

**IKANGALA WATER**

**ANNUAL FINANCIAL STATEMENTS**

**30 JUNE 2007**

**IKANGALA WATER****ANNUAL FINANCIAL STATEMENTS****30 JUNE 2007**

<u>Contents</u>	<u>Page</u>
Directors' responsibility statement	1 - 2
Report of the independent auditors	3 - 5
Annual financial statements	
Report of the directors	6 - 10
Balance sheet	11
Income statement	12
Statement of changes in equity fund	13
Cash flow statement	14
Notes to the cash flow statement	15
Accounting policies	16 - 18
Notes to the annual financial statements	19 - 23
Additional information	
Detailed income statement	24

**DIRECTORS' RESPONSIBILITY STATEMENT**

The directors are responsible for the preparation and fair presentation of the annual financial statements of Ikangala Water comprising the balance sheet at 30 June 2007 and the income statement, the statement of changes in equity and cash flow statement for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors report in accordance with South African statements of Generally Accepted Accounting Practice and in the manner required by The Public Finance Management Act, 1999, as amended.

The directors' responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors' responsibility also includes maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

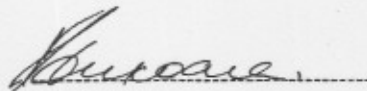
**DIRECTORS' RESPONSIBILITY STATEMENT (continued)**

The directors have made an assessment of the Board's ability to continue as a going concern, and cannot commend on the going concern ability of Ikangala Water for the foreseeable future. Should there be a cessation of trade, the entity's assets are in excess of its liabilities.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

**Approval of the annual financial statements**

The annual financial statements of Ikangala Water, as identified in the first paragraph, were approved by the board of directors on 12 October 2007 and are signed on behalf by

  
DIRECTOR

**Independent Auditor's Report to the members of Ikangala Water**

3

**Report on the Financial Statements**

We have audited the annual financial statements of Ikangala Water, which comprise the balance sheet at 30 June 2007, and the income statement, the statement of changes in equity and cash flow statement for the period then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 7 to 24.

*Directors' Responsibility for the Financial Statements*

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Public Finance Management Act, 1999, as amended. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

**Independent Auditor's Report to the members of Ikangala Water**

4

**Report on the Financial Statements (Continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

*Basis for qualified opinion*

The Water Sales note in the directors' report indicates that revenue from provision of water services to municipalities have been recognised on a cash basis as opposed to when the service has been provided as required in terms South African Statement of Generally Accepted Accounting Practice, IAS 18 (AC 111) Revenue. The directors' report also indicates the reasons and effects for the departure on the financial statements.

*Qualified opinion*

In our opinion, except for the matter described in the Basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Ikangala Water at 30 June 2007, and its financial performance and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Public Finance Management Act, 1999, as amended.

*Emphasis of matter*

We draw your attention to the fact that Ikangala Water did not comply with certain requirements of the Public Finance Management Act, 1999 as amended (PFMA), the Water Services Act, act no and the PFMA. The following non-compliances were noted:

- Ikangala Water did not have an internal audit function during the year as required by section 38(a) of the PFMA of 1999
- Ikangala Water did not submit to the relevant treasury a budget for the 2007 financial year as required by section 40(4)(a) of the PFMA
- Ikangala Water did not submit a business plan to the Minister of Water Affairs and Forestry for the financial period 2007 to 2011 as required by section 40(1) of the Water Services Act.





**KPMG Inc**  
Suite 501, The Pinnacle  
1 Parkin Street, Nelspruit, 1200  
Private Bag X11255, Nelspruit, 1200, South Africa

Telephone +27 (13) 752 7131  
Fax +27 (13) 752 6357  
Docex 26 Nelspruit  
Internet <http://www.kpmg.co.za/>

5

# **Independent Auditor's Report to the members of Ikangala Water**

## **Report on the Financial Statements (Continued)**

We further draw attention to the comment made by the directors on the directors report indicating a material uncertainty about the going concern assumption. "The directors cannot comment on the going concern ability of Ikangala Water for the foreseeable future."

### **Other matters**

The supplementary schedules set out on page 26 do not form part of the annual financial statements and are presented as additional information. We have not audited these schedules and accordingly we do not express an opinion on them.

### **Other Reporting Responsibilities**

#### **Reporting on performance information**

We have audited the performance information as set out in the annual report.

#### **Responsibilities of the accounting authority**

The accounting authority has additional responsibilities as require by the Auditor General Audit Circular 1 of 2005 to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

#### **Responsibility of the auditors**

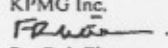
We conducted our engagement in accordance with section 13 of the Public Audit Act, 2004 (Act 25 of 2004) read with the General Notice 646 of 2007, issued in the Government Gazette No. 29919 of 25 May 2007.

In terms of the foregoing our engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for the audit of findings reported below

#### **Audit findings**

The entity has not reported its performance against predetermined objectives as contained in the strategic plan in the annual report

KPMG Inc.  
  
Per Ryk Eksteen  
Chartered Accountant (SA)  
Registered Auditor  
Director  
12 October 2007

KPMG Inc, a company incorporated under the South African Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative  
KPMG Inc is a Registered Auditor, in public practice, in terms of the Auditing Profession Act, 26 of 2005.

Policy Board: RM Kgossane (Chairman) TW Grieve (Chief Executive)  
TH Boshoff BG Bauer DC Duffield J Geel A Han TH Hoole  
D Jackson GI Mole AM Moigobudi CM Read YGH Suleman  
D van Heerden JIM Vice  
The company's principal place of business is at KPMG Crescent,  
85 Empire Road, Parktown, where a list of the directors' names is  
available for inspection  
Registration number 1899/021543/21

## **IKANGALA WATER**

### **REPORT OF DIRECTORS**

**For the year ended 30 June 2007**

#### **VISION AND MISSION**

Ikangala Water was established in terms of the Water Services Act to be the water services provider to the Western Highveld Region and parts of Kungwini Local Municipality. Its purpose is to integrate the many existing entities providing water services in the area into a coherent effective and efficient utility activity.

#### **GENERAL REVIEW**

Ikangala Water's major operational activities comprise:

- a) Overseeing the operations and maintenance of the bulk water supply system as an agent of the Department of Water Affairs and Forestry.
- b) Providing support to municipalities by undertaking as many duties as possible in the retail water supply arena that the Water Service Authority (municipality) may from time to time request. This work is also undertaken as an agent of Department of Water Affairs and Forestry.
- c) Overseeing sewage treatment installations on behalf of municipalities and the Department of Water Affairs and Forestry.

Ikangala Water is a Trading Entity as listed in schedule 3B of the Public Finance Management Act of 1999.

#### **LEGISLATIVE MANDATE AND GOING CONCERN**

In April 2005 the Minister of Water Affairs and Forestry requested Rand Water to assist Ikangala Water regarding service provision in the Western Highveld Region. Rand Water's Retail Water Services Department completed a high level due diligence assessment in July 2005. An extract of the report highlights the challenges facing Ikangala Water's management.

This report was compiled with the purpose of assisting Ikangala Water to ensure that it plays its rightful role within its area of jurisdiction. The changing legislative framework within which water boards operate is noted and is probably best described by the following quote from the Director General of DWAF's annual report to the minister for the period 2003/04.

**IKANGALA WATER**

**7**

**REPORT OF DIRECTORS (CONTINUED)**

**For the year ended to 30 June 2007**

**LEGISLATIVE MANDATE AND GOING CONCERN (Continued)**

**“The Department of Water Affairs and Forestry is mandated amongst other by the Water Services Act (NO. 108 of 1997):**

To create a developmental regulatory framework, within which water services can be provided, the Act established water services institutions, and defined their roles and responsibilities. Schedule 4 of the Constitution of the Republic of South Africa vests the responsibility for water and sanitation services, limited to portable water supply systems and domestic wastewater and sewage disposal systems, in Local Government. However, the National Government has a constitutional responsibility to support and strengthen the capacity of municipalities to manage their own affairs, to exercise their powers and to perform their functions, and so also to the authority to see their functions in respect of matters listed in Schedules 4 and 5 of the Constitution, by regulating the exercise by municipalities of their executive authority. The Water Services Act gives substance to these constitutional requirements and provisions, whilst acknowledging the authority of Local Government in respect of water services.

**Public entities reporting to the Minister of water Affairs and Forestry – Water Boards**

Chapter six of the Water Services Act (NO.108 of 1997) provides the legislative framework in which Water Boards operate. In terms of the Act, the primary activity of a Water Board is to provide water services to other water services institutions within its service area. Water Boards must enter into formal services provision agreements with the water service authority (Municipalities) in their service areas.

The Act allows Water Boards to enter into activities as long as activities do not affect their ability to perform the primary activity and it should not jeopardise financial viability of the Water Board and its ability to serve customers and users in its service area. Members of a Water Board are appointed by and are accountable to the Minister of Water Affairs and Forestry and they must ensure that the Board performs within the parameters defined by the Act and according to the Board's agreed policy statement and business plan. Some difficulty has been experienced where municipalities have not been prepared to enter into service provision agreements with water boards. There has also been uncertainty as a result of Section 78 processes being undertaken in terms of the Municipal Structures Act. An institution review of regional water services is currently being undertaken together with South African Local Government Association (SALGA), Department of Local Government.



**REPORT OF DIRECTORS(CONTINUED)**

8

For the year ended to 30 June 2007

*“(DPLG) and South African Association for Water Users (SAAWU) in order to clarify the future role of the water Boards in relation to Municipalities”*

In view of the aforementioned the board cannot comment on the going concern ability of Ikangala Water for the foreseeable future. Should there be a cessation of trade, the entity's assets are currently in excess of its liabilities.

**Financial Performance**

Ikangala Water controls about 5% of the total water services budget for the Western Highveld Region and parts of Kungwini Local Municipality.

**CORPORATE GOVERNANCE****Compliance Statement**

Ikangala Water endorses the Code of Corporate Practices and Conduct as set out in the King report and observes, wherever possible due to limited staffing and resources, the provisions of the Public Finance Management Act. However, compliance with the corporate governance principle was impossible due to the number of directors in office.

**The Board of Directors**

The board of directors comprised of two non-executive members appointed by the Minister of Water Affairs and Forestry. The term of office of the director ends on 31 December 2007.

Total	<u>100</u>	
Budget component	Amount R'mill	Current responsibility
Government and Maintenance		5 Ikangala Water
Operations and Maintenance		75 Department of Water Affairs and Forestry
Capital Works		20 Government Agencies
	<u>100</u>	

**REPORT OF DIRECTORS (CONTINUED)**

For the year ended to 30 June 2007

**Water Sales**

The South African Statements of Generally Accepted Accounting Practice, IAS 18 (AC 111) - Revenue, requires that revenue from the provision of services be recognised when the service has been provided. The revenue from the provision of water services to municipalities is, however recorded on the cash basis. The revenue from provision of water services to parties, other than municipalities, is recognised when the service is provided. The Directors consider this method of accounting appropriate due to the fact that water sales recoveries from municipalities are unsatisfactory as illustrated below:

	<u>2007</u>	<u>2006</u>
	R' mil	R' mil
Gross sales	89	73
Recorded sales	1	1
Unrecorded sales	<u>88</u>	<u>72</u>

Had revenue been recorded in terms of South African Statements of Generally Accepted Accounting Practice, revenue would have increased to R89 million (2006: R72 million) and current assets would have increased by the same amount for the year then ended. As a result of the poor recovery of water sales to municipalities, an impairment loss would have had to be recognised on the current assets amounting to unrecorded sales as illustrated above. The net effect of which, would have reflected the revenue recognised on the cash basis.

The tax effect of the above departure from South African Statements of Generally Accepted Accounting Practice is nil.

**PROPERTY, PLANT AND EQUIPMENT**

All operational assets of any significance are still owned by Department of Water Affairs and Forestry.

**INTERNAL AUDIT**

The organisation is currently too small to justify a separate internal audit function. Toward the last quarter of the financial year, an internal audit function was established and will commence their activities in the coming financial year.