



ANNUAL REPORT 2016/17



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MASTERING THE ART OF WATER SOURCING, SUPPLY AND CONSERVATION



Abbreviations

AC	- Audit Committee	MI	- Megalitre
ACIP	- Accelerated Community Infrastructure Programme	MI/day	- Megalitres per day
AGSA	- Auditor-General South Africa	MANCO	- Management Committee
AMCOW	- African Minister Council on Water	MBA	- Master of Business Administration
ASB	- Accounting Standards Board	MBL	- Master of Business Leadership
AFWA	- African Water Association	MFMA	- Municipal Finance Management Act
ASIDI	- Accelerated Schools Infrastructure Development Initiative	MIG	- Municipal Infrastructure Grant
		MW	- Mhlathuze Water
BBBEE	- Broad-Based Black Economic Empowerment	MWIG	- Municipal Water Infrastructure Grant
BCOM	- Bachelor of Commerce	NEMP	- National Eutrophication Monitoring Programme
BDS	- Blue Drop System	NERSA	- National Energy Regulator of South Africa
BRICS	- Brazil, Russia, India, China, South Africa	NGO	- Non Governmental Organisation
BSc	- Bachelor of Science	NMMP	- National Microbial Monitoring Programme
CAPEX	- Capital Expenditure	NT	- National Treasury
CEPPPAWU	- Chemical Energy Pulp, Paper and Printing Allied Workers Union	NQF	- National Qualifications Framework
		O&M	- Operations & Maintenance
CEO	- Chief Executive Officer	OHSAS	- Occupational Health and Safety Assessment Series
CFO	- Chief Financial Officer		
CMA	- Catchment Management Agency	PCCAA	- Prevention and Combating of Corrupt Activities Act
CMF	- Catchment Management Forum		
CMMS	- Computerised Maintenance Management System	PDA	- Protected Disclosure Act
CoGTA	- Cooperative Governance and Traditional Affairs	PFMA	- Public Finance Management Act
COO	- Chief Operations Officer	RBM	- Richards Bay Minerals
CoU	- City of uMhlathuze Municipality	RBIG	- Regional Bulk Infrastructure Grant
CSD	- Central Supplier Database	RMB	- Rand Merchant Bank
CSI	- Corporate Social Investment	SA GAAP	- South African Statements of Generally Accepted Accounting Practices
DBSA	- Development Bank of Southern Africa		
DBE	- Department of Basic Education	SAAWU	- South African Association of Water Utilities
DEA	- Department of Environmental Affairs	SAA	- South African Airways
DEDTEA	- Department of Economic Development, Tourism and Environmental Affairs	SAICA	- South African Institute of Chartered Accountants
		SAICEE	- South African Institute of Electrical Engineers
DM	- District Municipality	SANS	- South African National Standards
DoE	- Department of Education	SARB	- South African Reserve Bank
DOT	- Department of Transport	SCADA	- Supervisory Control and Data Acquisition
DUT	- Durban University of Technology	SHC	- Shareholders Compact
DWS	- Department of Water and Sanitation	SHEQ	- Safety, Health, Environmental and Quality Management
ECSA	- Engineering Council of South Africa		
EIA	- Environmental Impact Assessment	SCM	- Supply Chain Management
EMS	- Environmental Management System	SLA	- Service Level Agreement
EPC	- Engineering Procurement and Construction	SOE	- State Owned Enterprise
ESD	- Enterprise and Supplier Development	SMME	- Small Medium Micro Enterprise
EWSETA	- Energy and Water Sector Education and Training Authority	TGS	- Tugela-Goedertrouw Transfer Scheme
		TR	- Treasury Regulations
EXCO	- Executive Committee	UN	- United Nations
FY	- Financial Year	uPVC	- Unplasticized Polyvinyl Chloride
GDP	- Gross Domestic Product	UTDM	- uThungulu District Municipality
GIS	- Geographic Information System	UKDM	- uMkhanyakude District Municipality
GRAP	- Generally Recognised Accounting Practices	WfW	- Work for Water
HoD	- Head of Department	WISA	- Water Institute of South Africa
HR	- Human Resources	WMA	- Water Management Areas
IAS	- International Accounting Standards	WSA	- Water Services Authority
ICC	- International Convention Centre	WSIG	- Water Services Infrastructure Grant
IDZ	- Industrial Development Zone	WRM	- Water Resource Management
IFRS	- International Financial Reporting Standards	WUL	- Water Use License
INCA	- Infrastructure Finance Corporation Limited	WTP	- Water Treatment Plant
ISA	- International Standard on Auditing	WTW	- Water Treatment Works
ISO	- International Organisation for Standardisation	WWDS	- Waste Water Disposal Scheme
KZN	- KwaZulu-Natal	WWTP	- Waste Water Treatment Plant
LIMS	- Laboratory Information Management System	YE	- Year End
LM	- Local Municipality	ZCCI	- Zululand Chamber of Commerce and Industries
m ³	- Cubic Metres	ZDM	- Zululand District Municipality
m ³ /s	- Cubic Metres per second		

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MASTERING THE ART OF WATER SOURCING, SUPPLY AND CONSERVATION

On a planet covered with oceans, the concept of water scarcity for human consumption, agricultural use and industrial needs may seem strange. It is however a harsh reality.

Mhlathuze Water is a state owned entity established in 1980. It has a current staff compliment of 230. It is one of South Africa's leading water utilities serving the province of KwaZulu-Natal. 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 SERVICES:

- Bulk Water Provision: Raw, Clarified and Purified.
- Bulk Waste Water Disposal
- Provision of water to Water Services Authorities (WSA)
- Implementing Agent for the Schools Water and Sanitation Infrastructure as well as Working for Water Programmes

VISION

To be the regional water and waste water service provider of choice for all stakeholders in the water value chain.

MISSION

To provide and expand affordable, sustainable, quality and reliable regional water and waste water services to stakeholders, improve quality of life and contribute to development.

CORE VALUES

- Excellence

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

- Accountability

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

- Honesty and Transparency

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

- Fairness

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

- Creativity and Innovation

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

- Enthusiasm (play, fun, passion)

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

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:

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



Above: Area of Operation



Ms Nomvula Mokonyane
Minister of Water and Sanitation

Foreword by the Minister - Department of Water and Sanitation

This Mhlathuze Water Annual Report draws a curtain on the financial year 2016/17. It seeks to give an account of the performance of the Water Board against its strategic plan for 2016/17. The report covers the key milestones achieved by the water board in its mandate to deliver water for everyone in the water value chain within its area of operation. Limitations and constraints encountered during this period under review which will have to be addressed going forward are also reported on.

Mhlathuze Water is “Your preferred water service provider” as it is one of the leading water utilities in South Africa today, providing a world-class service to its customers. The Entity’s commitment and focused direction in providing safe and dependable water services is evidenced by its’ consistent success. The organisation is committed to providing all its customers with safe, potable water suitable for lifetime consumption and ensuring that wastewater discharges are not deleterious to the environment or downstream users. Mhlathuze Water makes sure that it achieves this through implementing rigorous and system-wide water quality management programmes, auditing, compliance reports, water quality assessments and the implementation of water safety plans.

The country as a whole is still experiencing the impact of the drought although the dam levels have increased slightly in northern KZN comparatively speaking to the past year. It is for this reason that the dams are continuously monitored by both the Department of Water and Sanitation and Mhlathuze Water Board. Climate change is one of the major factors that continue to threaten our planet. The Department of Water and Sanitation, Water Boards together with the Department of Environmental Affairs are continuing to refine the climate change adaptation strategy for the water sector.

WATER CONSERVATION

In response to climate change, Mhlathuze Water is currently exploring measures to improve water use efficiency. The following activities were embarked on thus far:

- General awareness to all staff through induction, toolbox talks and internal magazine
- Installation of water tanks in strategic areas
- Conducting of water audits to assist in establishing new ways to save water in the installations
- Improved turnaround time on repairs to leaks (War on leaks)
- Installation of pressure regulating valves to reduce water pressure.

DROUGHT INTERVENTIONS

The 2016/17 financial year continued to be dominated by the drought which commenced in 2014/15. This water board has since then been working with the Department of Water and Sanitation to alleviate the effects of the crippling drought within its area of operation. Post engagements with the Department of Water and Sanitation, Department of Co-operative Governance and Traditional Affairs (CoGTA) and the City of Umhlathuze the following initiatives were implemented during the year under review:

- Consultation with stakeholders regarding water use reduction.
- Support to the Department of Water and Sanitation in the upgrade of the Tugela-Goedertrouw Transfer Scheme.
- Support to the department in the establishment of the Desalination plant in Richards Bay.
- Support to the department in the application of water supply restrictions.
- Support to CoGTA as an implementing agent for its drought relief programme.
- Working together with the City of Umhlathuze on the investigation into effluent reuse.
- Initiated water re-use programmes via public-private partnerships to ensure sustained water availability for all.

Mhlathuze Water maintained a gender profile of 55% males and 45% females in line with the national demographics for the economically active population.

My gratitude goes out to the Board, Accounting Authority, the entire management and to all the employees of Mhlathuze who have made sure that the strategic objectives for the year in question were reached. I have no doubt that with all the initiatives mentioned in this report; the organisation will continue to deliver on its mandate and beyond.

Ms Nomvula Mokonyane
Minister of Water and Sanitation
31 October 2017



Chief Executive and Accounting Authority's Report

It gives me great pleasure to present this 2016/17 Annual Report in my capacity as the Interim Chief Executive and Accounting Authority of Mhlathuze Water.

The eminent poet WH Auden once said, "Thousands have lived without love, but no one without water". This analysis by Auden aptly captures the importance of water for the survival of the human race. Water remains the strategic resource that not only gives life, but is also a catalyst for development.

At Mhlathuze Water, we execute our tasks with a full understanding that water resource management and sustainability have to be at the centre of all development.

We are alive to the reality that Sustainable Development Goals, such as health, housing and poverty reduction rely on the availability of water. Hence we consider it our duty to ensure that water resources within the Mhlathuze Catchment Systems are protected and managed efficiently. We do so while ensuring that the past inequalities in the allocation of water resources and access to services are redressed as speedily as possible and to the satisfaction of all our customers.

The mandate of Mhlathuze Water is to provide and expand affordable, sustainable, quality and reliable water services to stakeholders, improve quality of life and contribute to development. This Annual Report seeks to capture the highlights, interventions, challenges, milestones, successes and shortcomings that the organisation experienced in the past financial year that ended 30 June 2017.

As reflected in this report, Mhlathuze Water has lived up to its vision of being the regional water and wastewater service provider of choice for all stakeholders in the water value chain. Mhlathuze Water is very proud of the important role it plays in the economic heartland of South Africa, particularly in the northern KZN. In the past financial year the organisation is proud to announce that it continued to meet the SANS 241:2015 drinking water quality requirements. We are very much aware of the necessity to play an increased role within the water sector. Approximately 60% of the population serviced by Mhlathuze Water live in rural areas where there is an acute lack of infrastructure. I am happy to report that we have successfully developed the Infrastructure Master Plan and brought to life major water schemes that will contribute effectively to the economic prospects of the region we service.

As the water services provider of choice, Mhlathuze Water continues to deliver sustainable water services now and for future generations and we will continue to place the value of this most precious resource at the heart of all our decisions.

We are successfully navigating the challenges of:

- The provision of operations and maintenance of rural water schemes;
- The delivery of water and sanitation infrastructure;
- The provision of customer care services to the people who have never had access to services before;
- The financial sustainability of providing water services. This particular challenge has required Mhlathuze Water to develop an effective credit control and debt collection policy in order to ensure financial sustainability; and
- The development of credible indigent policies with our customers in order to enhance government's Free Basic Water Policy.
- Mhlathuze Water developed its drought management plan to ensure that water continues to be available to our clients. Our drought interventions include water re-use strategies as well as water conservation programmes to name but a few.

KEY HIGHLIGHTS

• eDumbe Drought Relief Intervention

Mhlathuze Water successfully implemented a number of drought intervention programmes in eDumbe Municipality following its appointment in July 2016. Various interventions which include the installation of static tanks, the provision of water to the affected areas for a period of two months and continuous awareness campaigns were implemented. This municipality was one of the worst affected by the crippling drought and was amongst the nine municipalities declared disaster areas by the KZN Province.

• World Water Day Summit

Mhlathuze Water played a central role in the hosting of the World Water Summit which took place from 22 to 24 March 2017 at the Inkosi Albert Luthuli ICC in Durban. The organisation was part of the local organising committee and assisted with the logistics of the event. This international conference, which was presided over by His Excellency, President JG Zuma in his capacity as the Chairperson of the Heads of State Committee on the UN High-Level Panel on Water, focused on the use of wastewater as an untapped resource. The summit was attended by

nearly 1000 delegates including AMCOW ministers from neighbouring countries. Flowing from this summit, Mhlathuze Water is investigating options in waste management. At a time when water security has become a key determinant of a country's future, it is critical that water recycling and reuse are explored appropriately. We are searching for alternative solutions beyond the traditional centralised water management systems.

- **Silver Award - KZN Waste Management Awards 2016**

I am proud to announce that Mhlathuze Water won the Silver certificate at the KZN Waste Management Awards 2016. This is one of the accolades that recognises our institution for continuing to set the trend in complying with the National Environmental Management Waste Act No 59 of 2008 as well as the ISO 14001 Environmental Management System.

- **Accreditations and Certifications**

Through the hard work and dedication of staff, the following accreditations and certifications were maintained:

- OHSAS 18001 - Occupational Health and Safety
- ISO 9001 - Quality Management System
- ISO 14001 - Environmental Management System
- ISO 17025 - Laboratory Management System

INFRASTRUCTURE DEVELOPMENT AND WATER SUPPLY

The first phase of the Jozini Regional Bulk Water Supply Project, which is set to benefit 134 000 people was completed in December 2016. The 40 Ml/day Water Treatment Works was commissioned in April 2017 and was launched by the Minister of Water and Sanitation at a ceremony which was held on 19 August 2017.



Mhlathuze Water was requested by CoGTA KZN to undertake emergency interventions as part of the ongoing Drought Relief Programme. The interventions included

the installation of boreholes, package water treatment plants, provision of water tankers as well as exploring the potential for desalination and water recycling in municipalities hard hit by the drought.

At the same time, the Bucket Eradication Programme in the Harry Gwala District Municipality to improve sanitation for KwaSani affected areas was completed in April 2017.

It was during such challenging times wherein Mhlathuze Water had to make frequent interventions to alleviate the effects of the most severe drought in KZN that we truly proved our worth as a public entity.

AUDIT OUTCOME

For the first time in the 2016/17 financial year Mhlathuze Water was audited by the Auditor-General, whilst previously independent audit firms were used. I have noted with grave concern the Qualified Opinion by the Auditor-General. Amongst other things, the audit highlighted a recurring, worrisome breakdown in internal controls. It is concerning also that previous audits did not detect these for management to address. My view is that previous audits ought to have picked up, reported and/or even sponsored a different opinion on these and other areas of non-compliance as they mainly relate to prior years.

An Audit Improvement Plan has been developed to address Auditor-General's matters, which are mostly prior year misstatements and these will be implemented in the 2017/18 business processes.

I would like to express my gratitude to the Minister of Water and Sanitation for her leadership, dedication to the water sector and strategic direction. This has provided the basis for the stability required for reaching our goals.

Similarly, my sincere gratitude goes to our Board of Directors whose term ended in April 2017. I am eternally grateful for their leadership, support, lessons learnt and direction given to me and the organisation at large during their tenure. I will continue to cherish the rigorous and fruitful debates we had in our boardroom in steering this ship during the most intense drought that our region and the country at large has experienced in 30 years.

And lastly, my word of appreciation to members of the Audit and Risk Committee, my EXCO and MANCO teams, Organised Labour and the rest of Mhlathuze Water staff for building a stimulating and conducive work environment. This is no easy feat in any organisation. We have achieved a great deal together and I am confident that our work in the water sector will continue to grow from strength to strength in delivering sustainable water services.

Mr Mthokozisi P. Duze

Chief Executive Officer / Accounting Authority
31 October 2017

CORPORATE GOVERNANCE

(18 July 2002 - 15 June)

WATER SERVICES ACT 108 OF 1997

(Gazette No. 16522, Notice No. 1062, Commencement date: 19 December 1997)

WATER SERVICES PROVIDER CONTRACT REGULATIONS

Published under Government Notice R980 in Government Gazette 23636 Commencement date: 19 July 2002.

The Minister of Water Affairs and Forestry has, after consultation with the National Minister responsible for Local Government, under section 19(5) of the Water Services Act, 1997 (Act No. 108 of 1997), made the regulations in the Schedule.

SCHEDULE

1. Definitions
2. Objects of contract
3. Scope of contract
4. Water use licence
5. Performance targets and indicators
6. Obligations of the Water Services Authority
7. Cession
8. Arrangements in respect of existing employees
9. Commencement, amendment, breach and termination
10. Property rights
11. Assets
12. Financial
13. Consumer charter
14. Disclosure and monitoring
15. Information required by authority
16. Financial records
17. Operational records
18. Access to information by consumers
19. Annual reports
20. Warranties
21. Insurance
22. Dispute resolution
23. Prevention of corruption
24. General
25. Law of the contract

THE BOARD

The Board of Directors of Mhlathuze Water was appointed by the Minister of Water and Sanitation (“the Minister”) in terms of the Water Services Act (Act 108 of 1997), with a complement of ten (10) non-executive Board members and one (1) executive Board member, the Chief Executive. The Board of Mhlathuze Water subscribes to the principles of Corporate Governance as provided for in the King IV Report on Corporate Governance in South Africa and is committed to carrying out its fiduciary duties and remaining independent in order to best serve the organisation. On 26 April 2017, the Board of Mhlathuze Water was terminated. The Minister then appointed the Interim Chief Executive to be the Accounting Authority until the appointment of a new Board of Directors.

The Board Charter provides a concise overview of the fiduciary duties and responsibilities of the Board of Mhlathuze Water as well as the procedures and structures that will govern how the Board functions in order to discharge its duties as required by the Public Finance Management Act (Act No 1 of 1999) as amended, the Water Services Act, (Act No 108 of 1997) as amended and the regulations issued in terms of the PFMA and the

Report on Corporate Governance in South Africa, 2016 issued by the Institute of Directors (“King IV Report”).

The Board is responsible for driving the organisation’s strategic objectives, the approval of major projects and capital expenditure, risk management as well as monitoring the operational and financial performance of the organisation. The Board exercises oversight of the organisation through the following sub-committees:

- Human Resources and Remuneration Committee;
- Service Delivery Committee;
- Audit and Risk Committee;
- Finance Committee; and
- Social and Ethics Committee.

The sole shareholder of Mhlathuze Water is the government of the Republic of South Africa, represented by the Minister of Water and Sanitation. The Board contracts to the Minister through an annually approved Shareholder Compact which sets out the strategic objectives of the organisation (see pages 19-24).

Table 1: Board and Committee Memberships from 01 July 2016 to 25 October 2016

Board Member	Gender	Board	Human Resources and Remuneration	Service Delivery	Audit and Risk	Finance
1. Ms DC Myeni ¹	F	•	•			
2. Ms P Dlamini ²	F	•	•	•		
3. Mr M Xulu ³	M	•	•		•	
4. Mr B Mshengu ⁴	M	•			•	•
5. Mr B Rawlins ⁵	M	•		•	•	
6. Adv S Chamane	M	•	•			•
7. Ms N Khumalo	F	•		•		•
8. Mrs A Badul	F	•		•		•
9. Mr F Bosman	M	•	•			•
10. Mrs N Gevers	F	•			•	
11. Mr MP Duze ⁶	M	•				

* On 25 October 2016, sub-committees were re-constituted

• Denotes Committee Member

- ¹ Chairperson of the Board
- ² Chairperson of HR and Remuneration Committee
- ³ Chairperson of Audit and Risk Committee
- ⁴ Chairperson of Finance Committee
- ⁵ Chairperson of Service Delivery Committee
- ⁶ Executive Member

Table 2: Board and Committee Memberships from 26 October 2016 to 26 April 2017

Board Member	Gender	Board	Human Resources and Remuneration	Service Delivery	Audit and Risk	Finance	Social & Ethics
1. Ms DC Myeni ¹	F	•	•	•			•
2. Mr B Mshengu ²	M	•	•	•		•	•
3. Mr M Xulu ³	M	•			•		•
4. Mrs N Gevers ⁴	F	•			•	•	•
5. Mr B Rawlins ⁵	M	•		•	•		•
6. Adv S Chamane ⁶	M	•	•		•	•	•
7. Mrs A Badul	F	•	•	•		•	
8. Ms N Khumalo	F	•		•			
9. Mr F Bosman	M	•	•			•	
10. Ms P Dlamini	F	•			•		
11. Mr MP Duze	M	•					

- Denotes Committee Member
- ¹ Chairperson of the Board
- ² Chairperson of HR and Remuneration Committee
- ³ Chairperson of Audit and Risk Committee
- ⁴ Chairperson of Finance Committee
- ⁵ Chairperson of Service Delivery Committee
- ⁶ Chairperson of the Social & Ethics Committee

Table 3: Board Meeting Attendance in 2016/17

Board Member	Gender	28 July 2016 (Special)	27 September 2016	25 October 2016 (Special)	10 November 2016 (Special)	5 December 2016	2 February 2017 (Special)	2 March 2017	25 April 2017 (Special)
1. Ms DC Myeni ¹	F	•	•	•	•	•	-	•	•
2. Ms P Dlamini	F	•	-	•	•	•	•	•	-
3. Ms N Khumalo	F	-	-	•	-	-	•	•	-
4. Mrs A Badul	F	•	•	•	•	•	•	•	•
5. Mr F Bosman	M	•	•	-	•	•	•	•	-
6. Adv S Chamane	M	•	•	-	•	•	•	•	•
7. Mr B Rawlins	M	•	•	-	-	•	•	•	-
8. Mr B Mshengu	M	•	•	•	•	•	•	•	•
9. Mr M Xulu	M	•	•	•	-	•	•	•	•
10. Mrs N Gevers	F	•	-	•	•	•	•	•	•
11. Mr MP Duze	M	•	•	•	•	•	•	•	•

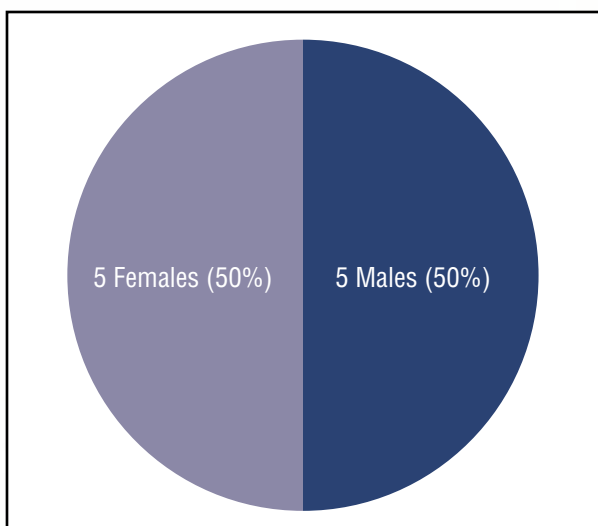
- Attendance
- Non-attendance with apology
- ¹ Chairperson of the Board

Table 4: Accounting Authority Meetings

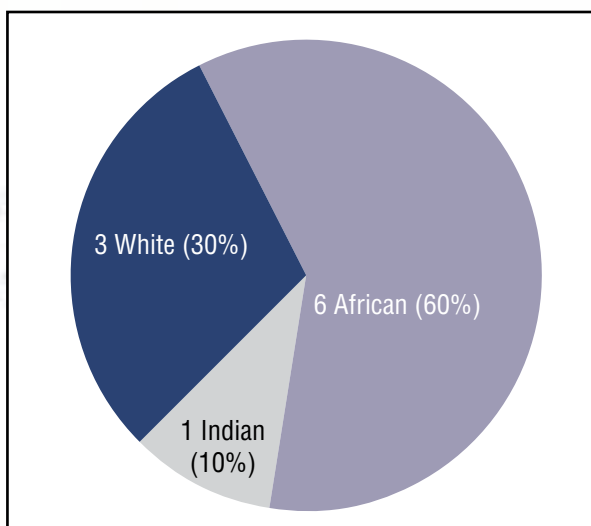
Accounting Authority	Gender	28 June 2017	25 July 2017
1. Mr MP Duze*	M	•	•

* Mr MP Duze (Interim CEO) was appointed by the Minister on 26 April 2017 as the Accounting Authority to serve as such until the appointment of a new Board of Directors. As a result of the said appointment the Governance Structure of Mhlathuze Water was revised and on 01 August 2017 an Independent Audit and Risk Committee was appointed.

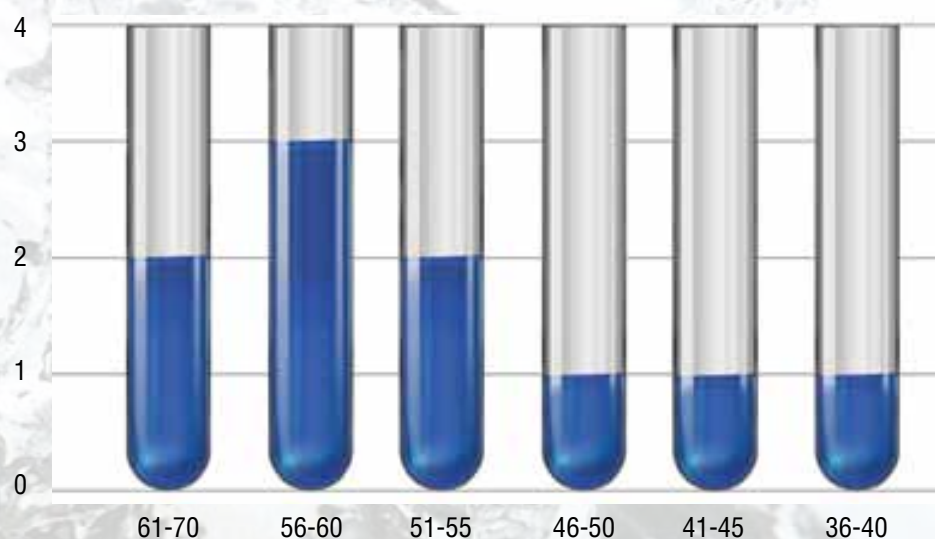
Graph 1: Non-executive Board Member Gender Profile



Graph 2: Non-executive Board Member Race Profile



Graph 3: Non-executive Board Member Age Profile



BOARD MEMBERS (until 26 April 2017)



Ms Dudu Myeni

Chairperson of the Board

Member of the Human Resources & Remuneration, Service Delivery and Social & Ethics Committees

Ms Myeni is a seasoned entrepreneur who has received various accolades for her achievements as a business woman, including the Shoprite Checkers Woman of the Year Award in the education category, the first woman to win the prestigious South African Philanthropist Award in 2007 and being nominated as Businesswoman of the Year by the South African Chamber of Commerce in 2007. Ms Myeni is one of the founding members and a stalwart of the Black Business Council, has been an honorary member of Lattice (USA) since 2007 and is a current member of the Institute of Directors of South Africa (IODSA).



Mr Bonginkosi Mshengu

Chairperson of the Human Resources & Remuneration Committee

Member of the Service Delivery, Finance and Social & Ethics Committees

Mr Mshengu has more than 35 years of experience in the Human Resources field, having worked for a number of organisations both in the private and public sectors. Mr Mshengu has operated at an executive level for many years as a Human Resources Director and he acted as the CEO of a R4 billion organisation for a period of seven months. He has a passion for transformation, leadership and community development. He also spent a number of years in government service as a social worker and a director.



Mrs Nica Gevers

Chairperson of the Finance Committee

Member of the Audit & Risk and Social & Ethics Committees

Mrs Gevers brings financial acumen spanning 30 years in the retail, engineering and public sectors, most of which have been in management and executive positions. Mrs Gevers is a registered Chartered Accountant (SA) and a member of the South African Institute of Chartered Accountants (SAICA). She plays an instrumental role in assisting the Board with the management of financial risks and compliance with legislation. Her experience assists in driving the long-term funding strategy of the organisation and its sound financial management and practices.



Mr Musa Xulu

Chairperson of the Audit & Risk Committee

Member of the Social & Ethics Committee

Mr Xulu hails from a financial background and brings sales and marketing, auditing and finance expertise to the Board. He is an Associate Accountant under the South African Institute of Chartered Accountants and a member of the South African Institute of Public Accountants.



Mr Frik Bosman

Member of the Finance and Human Resources & Remuneration Committees

Mr Bosman is a registered Professional Engineer. He has worked for local government since 1973 and has been a member of the South African Institute of Civil Engineering since 1975 and a Fellow since 1986. He is an Honorary Fellow and past President of the Institute of Municipal Engineering of Southern Africa. He was a member of the KZN Planning and Development Appeals Tribunal until 2015. He was an elected Councillor for the City of uMhlathuze from May 2011 to August 2016. He served on the King Cetshwayo District Municipal Council from May 2011 to May 2014. Mr Bosman previously served on the Board of Mhlathuze Water from 1980 to 1994.



Advocate Simo Chamane

Chairperson of the Social & Ethics Committee, Member of the Finance, Audit & Risk and Human Resources & Remuneration Committees

Advocate Chamane is an advocate of the Supreme Court and has vast knowledge and extensive experience in the field of law and has served in many political structures. He was the General Manager: Public Transport at the KZN Department of Transport and is currently the Deputy Director General: Institutional Development and Integrity Management. He is a member of the Society of Advocates, KZN Durban Bar.



Ms Nhlanhla Khumalo

Member of the Service Delivery Committee

Ms Khumalo has experience in driving rural development, programme management and social infrastructure development. In her current role at the Independent Development Trust, she is a central driving force of influence regarding National and Provincial development programmes and has been active in the growth and diversification of the KwaZulu-Natal (KZN) portfolio.



Mrs Amita Badul

Member of the Human Resources & Remuneration, Finance and Service Delivery Committees

Mrs Badul is experienced in Local Government Management and Adult Basic Education and Training. She was a member of the Executive Committee of the iLembe District Municipality and chaired its Finance Portfolio Committee. Mrs Badul was also a member of iLembe District Municipality's Budget and Audit Committee. She is also a member of the Inter-Governmental Forum and a member of the Board of the Stanger Provincial Hospital.



Ms Poppy Dlamini

Member of the Audit and Risk Committee

Ms Dlamini has been actively involved in the environmental and conservation sectors for more than 20 years at numerous 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. Ms Dlamini currently serves on the Board of the iSimangaliso Wetland Park.



Mr Brian Rawlins

Chairperson of the Service Delivery Committee Member of the Audit & Risk and the Social & Ethics Committees

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 Board.

BOARD COMMITTEES

As per the Water Services Act, the Board is authorised to delegate powers to Committees which are set out in the terms of reference. As such, Board Committees are formally constituted and chaired by a non-executive Board member. Board Committees report on activities of the organisation at every board meeting, thereby assisting the Board to perform its duties and to make effective decisions. All committees meet at least four times a year.

Audit and Risk Committee

This Committee assists the Board to discharge its responsibilities in terms of Section 51 of the Public Finance Management Act and the National Treasury Regulations. Ensuring the effectiveness, quality, integrity and reliability of Mhlathuze Water's risk management processes is a critical function performed by the Audit and Risk Committee. Furthermore, the committee is responsible for the integrity of integrated reporting to ensure that the internal financial controls in place are effective.

Table 5: Audit and Risk Committee Meetings from 1 July 2016 to 25 October 2016

Member	Gender	22 July 2017 (Special)	21 September 2016	21 October 2016 (Special)
1. Mr M Xulu ¹	M	-	•	•
2. Mrs N Gevers	F	•	•	•
3. Mr B Rawlins	M	•	•	-
4. Mr B Mshengu	M	•	•	•

- Attendance
- Non-attendance with apology
- ¹ Chairperson

Table 6: Audit and Risk Committee Meetings from 26 October 2016 to 26 April 2017

Member	Gender	23 November 2016	23 January 2017 (special)	23 February 2017	5 April 2017 (Special)	19 April 2017 (Special)
1. Mr M Xulu ¹	M	-	•	•	•	•
2. Mrs N Gevers	F	•	•	•	•	•
3. Mr B Rawlins	M	•	•	•	•	•
4. Ms P Dlamini	F	•	•	-	-	-
5. Adv S Chamane	M	-	-	•	•	•

- Attendance
- Non-attendance with apology
- ¹ Chairperson

Finance Committee

This Committee considers the financial performance and budgeting processes of Mhlathuze Water, and ensures compliance with the Public Finance Management Act, National Treasury Regulations and the Water Services Act. The Committee's specific responsibilities include, recommending policies that maintain and improve the financial health and integrity of the organisation as well as reviewing and recommending a long-term financial plan for the organisation. The Committee is also responsible for monitoring the financial performance of the organisation as a whole against approved budgets, long-term trends and industry benchmarks.

**Table 7: Finance Committee Meetings
from 01 July 2016 to 25 October 2016**

Member	Gender	21 September 2016
1. Mr B Mshengu ¹	M	•
2. Ms N Khumalo	F	-
3. Adv S Chamane	M	•
4. Mr F Bosman	M	•
5. Mrs A Badul	F	•

- Attendance
 - Non-attendance with apology
- ¹ Chairperson

**Table 8: Finance Committee Meetings
from 26 October 2016 to 26 April 2017**

Member	Gender	23 November 2016	23 January 2017 (Special)	23 February 2017	5 April 2017 (Special)
1. Mrs N Gevers ¹	F	•	•	•	•
2. Mrs A Badul	F	•	•	•	•
3. Adv S Chamane	M	•	•	•	•
4. Mr F Bosman	M	•	•	•	-
5. Mr B Mshengu	F	•	•	•	•

- Attendance
 - Non-attendance with apology
- ¹ Chairperson

Human Resources and Remuneration Committee

This Committee provides direction on matters affecting the human capital of the organisation including the organisational structure, remuneration and any other functions that the prevailing standards of corporate governance require of such a Committee. The role of the Committee is to assist the Board in fulfilling its corporate governance responsibilities with regard to remuneration and strategic human resources matters; including establishing and implementing a human resources strategy to ensure that appropriately talented and trained people are retained and trained to achieve the business strategy. The Committee is also responsible for the oversight of performance management, succession planning and talent development activities and programmes. It ensures effective remuneration policies are in place with due regard to the creation of value for the shareholder and the prevailing external remuneration market.

**Table 9: Human Resources & Remuneration Committee
Meetings from 01 July 2016 to 25 October 2016**

Member	Gender	17 August 2016	17 October 2016 (special)
1. Ms P Dlamini ¹	F	-	-
2. Ms DC Myeni	F	-	•
3. Adv S Chamane	M	•	•
4. Mr M Xulu	M	•	•
5. Mr F Bosman	M	•	-

- Attendance
 - Non-attendance with apology
- ¹ Chairperson

**Table 10: Human Resources & Remuneration Committee
Meetings from 26 October 2016 to 26 April 2017**

Member	Gender	21 November 2016	22 February 2017
1. Mr B Mshengu ¹	M	•	•
2. Ms DC Myeni	F	-	-
3. Adv S Chamane	M	-	•
4. Mrs A Badul	F	•	•
5. Mr F Bosman	M	•	•

- Attendance
 - Non-attendance with apology
- ¹ Chairperson

Service Delivery Committee

This Committee gives direction on capital projects that impact service delivery, evaluates large projects and assists in tracking performance of the organisation against the allocated budget. It is a technical committee that supports the Board in achieving its mandate to grow the business.

Table 11: Service Delivery Committee Meetings from 01 July 2016 to 25 October 2016

Member	Gender	17 August 2016
1. Mr B Rawlins ¹	M	•
2. Mrs A Badul	F	•
3. Ms N Khumalo	F	•
4. Ms P Dlamini	F	-

- Attendance
 - Non-attendance with apology
- ¹ Chairperson

Table 12: Service Delivery Committee Meetings from 26 October 2016 to 26 April 2017

Member	Gender	21 November 2016	22 February 2017
1. Mr B Rawlins ¹	M	•	•
2. Ms DC Myeni	F	-	-
3. Mrs A Badul	F	•	•
4. Ms N Khumalo	F	-	-
5. Mr B Mshengu	M	•	•

- Attendance
 - Non-attendance with apology
- ¹ Chairperson

Social and Ethics Committee

This Committee consists of the Chairpersons of the various Board Committees. The Social and Ethics Committee is constituted as a sub-committee of the Board and is responsible for the following:

- Social and economic development;
- Environment, health and public safety, and
- Labour and employment.

Table 13: Social & Ethics Committee Meetings from 26 October 2016 to 26 April 2017

Member	Gender	5 December 2016	2 March 2017
1. Adv S Chamane ¹	M	•	•
2. Ms DC Myeni	F	•	•
3. Mr B Rawlins	M	•	•
4. Mrs N Gevers	F	•	•
5. Mr M Xulu	M	•	•
6. Mr B Mshengu	M	•	•

- Attendance
 - Non-attendance with apology
- ¹ Chairperson





Nominations Committee

This ad-hoc Committee consists of the chairpersons of the various Board Committees and is, among others, responsible for the selection of the Chief Executive and Executives. It is chaired by the Chairperson of the Board.

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 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.

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.

Internal Control

Internal control systems, for which the Board is accountable, are designed to provide reasonable assurance that assets are safeguarded and that liabilities and working capital of the organisation are efficiently managed. Features of Mhlathuze Water's internal finance controls are:

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

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

MEET THE EXECUTIVE COMMITTEE

The day-to-day running of the organisation is delegated by the Board to the Chief Executive Officer who is assisted by the Executives, each heading up a department. The Executive Committee (EXCO) is the highest decision-making structure in the organisation which plays an important role in the formulation and implementation of the Board's strategy and ensuring that all business activities are aligned.



Mthokozisi P. Duze - Interim Chief Executive Officer

Qualifications	: Masters in Development Studies (cum laude) Bachelor of Arts in Human and Social Studies
Area of Expertise	: Fifteen Years Programme & Project Management Development Planning Practitioner
Years of Service at Mhlathuze Water	: One year
Position on other Boards	: Non-Executive member: The 911 Fund Foundation (New York)



Brian Ndaba - Chief Financial Officer

Qualifications	: BCom (Accounting) Degree
Area of Expertise	: Finance Management, Auditing and Risk Management
Years of Service at Mhlathuze Water	: Five years
Position on other Boards	: Audit Committee Member: City of uMhlathuze Mfolozi Municipality King Cetshwayo District Municipality



Celimpilo Cele (Pr. Eng.) - Interim Chief Operations Officer

Qualifications	: BSc Degree in Mechanical Engineering Holds a Mechanical Engineer's Certificate of Competency (GCC) Enrolled for Masters in Engineering Management
Area of Expertise	: Maintenance Engineering and Project Management
Years of Service at Mhlathuze Water	: Six years
Position on other Boards	: None



Nokubonga Ndlovu - Company Secretary

Qualifications	: LLB Degree (Admitted Attorney)
Area of Expertise	: Corporate Governance and Commercial Litigation
Years of Service at Mhlathuze Water	: Four years
Position on other Boards	: Non-executive Director: Aids Foundation South Africa



Swaswa Ntlhoro - GM Scientific Services

Qualifications	:	BSc (Hons) Degree Postgraduate Diploma in Management
Area of Expertise	:	Chemistry and Applied Chemistry
Years of Service at Mhlathuze Water	:	Nine 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	:	Twenty-two years
Position on other Boards	:	None

COMPANY SECRETARIAT

The Company Secretary is responsible for the secretariat function, governance advisory services, compliance management and also plays a critical role in legal advisory to the Board and organisation. The Company Secretariat attends all board and committee meetings.

The Board and members of the Executive Committee have access to the Company Secretary for guidance on how to perform their duties and responsibilities in the best interests of the organisation. The Company Secretary is responsible for the on-going training of Board Members and the scheduling, preparation and administration for Board and Committee meetings.

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, the Water Services Act 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.

MATERIALITY AND SIGNIFICANCE FRAMEWORK

The Board approved a policy that defines both the levels of significance and materiality. The Delegation of Authority Policy was reviewed to align to the framework.

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 through Skills Development; and
- Sports Development.

Table 14:

SHAREHOLDER COMPACT: PERFORMANCE OBJECTIVES AND TARGETS

Target achieved ■ Work in progress ■ Target not achieved ■

Performance Perspective	Performance Objective	Alignment			Outcome/ Impact	Indicators/ Calculation	Measure	Annual Performance Targets			Comments
		Ministerial Outcomes	DWS Strategic Goals	WB Strategic Objectives				Actual Prior Year 2015/16	Target Current Year 2016/17	Actual Current Year 2016/17	
Organisational Efficiency and Effectiveness	1 Bulk potable water quality compliance	MO A, OP1, Ta) & c). MO B, OP2, Ta)	SG1 (SO1.1, 1.2, 1.3) SG2 (SO3.2)	SO 1	Water quality standards met	Test results, SANS 241 Class 1: Class 2:	% compliance	99,99%	≥97%	99,60%	Target exceeded, due to minimal water quality failures observed
	2 Manage avoidable water losses	MO A, OP1, Ta) MO B, OP2, Ta)	SG2 (SO2.1) SG3 (SO 3.1, 3.2)	SO 1	Reduced avoidable water losses in treatment and distribution systems	Avoidable water lost as a percentage of water produced	%	2,52%	<5%	3,31%	Target achieved
	3 Reliability of supply	MO A > G OP1, Ta), b) & c). OP2, Ta)	SG2 (SO2.1, 2.4) SG3 (SO 3.1)	SO 1	No unplanned interruptions to bulk supply exceeding 24 hours	Number of days supply interrupted as a % of possible supply days	%	0%	<1%	0%	Target achieved
	4 Increased access to Services	MO A,B & D OP1, Ta), b) & c). OP2, Ta).	SG2 (SO2.2, 2.3)	SO 1	Contribution to national objectives of extending services	Actual CAPEX spend on expansion related projects (initiatives by the Minister) as % of budget	%	85,10%	80%	52,07% (57%)	Target not achieved, Actual project expenditure is 52.07% • 57% is the actual expenditure including the savings Expenditure was delayed due to the following reasons: • The changes in pipework connections to the 20MI reservoirs and delay in securing a shutdown with Mondi to undertake the tie ins • the award of Mondi Pump station contract was undertaken in June 2017 due to the need to redesign pump station new 20 MI reservoir system • the bottling plant project was reviewed and is currently on hold.

SHAREHOLDER COMPACT: PERFORMANCE OBJECTIVES AND TARGETS (Continued)

Performance Perspective	Performance Objective	Alignment			Outcome/ Impact	Indicators/ Calculation	Measure	Annual Performance Targets				Comments
		Ministerial Outcomes	DWS Strategic Goals	WB Strategic Objectives				Actual Prior Year 2015/16	Target Current Year 2016/17	Actual Current Year 2016/17		
Financial performance	5	Financial reporting compliance	MO A > G	SG1 (S01.2) SG3 (S03.2)	SO 2	Unqualified audit report	Unqualified report with no matters of emphasis (Clean Audit)	Unqualified report with no matters of emphasis (clean audit) YE 2016	Unqualified report with no matters of emphasis (Clean Audit)	Qualified	Target not achieved, qualified audit opinion	
	6	Improve key financial ratios	MO A B & D OP1, Ta), b) & c). OP2, Ta)	SG1 (S01.2) SG3 (S03.2)	SO 2	Improved viability and sustainability	Current Ratio	Ratio	1,84 %	2,33 %	2,32%	Target not achieved due to the increase in the retention liability
							Gross profit margin % (primary activity)	%	85%	83%	88%	Target exceeded as a result of a decrease in raw water purchases, due to lower volume consumption attributable to drought restrictions
							Gross profit margin (secondary activity)	%	26%	17%	31%	Target exceeded due to the O & M contract work done for the City of uMhlathuze that was not budgeted for.
							Net profit margin (primary activity)	%	16%	8%	7%	Target not met due to the drought restriction, which resulted in lower volume consumption and negatively impacted sales.
							Net profit margin (secondary activity)	%	1%	1%	2%	Target exceeded due to savings on the overall expenditure of activities, as per the Water Services Act, 1997; Section 30 compliance requirements.
							Debt equity	Ratio	0,32%	0,47%	0,25%	Target exceeded due to a new loan of R150 million that was not secured as planned
							Return on Assets	%	6%	4%	4%	Target achieved
							Debtors days	Number	41 days	45 days	60 days	Target not met mainly due to debt outstanding from Foskor, RBM, City of uMhlathuze and TG Scheme. Payments were received in July 2017

SHAREHOLDER COMPACT: PERFORMANCE OBJECTIVES AND TARGETS (Continued)

Performance Perspective	Performance Objective	Alignment			Outcome/ Impact	Indicators/ Calculation	Measure	Annual Performance Targets			
		Ministerial Outcomes	DWS Strategic Goals	WB Strategic Objectives				Actual Prior Year 2015/16	Target Current Year 2016/17	Actual Current Year 2016/17	Comments
Financial performance	6	MO A B & D OP1, Ta), b) & c). OP2, Ta)	SG1 (S01.2) SG3 (S03.2)	SO 2	Improved viability and sustainability	Repairs and maintenance as % of PPE and Investment Property (Carrying Value)	%	3,90%	2%	3%	Target exceeded due to extra maintenance that was done at the Pumpstation, A-Line the Weir and the Nsezi WTP.
						Staff remuneration as % of total operating expenditure	%	14%	12%	12%	Target achieved
	7	MO E	SG1(S01.2) SG3(S03.2)	SO3	Spend increased and increased new entrants awarded contracts in the financial year	Spend	% achieved	68,45%	50,10%	70,02%	Target exceeded, more black companies were awarded tenders as per PPPFA compliance
	8	Manage costs within the approved budget	MO B OP2 Ta)	SG1(S01.2) SG3(S03.2)	SO 2	Actual expenditure compared with budgeted expenditure for the quarter	Financial reports	% increase	-1%	5%	7%
	9	MO E MO A,B & D	SG1 (S01.2) SG 3 (S03.2)	SO 2	Infrastructure available to meet demands	Overall project expenditure within R target	% variance	83,29%	80%	43%	Target not achieved mainly due to delays in the completion of: <ul style="list-style-type: none">the changes in pipework connections to the 20MI reservoirs and delay in securing a shutdown with Mondi to undertake the tie insthe award of Mondi Pump station contract was undertaken in June 2017 due to the need to redesign pump station new 20 MI reservoir system, the bottling plant project was reviewed and is currently on hold

SHAREHOLDER COMPACT: PERFORMANCE OBJECTIVES AND TARGETS (Continued)

Performance Perspective	Performance Objective	Alignment			Outcome/ Impact	Indicators/ Calculation	Measure	Annual Performance Targets				Comments
		Ministerial Outcomes	DWS Strategic Goals	WB Strategic Objectives				Actual Prior Year 2015/16	Target Current Year 2016/17	Actual Current Year 2016/17		
Financial performance	9 Capital expenditure programme	MO E MO A,B & D	SG1 (SO1.2) SG 3 (SO3.2)	SO 2	Infrastructure available to meet demands	Overall project completion dates within targets	% variance	90,57%	85%	100%	Target exceeded, all projects were completed on time	
	10 Engagement in secondary activities	MO A,D,E & G	SG1(SO1.2) SG3(SO3.4)	SO 2	Growth in turnover from secondary (other activities)	% of total turnover	%	60%	53%	56,50%	Target exceeded due to the O & M contract work done for the City of uMhlatuze that was not budgeted for.	
Customer/ Stakeholder Interaction	11 Bulk supply agreements concluded with municipalities/ other customers	MO A,B & D Op1, Ta), b) & c). OP2, Ta)	SG1(SO1.3) SG2(SO2.3) SG3(SO3.2, 3.4)	SO 3	Statutory and Service Level Agreements in place	Municipalities/Other Customers with bulk supply agreements	%	100%	100%	100%	Target achieved	
	12 Implement-ation of Ministerial directives	MO B,C	SG1(SO1.3) SG2(SO2.2) SG3(SO3.2)	SO 3	New Ministerial directives issued are implemented on time	Progress against implementation plan	%	91,50%	80%	66,70%	Target not achieved. 1. The ministerial directives are based on a multiyear funding 2. Nongoma Ward 5, 10 and 11 project: - Contractor (MIS Pipelines) abandoning site. Matter under adjudication. 3. Jozini Regional Water Supply Project: - Delays experienced on Command Reservoir project. 4. Manguzi WWTW not implemented due to funding constraints after DWS' departmental budget was cut by National Treasury 5. Hluhluwe WWTW not implemented due to funding constraints after DWS' departmental budget was cut by National Treasury	

SHAREHOLDER COMPACT: PERFORMANCE OBJECTIVES AND TARGETS (Continued)

Performance Perspective	Performance Objective	Alignment			Outcome/ Impact	Indicators/ Calculation	Measure	Annual Performance Targets				Comments
		Ministerial Outcomes	DWS Strategic Goals	WB Strategic Objectives				Actual Prior Year 2015/16	Target Current Year 2016/17	Actual Current Year 2016/17		
Customer/ Stakeholder Interaction	13 Support Rural Development	MO C,G,F	SG1(SO1.1, 1.3) SG2(SO2.3)	SO 3	Total Number of identified Municipalities supported	Signed contracts, MOUs etc	Number	1	2	0	Target not achieved, Mhlathuze Water did not sign any contracts	
	14 Achieve statutory reporting compliance	MO A,B & D OP1, Ta), b) & c). OP2, Ta)	SG1(SO1.2) SG3(SO3.2)	SO 3	All statutory reports submitted on time	Submission dates met	%	100%	100%	100%	Target achieved	
	15 Staff levels	MO E	SG1(SO1.1, 1.3)	SO 4	Optimal staff retention	Staff turnover	%	4,34%	8%	4,76%	Target achieved	
Organisational Capacity	16 Training and Skills Development	MO E	SG1(SO1.1, 1.3)	SO 4	Skills and capacity building	Learnerships	Number	15	10	8	Target not achieved, the target was 10 and MW appointed nine learners to participate in the programme due to financial constraints. One employee withdrew from the programme.	
						Bursaries employees	Number	30	25	32	Target exceeded, seven more employees were awarded bursaries and registered during April – June 2017	
						Graduate Programmes	Number	3	4	3	Target was not achieved, one graduate resigned during the 4th quarter.	
						Total number	Number	4	1	1	Target achieved	
	17 Jobs Created	MO A,D,E & G MO A> G	SG1(SO1.1, 1.3)	SO 4	Permanent and contract (direct) Temporary (indirect)	Total number	Number	785	200	1167	Target exceeded due to the high number of projects implemented as per the Water Services Act, 1997; Section 30 compliance requirements	

SHAREHOLDER COMPACT: PERFORMANCE OBJECTIVES AND TARGETS (Continued)

Performance Perspective	Performance Objective	Alignment			Outcome/ Impact	Indicators/ Calculation	Measure	Annual Performance Targets				Comments
		Ministerial Outcomes	DWS Strategic Goals	WB Strategic Objectives				Actual Prior Year 2015/16	Target Current Year 2016/17	Actual Current Year 2016/17		
General Performance	18 Board Effectiveness	MO A > G	SG1(S01.1, 1.2) SG3(S03.1, 3.2)	S05	Improved performance of fiduciary duties/ governance	Board Member attendance of all Board/committee meetings Decision making: % number resolutions taken by the board vs number of resolutions required	%	80%	80%	80%	Target achieved	
	19 Effective Internal Controls and Risk Management	MO B	SG1(S01.2) SG3(S03.2)	S0 5	Internal audit findings dealt with	Internal audit reports	Number of repeat findings	0	3	1	Target achieved	
	20 Good Governance	MO E,F & G	SG1(S01.2) SG3(S03.2)	S0 5	Improved controls and risk mitigation	Breaches of materiality and significance framework	Number of unresolved findings	1	3	1	Target achieved	
	21 Corporate Social Responsibility Initiatives	MO E	SG2(S02.2) SG3(S03.2)	S03	Good corporate citizenship	Number of initiatives undertaken	Number	7	4	3	Target not achieved, the requests for the social responsibility initiatives were submitted but not approved	
Optional WB Specific	22 Health and Safety within working environment	MO B	SG1(S01.2) SG3(S03.2)	S04	Reduced number of disabling injuries	Number of disabling injuries	Number	0.26	0,75	0.00	Target achieved	

ENTERPRISE WIDE RISK MANAGEMENT

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 assist 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.

STRATEGIC RISKS

The purpose of the quarterly strategic risk assessments is to identify and assess, through a structured and facilitated process, the strategic risks which may prevent Mhlathuze Water from achieving its strategic goals. Through this process, the organisation has identified a number of key strategic risks which it monitors on an ongoing basis. On a quarterly basis the Accounting Authority, through the Audit and Risk Committee monitors the top 10 strategic risks to ensure that controls that have been put in place are effective and corrective actions identified are implemented.

WHISTLE BLOWER'S REPORT

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 victimized and subjected to occupational detriment for blowing the whistle on improprieties.

Matters which have been brought to the Accounting Authority's attention during the year under review were investigated.

Table 15: Mhlathuze Water Top 10 Strategic Risks as identified during 2016/17 Risk Workshops

Risk No	Description
1.	Unavailability of water (in terms of quantity - impact of water quality)
2.	Power Failure related to criminal activities in the area
3.	Inadequate purified water storage capacity
4.	Infrastructure Failure affecting water supply and effluent disposal
5.	Insufficient Borrowing Limits (funding constraints)
6.	Failure to effectively implement projects as an implementing agent for various Government Departments
7.	Uncertainty of disestablishing 2 water boards to form one KZN Water board
8.	Inadequate document control and records management system
9.	Environmental Pollution linked to Effluent System
10.	Decline in Revenue

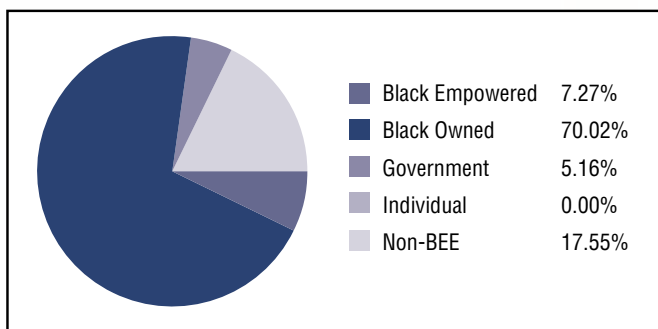
SUPPLY CHAIN

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 recently 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 2016/17 financial year was R389 million, of which R273 million was spent on companies that are more than 50.1% black-owned, and 7.27% (equivalent to R28 million) was spent on empowered companies. The target for 2016/17 was 50.1 % of discretionary spend and the actual achieved was 70.02% as per the graph below.

Graph 4: Total Spend on Goods and Services for 2016/17



Above: Presenter at SCM Day



PEOPLE AND DEVELOPMENT



PEOPLE AND DEVELOPMENT

The following highlights represent the key achievements realised during the year under review:

- Filled forty five (45) positions, of which twenty two (22) were filled by female employees.
- Awarded thirty (30) internal bursaries to qualifying employees to the total value of R410 183.00.
- Achieved a staff turnover rate of 4,76% (4,34% in 2015/16) against a projected rate of 8% for the period under review.
- Maintained the lowest disabling injury frequency rate of 0,00% (0,26% in 2015/16).
- Successfully concluded a one year salary agreement with the union and the overall salary increase was within the approved mandate.
- A total of seventeen (17) employees reached employment milestones of 5, 10, 20, 25 and 30 years' service with Mhlathuze Water. Together, the long service award recipients dedicated a total of 240 years of service to Mhlathuze Water.
- Maintained a gender profile of 55% males and 45% females in line with the national demographics for the Economically Active Population.

Employee Profile

The table below reflects the employee profile as at 30 June 2017. The actual total staff complement was 230 employees against an approved complement of 186. The total complement was above the budgeted complement due to fixed term contract employees who are employed on Project Based contracts, as well as Internships, Learnerships and Artisan Development Programmes.

Table 16: Workforce Profile as at 30 June 2017

Occupational Levels	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top Management*	2	0	0	0	0	0	0	0	2
Senior Management	3	0	0	0	1	0	0	0	4
Professionals	11	0	1	3	13	0	1	2	31
Skilled Technical & Academically Qualified Workers	27	0	1	2	29	2	6	2	69
Semi-skilled	42	1	1	0	18	1	0	2	65
Unskilled & Defined Decision Making	31	1	1	0	24	0	2	0	59
Totals	116	2	4	5	85	3	9	6	230

* Top management comprises of the Interim Chief Executive Officer and the suspended Chief Executive Officer

Detailed on the following page are the staff movements which occurred during the past year, including appointments and terminations:

Table 17: Staff Movement for the Period 01 July 2016 to 30 June 2017

Staff Movement	No.
Total new vacancies filled	30
Total replacement vacancies filled	15
Total appointments	45
Number of internal appointments (promotions)	10
Number of designated appointments	43
Number of non-designated appointments	2
Number of resignations	8
Number of dismissals	1
Number of ill-health terminations	1
Number of retirements	1
Number of staff deaths	1
Total number withdrawals	12
Turnover for the year at 230 average complement (unplanned separations)	4,76%

Retention

Tabled below is the actual average labour turnover rate for 2016/17 and the projected labour turnover rate for the same period:

Table 18: Average Labour Turnover Rate

	Projected Full Year 2016/17	Actual Financial Year 2016/17	Previous Year 2015/16
Number of Staff	186	230	236
Staff Turnover Rate	8%	4,76%	4,34%

This average annual turnover rate of 4,76% is lower than the projected staff turnover rate of 8%.

Our total cost to company package system is key to the success of our recruitment and retention strategies. We provide a mix of remuneration and benefits within a supportive environment.

Long Service Recognition Programme

Table 19: Number of Staff Celebrating Long Service Milestones

Years of Service	No. of Employees
5	5
10	5
15	0
20	4
25	1
30	2
Total	17

Mhlathuze Water has always prided itself on being an Employer of choice. The long service programme recognises employees who have reached employment milestones of 5, 10, 15, 20, etc. years with Mhlathuze Water. Table 19 shows the number of employees who celebrated the long service milestones.

Employment Equity Profile as at 30 June 2017

Again, this year our recruitment and retention strategies have continued to focus on employment equity. The recruitment and selection processes for permanent positions had to be suspended as a result of the Board declaring a moratorium on new appointments pending the merger with Umgeni Water. The organisation has had to fill positions in the interim mostly on fixed term contracts. The number of female employees has shown a slight decrease from the previous year's 47% in 2015/16 to 45% in 2016/17. There are 2,15% of employees who have indicated that they have a disability; compared to 2,81% in the previous year. The Employment Equity Plan has prioritised the employment of coloured employees so as to improve the demographics of the organisation. More efforts are being made to continue to improve on these statistics by refining our recruitment and retention strategies and tactics.

Transfer of the Provident to an Umbrella Fund

As of January 2015 Mhlathuze Water Provident Fund members started contributing to the Sanlam Umbrella Fund. The move from a stand-alone fund to an umbrella fund was very compelling as it was becoming increasingly clear that the stand-alone fund was very costly to members. An umbrella fund pools the contributions of various employers and members in one fund and the greater number of participants allows for cost savings and delivers more value to members. The member shares of the Mhlathuze Water Provident Fund have been transferred to the Sanlam Umbrella Fund.

HR Service Satisfaction Survey

The annual HR Service Satisfaction Survey is conducted to better understand the employees' perspective and identify perceived service gaps and to facilitate continuous improvement in HR services and programmes. The overall satisfaction level is fair, as it is at 74%, against a target of 75%. Employees are most satisfied with Leave and HR Administration, the employee wellness and recruitment and selection. There are opportunities for improvement in the management of training and development opportunities and programmes.

Human Resources Development

Detailed below is the analysis of training and development during the year under review.

- **Workplace Skills Plan and Annual Training Report**
The Annual Training Report (ATR) and the Workplace Skills Plan (WSP) for 2016/17 was compiled and submitted to the EWSETA on 11th April 2017, before the due date of 30 April of each year. The Workplace Skills Plan for 2016/17 was implemented successfully as approximately 99% of the planned and compliance training was completed. Approximately 1005 man-days were spent on training.
- **Artisan Development programme for Unemployed Persons (18.2)**
Twenty (20) trainees are still participating in the programme. They all completed the Phase 2 electrical training course and they are scheduled for Phase 3 assessments in August 2017.
- **Artisan Development Programme for the Employed (18.1)**
Mhlathuze Water offered three (3) Artisan Training Programmes to Mhlathuze Water employees for Fitting, Millwright and Instrumentation Trader. The Fitter and Millwright programmes are due for completion in 2017 while the Instrumentation programme will be completed in 2018.
- **Study Assistance Scheme**
A budget of R410 183 was fully utilised on internal bursaries to thirty (30) employees. Twenty (20) study assistance recipients were female, one (1) of whom was a person living with a disability, and ten recipients (10) were male. Four employees completed their studies, viz: B.Com. Degree (Human Resource Management); B.Com. Degree (Financial Management) and B. Tech. Degree (Chemistry) and a Post Graduate Diploma (Project Management).
- **Amanzi Bursary Scheme (External)**
There were eleven (11) Amanzi bursary students from needy communities within Mhlathuze Water's area of supply i.e. Zululand and uMkhanyakude District Municipalities. They are all in the Engineering field. Two (2) completed their studies and will be placed in the Graduate Development Programme allocated to the Engineering Department.

Employee Wellness Programme

Several initiatives were undertaken to promote the employees' health and wellness. Some highlights for 2016/17 included the Workplace Mental Health and Wellness and Financial Wellness workshops, among others. A total of 140 employees attended these two workshops. Workplace Mental Health and Wellness is designed to address and promote mental health and reduce the stigma of mental illness in a workplace setting. In addition to recognising our obligations as a responsible employer, a Financial Wellness Workshop was arranged to help employees find balance and control over their finances.

Employee Relations

Mhlathuze Water's focus remains on building trust in our relationship with employees. The regular interactions between management and employees or unions is an important means of strengthening employee relations. Engagement channels include Union/Management meetings and meetings about health and safety issues.

There are also "Tea with the CE" sessions which are held every quarter to engage employees around important operational issues, providing them with responses to frequently asked questions and other information on a range of topics. Apart from helping to keep employees informed, it supports the business strategy of building our relationship with our employees by establishing confidence in management.

For the 2016/17 financial year a total of thirty-five (35) cases of misconduct were reported. The number of employees involved in misconduct represented 15% of the total workforce. At the time of writing this report the available information indicated that out of 35 cases reported, 30 had been finalised while 5 were still pending.

Health and Safety

To demonstrate its commitment to employee occupational health and safety, Mhlathuze Water contracted a SANAS accredited certification body, SACAS (South African Certification and Auditing Services) to audit our OH&S programmes. The audit was successfully undertaken and the audit outcome confirmed Mhlathuze Water compliance with OH&S requirements. The organisation was recertified to OHSAS 18001:2007 Management System in the year 2016/17. The organisation is of the belief that everyone should work continuously on the implementation of occupational health and safety programmes for the benefit of our employees in an effort to achieve health and safety compliance throughout the organisation.

As far as the prevention of Occupational Injuries is concerned; Mhlathuze Water has managed to reduce its disabling injury frequency rate from 0,26 in the 2015/16 financial year to 0,00 in the 2016/17 financial year.

Furthermore Mhlathuze Water has for the first time

conducted medical examinations at our onsite clinic. Our medical examinations are based on our medical surveillance programme which was developed by the registered medicine practitioner. This medical surveillance programme is risk based and informs what medical examination should be conducted in each employee. Apart from the occupational medical examinations, the clinic also provides wellness screening, counselling and provides employees with assistance for the chronic disease management.

Information Technology

- **Computerised Maintenance Management System (CMMS)**

During the period under review, a Computerised Maintenance Management system was implemented to effectively manage assets, and empower key decision makers in making more informed decisions about resources, people and assets allocation and utilisation. Implementing Maximo for Mhlathuze Water's engineering and operations departments was primarily focused to accommodate the engineering technical needs in the organisation, with a large asset base and spares requirements.

This is all now possible because the solution caters for all these requirements to manage the technical assets and resources efficiently and effectively.

- **Mobility and Wireless**

The demand for mobility (bring your own device - BYOD) and access to a wireless network has increased, and the organisation has now extended the wireless services to all users and visitors.

- **Geographic Information System (GIS) Enabled Technology**

The implementation and integration of the corporate Geographic Information System (GIS) with the Laboratory Information Management System (LIMS) represents a great opportunity for these systems to evolve into a critical pillar of data sharing and data collection.

- **Collaboration**

Collaboration is an essential tool where users can collaborate over the telephone or video across multiple spheres (internal and external stakeholders), sharing documents and other data from anywhere at any time. This was made possible with the implementation of a Video Conference Facility for Head Office, Nsezi WTP and Waste Water Disposal System. Meetings and interviews have been easier to coordinate utilising this video conferencing facility. This has proven to be a cost effective initiative.



Above: Signing of the Memorandum of Understanding with University of Zululand

WATER QUALITY AND ENVIRONMENT



WATER QUALITY AND ENVIRONMENT

WATER QUALITY AND COMPLIANCE PRODUCT QUALITY

Management Approach

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

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

An Incident Management Protocol which is aligned to the requirements of 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.

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 six 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 20: Key for classification of the performance of drinking water supply systems according to SANS 241:2015

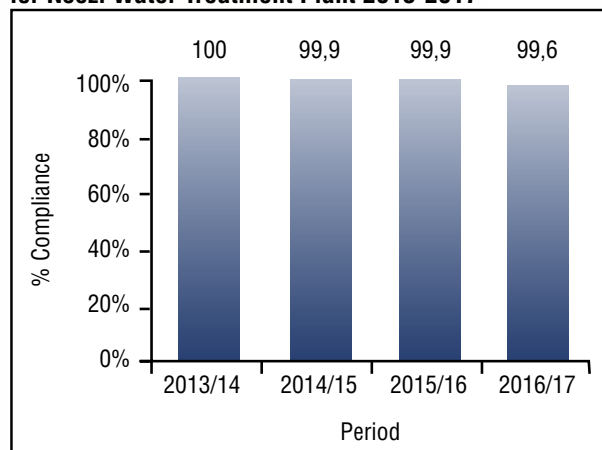
	Population up to 100 000 Proportion of samples			Population > 100 000 Proportion of samples compliant		
	Excellent	Good	Unacceptable	Excellent	Good	Unacceptable
Acute Microbiological Health	≥ 97%	≥ 95%	< 95%	≥ 99%	≥ 97%	< 97%
Acute Chemical Health	≥ 97%	≥ 95%	< 95%	≥ 99%	≥ 97%	< 97%
Chronic Chemical Health	≥ 95%	≥ 93%	< 93%	≥ 97%	≥ 95%	< 95%
Operational	≥ 93%	≥ 90%	< 90%	≥ 95%	≥ 93%	< 93%
Aesthetic	≥ 93%	≥ 90%	< 90%	≥ 95%	≥ 93%	< 93%

Table 21: Compliance Report - SANS 241:2015 for Nsezi Water Treatment Plant

Compliance Report - SANS 241: 2015 for Nsezi Water Treatment Plant Final		
Risk Category	July 2016 - June 2017	Target
Aesthetic	99.4%	≥ 93
Chemical	100.0%	≥ 95
Chronic	99.2%	≥ 93
Microbiological	100.0%	≥ 95
Operation	100.0%	≥ 95

As indicated, water quality at Nsezi met the requirements of SANS 241:2015 for the period July 2016 - June 2017. Nsezi has maintained overall compliance above 99% since 2013 as per graph below:

Graph 5: Compliance on SANS 241 Drinking Water Spec for Nsezi Water Treatment Plant 2013-2017



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. Mhlathuze Water has participated in Blue Drop System (BDS) assessments since 2010. The organisation still maintains its blue drop certification status and continuously prioritise its Blue Drop System requirements.

Blue Drop scores are determined based on assessments conducted by a panel of drinking water professionals on five key areas. These are: 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.

RAW WATER QUALITY PERFORMANCE

Table 22: Raw Water Quality Performance

	Total Number of Tests	Total Number Complying
Giardia	1	100%
Cryptosporidium	1	100%

Risk associated with Acute Health 2 Parameters (1 July 2016 to 30 June 2017)

Water quality risks that are associated with water resources that Mhlathuze Water is monitoring are due to low flows as a result of rivers drying due to insufficient rains, presence of sewage (fecal contamination) and illegal dumping in some areas.

WATER QUALITY MONITORING PROGRAMME

A water quality Index for Mhlathuze river system was developed to monitor and report on the overall water quality. Various water quality parameters were identified and these are weighted and scored to give the overall index which is related to the water quality in the area. The water quality categories of each site are included in the monitoring programme which is depicted spatially through the use of a GIS map.

Table 23: Water Quality Monitoring

SAMPLING POINT	WATER INDEX QUALITY		
	2015	2016	2017
Mposa River at Nseleni Township	A - Excellent	A - Excellent	A - Excellent
Mfule River at Nhlozane	A - Excellent	A - Excellent	A - Excellent
Goedertrouw Dam - Main Basin - Surface	A - Excellent	A - Excellent	A - Excellent
Nsezi Lake - Main basin - Surface	B - Good	B - Good	A - Excellent
Mhlathuze River at P230 bridge	A - Excellent	A - Excellent	A - Excellent
Nseleni River at N2 Bridge	A - Excellent	A - Excellent	B - Good
Mhlathuze River downstream of Tronox Mill	A - Excellent	A - Excellent	A - Excellent
Mhlathuze River downstream of Empangeni Town	A - Excellent	A - Excellent	A - Excellent
Mhlathuze River at Abstraction Weir	A - Excellent	A - Excellent	A - Excellent
Nseleni River downstream of Hulletts Dam	A - Excellent	A - Excellent	B- Good
Mposa River at Mkombe Road Bridge	A - Excellent	A - Excellent	B- Good
Lake Cubhu - Main basin - surface	A - Excellent	A - Excellent	A - Excellent
Lake Mzingazi - Main basin - surface	A - Excellent	A - Excellent	B - Good

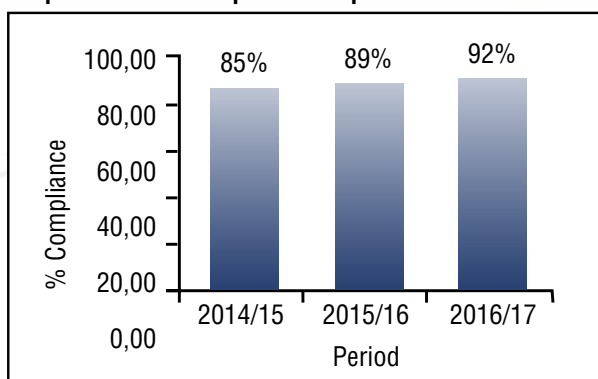
The current monitoring exceeds some of the requirements so as to cater for other operational requirements and contractual obligations with certain industrial consumers.

WASTE WATER QUALITY MONITORING

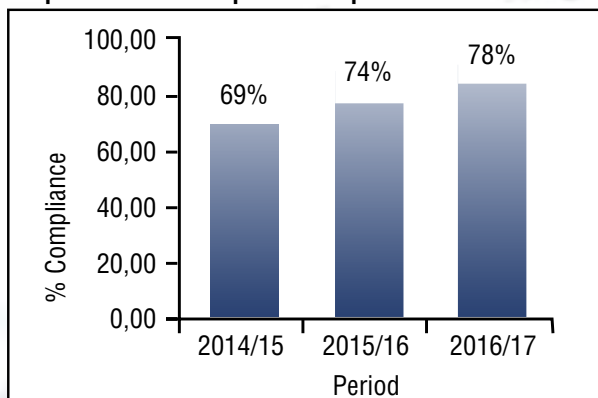
Waste Water Disposal Compliance

Mhlathuze Water owns and operates the biggest offshore wastewater disposal system in South Africa. Two pipelines (buoyant A-Line and dense B/C-Line) extending four and five kilometers out to sea discharge industrial wastewater from the big industries in Richards Bay and surroundings, sludge from Nsezi Water Treatment Plant and macerated sewage from the uMhlathuze Municipality. The organisation has a license to dispose industrial wastewater in terms of Section 21 (h) of the National Water Act, 36 of 1998. In line with the license, samples are taken daily from the contributors and also from the combined effluent at the pump station before it is mixed with seawater and pumped into the sea.

Graph 6: A-Line Compliance as per License Conditions



Graph 7: C-Line Compliance as per License Conditions



ENVIRONMENTAL MANAGEMENT

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

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

Mhlathuze Water 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.

ENVIRONMENTAL INCIDENTS

An incident is an unplanned or undesired event that adversely affects the organisation’s operations. Environmental incidents include property damage, water contamination, effluent and chemical spillages, or near miss events that could have resulted in any of these.

Incident management systems with protocols are in place to ensure proper and timeous response to all incidents. Mhlathuze Water continually strives to be environmentally sustainable throughout its operations, there has therefore been a decrease in the number of environmental incidents for the reporting period 2016/17 to four (4) incidents as compared to eight (8) that were recorded for 2015/16. These incidents were mainly from the effluent pipeline spillages and one was due to a water contamination incident.

Water contamination incident

On 26th of September 2016, MW’s Scientific Services Laboratory reported a high colour result (26.4 mg/Pt/L) for treated water from the Nsezi WTP. In the evening of the same day, a call was received from the City of uMhlathuze, reporting that the Municipality had received numerous calls from residents complaining of an undesirable taste and odour in the water, mainly citing a strong chemical smell and taste similar to chlorine. Upon investigation it was established that the contamination was coming from the Mhlathuze Weir which is the primary abstraction point for the Nsezi Water Treatment Plant.

Incident Response Actions taken:

- Plant records were reviewed, plant inspection carried out and raw and treated water samples were taken to the laboratory for analysis.
- Raw water abstraction from Mhlathuze Weir was immediately stopped and only raw water from Lake Nsezi was used at the WTP.
- Staff visited key points along the Mhlathuze River as part of the investigation.
- The Weir flood gates were opened in order to scour and eliminate any contaminated water.
- Bulk pipelines in the municipal distribution network were scoured and the 2 bulk reservoirs were emptied.
- Stakeholders were informed; The municipality, DWS, DEA and local industries.
- Press releases were published in the local newspaper to keep the community informed about the incident and progress thereof.

Preventative Measures:

The incident highlighted a number of areas in Mhlathuze Water’s processes and practices that need to be strengthened and improved on.

The measures below were undertaken:

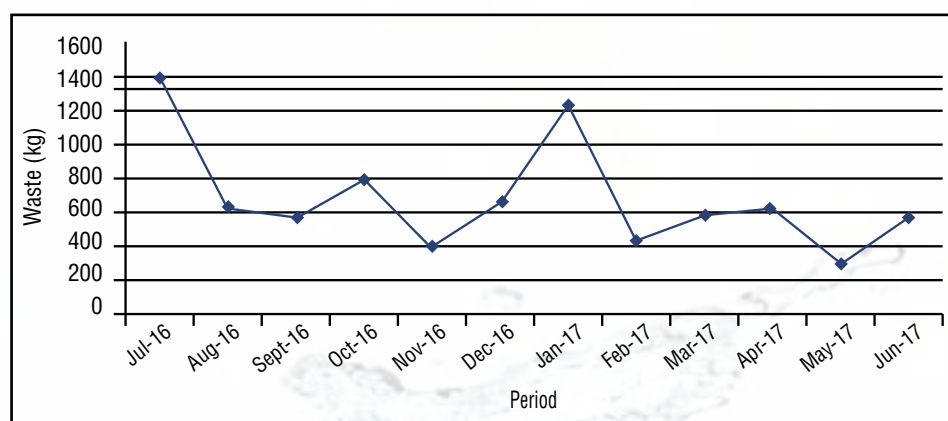
- Review of the Water Quality Monitoring Programme
- Daily Reporting of Key Water Quality Indicators
- Revision of the Water Quality Incident Response Protocol
- Revision of the Water Safety Plan
- Plant Modification to treat high manganese Levels

These incidents were reported as per the National Environmental Management Act and other requirements.

WASTE MANAGEMENT

Mhlathuze Water is currently implementing a Waste Management Plan which is aimed at reducing waste in line with waste management principles, namely recycle, recover, reuse and avoid on all sites of operation. A baseline study was undertaken in order to determine how much waste the organisation is generating as well as how much can be recycled in order to dispose as minimal waste as possible.

Graph 8: Waste generated in the 2016/17 Financial Year



As part of community empowerment, a SMME company is providing waste recycling services. This company is able to benefit and grow financially through recycled waste from Mhlathuze Water as well as other companies in Richards Bay. A total waste of approximately 5 300 kg was disposed of.

Mhlathuze Water monitors paper usage of each department. All employees are encouraged to minimize unnecessary printing, and where possible documents are distributed electronically.

CARBON FOOTPRINT AND EMISSIONS REDUCTION INITIATIVES

The organisation calculated its Carbon Footprint and developed a Carbon Management Plan. The exercise provided an improved understanding of the organisation's Carbon Footprint with a view of transitioning to a more environmentally sustainable entity in the face of global climate change risk. Mhlathuze Water's direct carbon emissions (scope 1) arise from fuel usage for vehicles and generators, while indirect carbon emissions (scope 2) are primarily due to electricity usage, and to a lesser extent air travel.

Table 24: Carbon Footprint results - CO₂ equivalents (tonnes)

	Financial Year 2014/15	Financial Year 2015/16	Financial Year 2016/17
Scope 1 (tonnes CO ₂ -e)	412	498	502
Scope 2 (tonnes CO ₂ -e)	80 122	90 216	89 115
Total (Scope 1 & Scope 2) (t CO ₂ -e)	80 534	90 714	89 617

CO₂ Equivalents

Table 25 above shows the organisation's carbon emissions over a three (3) year period. It is noticeable that there is a reduction in the combined emissions (Scope 1 and 2) due to the decrease in 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.

Electricity consumption per area/ installation

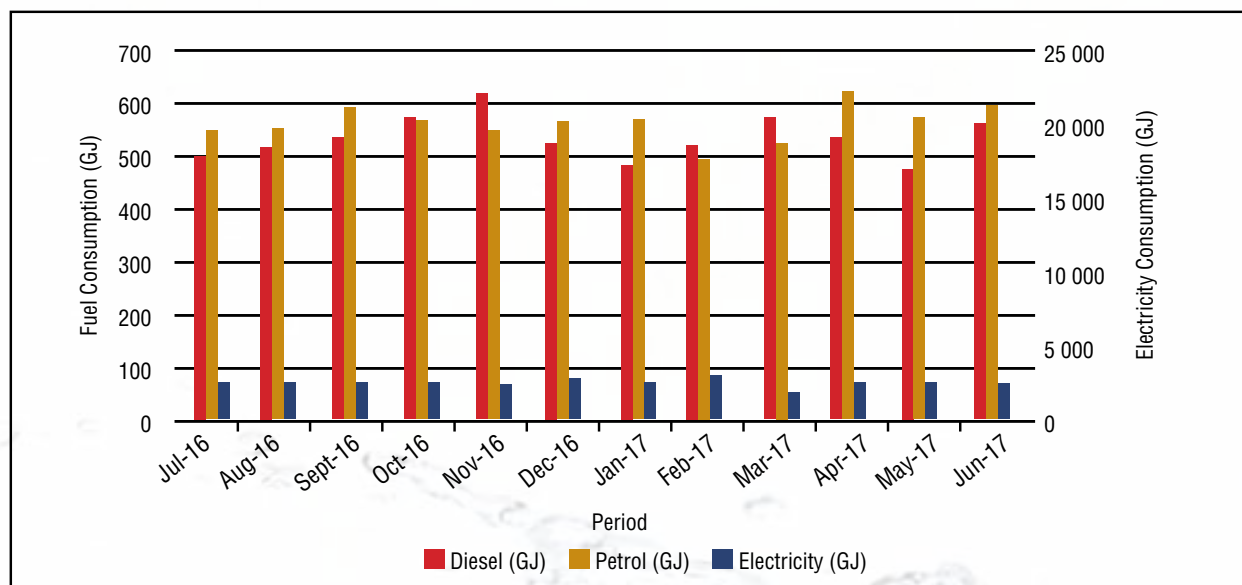
Monitoring of carbon footprint is undertaken on a monthly basis and data is recorded with the following focus areas: electricity usage, vehicle (fuel usage) as well as water usage at the pump stations/ plants.

The energy consumption per energy type and per area/ installation is shown below. The majority of energy consumed is seen to be through electricity consumption. The petrol and diesel consumption from vehicles is seen to be quite insignificant in comparison.

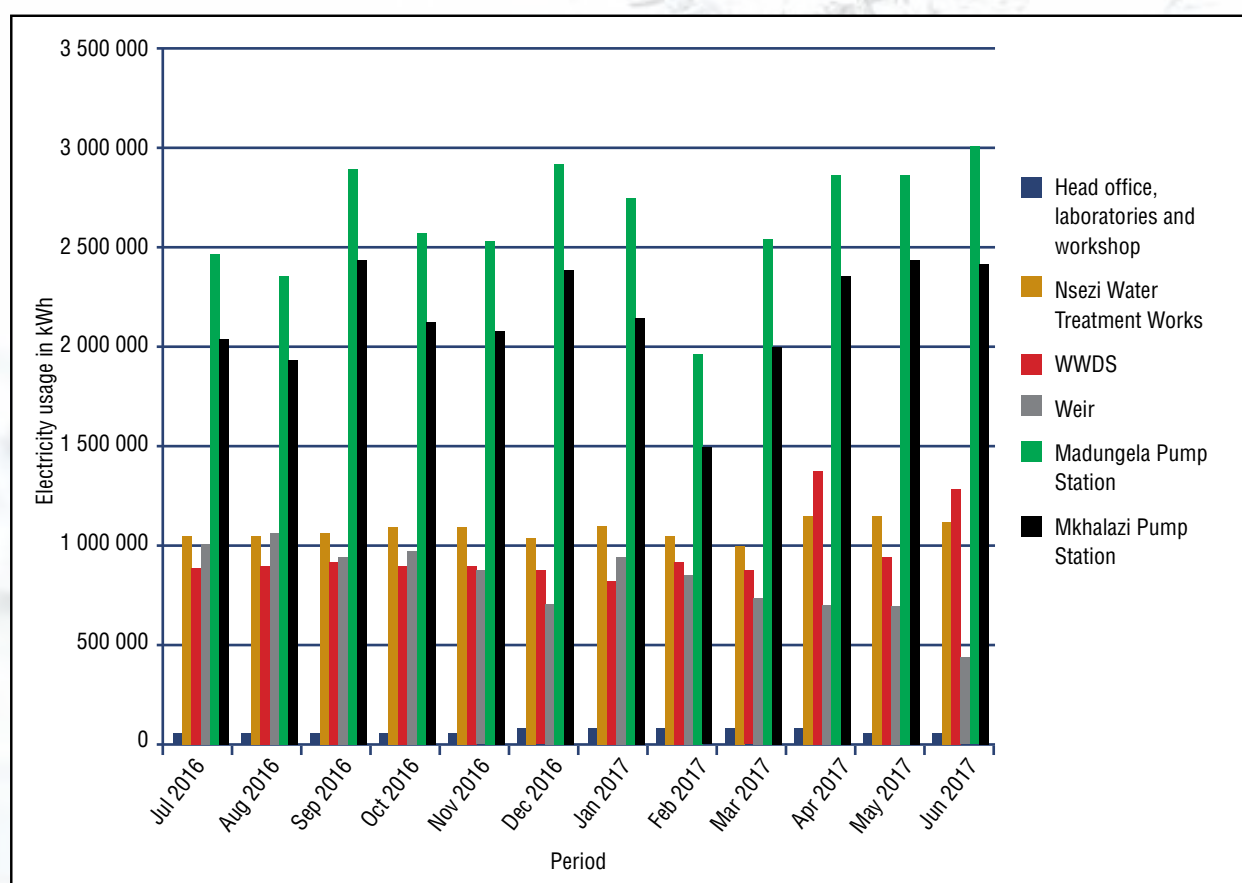
The current initiatives aimed at reducing carbon footprint are:

- Implementation of the Energy Management System (ISO 50001). Certification is expected to be achieved by the end of the next financial year.
- Power factor correction Survey undertaken.
- Applying load shift at Nsezi Water Treatment Plant - Ongoing
- Power analyzers installation project in progress for improved measurement of the energy consumption.
- Replacement of normal lights with energy efficient lights.
- Encouraging employees in implementing on-going carbon offsetting initiatives such as tree planting.

Graph 9: Energy Consumption per Type (GJ) for the 2016/17 Financial Year



Graph 10: Electricity Consumption (kWh) per Area for Financial Year of 2017/17



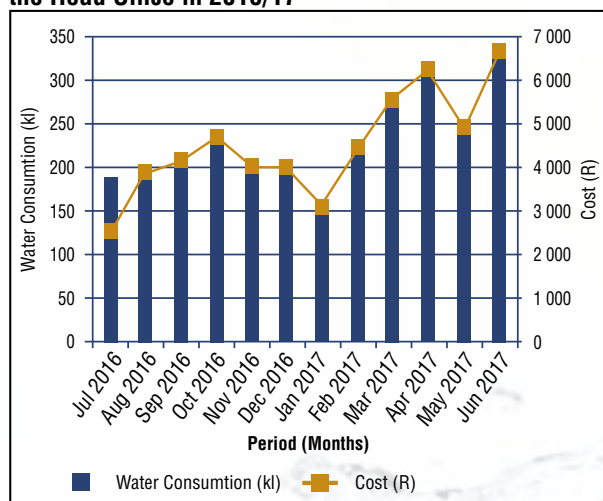
WATER CONSERVATION

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

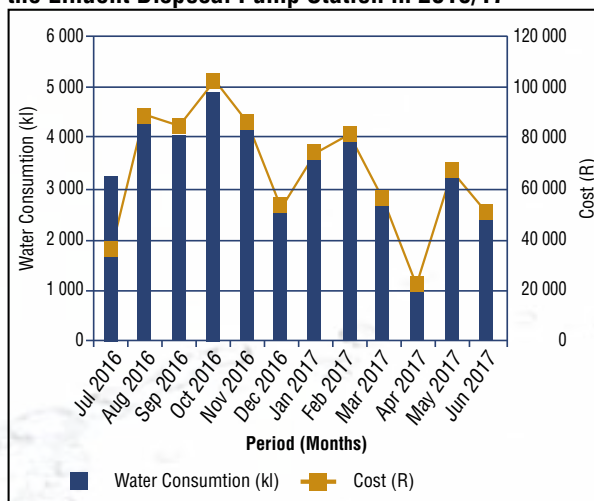
- General awareness to all staff through induction, toolbox talks and internal magazine.
- Installation of water tanks in strategic areas at the Head Office Complex.
- Conducting water audits to assist in establishing new ways to conserve water in the installations.
- Improved turnaround time in repairing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

Graphs 11 and 12 below show water usage at the Head Office Complex as well as at the Effluent Disposal Pump Station.

Graph 11: Water Consumption and Associated Costs at the Head Office in 2016/17



Graph 12: Water Consumption and Associated Costs at the Effluent Disposal Pump Station in 2016/17



Note: Nsezi Water Treatment Plant and Weir Pump Station receive potable water supply from water that is purified on site.

The following projects will be implemented in the near future:

- Installation of water saving shower heads in all showers in the ablution facilities;
- Constant monitoring of the flow meters to ensure consistency and correct billing;
- Use of low flow fixtures (the pressure release valve);
- Insulation of water pipes (warm water).

ENVIRONMENTAL AUTHORISATIONS AND COMPLIANCE MONITORING

Environmental Impact Assessments are conducted for all construction projects so that likely 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 amongst a number of listed activities that are required to follow the Environmental Impacts Assessment process. Mhlathuze Water outsources these services to external service providers but monitors and audits these to ensure compliance with the Environmental Management Plans during project implementation.

The organisation has applied for environmental authorisations in line with the requirements of the National Environmental Management Act, as well as Water Use Licences in line with Section 21 (C & I) of the National Water Act.

Table 25: Status of environmental authorisations in 2016/17

Project Name	Date of Authorisation - EA	Date of Authorisation - WUL
Ingwavuma/ Jozini Bulk Water Supply	N/A	August 2016
Nsezi pipeline phase 1	August 2016	Still Awaited from DWS
KwaSani Bucket system eradication	N/A	August 2016
Weir Diesel generator	June 2017	N/A
Coastal waters discharge permit	N/A	Still awaited from DEA

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 almost all of the initiatives.

Table 26 below outlines activities undertaken internally and externally during the reporting period.

Table 26: Environmental awareness campaigns and events for 2016/17

Event	Date	Activities
Arbour Day	September 2016	A tree was planted at Mhlathuze Water's Head Office to create awareness to staff.
Weedbuster Week	October 2016	The Weedbuster week was commemorated at Inkandla with DEA Working for Water staff, WfW contractors, their employees as well as Mhlathuze Water staff that are involved in the programme. This is an annual event that is normally held and rotated amongst Mhlathuze Water's managed project areas.
Wetlands Day	February 2017	An article was published in the Newsplash (internal newsletter) about the importance of protecting and conserving wetlands.
World and Environmental Oceans Day	June 2017	Mhlathuze Water commemorated both the Environmental & Oceans Day on the 8th June 2017, where a wetland that was affected as a result of the previous pipe burst was visited. The event was attended by employees from different departments within the organisation, Provincial Department of Environmental Affairs and KZN Ezemvelo Wildlife who presented a keynote speech on the importance of protecting biodiversity and the environment.

ALIEN PLANTS MANAGEMENT (WORKING FOR WATER PROGRAMME)

This is an Expanded Public Works Extended Programme aimed at alleviating poverty through job creation for rural communities while assisting them in terms of skills development. It aims to conserve water resources through the removal of alien invasive plants. Approximately 600 people have benefited from this project, including: 60% women, 38% youth, and 2% people with disabilities.

A budget of R20 591 288.00 was approved by DEA to implement the projects within the financial year 2016/17. The current projects are Goedertrouw, Mfule, Inkandla, Waterweeds (Mhlathuze River) and Lower Umfolozi and are managed by Mhlathuze Water Project Managers.

Mhlathuze Water has been involved for many years in the removal and eradication of the invasive alien plants through the WfW programme which is fully funded by DEA. Over and above the clearing of alien plants, Mhlathuze Water has commenced monitoring and assessing the invasion of these plants in Mhlathuze Water's main source of supply.

SYSTEMS MANAGEMENT

ISO 17025:2005: Laboratory System Accreditation

Mhlathuze Water continues to maintain its accreditation to ISO 17025 Laboratory System. The laboratory was

last audited by SANAS in January 2017 and findings raised during the assessment were effectively cleared. The organisation has also continued to invest in more technologically advanced laboratory testing equipment with the aim of satisfying the water testing needs for its operations and clients. 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 and effluent disposed complies with license requirements, thereby assuring public health protection from diseases and water related impacts.
- To produce scientific data for the development and optimisation of infrastructure, and
- To assess the status of water resources and quality of raw water supply in the rivers and catchments.

Test results are produced within the specified times that forms part of Service Level Agreement with end users. Supported by Laboratory Information Management Systems (LIMS), water quality results are captured, validated, stored and reported.

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

SHEQ systems aim to integrate all components of our business into one coherent system so as to enable the organisation to achieve its purpose and mission.

In order to ensure compliance with best practices and international standards, the organisation has certified management systems for Safety, Health, Environment

and Quality. The specific areas of application are:

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

ISO 14001: ENVIRONMENTAL MANAGEMENT SYSTEM

The organisation strives to be a sustainable water utility that is profitable and acknowledges the importance of environmental protection. Mhlathuze Water has been ISO 14001 certified since February 2006. This certification is a voluntary process which involves an external certification body performing audits to confirm compliance to an international standard. This initiative indicates the organisation's commitment to comply with environmental legislation and to conduct its operations in an environmentally friendly manner.

An annual surveillance audit was conducted in October 2016 and all findings were successfully cleared.

Mhlathuze Water has an Environmental Policy that provides strategic framework for the company's EMS which translates in identification of potential environmental impacts and setting of environmental objectives and targets. These objectives and targets address areas such as pollution prevention, waste minimisation and recycling as well as conservation of energy.

ISO 9001 QUALITY MANAGEMENT SYSTEM (QMS)

Mhlathuze Water has adopted ISO 9001 quality management system to ensure that its process and operation produces a quality product at all times. The entity is audited on annual basis by an independent certification body: SACAS.

The last surveillance audit was conducted in October 2016 and all findings that were raised during this audit were cleared. The organisation is in the process of implementing the new ISO 9001:2015 requirements.



ISO 50001 ENERGY MANAGEMENT SYSTEMS

Mhlathuze Water continues with its ISO 50001 Energy Management System Implementation initiative.

ISO 50001 is an energy management system which specifies requirements for establishing, implementing, maintaining and improving energy management. The main purpose is to enable the organisation to follow a systematic approach in achieving continual improvement of energy performance, including energy efficiency, energy use and consumption. Outstanding issues that still need to be addressed include the identification of controls, document development and training.

The identification of controls exercise that was conducted in June 2017 indicated that there was a need to install electrical meters in key areas to monitor energy performance. This is considered to be critical to enable the successful implementation of ISO 50001.

Mhlathuze Water staff members proudly promote water conservation

INFRASTRUCTURE DEVELOPMENT AND WATER SUPPLY



INFRASTRUCTURE DEVELOPMENT AND WATER SUPPLY

DROUGHT INTERVENTIONS

The 2016/17 financial year continued to be dominated by the drought which started in 2014/15. Drought has been identified as one of the risks for Mhlathuze Water, more so as it pertains to water resource use and/or the ability to support our clients and remain in business. To this end, many strategies have been developed which include, but are not limited to:

- Nsezi Augmentation to build more capacity
- Water re-use initiative
- Seawater desalination; and
- Water Conservation programmes.

These are not implemented in isolation, but with the support of clients such as The Department of Water and Sanitation, CoGTA, etcetera.

Since the onset of the drought, Mhlathuze Water has been working with various stakeholders to alleviate the impacts of the drought within its area of operation. After engaging with the Department of Water and Sanitation (DWS), the Department of Cooperative Governance and Traditional Affairs (CoGTA) and the City of uMhlathuze (CoU), the following initiatives were implemented during the 2016/17 financial year:

- **Consultation with stakeholders regarding water use reduction**
Mhlathuze Water was an active participant in the Mhlathuze Catchment Joint Operating Committee (JOC). The role of the committee was to develop strategies to mitigate the impact of the drought.
- **Support to DWS in the upgrade of the Tugela-Goedertrouw Transfer Scheme**
Mhlathuze Water was an active participant in the Technical, Environmental and Electrical sub-committees for the project including chairing the technical and electrical committees. The role of the committees was to support DWS in expediting the implementation of the Tugela Transfer Scheme Upgrade Project.
- **Support to DWS in the establishment of the Desalination Plant in Richards Bay**
Actively supported the Department in the location



Above: Low water levels at Goedertrouw Dam

of the site and sea water abstraction point. The organisation further availed the Waste Water Disposal System for disposal of brine. Mhlathuze Water also assisted in the water quality monitoring to ensure the water meets drinking water quality standards.

- **Support DWS in the implementation of water supply restrictions**
Mhlathuze Water supported DWS with the implementation of restrictions for Mhlathuze Water's customers. The level 4 restrictions which commenced in 2015/16 were still being enforced over the 2016/17 financial year.
- **Working together with the CoU on the investigation into effluent reuse**
Mhlathuze Water is working together with the CoU in investigating the feasibility of re-using waste water and associated by-products. The objective of this project is to make available process water that meets potential customer requirements for industrial use, thereby releasing potable water for domestic and commercial use.
- **Support to CoGTA as an implementing agent for its drought relief programme**
Mhlathuze Water concluded a Memorandum of Understanding with CoGTA as an Implementing Agent for the Drought Emergency funding and critical projects in KwaZulu-Natal.

The scope of work for the Drought Intervention Programme included:-

- Siting, drilling, testing, equipping and energising in excess of 110 boreholes;
- Supplying and installing of 800 emergency static tanks on brick constructed stands;
- Designing, supplying, installing and commissioning of 21 water storage facilities;
- Designing, supplying, installing and commissioning of 3 water treatment package plants;
- Pre-feasibility planning studies investigating potential sites for desalination plants along the KwaZulu-Natal coast;
- Viability investigation of implementing wastewater recycling at 4 wastewater treatment works;
- Procuring and supplying of 9 water tankers.

Project implementation is nearing the final stages with successful completion expected in the 2017/18 financial year.

MHLATHUZE TRANSFER SCHEME

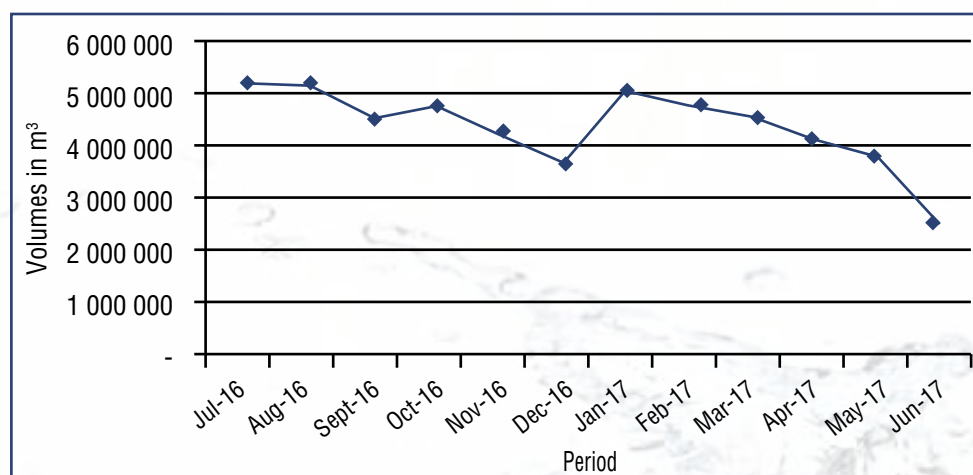
Mhlathuze Water continues to abstract water from the Mhlathuze River which is fed by the Goedertrouw Dam that is augmented by the TGS. The raw water abstraction takes place at the Weir Pump Station, which is about 70km from the discharge of Goedertrouw Dam. The primary beneficiaries from this Pump Station 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 52 345 879m³ of raw water was pumped from the scheme this financial year, which is 25% lower than the volume supplied in the previous financial year, with 79%; 19% and 3% being supplied to Nsezi WTP; Lake Nsezi and Tronox, respectively. The 25% reduction was due to the enforcement of restrictions. No raw water was supplied to Lake Nsezi from March 2017 since the lake was full after receiving rains. No raw water was supplied to the CoU for Esikhaleni owing to Lake Cubhu being full after rainfall.

Raw Water Abstraction Profile

Graph 13: Total Raw Water Abstracted from Mhlathuze Transfer Scheme



NSEZI WATER TREATMENT PLANT

A total of 44 325 431m³ was supplied to Nsezi Water Treatment Works, with 93% of this volume from Mhlathuze River and 7% from Lake Nsezi. The volumes supplied to Nsezi WTW during the 2016/17 were reduced by 8% due to the restrictions compared to 2015/16 financial year.

Unaccounted water loss during the financial year was 3.31%, and was within the target of 5%.

Mhlathuze Water continued to supply the CoU with purified water for Richards Bay since Mzingazi Water Treatment Works was still out of operation due to the low Mzingazi Lake level. During the course of the year, Lake Mzingazi's level improved but the treatment works could not be recommissioned due to refurbishments that the CoU was undertaking. The

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

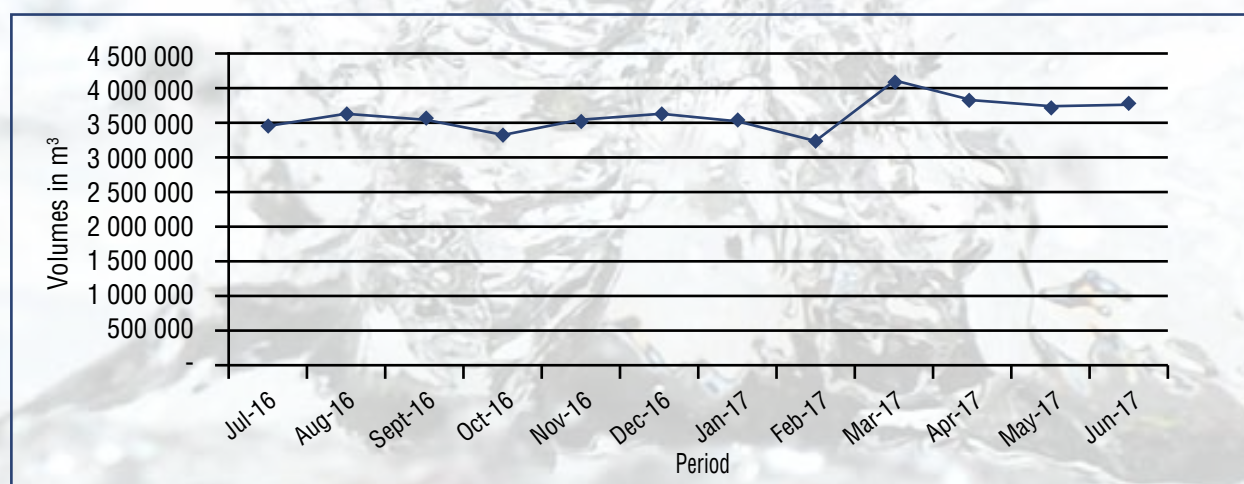
- Installation of a standby diesel generator as back-up power supply.
- Introduction of stability measures at the existing weir.
- Supplementing the existing weir with a new weir structure.
- Implementation of the Supervisory Control And Data Acquisition system phase II.

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;
- Implementation of the Supervisory Control And Data Acquisition system phase II.

Graph 14: Total Treated Water Supply Profile





Above: New reservoirs at Nsezi Water Treatment Plant

EFFLUENT SCHEME

A total of 33 890 028m³ was disposed off-shore through the Waste Water Disposal System. 73% of this volume was discharged through the buoyant line and 27% through the dense line which contributed to a 6% increase from the previous financial year.

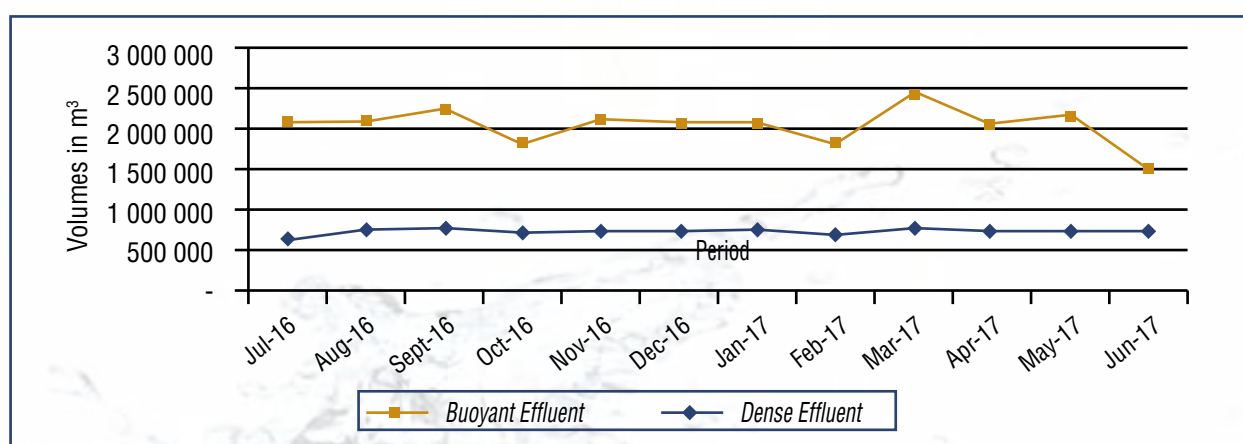
South 32 and the DWS Desalination Plants were commissioned during the 2016/17 financial year and started disposing brine into the system.

To ensure continuous and reliable effluent disposal, Mhlathuze Water has successfully completed the following

projects:

- Finalisation of the refurbishment of the A-line Pump Station and;
- The upgrade of the C-line Pump Station.

Graph 15: Effluent Disposed Profile



EXTERNAL O&M PROJECTS

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

Richards Bay Minerals

Mhlathuze Water continues with the operation and quality monitoring of the five Water and Waste Water Package Plants at the mining ponds. The five year contract expired in June 2017 and negotiations are currently underway for the extension of the contract.

Furthermore, Mhlathuze Water continues to operate the Water and the Waste Water Treatment Works at the smelter. This also includes water quality monitoring.

City of uMhlathuze

Mhlathuze Water continues to operate and maintain the CoU Water and Waste Water Treatment Works and associated bulk distribution infrastructure. The contract which commenced on a month-to-month basis later developed into a full 3 year engagement through multiple extensions of the short-term engagements.

Tugela-Goedertrouw Transfer Scheme

Mhlathuze Water is responsible for the operation and maintenance of the Tugela-Goedertrouw Transfer

Scheme, with a capacity of 1.2m³/s, on behalf of the DWS. This scheme is critical for providing water to the region, particularly during the drought.

MAINTENANCE, PLANT EFFICIENCY AND AVAILABILITY

Mhlathuze Water spent in excess of R38 million for the refurbishment and preventative maintenance projects. 99% Plant availability was achieved in the financial year under review. There were no unplanned supply interruptions exceeding 24 hours. The organisation has fully implemented a Computerised Maintenance Management System (CMMS) to ensure continuous and reliable supply to customers.

Major maintenance activities to ensure plant availability for the period under review were as follows:

Nsezi Water Treatment Plant

- Applying load shifting has made a significant impact in energy consumption.
- Implementation of the SCADA phase 2 Project has commenced.

Weir Transfer Scheme

- A standby generator project was initiated to mitigate the risk of power outages.

Effluent Disposal Systems

A-line:

- A-line offshore pipeline surveys were conducted in the financial year under review and thereafter corrective maintenance work was executed.

C-line:

- An additional pump was commissioned in order to ensure the full plant availability and optimal service to Mhlathuze Water clients.
- C-line offshore pipeline surveys were conducted during the financial year.

Head Office

- Renovations of the laboratory are currently underway.

PLANNING

The Planning and Development Section is responsible for the engineering, planning and development for the organisation. This section drives the initial processes for projects implementation internally.

Regional Bulk Master Planning

As a key role player in the supply of bulk water and bulk sanitation, Mhlathuze Water continues to engage with all water service authorities in the region. This is aimed at ensuring that the current needs are met and the future needs are timeously identified.

In support of the above role, Mhlathuze Water is currently engaged in preparing a regional bulk water supply and sanitation master plan.

The Department of Water and Sanitation Reconciliation Study (2016) identified that the current water resources available from the Mhlathuze River catchment are sufficient to cater for the existing water requirements but will require augmentation to cope with future medium and long term needs.

The report identified five top interventions for long term strategies/sources of raw water:

- Urban/industrial water conservation and water demand management (immediately implementable);
- Raising of Goedertrouw Dam wall (5 - 6 years);
- Dam on Nseleni River (10 - 11 years);
- Dam on Mfolozi River (>10 years);
- Desalination of sea water;
- Wastewater reuse.

During 2016 the Department of Water and Sanitation confirmed that it intended to raise the Goedertrouw Dam wall and will also investigate the yield potential of the Black and White Mfolozi River systems.

PROJECTS AT DESIGN STAGE

Augmentation of Nsezi Water Treatment Plant

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

Following the completion of the study during the 2015/16 financial year, the design developments were concluded and included the following:

- New clarifier;
- Four sand filters;
- An additional flotation drainage system;
- A raw water supply pipeline from Mhlathuze Weir to Nsezi Water Treatment Plant.

New Mhlathuze Weir

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 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.

Design work is underway with a view to commence construction in the 2017/18 Financial Year.

Refurbishments of Waste Water Treatment Works

Mhlathuze Water was requested by the Department of Water and Sanitation to assist the uMkhanyakude District Municipality with the refurbishments of waste water treatment works at Manguzi, Ingwavuma and Hluhluwe.

A business plan was submitted to the Department of Water and Sanitation in the 2016/17 financial year. The plan was approved and funding was made available for implementation in the next financial year.

Water Applications Received

Applications to Mhlathuze Water for 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 27 on the following page:

Table 27: Pending and Potential Water/Effluent Applications

Customer		Volumes (m³/d)	Volumes (m³/annum)
1	Tongaat Hullet	2 739.7	1 000 000
2	Zulti South Mine - Richards Bay Minerals	28 000	14 600 000
3	Tronox - Fairbreeze Mine	31 460	11 482 900
4	City of uMhlathuze - Esikhaleni	25 000	9 125 000
5	City of uMhlathuze - Foskor	30 000	10 950 000
6	Richards Bay Industrial Development Zone	20 000	7 300 000

PROJECTS AT IMPLEMENTATION STAGE

Internally Funded Projects

Reservoirs at Nsezi Water Treatment Plant

The project involves the construction of an additional 40MI on site storage for potable water to ensure uninterrupted supply to Mhlathuze Water customers. The construction of the two reservoirs is at testing phase and completion is planned for during the 2017/18 financial year.

Tronox Pump Station Upgrade

Mhlathuze Water is upgrading 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 is currently at commissioning and testing phase.

Mondi Pump Station Upgrade

The upgrade of the pump station constitutes the following:

- **Electrical Works:** Installation of civil earth works for new MCC commenced in May 2017.
- **Mechanical Works:** This includes the upgrade of the 4x vertical turbine pumps and construction is underway.

Externally Funded Projects

Department of Water and Sanitation

Regional Bulk Infrastructure Grant Programme

Mhlathuze Water received a directive from the Department of Water and Sanitation to accelerate the implementation of three bulk water projects in the uMkhanyakude District Municipality through the Regional Bulk Infrastructure Grant Programme. The intention is to address the water shortage backlog in the whole district. The projects implemented under this programme are as follows:

Hlabisa Bulk Water Supply

The objective of this project was to construct bulk water pipelines, reservoirs and pump stations in the Hlabisa area. The total amount approved for the project is R208 million.

The project is complete but commissioning is still outstanding due to insufficient water source from the Mandlakazi System.

Dukuduku Water Supply Project

The objective of this project was to assist in providing a solution to the water challenges experienced by the Mtubatuba Water Supply System. This project was aimed at ensuring a distribution of water to the users within the communities of Dukuduku, Khula and Ezwenelisha.

Jozini/Ingwavuma Bulk Water Supply

The objective of this project was to implement a bulk water supply in the rural area between Jozini and Ingwavuma towns, thereby providing the surrounding communities with access to purified water. The project covers the construction of five (5) pump stations, fifteen (15) reservoirs, a 40MI Water Treatment Plant and the laying of uPVC and steel pipes.

A key milestone in the project was the commissioning of the 40MI/day Jozini Regional Bulk Water Treatment Works. An amount of R960 million has been spent to date.

Water Services Infrastructure Grant Programme

A further directive was issued by the Department of Water and Sanitation for the implementation of three projects in the Zululand District Municipality funded from a combination of internal DWS funds and the Water Services Infrastructure Grant Programme. These projects are as follows:

Nongoma Water Supply Projects (Ward 14 and 17)

The objective of this project is to provide borehole reticulation to a number of stand alone schemes identified within the above wards. Currently the appointment of service providers is underway to equip the boreholes and the work shall be completed in the 2017/18 financial year.

Accelerated Community Infrastructure Programme (ACIP)

The objective of this project is to provide borehole reticulation water to a number of stand-alone schemes identified within the above wards. Initially delays were encountered in identifying adequate water sources which

has subsequently been addressed. Expenditure to date is R43.6 million.

Abaqulusi Water Supply Projects (Ward 5, 6, 7 and 22)

The objective of this project is to implement stand-alone schemes utilising spring water from springs identified within the project area. Initially seventeen (17) potential springs were identified with ten (10) springs subsequently drying up. Seven (7) Springs have been successfully protected and reticulation provided to the benefiting communities. Alternative water sources are being investigated to supply the ten (10) outstanding areas. Expenditure to date is 29.5 million.

Nongoma Water Supply Projects (Ward 5, 10 and 11)

The objective of this project is to provide borehole reticulation water to a number of stand-alone schemes identified within the above wards. Progress was halted due to the contractor terminating his appointment with Mhlathuze Water. Procurement processes are currently underway to source an alternative service provider. Expenditure to date is R30.3 million.

Refurbishment of Ingwavuma Waste Water Treatment Works

Mhlathuze Water received a directive from DWS to implement the refurbishment of Ingwavuma Waste Water Treatment Works through the 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 is on 90% completion.

Cooperative Governance and Traditional Affairs

KwaSani Bucket Eradication System Project

Mhlathuze Water was appointed by CoGTA to assist with eradication of the bucket system in the Harry Gwala District Municipality at KwaSani Local Municipality for two villages; Himeville and Underberg. The project entails:

- Constructing new toilets at each household for both villages;
- Installation of sewer reticulation; and
- Construction of Wastewater Package units (Himeville and Underberg).

The construction of stand-alone outside flush toilets has been completed.

- Himeville Treatment Plant is now complete and receiving sewage from the houses.

- Underberg Treatment Plant installation is complete except for the interconnection pipework and sump. As at 30 June 2017, the overall project progress was 85% completed with a total expenditure of R38.5 million, which is within the allocated budget of R45.2 million.

Department of Basic Education

Schools Ablution Facilities Project

Mhlathuze Water's appointment as an implementing agent for DBE has been extended to 31 March 2018.

The extension of the appointment was based on the implementation of the twenty (20) projects under the Water and Sanitation programme. All projects have been successfully completed within the allocated budget.

Currently close out reports and financial accounts are being prepared for the Department for the purposes of asset transfer.

Health and Hygiene Education in Schools

Health and hygiene education is conducted in schools where water and sanitation projects are being implemented. For people to benefit from sanitation improvements, they must understand the link between their own health, good hygiene and toilet facilities.

The project aims at increasing an individual's knowledge about issues related to personal habits and practices that affect one's health. This is done to break the cycle of communicable diseases and ensure sustainable sanitation structures. During the 2016/17 financial year, health and hygiene education was conducted in all twenty (20) projects implemented under the Department of Basic Education Programme.



FINANCIAL OVERVIEW



Independent Audit and Risk Committee Report

This report is provided by the Audit and Risk Committee (Audit Committee) in respect of the 2016/17 financial year of Mhlathuze Water in compliance with section 51(1)(a)(ii) and 77(a) of the Public Finance Management Act (PFMA). The Audit Committee's operations are guided by a detailed charter that is informed by the PFMA and King IV as approved by the Board.

MEMBERSHIP

The Board Audit and Risk Committee was appointed as follows:

- By the Board of Directors in respect of the periods:

01 July 2016 to 25 October 2016.

- Musa Xulu (Chairperson)
- Brian Rawlins
- Nica Gevers
- Bonginkosi Mshengu

26 October 2016 to 26 April 2017.

- Musa Xulu (Chairperson)
- Brian Rawlins
- Nica Gevers
- Simosenkosi Chamane
- Poppy Dlamini

The term of the Committee members as indicated above ended when the Minister of Water and Sanitation terminated the term of the Board of Directors on the 26 April 2017 and on the same day appointed the Chief Executive as the Accounting Authority for Mhlathuze Water.

On 1st August 2017, the Accounting Authority for Mhlathuze Water appointed the independent Audit and Risk Committee consisting of the following members:

- Musa Xulu (Chairperson)
- Brian Rawlins
- Nica Gevers
- Simosenkosi Chamane
- Poppy Dlamini

All members of the committee are not executive members of Mhlathuze Water.

PURPOSE

The purpose of the Audit and Risk Committee is:

- To assist the Accounting Authority in discharging its duties relating to the safeguarding of assets,

the operation of adequate systems, control and reporting processes, and the preparation of accurate reporting and financial statements in compliance with the applicable legal requirements and accounting standards.

- To provide the Chief Financial Officer, internal and external auditor's access to the Chairperson - or any member of the Audit and Risk Committee as is required in relation to any matter falling within the remit of the Audit and Risk Committee.
- To meet with the external auditors at least on an annual basis and discuss External Audit matters.
- To provide a forum for discussing business risk and control issues and developing recommendations for consideration by the Accounting Authority.
- To monitor enterprise-wide, operational strategic, regulatory, safety and other risks, as well as to ensure adequate mitigation thereof by way of monitoring controls that have been implemented to curtail and minimise risk.
- To review Mhlathuze Water's financial statements and other compliance reports.
- To oversee the activities of and ensure coordination between the internal and external audit.
- To perform duties that are assigned to it by the Water Services Act, and as governed by other legislative requirements.
- To receive and deal with any complaints concerning the accounting practices, internal audit or the content and audit of its financial statements or related matters.
- To conduct annual review of the - Audit and Risk Committee's work and terms of reference and make recommendations to the Accounting Authority to ensure that the - Audit and Risk Committee operates at maximum effectiveness.

EXECUTION OF FUNCTIONS

The Audit and Risk Committee has executed its duties and responsibilities during the financial year in accordance with its terms of reference as they relate to the Mhlathuze Water's accounting, internal auditing, internal control and financial reporting practices.

During the year under review:

In respect of the External Audit and the Internal Audit, the Committee among other matters:

- Recommended appointment of Auditor General as the external Auditor for the financial year ended 30 June 2017 and ensured that the appointment complied with all applicable legal and regulatory requirements for the appointment of an audit. The Audit Committee confirms that the auditor is accredited.
- Reviewed the audit, evaluated the effectiveness of the auditor and its independence and evaluated the external auditor's internal quality control procedures.
- Determined the nature and extent of all non-audit services provided by the external auditor.
- Considered whether any reportable irregularities were identified and reported by the external auditors in terms of Auditing Profession Act, 2005. Refer to note 27 of the Annual Financial Statements where irregular expenditure has been identified and reported on. Confirmation has also been obtained from management that steps are being taken to correct, and deal with such expenditure in terms of relevant legislation and regulations.

In respect of the financial statements, the committee amongst other matters:

- 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.
- Examined and reviewed the annual financial statements, as well as all financial information disclosed to the public prior to submission and approval by Accounting Authority.
- Ensured that the annual financial statements fairly present the financial position of Mhlathuze Water as at the end of the financial year and the results of operations and cash flows for the financial year and considered the basis on which Mhlathuze Water was determined to be a going concern.
- Considered accounting treatments, significant unusual transactions, fruitless expenditure and accounting judgements.
- Considered the appropriateness of the accounting policies adopted and changes thereto.
- Reviewed the external auditor's audit report.
- Considered any problems identified and reviewed any significant legal and tax matters that could have a material impact on the financial statements.

In respect of internal control, there were material breakdowns in the systems of internal control including financial controls. The internal and financial control deficiencies are being addressed primarily by strengthening the supply chain and finance teams.

In respect of forensic audit, the fraud prevention and ethics programme approach implemented includes prevention, detection, investigation and resolution through the Internal Audit function. Fraud and other irregular activities are reported through the tip-offs anonymous

hotline or directly to the Internal Audit function. Effective implementation of the recommendations and outcomes emanating from the investigations are monitored and reported to the Accounting Authority and the Audit Committee. Going forward detection controls will be enhanced through a strengthened internal audit function.

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. Risk management is being strengthened by, amongst others, further training of staff on good corporate governance practices and increased oversight and monitoring of Risk Management Committees.
- Considered and reviewed the findings and recommendations of the Internal Auditors. There were quality concerns that were raised with the Internal Auditors. The internal audit function is being given necessary attention in order to improve its effectiveness.
- Approved the IT Security policy and monitored and evaluated significant IT investments, delivery of services and the management of IT.

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.
- Monitored complaints received via Mhlathuze Water's whistle-blower ethics hotline.

In respect of the coordination of assurance activities, the Audit and Risk Committee reviewed the plans and work outputs of the internal and external auditors and concluded that these were adequate (except for internal audit as indicated above) to address all significant financial risks facing the business. There is ongoing collaboration between Internal Audit, External Audit, Compliance and Risk Management functions to ensure co-ordination of combined assurance activities.

Considered the expertise, resources and experience of the finance function and of the Chief Financial Officer and concluded that these needed improvement in order to enhance the internal financial controls and supply chain management.

ANNUAL FINANCIAL STATEMENTS

Following the review by the Independent Audit and Risk Committee of the Annual Financial Statements of Mhlathuze Water for the year ended 30 June 2017, the Committee is of the view that in all material respects, except for the qualifications, 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 ended. Having achieved its objectives, the Committee recommended the financial statements for the year ended 30 June 2017 for approval to the Accounting Authority. The Accounting Authority has subsequently approved the financial statements.

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. However, we draw your attention to note 37 of the Annual Financial Statements regarding the Institutional Reform and Re-alignment process being undertaken by the Department of Water and Sanitation which may lead to the establishment of a single water board in KwaZulu-Natal.

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.

CONCLUSION

The Independent Audit and Risk Committee is satisfied that it has considered and discharged its responsibilities in accordance with its terms of reference during the year under review.

On behalf of the Independent Audit and Risk Committee



Mr. M.M Xulu

Chairperson of the Independent Audit and Risk Committee
31 October 2017

FINANCIAL OVERVIEW

1. INTRODUCTION

The 2016/17 financial year continued to be dominated by the drought which started in 2014/15. Since then, Mhlathuze Water has been working with the Department of Water and Sanitation to alleviate the effects of drought within its area of operation. This led to the implementation of level 4 restrictions which reduced the supplied volumes by 11%. Resulting from this the expected growth in revenue did not materialise.

2. OPERATING PERFORMANCE

Table 28 gives an overview of the Statement of Financial Performance of the entity for the 5 years ending 30 June 2017.

Table 28: Statement of Financial Performance

	2013	2014	2015	2016 Restated	2017	2016/17 increase/ (decrease)
	kl'000	kl'000	kl'000	kl'000	kl'000	
Volume sold	108 927	112 340	136 222	131 295	117 506	(11%)
	R'000	R'000	R'000	R'000	R'000	%
Revenue from exchange transactions						
Sale of goods and services	328 470	349 718	498 765	527 042	533 617	1%
Cost of Sales	(150 099)	(143 872)	(134 912)	(122 820)	(133 385)	9%
Bulk purchases	(51 498)	(42 136)	(59 045)	(51 738)	(44 315)	(14%)
Electricity and water	(37 425)	(38 484)	(26 369)	(27 654)	(25 588)	(7%)
Chemicals	(10 089)	(8 127)	(12 580)	(11 572)	(13 613)	18%
Employee related costs	(11 921)	(14 187)	(9 501)	(10 774)	(10 825)	0%
Depreciation	(39 165)	(40 937)	(27 418)	(21 081)	(39 044)	85%
Gross Profit	178 371	205 846	363 853	404 222	400 232	(1%)
Other income	12 951	12 553	12 732	13 322	14 414	8%
Expenditure	(138 061)	(142 220)	(285 089)	(327 218)	(372 046)	14%
Employee related costs	(48 380)	(56 590)	(88 070)	(106 975)	(118 255)	11%
Remuneration of board members	(2 042)	(2 005)	(2 964)	(3 129)	(2 659)	(15%)
Depreciation and amortisation	(5 414)	(4 039)	(24 384)	(19 278)	(32 434)	68%
Finance cost	(24 120)	(18 452)	(13 069)	(10 205)	(9 850)	(3%)
Lease rentals on operating lease	(2 278)	(2 252)	(2 410)	(2 488)	(2 566)	3%
Debt Impairment	652	271	(144)	(181)	(293)	62%
Repairs and maintenance	(16 042)	(14 836)	(42 943)	(45 973)	(40 748)	(11%)
Electricity and water	(1 362)	(1 528)	(49 546)	(72 833)	(80 176)	10%
Chemicals	-	(296)	(1 313)	(3 239)	(3 147)	(3%)
Other expenses	(39 075)	(42 493)	(60 246)	(62 917)	(81 918)	30%
Operating surplus	53 261	76 179	91 496	90 326	42 600	(53%)
Gain (loss) on disposal of assets	14 809	3 019	(1 499)	56 576	(2 814)	(105%)
Surplus for the year	68 070	79 198	89 998	146 902	39 786	(73%)

3. OPERATING SURPLUS

The current year Operating Surplus decreased by 53% from the prior year mainly due to the following reasons:

- Volumes** decreased by 11% for the year.
- Depreciation and amortisation** costs increased by 77% due to the re-assessment of the useful lives of assets and the re-instatement to fair value of assets previously acquired at R1 value.
- Other expenses** increased by 30%. Major contributions being:
 - External audit fees
 - Legal costs
 - Fruitless and wasteful expenditure
 - Regional bulk studies
 - Stock adjustments
 - Travel and subsistence

4. SURPLUS FOR THE YEAR

The current year surplus reflects a decrease of 73% from the prior year due to an inclusion of R57 million gain on disposal of TG Scheme assets to Department of Water and Sanitation in the prior year.

5. VOLUME SOLD

5.1. Bulk Water

Table 29: Bulk Water Volumes

Customer	2013	2014	2015	2016	2017	2016/17 increase/ (decrease)
	kl'000	kl'000	kl'000	kl'000	kl'000	
Raw water	4 264	7 381	16 165	20 443	8 146	(60%)
Richards Bay Titanium	1 406	2 394	8 972	10 972	6 731	(39%)
Tronox Hillendale	2 858	4 453	1 257	2 195	1 415	(36%)
CoU - Esikhaleni	-	534	5 936	7 276	-	(100%)
Treated water	39 912	40 208	55 305	46 025	42 067	(9%)
Mondi Richards Bay	23 957	23 703	23 475	20 467	18 014	(12%)
CoU - Foskor	3 823	4 810	5 488	3 676	3 754	2%
CoU - Empangeni	9 508	9 243	9 579	8 070	7 654	(5%)
CoU - Richards Bay	2 624	2 452	16 763	13 812	12 645	(8%)
Total bulk water volume sales	44 176	47 589	71 470	66 468	50 213	(24%)

5.1.1. Raw water

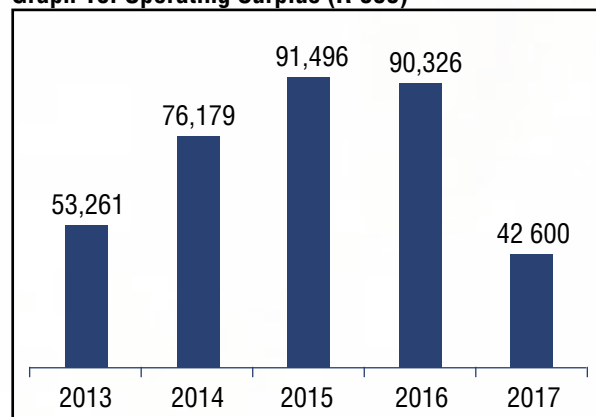
A negative growth of 60% on raw water volumes is due to the drought restrictions that were imposed by the Department of Water and Sanitation on water usage.

Due to the recovery of the water levels in Lake Cubhu, the City of uMhlathuze resumed using lake for consumption and did not need to pump from the Mhlathuze River for Esikhaleni WTW.

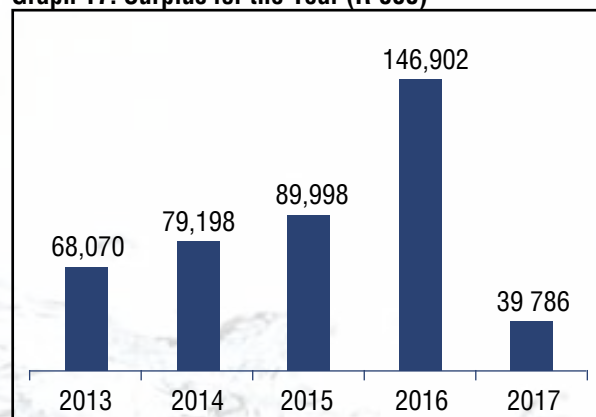
5.1.2. Treated Water

The negative growth of 9% on treated water volumes is mainly due to the drought restrictions that were imposed by the Department of Water and Sanitation.

Graph 16: Operating Surplus (R'000)



Graph 17: Surplus for the Year (R'000)



5.2. Waste Water
Table 30: Bulk Waste Water Volumes

Customer	2013	2014	2015	2016	2017	2016/17 increase/ (decrease)
	kl'000	kl'000	kl'000	kl'000	kl'000	
Buoyant waste water	53 802	53 802	53 802	53 894	56 343	5%
Mondi Limited	40 150	40 150	40 150	40 150	40 150	0%
CoU - Richards Bay	7 300	7 300	7 300	7 338	7 427	1%
South32 (Bayside)	548	548	548	573	559	(3%)
South32 (Hillside)	548	548	548	573	1 705	198%
MPACT	2 920	2 920	2 920	2 920	2 920	0%
Foskor	730	730	730	734	1 826	149%
Tronox	876	876	876	876	905	3%
Isizinda Aluminium	-	-	-	-	122	0%
Nsezi WTP	730	730	730	730	730	0%
Dense waste water	10 950	10 950	10 950	10 950	10 950	0%
Foskor	10 950	10 950	10 950	10 950	10 950	0%
Total waste water volumes	64 752	64 752	64 752	64 844	67 293	4%

The Waste Water increase of 4% is mainly due to South 32 (Hillside) which increased its daily demand from 1500 kilolitres per day to 6 250 kilolitres per day, due to the establishment of their own desalination plant.

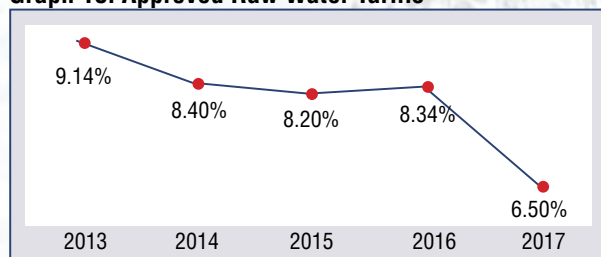
Foskor increased their daily demand from 2000 kilolitres per day to 5000 kilolitres per day due to increased operational requirements.

6. TARIFFS

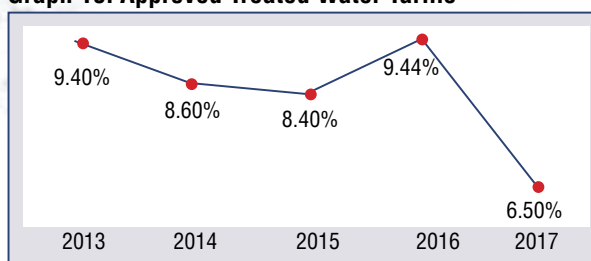
Mhlathuze Water tariffs are reviewed annually and are based on compliance to MFMA Regulations. The tariff policy is detailed in paragraph 11 of the Accounting Authority's report.

6.1. Raw Water Tariffs

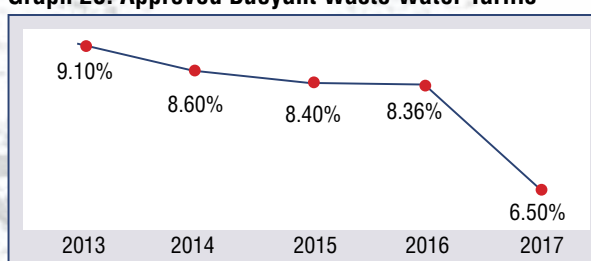
The approved raw water tariff increase for the current year was 6.50%

Graph 18: Approved Raw Water Tariffs

6.2. Treated Water Tariffs

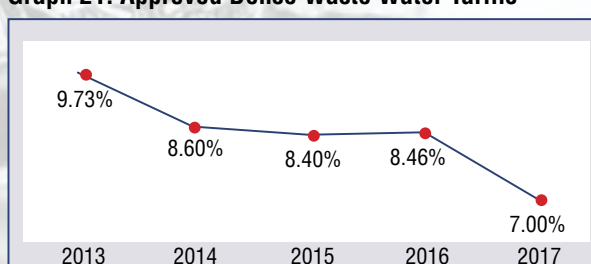
The approved treated water tariff increase for the current year was 6.50%.

Graph 19: Approved Treated Water Tariffs

6.3 Buoyant Waste Water Tariffs

The approved buoyant Waste water tariff increase for the current year was 6.50%.

Graph 20: Approved Buoyant Waste Water Tariffs

6.4 Dense Waste Water Tariffs

The approved dense water tariff increase for the current year was 7.00%

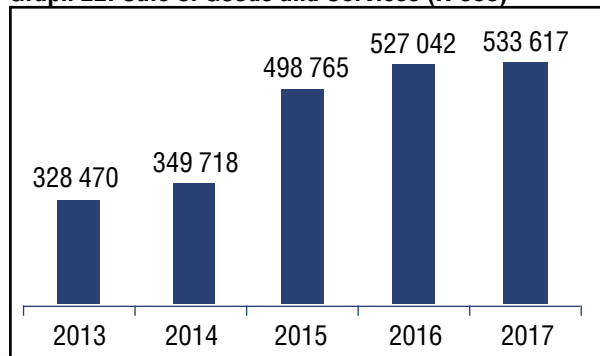
Graph 21: Approved Dense Waste Water Tariffs


7. REVENUE FROM EXCHANGE TRANSACTIONS

7.1 Sale of Goods and Services

The volumes sold in the current year decreased by 11%, however an increase of 1% in Revenue was realised due to approved tariff increases and the Implementing Agency fees received. Refer to Note 12 of the Annual Financial Statements for further details.

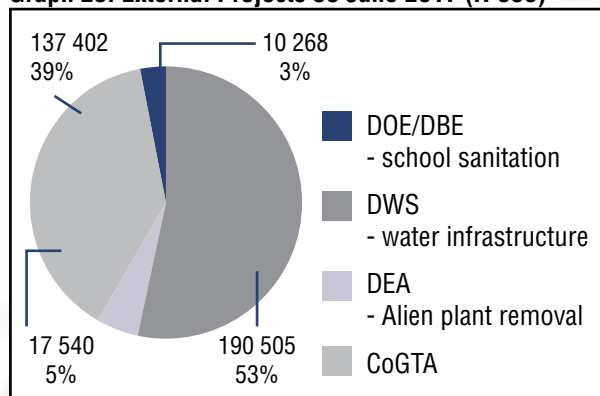
Graph 22: Sale of Goods and Services (R'000)



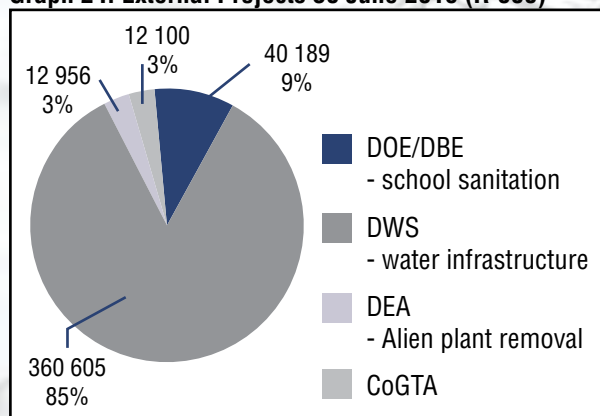
7.2 External Projects

The value of work invoiced for external projects is treated on an agency basis whereby only the implementing agent's fee is recognised as Revenue. Graph 23 and 24 below reflect the value of work invoiced to the various principals.

Graph 23: External Projects 30 June 2017 (R'000)



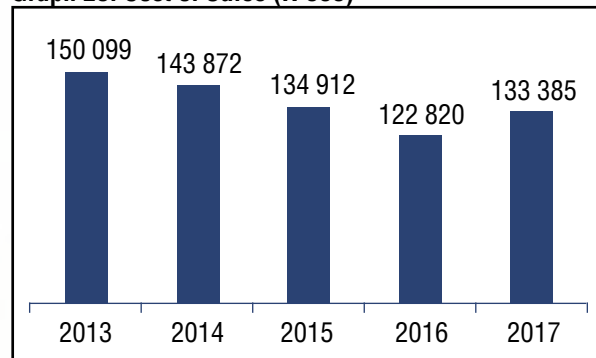
Graph 24: External Projects 30 June 2016 (R'000)



8. COST OF SALES

Cost of Sales increased by 9% for the year. The main contributor is the Depreciation and amortisation under the direct costs due to the re-assessment of the useful life of the assets and the re-instatement of fair values of assets originally acquired at R1 value.

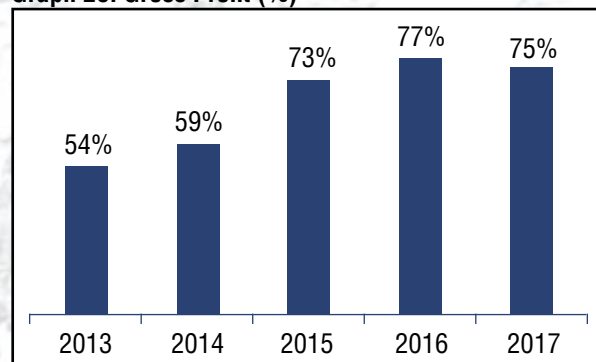
Graph 25: Cost of Sales (R'000)



9. GROSS PROFIT

The gross profit percentage decreased by 2% for the year, due to the 9% increase in Cost of Sales versus only a 1% increase in revenue.

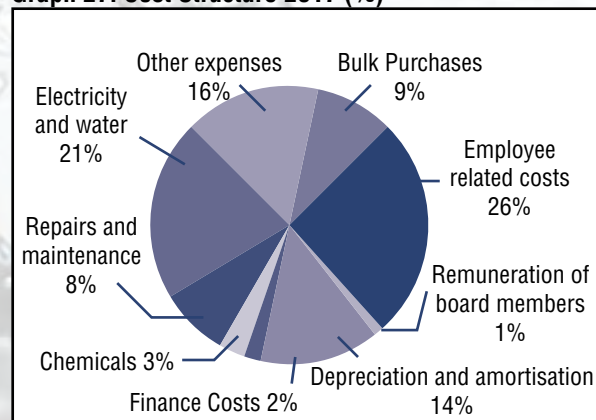
Graph 26: Gross Profit (%)



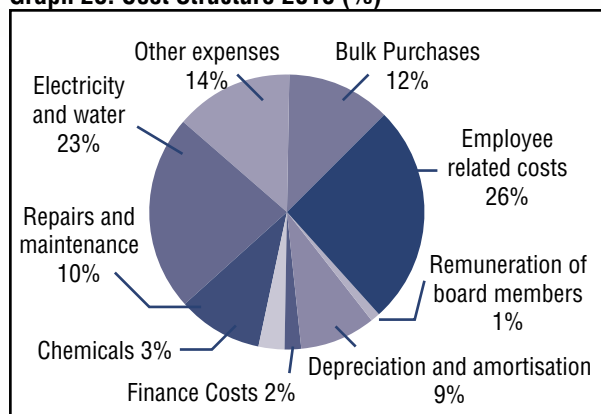
10. EXPENSES

A cost structure breakdown is as follows:

Graph 27: Cost Structure 2017 (%)



Graph 28: Cost Structure 2016 (%)

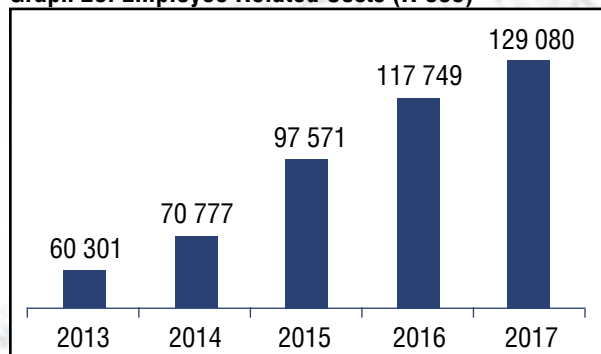


10.1 Employee Related Costs

An increase of 10% from the prior year was due to the following:

- Approved employee cost increase of 7.5%
- Mhlathuze Water is currently incurring the costs of the interim Chief Executive as well as the suspended Chief Executive.
- Business travel claims increased due to business requirements.
- Workman's Compensation premiums increased due to a revised risk rating.
- Overtime increased mainly due to operational requirements as a result of the drought.

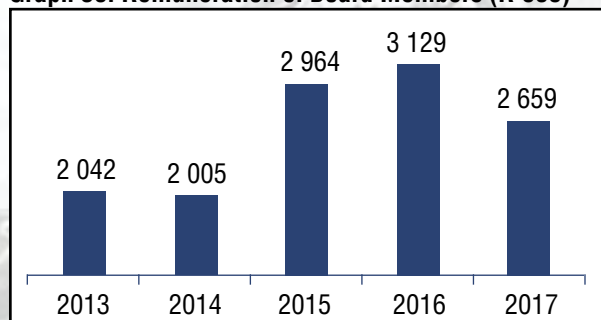
Graph 29: Employee Related Costs (R'000)



10.2 Remuneration of Board Members

The decrease of 15% was due to the Board of Mhlathuze Water's term of office coming to an end on the 26 April 2017.

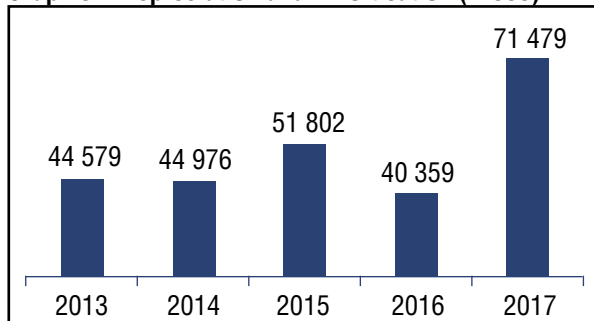
Graph 30: Remuneration of Board Members (R'000)



10.3 Depreciation and Amortisation

The 77% increase from the prior year is due to the re-assessment of the remaining useful lives of assets and the re-instatement of fair values of assets previously acquired at R1 value.

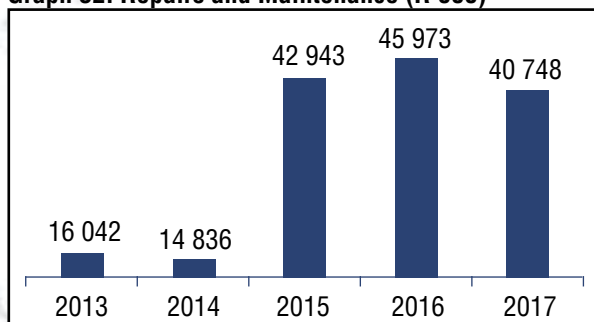
Graph 31: Depreciation and Amortisation (R'000)



10.4 Repair and Maintenance

The 11% decrease was due to major maintenance projects implemented in the prior year arising from the internal pipeline assessment conducted. In the current year, only planned preventative maintenance projects were implemented.

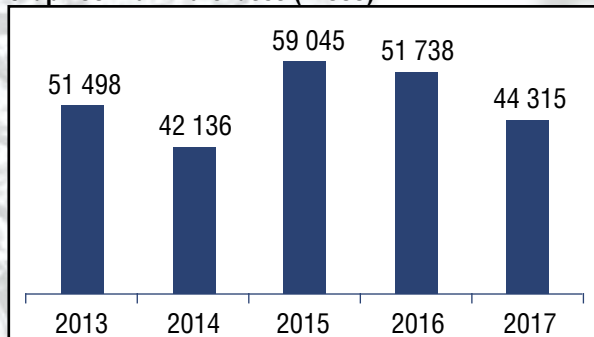
Graph 32: Repairs and Maintenance (R'000)



10.5 Bulk Purchases

The 14% decrease is due to lower volumes sold resulting from the drought and water restrictions.

Graph 33: Bulk Purchases (R'000)

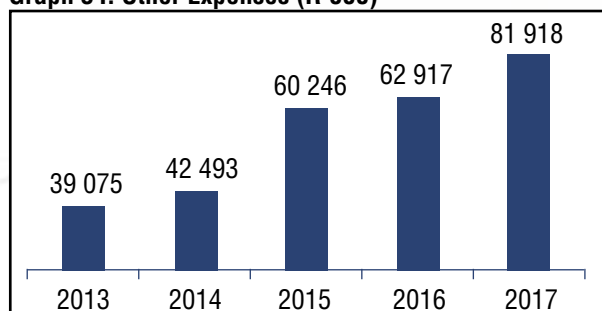


10. Expenses (continued)
10.6 Other Expenses

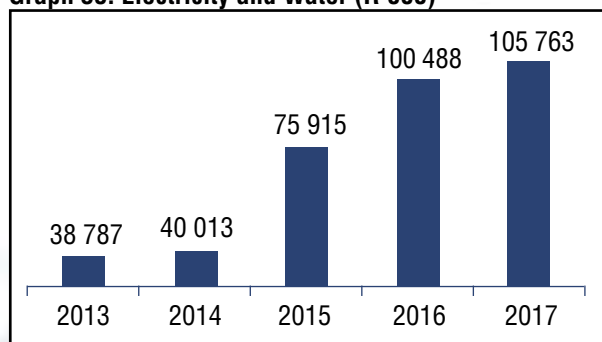
The increase of 30% is mainly due to the following:

Table 31: Major Contributors

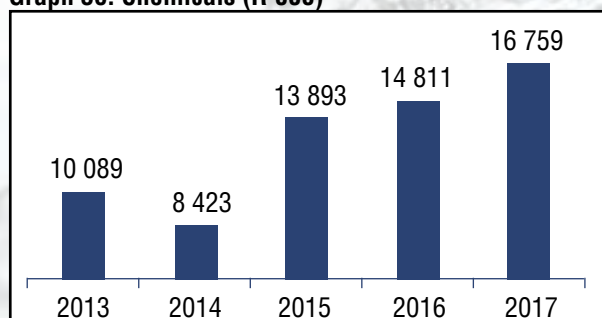
Expenses	2017 R'000	2016 R'000	% Growth
External audit fees	3 060	910	236%
Legal cost	7 234	1 989	264%
Abnormal expenditure	2 237	-	100%
Regional Bulk studies	8 266	3 707	123%
Stock adjustments	3 174	220	1340%
Travel and Subsistence	1 372	181	656%

Graph 34: Other Expenses (R'000)

10.7 Electricity and Water

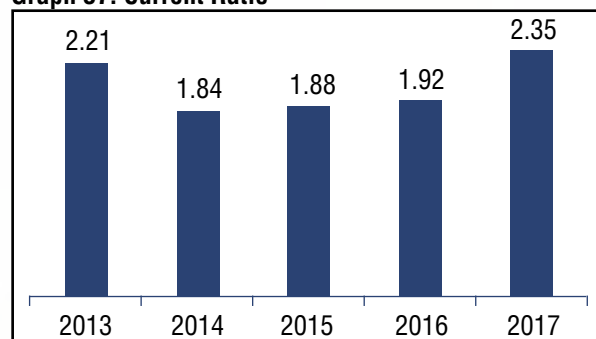
The marginal increase of 5% is due to the normal tariff increases approved by NERSA.

Graph 35: Electricity and Water (R'000)

10.8 Chemicals

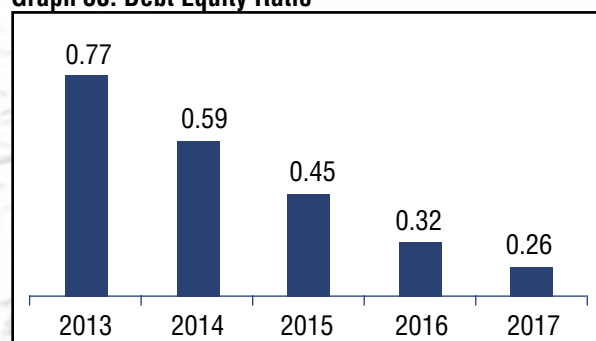
The increase of 13% was due to the price increase on chemical purchases and also the use of chemicals increased due to high raw water turbidity caused by drought conditions.

Graph 36: Chemicals (R'000)

11. OPERATING INDICATORS
11.1 Current Ratio

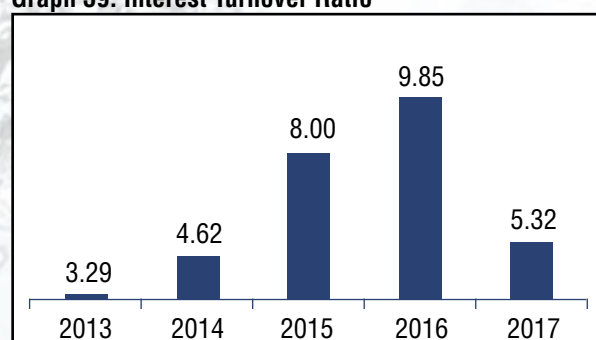
The ratio of 2.35 indicates that Mhlathuze Water will have the ability to meet its short term obligations.

Graph 37: Current Ratio

11.2 Debt Equity Ratio

The ratio decrease to 0.26 primarily as a result of the decrease in long-term debt.

Graph 38: Debt Equity Ratio

11.3 Interest Turnover Ratio

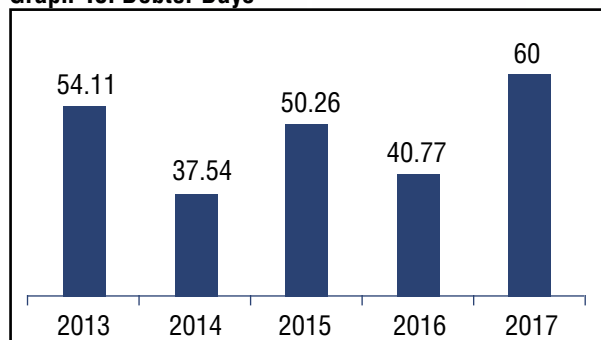
Although the interest turnover ratio decreased to 5.32 times it still indicates that Mhlathuze Water can pay interest on outstanding debt.

Graph 39: Interest Turnover Ratio


11.4 Debtors Days

The debtors days increased to 60 days. The increase is mainly due to late payments from the City of uMhlathuze, Richards Bay Minerals, Foskor and the Department of Water and Sanitation (TGS) which were received in July 2017.

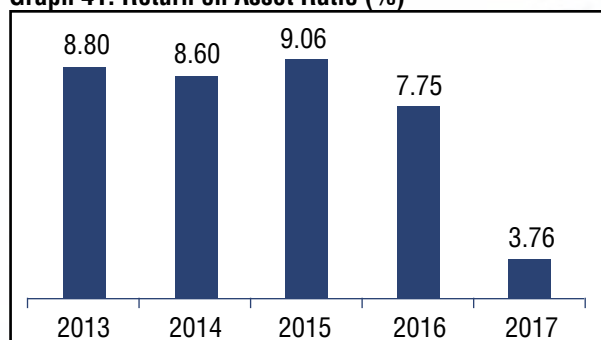
Graph 40: Debtor Days



11.5 Return on Assets Ratio

The return on assets ratio decreased to 3.76 due to the operational net income that was lower than the prior year.

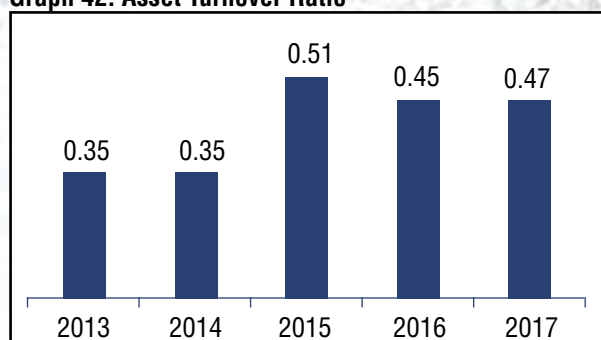
Graph 41: Return on Asset Ratio (%)



11.6 Asset Turnover Ratio

The ratio increased to 0.47.

Graph 42: Asset Turnover Ratio

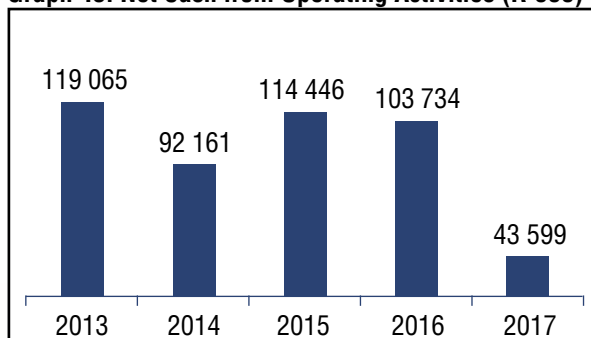


12. CASH FLOW ANALYSIS

12.1 Cash Flows from Operating Activities

Net cash generated from operating activities decreased by 58% compared to the prior year, mainly due to an increase of 39% on payments made to suppliers and employees.

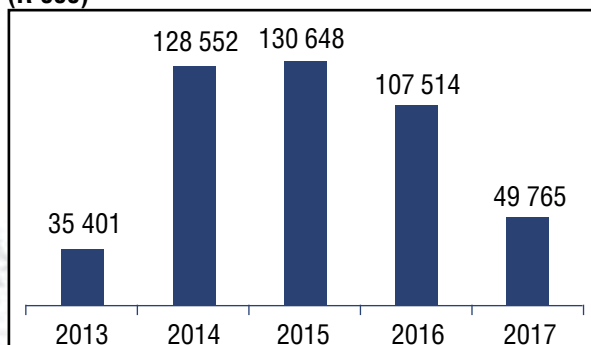
Graph 43: Net Cash from Operating Activities (R'000)



12.2 Cash Flows Utilised in Investing Activities

Net cash utilised in the acquisition of property, plant and equipment and intangible assets decreased by 54% from the prior year.

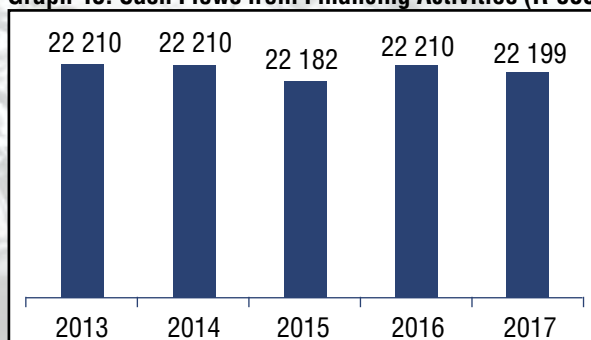
Graph 44: Cash Flows Utilised in Investing Activities (R'000)



12.3 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.

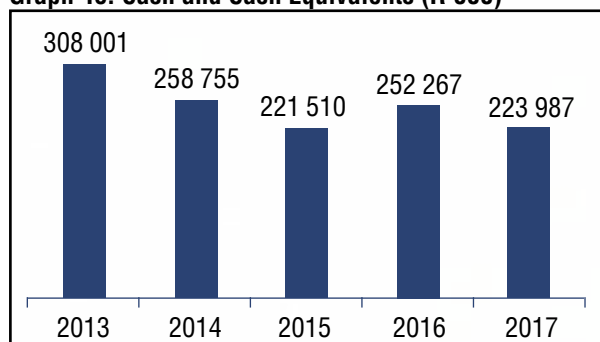
Graph 45: Cash Flows from Financing Activities (R'000)



12.4 Cash and Cash Equivalents

Although the Cash and Cash Equivalents have decreased by 11% Mhlathuze Water is still in a financially stable position to meet all obligations resulting from approved Capital and Operational Commitments.

Graph 46: Cash and Cash Equivalents (R'000)



13. FUNDING REQUIREMENTS

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

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

Table 32: Borrowing Limits

Financial year	Amount
2015/16	R331,9 million
2016/17	R430 million
2017/18	R478 million

14. REFLECTIONS

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

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

Although the impact of the drought is short term, the organisational culture needs to be improved to focus more on better management of operational expenditure and cash flows, prioritisation of capital projects and the driving of the growth strategy.

Report by the Accounting Authority

The Accounting Authority of Mhlathuze Water hereby presents the report of the entity for the year ended 30 June 2017.

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 is 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 and do not in our opinion require any further comment.

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 Department of Water and Sanitation continues to implement the Institutional Reform and Realignment (IRR) programme with the objective of further expanding the reach of the Department in delivering water and sanitation services efficiently and cost effectively throughout South Africa.

The process of establishing a single Water Board in KwaZulu-Natal is still underway. The Department of Water and Sanitation is leading the project of disestablishing Mhlathuze Water and Umgeni Water Boards and to this end a service provider has been appointed to facilitate and advise on the entire process.

Phase 1 through to phase 4 of the abovementioned project will take a minimum of 36 months to complete with the timeline for phase 3 not being taken into account as the stakeholders are unable to reasonably estimate the timeframe for these activities. Thus, given the extensive nature of the consultative process, due diligence exercise and other legal and compliance requirements, it is anticipated that the entire process would be lengthy and may not be completed by June 2018.

Irrespective of the date of completion, Mhlathuze Water shall remain a legal entity and going concern until the date of formal disestablishment by notice in the Government Gazette. Therefore, Mhlathuze Water has no reason to believe that this process will negatively impact the going concern assumption of the entity for the foreseeable future.

The annual financial statements have been prepared on the going concern basis. The Accounting Authority of

Mhlathuze Water has reasonable grounds to believe that the business has adequate resources to continue as a going concern in the foreseeable future. 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 5% compared to the prior year.
- Interest cover and cash interest cover are still covering over 5.32 times (2016: 9.85.)
- Based on the new business plan for 2017 to 2022 the cash flow forecasts reflects that there will be sufficient funds to cover liquidity requirements for the year 2018, thereafter if the need arises Mhlathuze Water will source funding by way of tender on the open market.

Drought related initiatives

Tugela-Goedertrouw Transfer Scheme upgrade

Water reliant industries such as (but not limited to) Mondi, RBM, Foskor and Tronox are threatened with loss or reduced production should there not be significant river flow into the Goedertrouw Dam catchment by end of 2017.

This will be economically disastrous, not only in the short term but possibly permanently due to the very real possibility of it not being economically feasible for these industries simply to restart operations once they have shut down due to the current drought.

Funding to the value of R410 million to upgrade the Tugela Transfer scheme was approved by DWS. DWS is in the process of finalising the appointment of a professional team and contractors on a "design and build" basis. DWS will be providing the required funding.

Desalination

One industry has successfully installed its own desalination plant to cope with emergencies and another (as well as the City of uMhlathuze) is engaged in a feasibility study for major reuse of effluent.

DWS has completed the installation and commissioning of a package 10MI/day sea water desalination plant to augment water supply in Richards Bay and surrounding communities. Installation has been completed to the value

2. Going Concern (continued)

of ± R 300 million and the plant is currently in use.

While the desalination plant was intended for use as a short term solution to the water shortages in the area, it could become a permanent feature. However, the equipment is designed to be easily demountable for transportation to other areas in need, should circumstances require this to be done.

Other Initiatives

Mhlathuze Water concluded a Memorandum of Understanding with CoGTA as an Implementing Agent for the Drought Emergency funding and critical projects in KwaZulu-Natal.

The scope of work for the Drought Intervention Programme has included:-

- Siting, drilling, testing, equipping and commissioning in excess of 110 boreholes;
- Supply and installation of 800 emergency static tanks on brick constructed stands;
- Design, supply, installation and commissioning of 21 water storage facilities;
- Design, supply, installation and commissioning of 3 water treatment package plants;
- Pre-feasibility planning studies investigating potential sites for desalination plants along the KwaZulu-Natal coast;
- Viability investigation of implementing wastewater recycling at 4 wastewater treatment works ;
- Acquisition of 9 water tanks;

Project implementation is nearing the final stages with successful completion expected end July 2017.

3. Subsequent events

There were no events after the reporting period requiring adjustment to or disclosure in 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
2015/16	R331,9 million
2016/17	R430 million
2017/18	R478 million

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

6. Accounting Authority

The members of the entity during the year were as follows:

Chairperson of the Board:	D C Myeni
Board members:	B V Mshengu
	N N Khumalo
	P S Dlamini

N Gevers
A Badul
M M Xulu
B K Rawlins
Adv S Chamane
F G Bosman

As of 26 April 2017 the Board of Directors of Mhlathuze Water were terminated and the Minister of Water and Sanitation appointed the Interim CEO of Mhlathuze Water as the Accounting Authority until the appointment of a new Board of Directors.

Executives:

M P Duze (Interim CE)
A S Makhanya* (CEO)
S G Xulu**
C G Cele***
B S Ndaba
M Myeni
B S Ntlhoro
N Ndlovu

* CEO is on suspension pending the outcome of disciplinary proceedings

** resigned on 11 October 2016

*** appointed Interim Chief Operations Officer on 13 October 2016

The Board consisted of the following:

Chairperson:	1
Independent non-executive director (terminated on 26 April 2017)	
Members of the Board:	9
Independent Non-executives directors (terminated on 26 April 2017)	
Chief Executive:	1
Executive director (ex officio)	
Total	11
(10 terminated on 26 April 2017)	

Members of the Board and Executive Committee's emoluments are disclosed in the remuneration report on note 17 in terms of regulation 28.1 of the PFMA.

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.

For more details on financial risk management refer to note 25 under the notes to the financial statements.

8. Bankers

ABSA Bank
Appointed 26 June 2012
5 year term

The contract period of the current banking service provider, ABSA, came to an end during June 2017 where after a new tender process was followed for the provision of banking services.

The successful tenderer was ABSA and the tender was awarded to ABSA via a letter of appointment commencing 01 July 2017.

During June 2017 Standard Bank, who was an unsuccessful tenderer, lodged an objection with Mhlathuze Water and the National Treasury Appeals Tribunal disputing the award of the tender to ABSA.

As a result, the contract with ABSA ending 30 June 2017 was extended until 30 September 2017, pending the outcome of the decision by the National Treasury Appeals Tribunal.

9. Auditors

Internal Auditors - Morar Incorporated

Appointed: 20 May 2015 to June 2017. Going forward, the Internal Audit function will be insured.

External Auditors - Auditor General.

The Auditor General will audit Mhlathuze Water from 2016/17 financial year and going forward.

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 30 of the financial statements.

13. Addresses

Business Address

Corner of Battery Bank and South Central Arterial
Alton Industrial Area
Richards Bay
3900

Postal Address

Private Bag x1047
Richards Bay
3900

14. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure totalling R237 000 in the current year relates to costs incurred for travel and conference payments. Expenditure for the prior year 2016 totalling R23,5 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 R19,8 million in the current year is for appointments that were made in prior years, but paid in the current year. This resulted in non-compliance to the supply chain management policy and to payments that were made to various suppliers without appropriately approved variation orders as per the Delegation of Authority.

Irregular expenditure for the prior year 2016, of R98,1 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 measures will be taken against the offending officials and the recovery of lost resources will be sought thereafter.

The internal control environment has been strengthened to put systems in place to prevent, detect and correct any financial misconduct going forward.

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 R5.3 million (2016: R5.3 million). Management also apply a qualitative aspect to all errors found.

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 2017. 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).

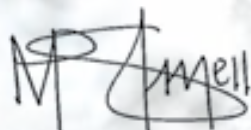
The Annual Financial Statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

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 69 to 119 which have been prepared on the going concern basis, were approved by the Accounting Authority on 31 October 2017 and were signed on its behalf by:



Mr Mthokozisi P. Duze
Accounting Authority
31 October 2017

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 69 to 119, which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and 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 2017, 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

Property, plant and equipment

3. The public entity did not recognise all costs of property, plant and equipment in accordance with GRAP 17, Property, plant and equipment. Non-qualifying costs on capital projects were incorrectly capitalised to property, plant and equipment. Consequently, property, plant and equipment, as disclosed in note 6 to the financial statements, is overstated and total expenditure, as disclosed in note 21 to the financial statements, is understated by R9 607 437. There is a resultant impact on the surplus for the period and on the accumulated surplus of the prior periods. In addition, the public entity did not adequately review the useful lives of property, plant and equipment at each reporting date in accordance with GRAP 17. I was not able to determine the impact on the net carrying amount of Property, plant and equipment, as disclosed in note 6 to the financial statements, as it was impracticable to do so.

Irregular expenditure

4. I was unable to obtain sufficient appropriate audit evidence to confirm irregular expenditure, as disclosed in note 27 to the financial statements. This was due to the entity not implementing adequate controls to identify and record all expenditure incurred in contravention with applicable laws and regulations, as required by section 51(1)(b)(ii) of the PFMA. I was unable to confirm the amount by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to irregular expenditure stated at R117 924 000 in the financial statements.

Context for the opinion

5. I conducted my audit in accordance with the International

Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.

6. I am independent of the public entity in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with 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.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Material uncertainty related to going concern/financial sustainability

8. I draw attention to Note 37 in the financial statements, which indicates that the Department of Water and Sanitation is leading the project of disestablishing the public entity. As stated in note 37, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the public entity's ability to continue as a going concern. My opinion is not modified in respect of this matter.

Emphasis of matter

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

Restatement of corresponding figures

10. As disclosed in note 28 to the financial statements, the corresponding figures for the 30 June 2016 have been restated as a result of errors in the financial statements of the entity at, and for the year ended 30 June 2016.

Other matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Previous year audited by a predecessor auditor

12. The financial statements of the previous year were audited by a predecessor auditor in terms of section 4(3) of the Public Audit Act on 30 September 2016.

Unaudited supplementary schedules

13. The supplementary information set out on pages 52 to 63 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

14. The accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the Public Finance Management Act

of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

15. 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

16. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
17. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

18. 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.
19. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public 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.
20. 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 2017:

Objectives	Pages
1: Bulk potable water quality compliance	19
2: Manage avoidable water losses	19
3: Reliability of supply	19
4: Increased access to services	19
11: Bulk supply agreements concluded with municipalities / other customers	22
12: Implementation of Ministerial directives	22
13: Support Rural development	23

21. 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.
22. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

Objective 2: Manage avoidable water losses

Indicator: Avoidable water loss as a percentage of water produced.

23. I was unable to obtain sufficient appropriate audit evidence to confirm the reliability of the reported performance achievement against the target as the meters used were not functioning for periods during the year. I was unable confirm this by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the reported achievement of 3.31%.

Objective 4: Increased access to services

Indicator: Actual CAPEX spend on expansion related projects (initiatives by the Minister) as % of budget.

24. The achievement of the planned indicator was not clearly defined as the method of calculating achievement was not determined up front as required by the Framework for Managing Programme Performance Information (FMPPi).

Objective 12: Implementation of Ministerial directives

Indicator: Progress against implementation plan

25. The achievement of the planned indicator was not clearly defined as the source information and method of calculating achievement was not clearly defined, as required by the FMPPi.

Objective 13: Support Rural development

Indicator: Signed contracts, MOUs etc

26. The achievement of the planned indicator was not clearly defined as the source information and method of calculating the achievement was not clearly defined, as required by the FMPPi.
27. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives:
 - 1: Bulk potable water quality compliance
 - 3: Reliability of supply
 - 11: Bulk supply agreements concluded with

municipalities / other customers.

Other matters

28. I draw attention to the matters below.

Achievement of planned targets

29. Refer to the annual performance report on pages 19 to 24 for information on the achievement of planned targets for the year and explanations provided for the under achievement of a number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 22; 23; 24; 25 and 26 of this report.

Adjustment of material misstatements

30. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Manage avoidable water supply, Increased access to Services, Implementation of Ministerial directives and Support Rural Development. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are included in the material findings reported in this report.

Report on audit of compliance with legislation

Introduction and scope

31. 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 public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
32. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Annual financial statements, performance and annual report

33. The financial statements submitted for auditing were not 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.
34. Material misstatements on current assets and disclosure items identified by the auditors in the submitted financial statements were corrected however there were material uncorrected misstatements on non-current assets and disclosures identified which resulted in the financial statements receiving a qualified audit opinion.

Expenditure management

35. Effective steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the PFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph.
36. Effective steps were not taken to prevent and detect fruitless and wasteful expenditure amounting to R237

000 (2016: R23 530 000), as required by section 51(1) (b)(ii) of the PFMA. Majority of the expenditure was incurred as a result of capital project payments which were made without supported bill of quantities.

Procurement and contract management

37. 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. Deviations from normal procurement process were not approved as per the delegations of authority.
38. Some commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by Preferential Procurement Regulation 9(1).

Other information

39. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the Foreword by the Minister, Chief Executive and Accounting Authority Report and the Independent Audit and Risk Committee Report. The other information does not include the financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.
40. 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.
41. 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. I have nothing to report in this regard.

Internal control deficiencies

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

Leadership

Effective leadership culture

43. In certain instances, corrective and disciplinary action was being taken by the accounting authority and the accounting officer where management did not provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the entity due to unethical practices and fraud instances

identified. Instances of fraud are being investigated as indicated under the Other reports section of this report.

Oversight responsibility

44. There was inadequate oversight over the preparation and review of the financial statements and the annual performance report before submitting them for audit. As a result, material misstatements were not identified relating to property, plant and equipment, irregular expenditure, fruitless and wasteful expenditure and disclosures as required by GRAP.

Human resource management

45. Human resource policies and procedures were not adhered to ensure that the process for appointment and remuneration of employees was fair and equitable and in compliance with the human resource recruitment and selection policy and the Income Tax Act. In certain instances, appointments were made in posts that had not been advertised and pay-as-you-earn tax was not withheld.

Information technology governance

46. The Risk, IT and Health Safety Committee was not functional for the year under review. Inadequate meetings were held by the committee to address the mandate of the committee in accordance with the terms of the reference of the committee.

Financial and performance management

Proper record keeping

47. The public entity had an inadequate contract management register.
48. The public entity did not have a proper record management system to maintain information that supported the reported performance in the annual performance report. This included information that related to the collection, collation, verification, storing and reporting of actual performance information.

Regular, accurate and complete financial and performance reports

49. The financial statements submitted for audit contained numerous misstatements that were corrected. This was mainly due to staff not fully applying the requirements of the financial reporting framework.
50. The annual performance report submitted for audit contained numerous misstatements that were corrected. This was mainly due to staff not fully applying the requirements of the performance information framework.
51. Management did not perform adequate reviews on the financial statements submitted for audit, 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

52. Management did not implement adequate controls to prevent and detect non-compliance with laws and

regulations, which resulted in irregular and fruitless and wasteful expenditure. The entity further incurred a significant amount of irregular expenditure on behalf of its principals where the entity is an implementing agent.

Governance

Risk management

53. The risk management function of the entity is not adequately functional as the Risk, IT and Health Safety Committee only met to approve the terms of reference during the year under review.

Internal audit

54. The internal audit function was not able to enhance the internal control environment to assist management to design adequate processes and controls to prevent and detect irregular and fruitless and wasteful expenditure.
55. The internal audit unit did not adequately review the financial and performance reports to confirm the reliability of the reports before submission to the audit committee or external auditors.

Audit committee

56. The audit committee was not in place as required by Treasury Regulation 27.1.1 at the time when the draft financial statements and annual performance report were prepared. As a result, the audit committee did not review the financial statements and annual performance report that were submitted for audit. Subsequently the audit committee was appointed and reviewed the corrected financial statements and performance report.

Other reports

57. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the public 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.
58. The accounting authority (previous board and interim chief executive) has initiated various investigations relating to capital projects. Some of the investigations have been concluded and others are still in progress. Where applicable, disciplinary actions have been taken against staff members involved and or is in the progress of being taken.

Auditor-General

Pretoria
31 October 2017



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure - Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected 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 the auditor's report, I also:
 - identify and assess the risks of material misstatement of the [consolidated and separate] 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 the auditor's report. However, future events or conditions may cause a public entity to cease to continue 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 here applicable, related safeguards.

ANNUAL FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

ASSETS

Current assets

Inventories	2	31 198	26 022
Receivables from exchange transactions	3	165 701	152 713
Vat receivable	4	-	414
Cash and cash equivalents	5	223 987	252 267
		420 886	431 416

Non-current assets

Property, plant and equipment	6	710 123	734 189
Intangible assets	7	2 631	4 192
		712 754	738 381

Total assets

1 133 640 **1 169 797**

LIABILITIES

Current liabilities

Short term interest bearing borrowings	8	22 110	22 110
Payables from exchange transactions	9	140 344	188 413
Vat payable	4	1 735	-
Employee benefit liability	10	6 959	6 404
Income received in advance	11	7 965	7 965
		179 113	224 892

Non-current liabilities

Long term interest bearing borrowings	8	101 878	124 077
Employee benefit liability	10	258	258
Income received in advance	11	71 154	79 119
		173 290	203 454

Total liabilities

352 403 **428 346**

Net assets

Reserves

Capital replacement reserve	228 900	222 033
Business development reserve	16 220	15 032
Self insurance reserve	4 722	4 375
Maintenance reserve	8 768	8 126
Environmental rehabilitation reserve	1 410	-
Accumulated surplus	521 217	491 885

Total net assets

781 237 **741 451**

Total net assets and liabilities

1 133 640 **1 169 797**

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 R'000	2016 R'000 Restated
Revenue from exchange transactions			
Sale of goods and services	12	533 617	527 042
Cost of Sales	13	(133 385)	(122 820)
Gross Profit		400 232	404 222
Other Income	15	14 414	13 322
		(372 046)	(327 218)
Expenditure			
Employee related costs	16	(118 255)	(106 975)
Remuneration of board members	17	(2 659)	(3 129)
Depreciation and amortisation	6-7	(32 434)	(19 278)
Finance costs	18	(9 850)	(10 205)
Lease rentals on operating lease		(2 566)	(2 488)
Debt impairment		(293)	(181)
Repairs and maintenance	20	(40 748)	(45 973)
Electricity and water		(80 176)	(72 833)
Chemicals		(3 147)	(3 239)
Other expenses	21	(81 918)	(62 917)
Operating surplus		42 600	90 326
Gain (loss) on disposal of assets	23	(2 814)	56 576
Surplus for the year		39 786	146 902

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2017

	Capital replacement reserve R'000	Business development reserve R'000	Self insurance reserve R'000	Maintenance reserve R'000	Environmental rehabilitation reserve R'000	Total reserves R'000	Accumulated surplus R'000	Total net assets R'000
Balance at 1 July 2015	216 114	13 936	4 056	7 534	-	241 640	349 128	590 768
Surplus for the year	-	-	-	-	-	-	146 902	146 902
Transfer to reserves	5 919	1 096	319	592	-	7 926	(7 926)	-
<i>Adjustments</i>								
Re-instatement of Fair Value of PPE	-	-	-	-	-	-	24 677	24 677
Re-instatement of Fair Value of Intangible Assets	-	-	-	-	-	-	76	76
Re-assessment of useful lives of PPE	-	-	-	-	-	-	12 132	12 132
Re-assessment of useful lives of Intangible Assets	-	-	-	-	-	-	257	257
Laboratory Chemical Stock Adjustment	-	-	-	-	-	-	130	130
Assets Write off	-	-	-	-	-	-	(33 491)	(33 491)
Balance as at 30 June 2016	222 033	15 032	4 375	8 126	-	249 566	491 885	741 451
Surplus for the year	-	-	-	-	-	-	39 786	39 786
Transfers to reserves	6 867	1 188	347	642	1 410	10 454	(10 454)	-
Balance as at 30 June 2017	228 900	16 220	4 722	8 768	1 410	260 020	521 217	781 237

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2017 continued

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 or replacement of the ageing infrastructure and plant modernisation. The balance of the Capital replacement reserve at 30 June 2017 was R228.9 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 2017 was R16.2 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 2017 was R4.7 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 2017 was R8.8 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 2017 was R1.4 million.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 R'000	2016 R'000 Restated
Receipts			
Sale of goods and services		513 844	486 401
Interest received	15	13 646	12 985
		527 490	499 386
Payments			
Cash paid to employees		(115 929)	(105 486)
Cash paid to suppliers		(353 146)	(272 880)
Finance costs	18	(9 850)	(10 205)
Finance cost capitalised	18	(4 967)	(7 081)
		(483 893)	(395 652)
Net cash flows from operating activities	24	43 599	103 734
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(49 765)	(107 514)
Proceeds from sale of property, plant and equipment		85	57 011
Purchase of intangible assets	7	-	(264)
Net cash flows from investing activities		(49 680)	(50 767)
Cash flows from financing activities			
Repayment of other financial liabilities		(22 199)	(22 210)
Net cash flows from financing activities		(22 199)	(22 210)
Net decrease in cash and cash equivalents		(28 280)	30 757
Cash and cash equivalents at beginning of year		252 267	221 510
Cash and cash equivalents at end of year	5	223 987	252 267

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).

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 36 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.

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

ACCOUNTING POLICIES (continued)**1 Presentation of Annual Financial Statements (continued)****1.5 Property, plant and equipment (continued)**

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

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

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

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

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

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

The 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.

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.

ACCOUNTING POLICIES (continued)

1 Presentation of Annual Financial Statements (continued)

1.7 Financial instruments (continued)

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.

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.

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.

ACCOUNTING POLICIES (continued)**1 Presentation of Annual Financial Statements (continued)****1.10 Impairment (continued)**

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").

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 transaction

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.

ACCOUNTING POLICIES (continued)

1 Presentation of Annual Financial Statements (continued)

1.12 Employee benefit s (continued)

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.

1.13 Employee benefit liability

Employee benefit liabilities 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.

1.18 Revenue from exchange transactions

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

Measurement

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

Sale of goods and services

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

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

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

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

Interest income

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

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

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

Management services

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

Laboratory services

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

Implementing agency revenue

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

ACCOUNTING POLICIES (continued)**1 Presentation of Annual Financial Statements (continued)****1.18 Revenue from exchange transactions (continued)****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.

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 utilise to facilitate the provision of water and other related services.

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

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

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

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

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or

replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets and Inventories as per accounting policy number 1.8 and 1.9. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

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

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

1.21 Fruitless and wasteful expenditure

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

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

1.22 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.

1.23 Bulk purchases

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

ACCOUNTING POLICIES (continued)

1 Presentation of Annual Financial Statements (continued)

1.24 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 recognise this revenue in accordance with the manner which most accurately reflects the transfer of risks and rewards.

1.25 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.

1.26 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.

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- Principal 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2017 R'000	2016 R'000 Restated
2. Inventories		
2.1 Stores		
Chemicals	3 090	2 960
Consumables and maintenance spares	6 317	5 755
Strategic stock*	21 616	17 169
	31 023	25 884
* Prior period error included in the Work in Progress was Strategic stock which has now been transferred to Inventory Control.		
2.2 Water inventory		
Water inventory	175	138
Total inventories	31 198	26 022
3. Receivables from exchange transactions		
Trade receivables - primary activities	95 078	58 229
Trade receivables - secondary activities	65 476	91 694
Provision for impairment - primary activities	(293)	(399)
Sundry receivables - primary activities	1 640	1 076
Staff receivables - primary activities	35	25
Prepayments - primary activities	3 322	1 657
Refundable Deposits - primary activities	443	431
Total receivables from exchange transactions	165 701	152 713
4. VAT (payable)/receivable		
VAT receivable	-	414
VAT payable	(1 735)	-
	(1 735)	414
Cash and cash equivalents		
5.		
Cash and cash equivalents comprises of cash on hand and short-term investments that are held with registered banking institutions with maturities of less than twelve months that are subject to insignificant interest rate risk. The carrying amount of these assets approximates their fair values:		
Cash on hand	5	5
Credit card	19	-
Bank balances	16 615	6 769
Short-term deposits	196 062	216 953
Call account - Secondary activities	11 286	28 540
	223 987	252 267

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. Cash and cash equivalents (continued)

Advances - secondary activities

The Department of Water Sanitation, Department of Education, Department of Environmental 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.

The unutilised advances are listed below:-

	2017 R'000	2016 R'000
Advances received from the Department of Water and Sanitation <i>Fourteen projects are currently being managed.</i>	1 539	18 241
Advances received from the Department of Education/Department of Basic Education (DOE/DBE) <i>Two projects are currently being managed.</i>	1 886	1 105
Advances received from the Department of Environmental Affairs (DEA) <i>Thirteen projects are currently being managed.</i>	13	121
Advances received from the Department of Co-operative Governance and Traditional Affairs (CoGTA) <i>Two projects are currently being managed.</i>	7 848	9 073
	11 286	28 540

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 9.

NOTES TO THE FINANCIAL STATEMENTS (continued)

6. Property, plant and equipment

	2017			2016 Restated		
	Cost	Accumulated	Carrying value	Cost	Accumulated	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000
Property, plant and equipment						
Land	1 829	-	1 829	1 829	-	1 829
Buildings/Civil works	329 080	(154 867)	174 213	313 920	(137 489)	176 431
Plant and Machinery	175 488	(90 071)	85 418	171 483	(71 549)	99 934
Furniture and fixtures	3 196	(1 819)	1 377	3 333	(1 388)	1 945
Motor vehicles	14 987	(8 506)	6 481	13 725	(5 790)	7 935
Office equipment	39 553	(20 174)	19 379	32 638	(13 810)	18 828
Library	8	(8)	0	8	(6)	2
Electrical supply	78 730	(22 247)	56 482	79 256	(18 125)	61 131
Communication equipment	12	(11)	1	12	(11)	1
Work in progress	145 234	-	145 234	136 572	-	136 572
Pipelines	453 622	(234 938)	218 683	443 718	(214 774)	228 944
Tools and loose gear	1 445	(420)	1 025	834	(197)	637
Total	1 243 184	(533 062)	710 123	1 197 328	(463 139)	734 189

NOTES TO THE FINANCIAL STATEMENTS (continued)
6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment 2017

	Opening balance	Additions	Disposal	Transfers	Bor- owing cost capita- lised	Depre- ciation	Impair- ment loss/Asset write off	Other adjust- ments	Closing balance
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Land	1 829	-	-	-	-	-	-	-	1 829
Buildings/Civil works	176 431	2 431	(437)	13 286	-	(17 377)	(121)	-	174 213
Plant and Machinery	99 934	7 440	(3 906)	515	-	(18 516)	(49)	-	85 418
Furniture and fixtures	1 945	260	(397)	4	-	(435)	-	-	1 377
Motor vehicles	7 935	1 261	-	-	-	(2 715)	-	-	6 481
Office equipment	18 828	6 113	(202)	1 005	-	(6 365)	-	-	19 379
Library	2	-	-	-	-	(2)	-	-	-
Electrical supply	61 131	-	(1 046)	519	-	(4 122)	-	-	56 482
Communication equipment	1	-	-	-	-	-	-	-	1
Work in progress	136 572	30 875	(424)	(24 486)	4 967	-	(2 270)	-	145 234
Pipelines	228 944	772	(27)	9 157	-	(20 163)	-	-	218 683
Tools and loose gear	637	613	(2)	-	-	(223)	-	-	1 025
	734 189	49 765	(6 441)	-	4 967	(69 918)	(2 440)	-	710 123

NOTES TO THE FINANCIAL STATEMENTS (continued)
6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment 2016

	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
Land	1 829	-	-	-	-	-	-	-	1 829
Buildings/Civil Works	131 620	52 342	(60)	1 211	-	(4 481)	(10 471)	6 270	176 431
Plant and Machinery	99 493	21 491	(61)	(11 949)	-	(13 089)	-	4 049	99 934
Furniture and fixtures	1 566	246	(41)	(1)	-	(271)	-	446	1 945
Motor vehicles	5 909	3 790	-	-	-	(1 900)	-	136	7 935
Office equipment	23 979	5 082	(271)	(7 645)	-	(5 869)	-	3 552	18 828
Library	2	-	-	-	-	(1)	-	1	2
Electrical supply	32 958	17 395	(2)	15 663	-	(3 333)	(8 545)	6 995	61 131
Communication equipment	-	-	-	-	-	-	-	1	1
Work in progress	153 116	6 651	-	-	7 081	-	(13 108)	(17 168)	136 572
Pipelines	209 469	17 684	-	2 721	-	(14 300)	(1 367)	14 737	228 944
Tools and loose gear	24	-	-	-	-	(9)	-	622	637
	659 965	124 681	(434)	-	7 081	(43 253)	(33 491)	19 641	734 189

Included in other adjustments are the following:

Prior year error relates to an omission of a reclassification of useful lives of PPE, the reinstatement of PPE originally acquired at R1 value to fair value and in the Work in Progress balance was Strategic stock which has now being transferred to Inventory Control.

Work in progress

The construction of two reservoirs has been halted pending the Mondi shutdown period that is scheduled for March 2018, wherein the required tie-ins will be constructed to bring the asset to operation. An impairment evaluation has been conducted for both reservoirs and no impairment losses have been recognised in this financial year.

An impairment assessment for on-going projects was conducted in this financial year, and some impairment losses were identified and the fixed asset register was updated. During the impairment assessment on Work in Progress it was determined that motors in the Mondi Pump Station Project were impaired. These items were impaired at invoice value.

Intangible assets
Computer software

Total

Computer software

Reconciliation of intangible assets 2016

Computer software

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. Interest bearing borrowings

At amortised cost

Nedbank

35 294

47 059

Rand Merchant Bank

88 694

99 128

Total interest bearing borrowings**123 988****146 187**

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

101 878

124 077

Current liabilities

At amortised cost

22 110

22 110

Total interest bearing borrowings**123 988****146 187**

9. Payables from exchange transactions

Trade payables- primary activities

20 980

23 192

Trade payables - secondary activities

24 829

27 480

Retention monies - primary activities

4 292

3 124

Retention monies - secondary activities

27 755

28 968

Accruals - primary activities

35 355

39 370

Accruals - secondary activities

11 314

35 246

SARS - PAYE, UIF and SDL

2 260

1 833

Sundry creditors- primary activities

695

660

Advances - secondary activities (refer to note 5)

12 864

28 540

140 344**188 413**

NOTES TO THE FINANCIAL STATEMENTS (continued)

	Opening balance	Raised	Utilised during the year	Closing balance
	R'000	R'000	R'000	R'000
10. Employee benefit liability				
Reconciliation of employee benefit - 2017				
Provision of post retirement medical aid	314	64	(64)	314
Provision of staff bonuses	6 348	6 884	(6 329)	6 903
	6 662	6 948	(6 393)	7 217
Reconciliation of employee benefit - 2016				
Provision of post retirement medical aid	314	34	(34)	314
Provision of staff bonuses	5 325	6 189	(5 166)	6 348
	5 639	6 223	(5 200)	6 662

	2017 R'000	2016 R'000
Non-current liabilities	258	258
Current liabilities	6 959	6 404
	7 217	6 662

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.

Employee benefit obligation

Mhlathuze Water pension fund - defined contribution plan

The Mhlathuze Water Pension fund was closed in 2015 and deregistered in 2016. The members now belong to the Provident Fund and the 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. The Mhlathuze Water has no commitment to meet unfunded benefits of the provident fund. The assets from the Mhlathuze Water Provident Fund was transferred to the Sanlam Umbrella Fund in December 2016. All members now belong to the Sanlam Umbrella Fund.

11. Income received in advance

- Short-term portion of advances	7 965	7 965
- Long-term portion of advances	71 154	79 119
Total income received in advance	79 119	87 084

Income received in advance from Foskop 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 and the income is recognised over the period of the agreement based on the usage of the waste water disposal line by Foskop. This balance is measured and recognised in terms of the accounting policy relating to income received in advanced.

12. Revenue - sale of goods and services

An analysis of tariff income is as follows:

Bulk water

Waste water

Secondary activities (Section 30)

Thukela Goedertrouw Scheme

City of uMhlathuze

Other Activities

Management fee - RBM Ponds

Laboratory Services

Implementing Agency Fees

Total Revenue

An analysis of total revenue from sale of goods and services is as follows:

- Bulk water

- Waste water

- Thukela Goedertrouw Scheme

- City of uMhlathuze - Operations and Maintenance

- RBM Ponds - Management fee)

- Laboratory services

- Implementing agency fees

Total Revenue

Raw water purchases

Electricity and water

Chemicals

Employee related costs

Depreciation and amortisation

Total Cost of Sales

Note	2017 R'000	2016 R'000 Restated
	238 028	246 091
	137 670	128 265
	375 698	374 356
	73 187	67 176
	56 139	58 219
	129 326	125 396
	1 770	1 861
	4 704	7 463
	22 119	17 967
	28 593	27 291
	238 028	246 091
	137 670	128 265
	73 187	67 176
	56 139	58 219
	1 770	1 861
	4 704	7 463
	22 119	17 967
	533 617	527 042
	44 315	51 738
	25 588	27 654
	13 613	11 572
16	10 825	10 774
6-7	39 044	21 082
	133 385	122 820

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2017 R'000	2016 R'000
External projects (Secondary Activities)		
14. 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 are 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	10 268	40 189
- Department of Water and Sanitation - water infrastructure	190 505	360 605
- Department of Environmental Affairs - Alien plant removal	17 540	12 956
- Department of Co-operative Governance and Traditional Affairs - bucket eradication and drought relief	137 402	12 100
	355 715	425 850
The above amounts have been incurred on behalf of the respective departments and are recoverable from them.		
15. Other income		
Included in other income:		
15.1 Sundry Income		
Handling fees	11	19
Tenders	127	294
Rent received	7	7
Recycling initiatives	1	4
SARS rebate	-	4
Proceeds on Insurance claim	615	-
General	7	9
	768	337
15.2 Interest income		
Bank account	179	171
Interest charged on trade and other receivables	22	30
Call accounts/investments	13 445	12 784
	13 646	12 985
Total Other income	14 414	13 322

NOTES TO THE FINANCIAL STATEMENTS (continued)

16. Employee related costs

Basic
Bonus
Internship
Shift allowance
Standby allowance
Responsibility allowance
Cell phone allowance
Relocation allowance
Transport allowance
Housing allowance
Secondment allowance
Leave
Overtime
Medical aid - company contributions
UIF - company contributions
WCA - company contributions
Statutory levies - SDL
Statutory levies - AMC

Direct employee related cost
Indirect employee related cost

Total employee related cost

2017 R'000	2016 R'000
96 825	89 646
8 448	8 116
1 000	1 911
1 034	905
1 761	1 419
1 051	1 073
887	789
4	85
741	325
990	939
331	-
2 918	1 905
10 492	8 559
65	57
521	496
871	484
1 133	1 032
8	8
129 080	117 749
10 825	10 774
118 255	106 975
129 080	117 749

NOTES TO THE FINANCIAL STATEMENTS (continued)

17. Board members and executive's emoluments

2017

Non-executive board members*

	Package earnings R'000	Travel and subsistence allowance R'000	Other services and allowances R'000	Total R'000
DC Myeni (Chairperson of the Board)	62	7	332	401
BV Mshengu	48	39	284	371
NN Khumalo	20	5	135	160
PS Dlamini	36	7	161	204
N Gevers	36	17	205	258
A Badul	53	25	224	302
MM Xulu	42	7	191	240
BK Rawlins	32	7	199	238
Adv S Chamane	39	19	211	269
FG Bosman	38	5	173	216
Total non-executive board members	406	138	2 115	2 659

*The Mhlathuze Water Board's term of office came to an end on the 26th April 2017, by way of resolution by the Honourable Minister of Water and Sanitation. On the 26th of April 2017 the Minister appointed Mr MP Duze as an Accounting Authority. The process to appoint members of a new Board is underway.

On the 1st of August 2017, in order to comply with governance requirements, the Accounting Authority appointed an interim Audit Committee to fulfill an oversight role on all strategic financial and governance matters.

Members of the Interim Audit and Risk Committee are:

	Appointment Date
MM Xulu	1st August 2017
N Gevers	1st August 2017
Adv S Chamane	1st August 2017
PS Dlamini	1st August 2017
BK Rawlins	1st August 2017

Executive staff members

	Package earnings R'000	Travel and subsistence allowance R'000	Other services and allowances R'000	Total R'000
MP Duze (Interim Chief Executive)*	914	330	801	2 045
AS Makhanya (Chief Executive)**	1 908	180	24	2 112
SG Xulu (Chief Operations Officer)***	794	9	280	1 083
BS Ndaba	1 527	455	217	2 199
M Myeni	1 282	5	232	1 519
BS Ntlhoro	1 051	3	294	1 348
N Ndlovu	1 253	1	93	1 347
CG Cele (Interim Chief Operations Officer)****	1 221	13	505	1 739
Total executive staff members	9 950	996	2 446	13 392
Total board members and executive staff members	10 356	1 134	4 561	16 051

* 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

NOTES TO THE FINANCIAL STATEMENTS (continued)
17. Board members and executive's emoluments (continued)

	Package earnings R'000	Travel and subsistence allowance R'000	Other services and allowances R'000	Total R'000
2016				
Non-executive board members				
DC Myeni (Chairperson of the Board)	76	-	432	508
BV Mshengu	82	-	307	389
NN Khumalo	49	-	182	231
PS Dlamini	40	-	202	242
N Gevers	46	-	202	248
A Badul	86	-	264	350
MM Xulu	55	-	214	269
BK Rawlins	59	-	247	306
Adv S Chamane	58	-	182	240
FG Bosman	69	-	195	264
TC Madikane*	4	-	78	82
Total non-executive board members	624	-	2 505	3 129
Executive staff members				
MP Duze (Interim Chief Executive)**	59	-	2	61
AS Makhanya (Chief Executive)***	1867	180	24	2071
SG Xulu	1511	16	254	1781
BS Ndaba	1453	163	354	1970
M Myeni	1231	-	281	1512
BS Ntlhoro	950	77	530	1557
N Ndlovu	1021	-	88	1109
Total executive staff members	8 092	436	1 533	10 061
Total board members and executive staff members	8 716	436	4 038	13 190

*TC Madikane resigned 1st October 2015.

** MP Duze started as Interim Chief Executive on 8th June 2016.

***AS Makhanya, the Chief Executive, is on suspension pending the outcome of disciplinary proceedings.

Fixed Term Service contracts
Executive

	Designation	Date of employment	Date of appointment in current position	Duration of contract
AS Makhanya	CE	19 Jun 2008	01 Sep 2014	5 year contract
SG Xulu	COO	03 Jan 2011	01 Mar 2015	Resigned
BS Ndaba	CFO	01 Nov 2012	01 Nov 2012	5 year contract
MP Duze	Interim CE	08 Jun 2016	08 Jun 2016	2 year contract

NOTES TO THE FINANCIAL STATEMENTS (continued)

18. Finance costs

Non-current borrowings
Less: borrowing cost capitalised

2017 R'000	2016 R'000
14 817	17 286
(4 967)	(7 081)
9 850	10 205

Capitalisation rates used during the period were 10.64% on specific borrowings for capital projects 10.64% is the weighted average cost of funds borrowed by the entity. (2016: 10.65%)

19. Operating lease

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

2 824	2 356
10 095	8 847
7 157	9 216
20 076	20 419

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

3 052	4 887
20 346	18 407
5 140	4 896
27	-
943	759
2 275	1 066
8 622	15 622
344	336
40 748	45 973

NOTES TO THE FINANCIAL STATEMENTS (continued)

21. Other Expenses

	2017 R'000	2016 R'000
Abnormal expenditure	2 000	-
Advertising	78	628
Assessment rates & municipal charges	542	552
Auditors remuneration - external	3 060	910
Auditors remuneration - internal	793	935
Bank charges	248	240
Biomonitoring	2 472	-
Board members - general expenses	1 163	1 040
Bursaries	1 074	602
Chemicals Laboratory	744	1 010
Cleaning	1 589	1 785
Community development and training	1 014	3 155
Compliance testing	1 219	959
Conferences and seminars	543	452
Consulting and professional fees	1 643	2 043
Consumables	1 303	1 038
Corporate social investment	773	1 582
Donations	-	34
Fees - special investigation	1 336	2 819
Fines and penalties	79	69
Fruitless and wasteful expenditure	237	-
Fuel and oil	2 631	3 197
General	3 181	1 186
Ground contractors	2 829	3 086
Insurance	2 862	2 382
IT expenses	6 566	7 786
Learnership	1 839	361
Legal expenses	7 234	1 989
Magazines, books and periodicals	9	25
Merger	652	-
Motor vehicle expenses	180	203
Pest control	55	71
Placement fees	520	275
Postage and courier	4	3
Printing and stationary	727	619
Protective clothing	1 113	989
Public relations	1 816	1 948
Refreshments	1 535	913
Regional bulk studies	8 266	3 707
Security	4 302	3 647
Staff assessments/gradings	11	20
Staff welfare	514	541
Subscriptions and membership fees	434	250
Telephone and fax	681	742
Training	2 131	1 791
Transport and freight	75	75
Travel - local	2 255	1 765
Travel - overseas	1 372	181
Uniforms	282	253
Vehicle Hire	3 686	3 698
Water analysis	2 244	1 360
	81 918	62 917

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NOTES TO THE 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 Boards delegated structure tasked with the responsibility of reviewing the risk management process.

The Board reviews its enterprise wide risk profile to ensure that critical risks are addressed adequately and to identify and capitalise on opportunities that may be created from these risks. This provides the Board with the opportunity to re-assess the entity's strengths and weaknesses to determine a strategic alignment to the objectives.

Liquidity risk

Liquidity risk is the risk that Mhlathuze Water will not be able to meet its financial obligations as they fall due. Mhlathuze Water is a self-funding entity and does not receive funding in the form of government subsidies. All funding of income generating and operational assets are obtained by way of loan agreements.

The entity's approach to managing liquidity is to ensure as far as possible, that it will have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the reputation of Mhlathuze Water by managing the monthly cash flow throughout the year.

Mhlathuze Water operates a consolidated loan pool and utilises the positive inflows to redeem external borrowings.

Finance charges are recovered via tariffs levied against consumers. For the purpose of treasury management all long term loans relating to the core business activities are pooled and an average rate of interest calculated and applied to the schemes for tariff purposes. This achieves better control and ensures a fair and flexible recovery of finance charges, which assist in planning the cash flow requirements.

Bank Short Term Funding

Mhlathuze Water's main credit facility is with ABSA Bank and includes the following:

Type of facility

- Overdraft facility
- ACB Credit facility
- Credit Card facility

Amount R'000
6 000
400
100
6 500

The overdraft facility is only in place for emergency and no cost is charged if it is not used.

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. Financial risk management (continued)

	Carrying amount R'000	Contractual amount R'000	<1 year R'000	2-5 years R'000	>5 years R'000
Exposure to Liquidity Risk					
At 30 June 2017					
Interest bearing borrowings	(123 988)	(170 950)	(33 894)	(93 211)	(43 845)
Payables from exchange transactions	(140 344)	(140 344)	(140 344)	-	-
Total	(264 332)	(311 294)	(174 238)	(93 211)	(43 845)
At 30 June 2016					
Interest bearing borrowings	(146 187)	(207 871)	(36 159)	(112 885)	(58 827)
Payables from exchange transactions	(188 413)	(188 413)	(188 413)	-	-
Total	(334 600)	(396 284)	(224 572)	(112 885)	(58 827)

Fair Values

The carrying values of financial assets and liabilities are presented by class in the tables below, and approximate fair values.

	Financial instruments at amortised cost R'000	Total R'000
30 June 2017		
Financial Assets		
Receivables from exchange transactions	165 701	165 701
Bank and cash implementing agent projects	11 286	11 286
Bank and cash	212 701	212 701
Financial Liabilities		
Interest-bearing borrowing	(123 988)	(123 988)
Payables from exchange transactions	(140 344)	(140 344)
	125 356	125 356
30 June 2016		
Financial Assets		
Receivables from exchange transactions	152 713	152 713
Bank and cash implementing agent projects	28 540	28 540
Bank and cash	223 726	223 726
Financial Liabilities		
Interest-bearing borrowing	(146 187)	(146 187)
Payables from exchange transactions	(188 413)	(188 413)
	70 379	70 379

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. Financial risk management (continued)

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.

A provision is raised in full for long overdue accounts. The provisions raised are tabled together with the annual financial statements to the Audit and Risk Committee and the Board.

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:

	2017 R'000	2016 R'000
Financial instrument		
Receivables from exchange transactions	165 701	152 713
Cash and cash equivalents	223 987	252 267
The maximum exposure to credit risk for receivables from exchange transactions per business segment at reporting date was:		
Water supply	56 737	33 292
Waste water disposal	18 005	11 326
Thukela Transfer Scheme	16 297	10 995
Project activities	70 897	95 443
	161 936	151 056

NOTES TO THE FINANCIAL STATEMENTS (continued)

25. Financial risk management (continued)

	Gross 2017 R'000	Impairment 2017 R'000	Gross 2016 R'000	Impairment 2016 R'000
Provision for impairment				
Not past due	93 328	-	134 393	-
Past due 0-30 days	44 248	-	12 779	-
Past due 30-60 days	9 633	(4)	2 117	(163)
Past due 60-90 days	1 365	(79)	560	(85)
Past due >90 days	13 362	(210)	1 207	(151)
	161 936	(293)	151 056	(399)

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.

	2017 R'000	2016 R'000
The movement in the provision for impairment		
Balance as at 1 July	399	219
Movement	(106)	180
Balance as at 30 June	293	399

In assessing the provision for impairment, Mhlathuze Water considered the likelihood of receiving payments from its debtors irrespective of the length of time the debt was outstanding.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risks comprises three types of risk: currency risk, interest rate risk and other price risk. The objective is to manage and control market risk within acceptable parameters, while optimising the return on risk.

The entity does not have any exposure to currency risk (that fluctuation in foreign exchange currency) or any equity price risk, and Mhlathuze Water does not hold any equity investments.

Interest rate risk

Mhlathuze Water adopted a policy of limiting exposure to interest rate fluctuations by arranging borrowings on a fixed rate basis.

Cash and short-term investments are invested at variable and fixed interest rates with registered banking institutions.

At the reporting date, the interest rate profile for Mhlathuze's interest-bearing financial instruments was:

	2017 R'000	2016 R'000
Fixed rate instruments		
Receivables from exchange transactions - variable interest rate	165 701	152 713
Bank and cash - variable interest rate	82 998	120 527
Bank and cash - fixed interest rate	140 989	131 740
	389 688	404 980
Financial liabilities		
Interest bearing borrowing - fixed interest rate	(123 988)	(146 187)
	(123 988)	(146 187)

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
26. Segment Information (continued)

Segment surplus or deficit, assets and liabilities

2017

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

	Primary activities		Secondary activities			TOTAL
	Bulk water R'000	Waste water R'000	TG Scheme O&M R'000	City of uMhlathuze O&M R'000	Other activities R'000	
						R'000
	238 028	137 670	73 187	56 139	28 593	533 617
	(133 385)	-	-	-	-	(133 385)
	(44 315)	-	-	-	-	(44 315)
	(25 588)	-	-	-	-	(25 588)
	(13 613)	-	-	-	-	(13 613)
	(10 825)	-	-	-	-	(10 825)
	(39 044)	-	-	-	-	(39 044)
	104 643	137 670	73 187	56 139	28 593	400 232
	14 702	(295)	7	-	-	14 414

NOTES TO THE FINANCIAL STATEMENTS (continued)
26. Segment Information (continued)

	Primary activities		Secondary activities			TOTAL
	Bulk water R'000	Waste water R'000	TG Scheme O&M R'000	City of uMhlathuze O&M R'000	Other activities R'000	
Expenditure						
Employee related costs	(109 717)	(114 763)	(73 194)	(51 132)	(23 237)	(372 045)
Remuneration of board members	(52 906)	(37 170)	(3 139)	(23 978)	(1 061)	(118 255)
Depreciation and amortisation	(1 675)	(984)	-	-	-	(2 659)
Finance costs	(6 244)	(26 190)	-	-	-	(32 434)
Lease rentals on operating lease	(10 530)	680	-	-	-	(9 850)
Debt impairment	(194)	(2 372)	-	-	-	(2 566)
Repairs and maintenance	(185)	(108)	-	-	-	(293)
Electricity and water	(9 618)	(14 015)	(5 297)	(11 723)	(95)	(40 748)
Chemicals	(1 276)	(16 617)	(62 261)	(22)	-	(80 176)
Other expenses	-	-	-	(3 147)	-	(3 147)
Operating surplus	(27 089)	(17 988)	(2 497)	(12 262)	(22 081)	(81 918)
Loss on disposal of assets	9 628	22 610	-	5 007	5 356	42 600
Surplus for the year	(2 325)	(488)	-	-	-	(2 814)
	7 303	22 123	-	5 007	5 356	39 786
Assets						
Segment assets	519 392	207 024	-	-	76 762	803 179
Centralised services						330 461
Total assets as per statement of financial position						1 133 640

NOTES TO THE FINANCIAL STATEMENTS (continued)
26. Segment Information (continued)

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
15 296	81 214	-	-	76 762	173 273
					179 130
					352 403
11 505	9 813	-	-	-	21 318
					33 414
					54 732

Other income

105

NOTES TO THE FINANCIAL STATEMENTS (continued)
26. Segment Information (continued)

	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
Expenditure	(85 531)	(96 647)	(67 183)	(53 886)	(23 971)	(327 218)
Employee related costs	(48 146)	(33 880)	(2 568)	(21 616)	(765)	(106 975)
Remuneration of board members	(1 971)	(1 158)	-	-	-	(3 129)
Depreciation and amortisation	(1 960)	(17 304)	(15)	-	-	(19 278)
Finance costs	(7 447)	(2 758)	-	-	-	(10 205)
Lease rentals on operating lease	(181)	(2 307)	-	-	-	(2 488)
Debt impairment	(114)	(67)	-	-	-	(181)
Repairs and maintenance	(8 127)	(12 024)	(8 661)	(17 126)	(34)	(45 973)
Electricity and water	(1 698)	(17 562)	(53 556)	(18)	-	(72 833)
Chemicals	-	-	-	(3 239)	-	(3 239)
Other expenses	(15 887)	(9 588)	(2 383)	(11 887)	(23 172)	(62 917)
Operating surplus	48 630	34 042	-	4 333	3 320	90 326
Gain/(loss) on disposal of assets	56 745	(169)	-	-	-	(56 576)
Surplus for the year	105 375	33 873	-	4 333	3 320	146 902
Assets						
Segment assets	538 955	190 574	-	-	120 234	849 763
Centralised services						320 004
Total assets as per statement of financial position						1 169 797

NOTES TO THE FINANCIAL STATEMENTS (continued)
26. Segment Information (continued)

	Primary activities		Secondary activities			TOTAL
	Bulk water R'000	Waste water R'000	TG Scheme O&M R'000	City of uMhlathuze O&M R'000	Other activities R'000	
Liabilities						
Segment liabilities	20 861	90 452	-	-	120 234	231 547
Centralised services						196 799
Total liabilities as per statement of financial position						428 346
Other information						
Capital expenditure	106 863	7 444	-	-	-	114 307
Centralised services						17 456
						131 763

NOTES TO THE FINANCIAL STATEMENTS (continued)

	2017 R'000	2016 R'000
27. Statutory Information in terms of the Public Finance Management Act No. 1 of 1999 as amended		
27.1 Irregular expenditure		
Opening balance	98 123	55 156
Add: Irregular expenditure - prior year not previously disclosed 2015/16	-	42 967
Add: Irregular expenditure - current year	20 100	1 106
Less: Amounts condoned	(299)	(1 106)
Closing balance 30 June	117 924	98 123
27.2 Details of Irregular Expenditure		
Incident		
Irregular Expenditure relates to payments that were made to various suppliers, without appropriately approved variation orders as per the delegation of authority. Irregular Expenditure for the current year, relates to payments that were made to various suppliers, without appropriately approved variation orders as per the delegation of authority.	4 511	65 349
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.	2 356	570
Irregular Expenditure relates to payments that was made to a suppliers, without appropriately approved motivation for additional services by engineer.	-	87
Irregular Expenditure relates to advance payments that were made to various suppliers, not in accordance with contract terms.	-	20 208
Irregular Expenditure relates to a cession to a contractor, without appropriately approval as per delegation of authority.	-	5 547
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.	1 163	-
Irregular expenditure occurred as a result of a bid awarded to company with less CIDB grading than bid amount	11 771	4 209
Irregular expenditure occurred as a result of a payment made to a supplier where costs were inflated on the bill of quantities	-	2 152
	19 801	98 123
27.3 Details of Irregular Expenditure condones		
Incident		
Non -compliance with SCM Processes and procedures which was as a result of suppliers that were procured without at least three written quotations during the current financial year R299 thousand has subsequently been condoned as valid expenditure incurred in support of Mhlathuze Water's operational requirements. Condoned by: Accounting Officer	299	1 106
	299	1 106

NOTES TO THE FINANCIAL STATEMENTS (continued)

27. Statutory Information in terms of the Public Finance Management Act No. 1 of 1999 as amended (continued)

27.4 Fruitless and Wasteful Expenditure

Opening balance

23 530 -

Add: Fruitless and Wasteful expenditure - prior years not previously disclosed

- 12 221

Add: Fruitless and Wasteful expenditure - prior year not previously disclosed 2015/16

- 11 309

Add: Fruitless and Wasteful expenditure - current year

237 -

Closing balance 30 June

23 767 23 530

27.5 Details Fruitless and Wasteful Expenditure

Incident

Fruitless and wasteful expenditure on the prior year, relates to payments that were made to various suppliers, without appropriately approved variation orders as per then delegation of authority. Currently forensic 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.

18 709

Fruitless and Wasteful Expenditure occurred as a result of a payment made 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 on the prior year, relates to payments that were made to a supplier on invoices that were not supported by the approved Engineer's certificate. 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.

2 669

Fruitless and Wasteful Expenditure for the current year, relates 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. Currently investigations are underway to determine the validity of the emergency situation, should these not be confirmed, processes will commence to recoup the lost resources.

232

Fruitless and wasteful expenditure for the current year, relates to costs incurred on travel to 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 since left the employ of Mhlathuze Water and these funds cannot be recovered from him.

5

The internal control environment has been strengthened to put systems in place to prevent, detect and correct any fruitless or wasteful expenditure going forward.

237 23 530

NOTES TO THE FINANCIAL STATEMENTS (continued)

27. Statutory Information in terms of the Public Finance Management Act No. 1 of 1999 as amended (continued)

	2017 R'000	2016 R'000
27.6 Secondary Activities Non-conformances		
Whilst implementing projects on behalf of some Departments (refer to Note 14) management has identified some cases of non-conformances to Supply Chain Management Prescripts, including Mhlathuze Water's Supply Chain Management Policy. These irregular expenditures are included in the funding Department's Annual Financial Statements, and thus are not quantified here. The internal control environment has been strengthened to put systems in place to prevent, detect and correct any irregular, abnormal and fruitless or wasteful expenditure going forward.		
27.7 Losses Recovered or Written-off		
Bad debts provided for	293	399
Bad debts recovered (reversal of provision)	(106)	(218)
Totals	187	181
28. Adjustments from prior period errors		
28.1 Re-assessment of Useful Lives of Property, Plant and Equipment and Intangible assets		
Due to the re-assessment of the useful lives of Mhlathuze Water's assets, depreciation expense had to be recalculated and this resulted in a decrease in depreciation in the prior year period.		
Accumulated Depreciation and amortisation	-	12 389
Retained earnings	-	(12 389)
	-	-
28.2 Re-instatement of Fair Value of Property, Plant and Equipment and Intangible assets		
Due to the re-instatement of the Fair Value of Property, Plant and Equipment depreciation expense had to be recalculated and this resulted in an increase in depreciation in the prior year period.		
Accumulated Depreciation and amortisation	-	24 753
Retained earnings	-	(24 753)
	-	-
28.3 Property Plant and Equipment Capitalised in incorrect period		
The Commissioning Certificate on this project was dated 28th November 2015, but due to the signing off of this project by the Project Manager on the 8th July 2016 the project was capitalised in the 2016/17 financial year.		
Property Plant and Equipment	-	7 797
Work-in-Progress	-	(7 797)
	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

28. Adjustments from prior period errors (continued)

28.4 Re-instatement of Strategic Stock

Purchasing of inventory was allocated to the Work in Progress account which resulted in it being accounted for as Work in Progress. During the year it was corrected from the Work in Progress account to Inventory Strategic Stock.

Inventory - Strategic Stock
Work in Progress

2017 R'000	2016 R'000
-	17 169
-	(17 169)
-	-

28.5 Abnormal expenditure

Management has identified abnormal expenditure incurred on the construction projects.

Retained earnings
Property, Plant and Equipment - Work in Progress

-	9 961
-	(9 961)
-	-

28.6 Fruitless and Wasteful expenditure

Management has identified fruitless and wasteful expenditure incurred on the construction projects.

Retained earnings
Property, Plant and Equipment - Work in Progress

-	23 530
-	(23 530)
-	-

28.7 Chemical Stock

Laboratory chemical stock bought in prior year incorrectly expensed.

Stock
Retained earnings

-	130
-	(130)
-	-

The impact of these errors is summarised below and the details are as follows:

Increase/ (Decrease) in assets	-	(3 047)
Increase/ (Decrease) in liabilities	-	-
Represented by:		
Increase/ (Decrease) in accumulated surplus:	-	(3 781)
Increase/ (Decrease) in revenue	-	-
Increase/ (Decrease) in expense	-	734
	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

29. Change in Accounting Estimate Note

During the year ended 30 June 2017, a physical verification; conditional assessment and re-assessment of useful lives of all Property, Plant and Equipment and Intangible Assets was performed and resulted in a current year change in accounting estimates as follows:

Re-assessment of Useful Lives of Property, Plant and Equipment and Intangible assets
Depreciation charge

10 094

-

Re-instatement of Fair Value of Property, Plant and Equipment and Intangible assets
Amortisation charge

3 389

-

13 483

-

30. Commitments

30.1 Authorised capital expenditure

Already contracted for but not provided for

- Building

4 837

2 043

- Plant and Machinery

39 031

25 279

- Furniture and fixtures

-

8

- Motor vehicles

-

5

- Office equipment

3

1

- Equipment

20 459

11 540

- Pipelines

614

1 742

- Tools and loose gear

-

28

- Computer software

-

324

64 944

40 970

This committed expenditure relates to Capital and will be financed by available bank facilities, retained surpluses and existing cash resources.

30.2 Authorised Operational expenditure

Already contracted for but not provided for

Authorised operational expenditure

15 975

30 228

15 975

30 228

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

64 944

40 970

Authorised operational expenditure

15 975

30 228

80 919

71 198

NOTES TO THE FINANCIAL STATEMENTS (continued)

31. Contingent Assets

Penalties on Construction Contracts

- Reservoir no. 1 *
- Reservoir no. 2 *
- Empangeni Pumpstation Augmentation *
- Provident Fund Claim **

2017 R'000	2016 R'000
1 780	-
2 160	-
412	-
1 211	-
5 563	-

* In respect of penalties due on Construction Contract-in-Progress

**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 210 840.42.

32. Related party transactions

Relationships

- Controlling entity
- Department of Water and Sanitation
 - Department of Environmental Affairs
 - Department of Basic Education
 - Department of Education
 - Department of Co-operative Governance and Traditional Affairs (CoGTA)
 - Foskor Limited
 - Transnet
 - City of uMhlathuze
 - South African Association of Water Utilities

Board member	Entity	Position held
DC Myeni	South African Airways	Chairperson
	South African Association of Water Utilities	Chairperson
MM Xulu	Foskor (Pty) Ltd	General Manager: Marketing and Sales
FG Bosman*	City of uMhlathuze	Municipal Council
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
A Badul**	iLembe District Municipality	Municipal Council
MP Duze	Department of Co-operative Governance and Traditional Affairs	Deputy Director General: Development Planning

* FG Bosman's term ended as Municipal Councillor in August 2016

** A Badul's term ended as Municipal Councillor in August 2016

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

32. Related party transactions (continued)

Amounts included in receivables from exchange transactions

	2017 R'000	2016 R'000
Department of Water and Sanitation - Water Services TG Scheme	16 296	10 995
Department of Water and Sanitation - External/implementing/laboratory services	40 948	35 623
Department of Basic Education - External/implementing	260	19 615
Department of Co-operative Governance and Traditional Affairs (CoGTA) External/implementing	7 733	-
Foskor Limited - Effluent/laboratory/advances	10 025	4 695
City of uMhlathuze - Laboratory services/sundry	132	36
City of uMhlathuze - Water and effluent	24 839	10 852
City of uMhlathuze - Operations and maintenance	4 685	7 081
Energy, Training and Development - SETA	750	-
Total	105 668	88 897

Amounts included in payables from exchange transactions

	2017 R'000	2016 R'000
Department of Water and Sanitation - Water services TG Scheme	8 422	8 144
Department of Water and Sanitation - External/implementing/laboratory services	4 404	4 747
Umgenti Water	39	-
Foskor Limited - Effluent/laboratory/advances	147	-
City of uMhlathuze - Laboratory services/sundry	3 227	2 589
Total	16 239	15 480

NOTES TO THE FINANCIAL STATEMENTS (continued)

32. Related party transactions (continued)

Sales of goods/services to related parties

Department of Water and Sanitation - Operations and maintenance	73 187	66 881
Department of Water and Sanitation - Implementing/laboratory services	10 628	13 716
Department of Water and Sanitation - laboratory services (micro biology monitoring programme)	358	320
Department of Environmental Affairs - Implementing/laboratory services	1 754	1 706
Department of Basic Education - Implementing/laboratory services	1 283	172
Department of Education - Implementing/laboratory services	-	654
Department of Co-operative Governance and Traditional Affairs (CoGTA) Implementing/ laboratory	8 263	1 723
Foskor Limited - Effluent disposal & income received in advance	60 766	57 420
City of uMhlathuze - Water and effluent	124 478	132 660
City of uMhlathuze - Laboratory services/sundry	263	131
City of uMhlathuze - Operations and maintenance	56 139	56 957
Energy, Training and Development - SETA	925	-
Umgeni Water - Joint venture	8	-

Total

338 052 332 340

Sale of assets to related party

Department of Water and Sanitation - TG Scheme	-	56 926
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Total

- 56 926

Purchases from related parties

Department of Water and Sanitation - Implementing/laboratory services	49 434	59 141
Department of Water and Sanitation - TG Scheme	73 187	66 881
Foskor Limited - Electricity and Repairs and Maintenance	1 385	1 046
City of uMhlathuze - Electricity	32 897	33 916
South African Association of Water Utilities - Members fees	167	-
Umgeni Water	104	-

Total

157 174 160 984

NOTES TO THE FINANCIAL STATEMENTS (continued)

33. Statement of Comparison of Budget and Actual Amounts for the year ended 30 June 2017

	Note	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 R'000
Statement of Financial Performance						
Revenue from exchange transactions						
Sale of goods and services	33.1	477 478	497 753	(20 275)	56 139	533 617
Cost of Sales		(133 385)	(171 306)	37 921	-	(133 385)
Bulk purchases	33.3	(44 315)	(67 640)	23 325	-	(44 315)
Electricity and water	33.4	(25 588)	(31 345)	5 757	-	(25 587)
Chemicals		(13 612)	(13 296)	(316)	-	(13 612)
Employee related costs	33.5	(10 825)	(10 779)	(46)	-	(10 825)
Depreciation and amortisation	33.6	(39 044)	(48 246)	9 202	-	(39 044)
Gross Profit		344 094	326 447	17 647	56 139	400 232
Other income	33.2	14 414	11 888	2 526	-	14 414
Expenditure		(320 913)	(305 369)	(15 544)	(51 132)	(372 046)
Employee related costs	33.5	(94 277)	(90 923)	(3 354)	(23 978)	(118 255)
Remuneration of board members		(2 659)	(3 030)	371	-	(2 659)
Depreciation and amortisation	33.6	(32 434)	(26 211)	(6 223)	-	(32 434)
Finance costs	33.7	(9 850)	(26 582)	16 732	-	(9 850)
Lease rentals on operating lease		(2 566)	(2 665)	99	-	(2 566)
Debt impairment		(293)	-	(293)	-	(293)
Repairs and maintenance	33.8	(29 025)	(20 335)	(8 690)	(11 723)	(40 748)
Electricity and water	33.4	(80 154)	(72 051)	(8 103)	(22)	(80 176)
Chemicals		-	(3 012)	3 012	(3 147)	(3 147)
Other expenses	33.9	(69 656)	(60 560)	(9 096)	(12 262)	(81 918)
Operating surplus		37 595	32 966	4 629	5 006	42 600
Gain (loss) on disposal of assets		(2 814)	-	(2 814)	-	(2 814)
Surplus for the year		34 781	32 966	1 815	5 006	39 786

NOTES TO THE FINANCIAL STATEMENTS (continued)

33. Statement of comparison of budget and actual amounts for the year ended 30 June 2017 (continued)

33. Statement of Comparison of Budget and Actual Amounts for the year ended 30 June 2017

	Note	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 R'000
Statement of Financial Position						
ASSETS						
Current assets						
Total current assets	33.10	420 886	327 492	93 394	-	420 886
Non-current assets						
Total non-current assets	33.11	712 754	896 434	(183 680)	-	712 754
Total assets		1 133 639	1 223 926	(90 287)	-	1 133 639
LIABILITIES						
Current liabilities						
Total current liabilities	33.12	179 113	140 426	(38 687)	-	179 113
Non-current liabilities						
Total non-current liabilities	33.13	173 290	324 534	151 244	-	173 290
Total liabilities		352 403	464 960	(112 557)	-	352 403
Net assets	33.14	781 237	758 966	22 271	-	781 237
Total net assets and liabilities		1 133 640	1 223 926	(90 286)	-	1 133 640

*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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

33. Statement of comparison of budget and actual amounts for the year ended 30 June 2017 (continued)

- 33.1 Sale of goods and services** has a negative variance of R20.3 million due to the decrease in water volumes sold caused by the drought restrictions that were imposed by the Department of Water and Sanitation.
- 33.2 Other income** has a positive variance of R2.5 million due to the excess cash invested and interest earned thereon.
- 33.3 Bulk purchases** have a positive variance of R23.3 million 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.
- 33.4 Electricity cost and water** has a negative variance of R2.3 million mainly due to the increases from Eskom.
- 33.5 Employee related costs** have a negative variance of R3.4 million, mainly due to leave paid out which increased by 63%; which was not provided for and overtime of which normal time increased by 78% and 94% for double time, and a 104% increase in business travel claims.
- 33.6 Depreciation and amortisation** has a positive variance of R2.9 million due to capital assets budgeted for that have not been capitalised yet.
- 33.7 Finance costs** have a positive variance of R16.7 million. The budget included interest on a new loan of R150 million that was planned, but was not required and hence not taken up during the period.
- 33.8 Repairs and maintenance** has a negative variance of R8.7 million. Overspending occurred due to Major gypsum cleaning crane hire, panstock alignment and diving services done at the pumpstation, replacement of lights that submerged in the water on the A Line; Recalibration and programming of the PLC system at the Weir and unexpected upgrade of the chlorine system pipes at Nsezi.
- 33.9 Other expenses** have a negative variance of R9.1 million, mainly due to higher legal expenses and audit fees than budgeted for.
- 33.10 Current assets** have a positive variance of R93 million mainly due to the increase in trade receivables under the secondary activities, and an increase in short-term deposits.
- 33.11 Non-current assets** have a negative variance of R184 million which is due to capital assets budgeted for that have not been acquired.
- 33.12 Current liabilities** have a negative variance of R39 million due to the increase in trade payables under the secondary activities.
- 33.13 Non-current liabilities** have a positive variance of R151 million due to the decrease in long term interest borrowings. The budget included a new loan of R150 million that was planned but was not required and hence not taken up during the period.
- 33.14 Net assets** have a positive variance of R22.2 million due to positive surpluses made as well as interest earned on cash invested for reserves.

34. Events after the reporting date

Events occurred after the reporting period are:-

On the 1st of August 2017, in order to comply with governance requirements, the Accounting Authority appointed an interim Audit and Risk Committee to fulfill an oversight role on all strategic financial and governance matters.

The internal audit strategy has been amended to in-source the internal audit function. An internal audit manager has been appointed to head the internal audit department. The internal audit manager will commence duties on the 2nd of October 2017.

35. Financial assistance from the state

Mhlathuze Water did not receive any financial assistance from the state.

NOTES TO THE FINANCIAL STATEMENTS (continued)

36. 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).

37. Going concern

The Department of Water and Sanitation continues to implement the Institutional Reform and Realignment (IRR) program with the objective of further expanding the reach of the Department in delivering water and sanitation services efficiently and cost effectively throughout South Africa.

The process of establishing a single Water Board in KwaZulu-Natal is still underway. The Department of Water and Sanitation is leading the project of disestablishing Mhlathuze Water and Umgeni Water Boards and to this end a service provider has been appointed to facilitate and advise on the entire process.

Phase 1 through to phase 4 of the abovementioned project will take a minimum of 12 months to complete with the timeline for phase 3 not being taken into account as the stakeholders are unable to reasonably estimate the timeframe for these activities. Thus, given the extensive nature of the consultative process, due diligence exercise and other legal and compliance requirements, it is anticipated that the entire process would be lengthy and may not be completed by June 2018.

Irrespective of the date of completion, Mhlathuze Water shall remain a legal entity and going concern until the date of formal disestablishment by notice in the Government Gazette. Therefore, Mhlathuze Water has no reason to believe that this process will negatively impact the going concern assumption of the entity for the foreseeable future. The annual financial statements have been prepared on the going concern basis. The Accounting Authority of Mhlathuze Water has reasonable grounds to believe that the business has adequate resources to continue as a going concern in the foreseeable future.

Therefore the annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

38. Litigation and claims**38.1 AS Makhanya vs Minister of Water and Sanitation and the Board of MW**

The Chief Executive of Mhlathuze Water (Mr Sibusiso Makhanya) is currently under suspension. He lodged an application disputing the validity of his suspension and the application was dismissed. He lodged an application for leave to appeal which was also recently rejected by the court. At the date of reporting, the matter was not yet resolved as Mr Makhanya indicated his intention to petition the Supreme Court of Appeals.

38.2 NRB Piping vs Mhlathuze Water

An urgent interdict was placed on MW by the High Court pending a court review of the tender process. This dispute involves NRB Piping, a company that tendered for services. The NRB Piping case against Mhlathuze Water has been withdrawn.

38.3 MIS Pipelines vs Mhlathuze Water

This claim is at adjudication stage. 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.

38.4 Engeolab vs Mhlathuze Water

This matter has been set down in the High Court on 6 October 2017.

Engeolab issued a summons to Mhlathuze claiming that Mhlathuze Water owed the amount of R1 434 396.97 (One Million Four Hundred and Thirty Four Thousand Three Hundred and Ninety Six Rand and Ninety Seven Cents) including interest for work rendered by Engeolab to Mhlathuze Water.

Except for the above matters, there are no other instances of litigation or claims which may result in a material financial loss to Mhlathuze Water at the date of reporting.





Private Bag 1047
Richards Bay, KwaZulu-Natal, 3900

Tel: +27 (0)35 902 1000
Fax: +27 (0)35 902 1111
Email: mw_info@mhlathuze.co.za

www.mhlathuze.co.za

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