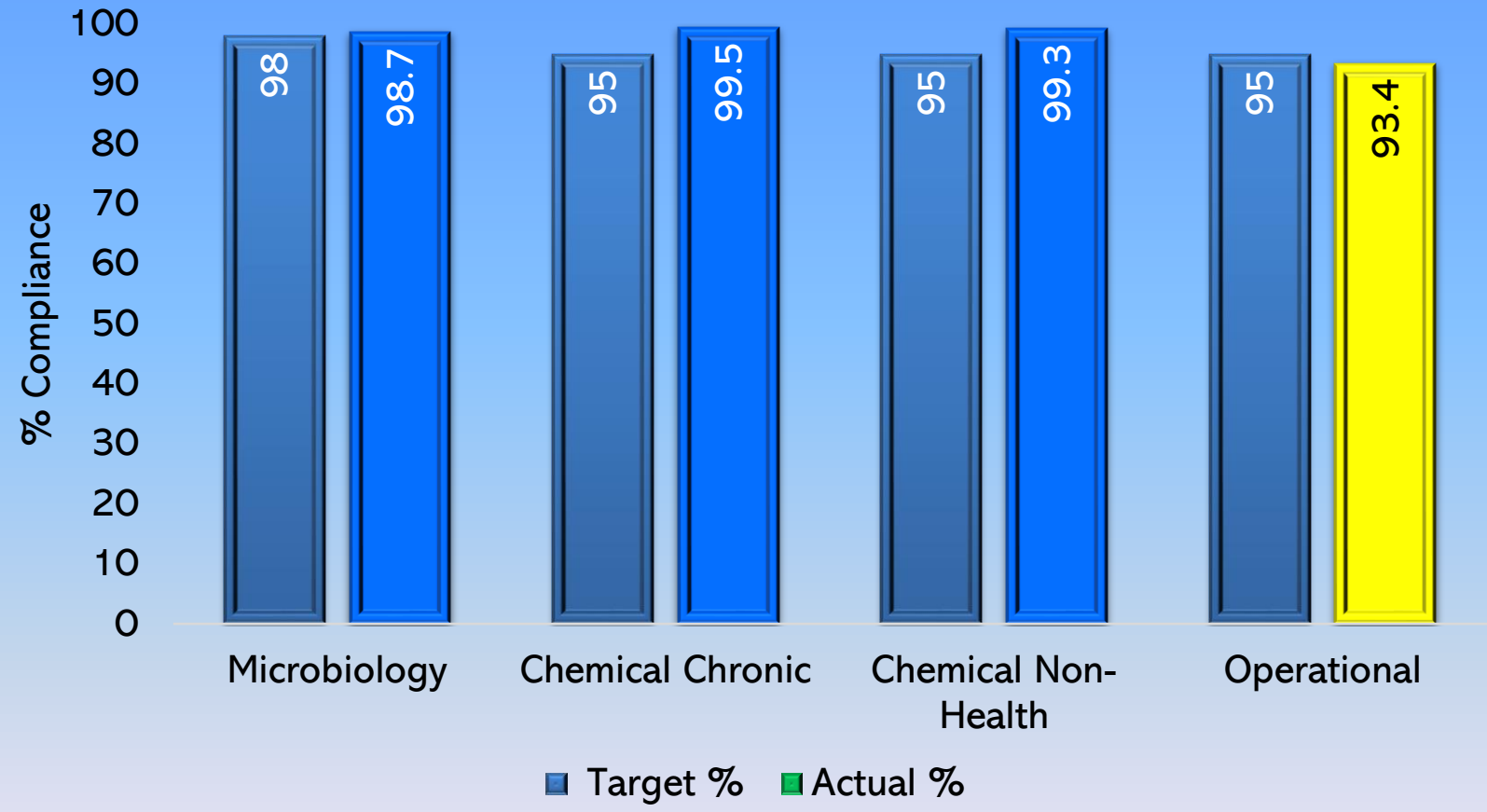
Water is our Passion

2020/21

2021/22



WATER QUALITY COMPLIANCE



WATER QUALITIES CHALLENGES

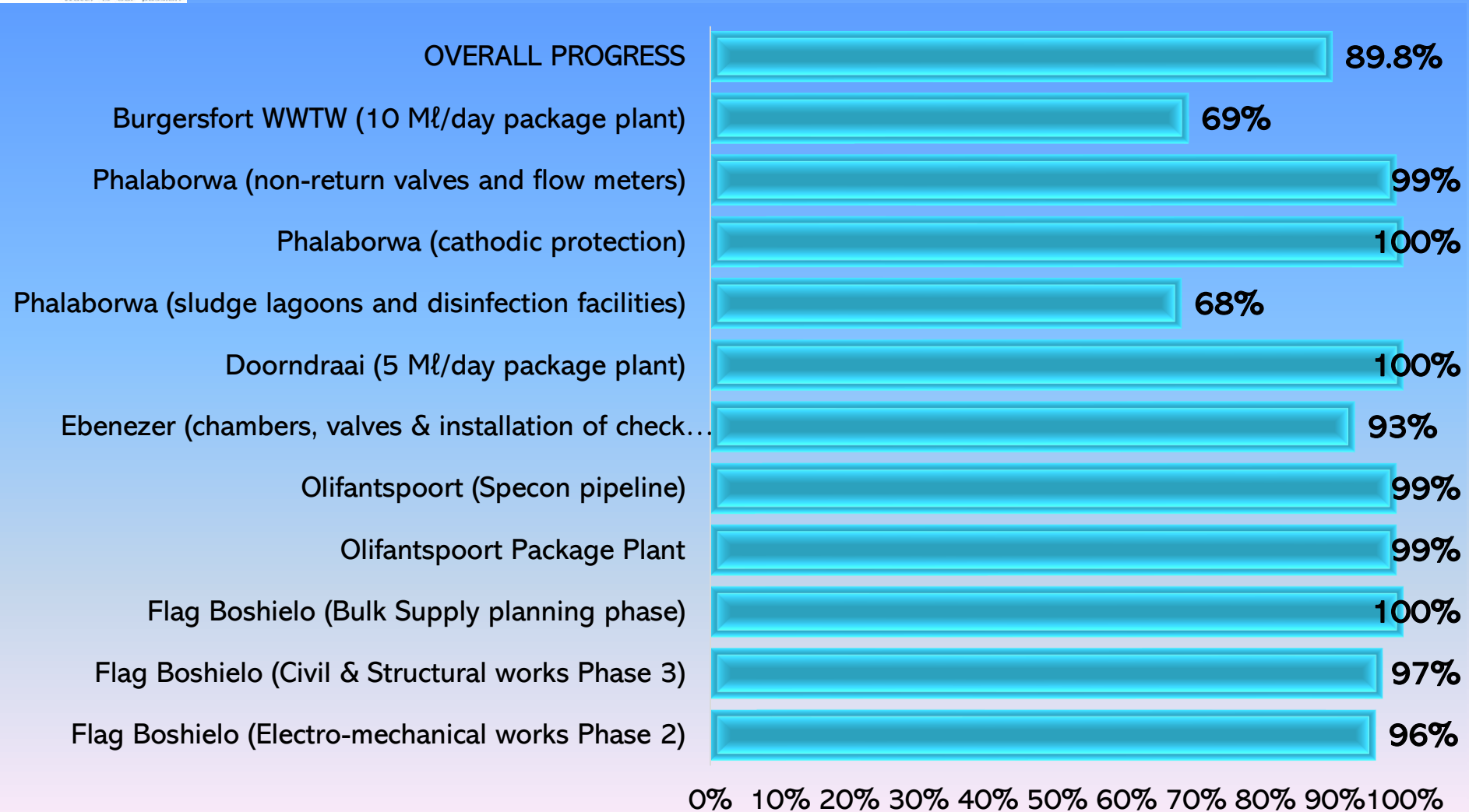


Operational compliance

- There was a general challenge within the country with regards to the distribution of chlorine gas from NCP (the only chlorine gas manufacturer in South Africa).
- Resulted in schemes not having chlorine gas and chlorine granules and chip dozers was use to disinfect the water to SANS 241 standards.

CAPITAL PROJECTS - LNW

Water is our Passion



COMMENTS ON PROJECT DELAYS

Water is our Passion



Inexperience of service providers appointed.



Poor planning by appointed services providers.



Delays in payments to Service providers.



Water Use License disputes



Community unrest and protests



Demands by business forums for 30% sub-contracting of works.



PROPOSED SOLUTIONS :

- Strengthening of Bid Specifications and Experience verification
- Cost/Debt recovery from Water Services Authorities
- Procuring the services of experienced Social Facilitators on projects before inspection.
- Charging penalties and consequences management for poor performance & planning.



DIRECTIVES

“Water is our passion”

MINISTERIAL PROJECTS

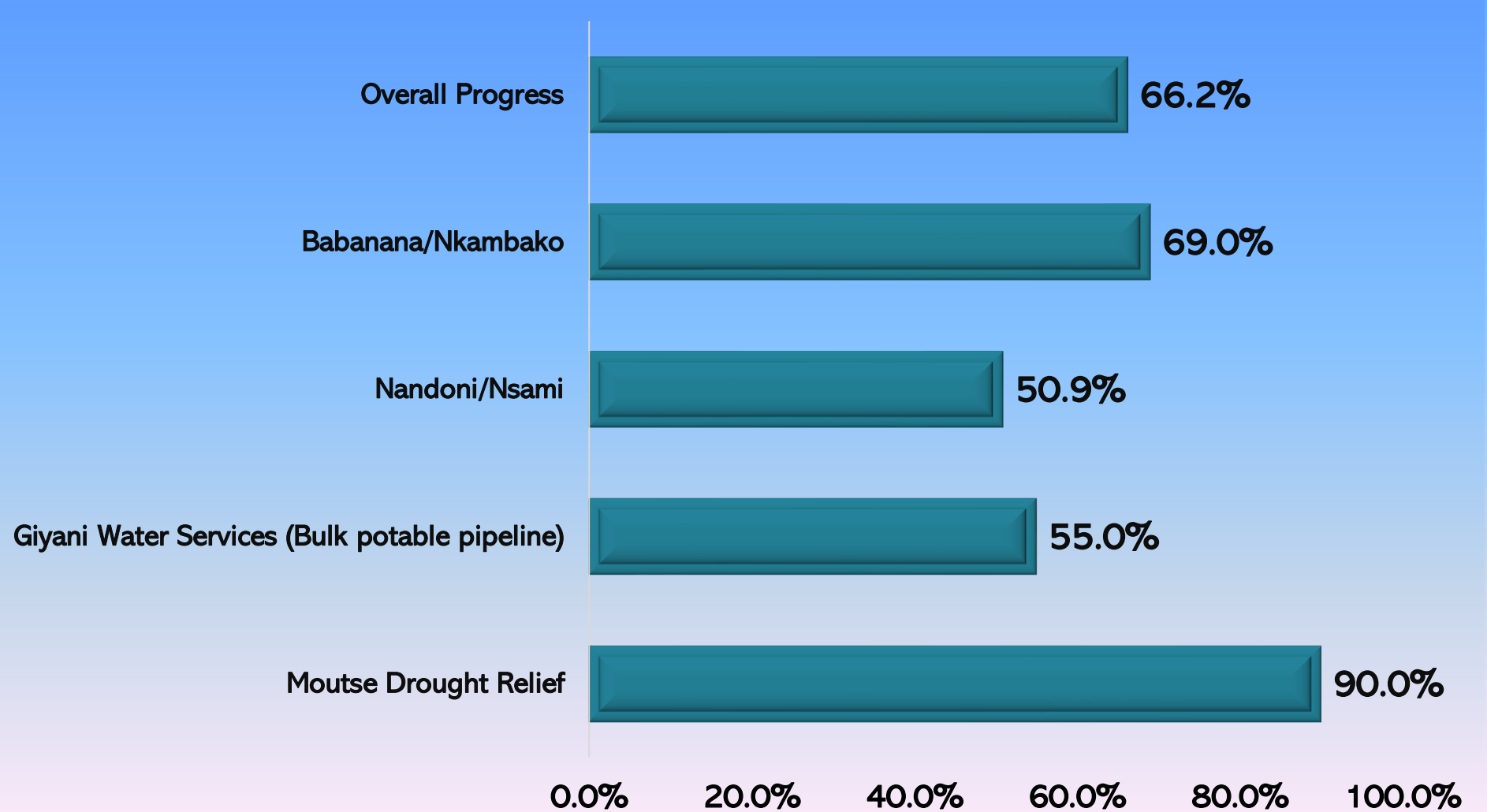


LNW implement a number of Ministerial Directives from Department of Water and Sanitation as highlighted below:

- Giyani drought relief bulk infrastructure project (Nandoni – Nsami bulk pipeline)- RL28
- Giyani Bulk Water Service Project (RM08)
- Moutse Drought Relief
- Babanana/Nkambako regional bulk distribution







DWS PROJECTS

Water is our Passion



COMMENTS ON PROJECT DELAYS



-  Poor planning by appointed services providers.
-  Delays in payments to Service providers.
-  Community unrest and protests
-  Demands by business forums for 30% sub-contracting of works.
-  Mushrooming of business forums
-  Stoppages by tribal authorities and communities along the pipelines

PROPOSED SOLUTIONS :

- Strengthening of Bid Specifications and Experience verification
- Smart cash flow projections that are budgeted for
- Collection of debt in order to fund the projected cash flows or loans where applicable
- Procuring the services of experienced Social Facilitators on projects ensuring that communities are up to date with project developments.
- Charging penalties and consequences management for poor performance & planning.
- Establishment of multi-stakeholder forum that accommodate everyone within the project area.



FINANCIAL PERFORMANCE

FINANCIAL PERFORMANCE

Water is our Passion

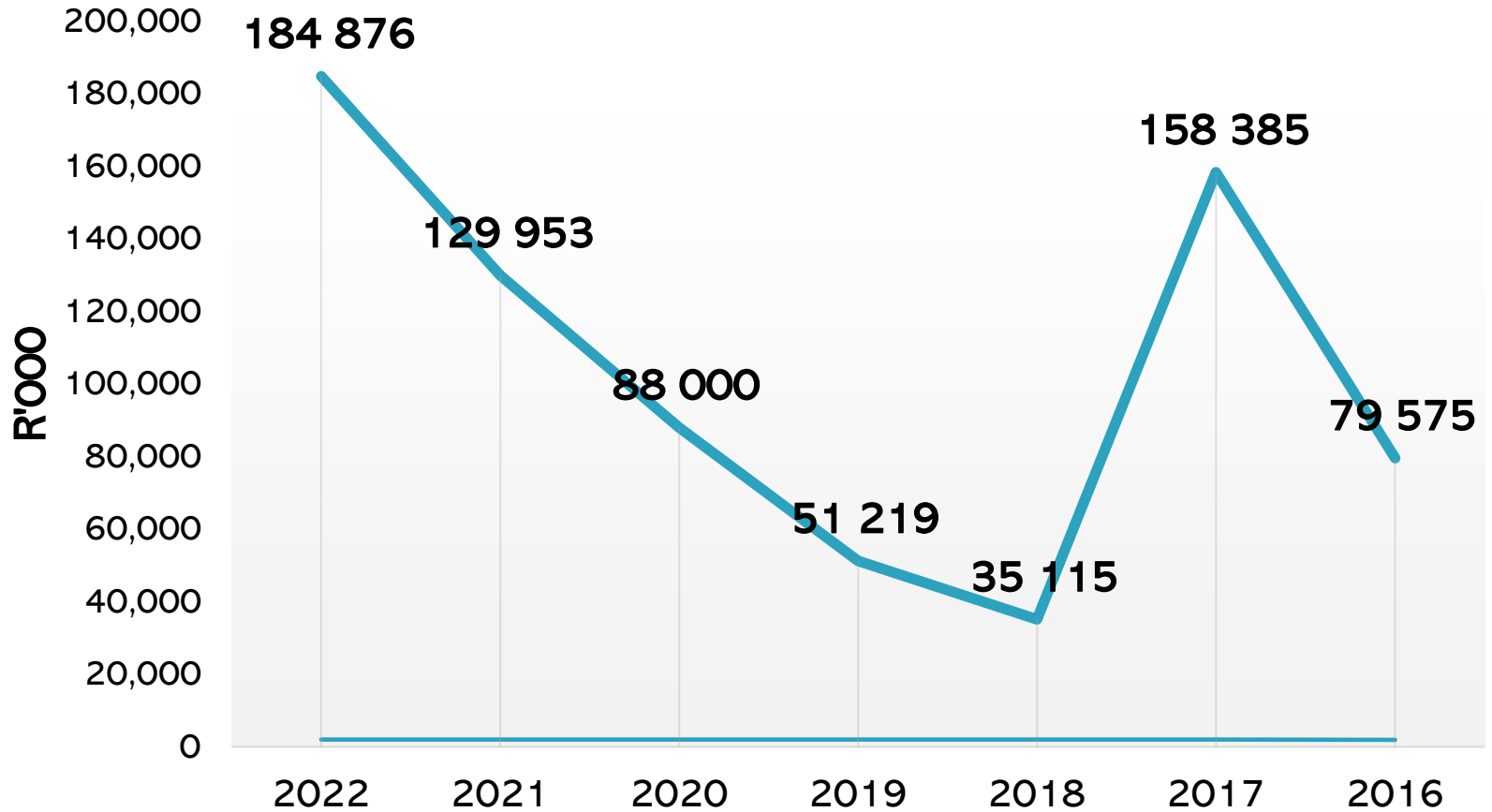


Figures in Rand thousand	Note(s)	2022	2021	Variance
Revenue	13	689,655	598,616	15%
Cost of sales	20	-321,786	-352,761	-9%
Gross surplus		367,869	245,855	50%
Other income	14	104,374	121,763	-14%
Operating expenses	19	-378,195	-402,109	-6%
Operating surplus (deficit)		94,048	-34,491	373%
Investment revenue	15	8,808	5,956	48%
Fair value adjustments	21	-611	1,481	-41356%
Actuarial gains/losses	5	1,927	-3,322	-158%
Gain on sale of Property, plant and equipment		98	0	
Finance costs	18	-10,769	-13,268	-19%
Surplus (deficit) for the year		93,501	-43,644	314%

Figures in Rand thousand	Note(s)	2022	2021	Variance
Assets				
Current Assets				
Inventories	6	147,003	78,656	87%
Receivables from exchange transactions	7	989,282	878,802	13%
VAT receivable	8	58,515	51,129	14%
Cash and cash equivalents	9	184,876	129,953	42%
		1379,676	1 138,540	21%
Non-Current Assets				
Property, plant and equipment	2	2602,727	2641,168	-1%
Intangible assets	3	1,019	1,209	-16%
Other financial assets	4	63,79	61,782	3%
Receivables from exchange transactions	7	0	57,068	-100%
		2667,536	2761,227	-3%
Total Assets		4047,212	3899,767	4%
Liabilities				
Current Liabilities				
Finance lease obligation	10	0	141	-100%
Payables from exchange transactions	12	717,92	670,104	7%
Provisions	11	53,919	58,039	-7%
		771,839	728,284	6%
Non-Current Liabilities				
Employee benefit obligation	5	97,671	87,43	12%
Total Liabilities		869,51	815,714	7%
Net Assets		3177,702	3084,053	3%
Accumulated surplus		3177,702	3084,053	3%
Total Net Assets		3177 702	3084 053	3%

CASH & CASH EQUIVALENT

Water is our Passion



RATIOS

	2021	2022
Profitable Ratios		
Gross Profit	41%	53%
Net Profit	-7%	14%
Assets Turnover	15%	17%
Liquidity Ratios		
Acid Test ratio	1,5	1,6
Current ratio	1,6	1,8



The Board profit margin`s has increased from 41% in the year financial year 2021 to 53% year 2022.



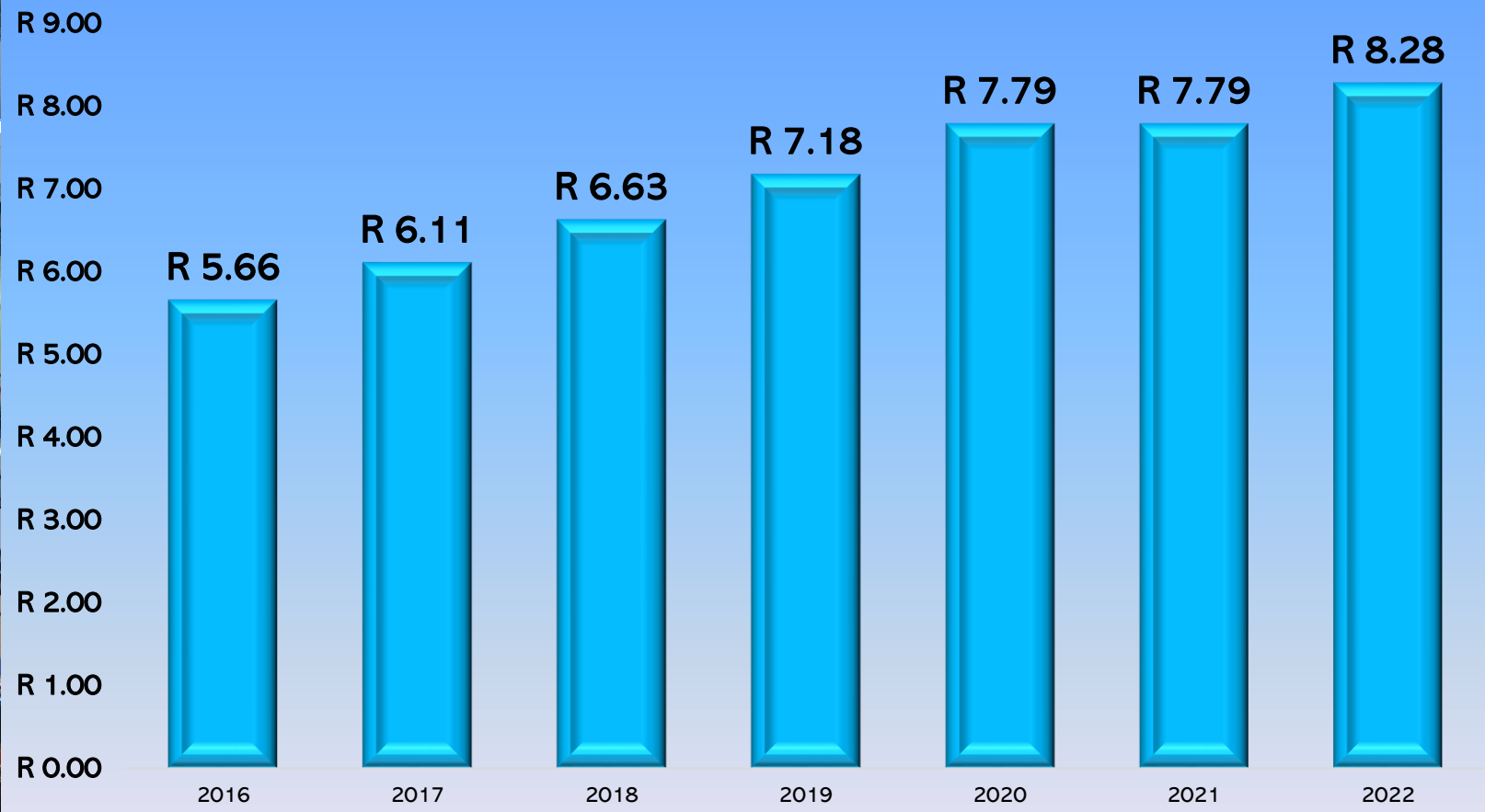
Collection of outstanding debt remain a challenge due to non-payments of account by WSA and DWS.



Liquidity ratios 1,6 which indicates that the organisation is self sustainable.

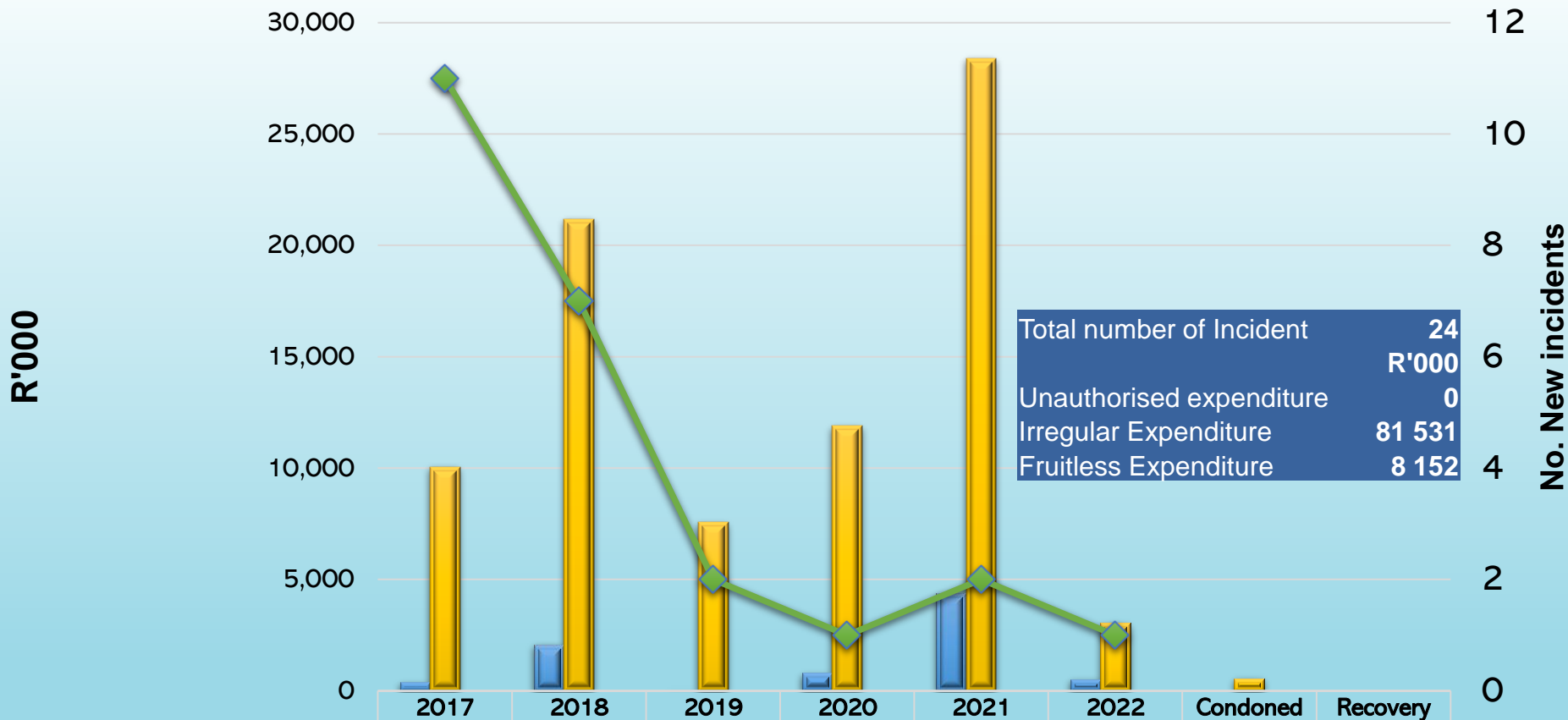






AVERAGE TARIFF



IRREGULAR EXPENDITURE

Water is our Passion



	2017	2018	2019	2020	2021	2022	Condoned	Recovery
 Fruitless expenditure	383	2,071	20	799	4,374	505	0	0
 Irregular expenditure	10,038	21,175	7,555	11,886	28,385	3,037	546	0
 Unauthorised expenditure	0	0	0	0	0	0	0	0
 Number of irregular incidents	11	7	2	1	2	1		

IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

Water is our Passion



The Irregular expenditure incidents decreased from 2 in 2021 to 1 during the year under review. Measures taken by the organisation included refresher training and induction on SCM policy



The Investigations on all reported irregular, fruitless and wasteful expenditure was conducted and consequence management is being applied to those responsible.

ACTIONS BEING TAKEN



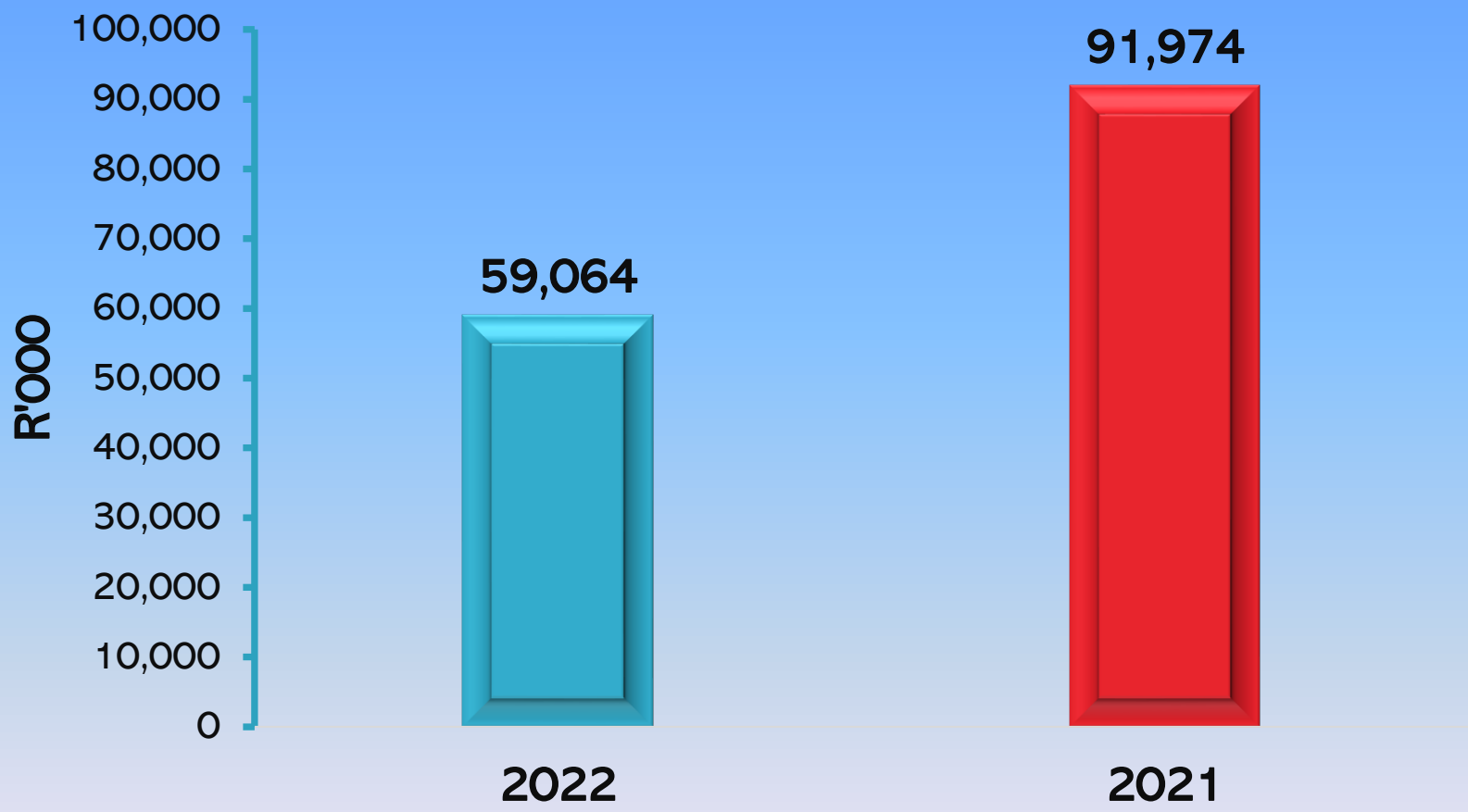
Regular training of SCM and all other staff involved in the procurement processes.



Implementing the consequence management on employees responsible for irregular and fruitless expenditure.



AUTHORISED CAPITAL COMMITMENT





Contingent Liabilities

- 1) The third party has instituted legal action against the water board for non-payment of invoices. The matter is pending, and financial exposure is largely estimated to be R3.1 million.
- 2) Was served with summons for a claim of R10 million. A child drowned in an abandoned open pit in Giyani due to negligence of a service provider.
- 3) Involved in a litigation case with a service provider for not paying invoices. The matter is pending, and financial exposure is estimated to be R720 000.



Contingent assets

- 1) The service provider instituted a claim against the water board for outstanding invoices. LNW issued a counterclaim against the service provider. The value of the claim is estimated to be R1.4 million.
- 2) LNW awarded water reticulation project to two entities in 2016 for emergency drought relief. There is contractual dispute as the entities claimed all money due for work not completed. The matter has been referred to LNW attorneys for legal dispute of R1.5 million.





Contingent Liabilities

- 4) involved in a litigation case with a service provider for an invoice billed by the supplier without following the SCM processes. The matter is pending, and financial exposure is estimated to be R856 765.
- 5) The service provider instituted a claim against the water board for outstanding invoices amounting to R444 336, which the water board issued a counterclaim against the service provider.



Contingent assets

- 3) Proceedings for a claim amounting to R35 million have commenced against a contractor that was appointed to install and commission a 10 ML/day conventional wastewater treatment plant.
- 4) Involved in ongoing litigation regarding the recovery of monies owed by the former executives. The matter has been referred to the state attorney for further processing. The value of the claim is estimated to be R1.2 million
- 5) A service provider contracted for upgrading of infrastructure claimed money for remedial work amounting to R3.5 million. The remedial work was a result of damages caused by storms and heavy rain. The claim was found to be in contravention of the General Conditions of Contract. There is a potential inflow of resources to the board arising from this unduly benefit to the service provider.



ANALYSIS: MATTERS RELATING THE AUDIT REPORT PER YEAR

2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Qualified	Qualified	Unqualified	Unqualified	Unqualified	Unqualified
The accounting authority did not take effective steps to ensure infrastructure assets are unbundled in order to depreciate them separately.	The accounting authority did not take effective steps to ensure infrastructure assets are unbundled in order to depreciate them separately.	<p>There is a material provision for impairments of the accounts receivable to the amounts of R235m.</p> <p>The 2018 figures has been restated as a result of error in the financial statements.</p>	<p>There is a material provision for impairments of the accounts receivable to the amounts of R290m.</p> <p>The 2018 figures has been restated as a result of error in the financial statements.</p>	There is a material provision for impairments of the accounts receivable to the amount R335m.	<p>Material provision for impairments of receivables from exchange transactions of R265 481 000 was incurred.</p> <p>Water losses of R23 162 000 was incurred as a result of illegal connections.</p>

TREND ANALYSIS: MATTERS RELATED TO AUDIT REPORT

AUDIT FINDINGS

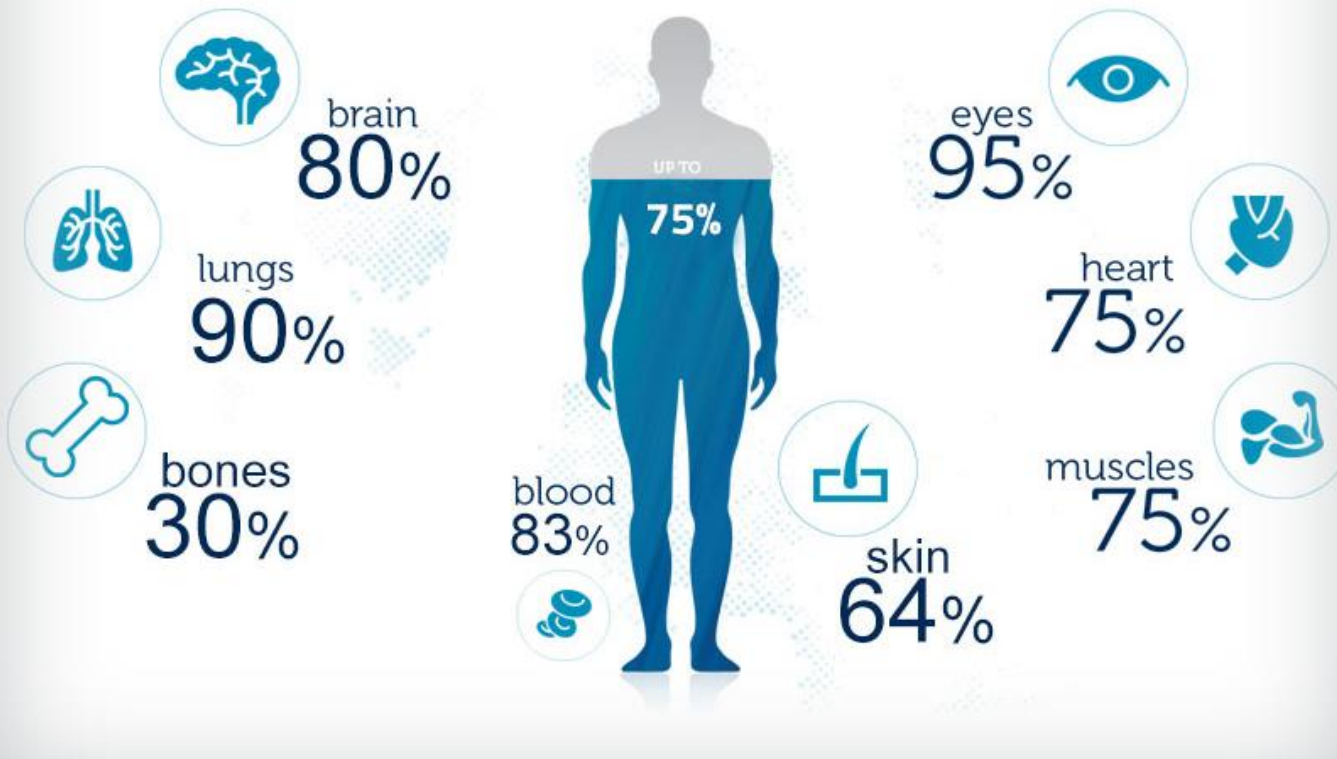


ACTION PLAN



Major Finding	Root Cause	Action
Material misstatements of the current assets, Liabilities, Revenue and expenditure.	Draft financial statement submitted not in accordance with the prescribed financial reporting.	Interim financial statements would be developed by End March each year to detect errors and correct before the financial year end
Material findings on the usefulness and reliability of the performance information.	Lack of Laboratory Information Management System.	SCM processes underway to acquire the system.
Poor Payment history of debtors.	Non -Payment of outstanding debt by WSAs and DWS.	Continuous engagement are happening with respective municipalities to improve collection.
No processes to avoid or detect irregular, wasteful and fruitless expenditure.	Lack of understanding on SCM processes with respect to Deviation procedure.	The board is improving on SCM processes and has conducted SCM training through National Treasury.

10 Amazing Reasons You Need to Drink Sufficient Water



THANK YOU