

**PRESENTATION TO PORTFOLIO  
COMMITTEE ON WATER AFFAIRS AND  
FORESTRY**

**LATE SUBMISSION OF ANNUAL REPORTS**

13 August 2008

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**REASON FOR LATE SUBMISSION  
OF MHLATHUZE's AR & FS**

- New auditors were appointed to conduct the external audit
- They raised several issues, which required substantial restatements of the results in prior years:
  - A special purpose vehicle, the Mhlathuze Water Lessor Trust created difficulty:
    - A bank account, forming part of the financing scheme & held in MW's name, was not reflected as an asset of MW in previous years
    - Assets sold to the Trust continued to depreciate in MW's accounts
  - Costs of feasibility studies in prior years were restated
  - Auditors concerned whether MW's infrastructure should be reflected as assets or leases to IFRI standards

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## **SALIENT DETAILS FROM MHLATHUZE's AR & FS**

- MW received a qualified audit with the following emphasis of matter:
  - MWLT didn't comply with requirements of PFMA;
  - MWLT had not issued FS for 2006/07 ; and
  - MW failed to submit its audited FS by 30/11/07 to NT, the Minister & Auditor-General

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## **SALIENT DETAILS FROM MHLATHUZE's AR & FS (2)**

- Growth in net income resulted from expenditure savings of R7m & increase in water sold of R1,3m (mainly due to tariff increase of 5,15%)
- Operating income was R13,4m less than planned for, due to Foskor taking over the direct maintenance of the B-line, however, MW saved R14,4m on the maintenance
- MW strives to achieve a debt structure of 70% fixed to 30% floating interest rate. The ratio at year end was 78% fixed to 22% floating interest rate

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### **SALIENT DETAILS FROM MHLATHUZE's AR & FS (3)**

	2007 R'000	2006 R'000	% Change
Revenue	130 275	144 412	-9.78%
Net surplus	24 066	18 687	28.78%
Operating Expenditure	97 199	110 644	-12.22%
PPE	245 606	208 925	17.55%
Current Assets	125 117	117 494	6.48%
Current Liabilities	76 396	85 807	-10.96%
Accumulated reserves	275 946	244 973	12.64%
Long term obligations	173 995	150 054	15.95%

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### **REASON FOR LATE SUBMISSION OF BOTSHELO's AR & FS**

- The former CEO & 3 senior managers, i.e. of finance, technical services & marketing / HR left BW in Nov & Dec 2007, without ensuring that the FS were ready for auditing
- Compilation of FS was then outsourced
- Auditing by Auditor General only resumed in March '08
- AR & FS submitted to DWAF on 29 July '08

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## **SALIENT DETAILS FROM BOTSHELO's AR & FS**

- Unqualified audit, but following matters were emphasized:
  - 2006/07 AR not tabled timeously;
  - No written delegation of power by management;
  - No audit committee established;
  - No fraud prevention policy; and
  - Bank reconciliation statements not done timeously
- Losses decreased from R36,7m to R1,6m due to debt write off in previous year
- Expenses decreased after write off by 15% as a result of reduction of HR cost of R8m
- BW entered into an agreement with DM for settlement of R12m on water services rendered

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## **SALIENT DETAILS FROM BOTSHELO's AR & FS (2)**

- Creditor's days declined to 328 days – BW does not have ability to pay its creditors as it is technically insolvent
- Ability of BW to continue as a going concern is dependent on:
  - Directors continue to procure funding from DWAF for ongoing operations
  - Dispute on billing for raw water by DWAF is resolved
  - DWAF does not demand repayment of its debt

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## SALIENT DETAILS FROM BOTSHELO's AR & FS (3)

	2007 R'000	2006 R'000	% Change
Revenue	42 373	52 517	-19.3%
Operating Expenditure	56 406	99 444	-43.3%
Loss from operations	-1 649	-36 704	95.5%
Net loss	-841	-36 304	97.7%
PPE	9 758	9 376	4.1%
Current Assets	29 345	34 946	-16.0%
Current Liabilities	82 751	78 129	5.9%
Accumulated reserves	18 758	9 376	100.0% <sub>9</sub>

## PROFIT / LOSS MAKING BOARDS

	Profit	Loss
Albany Coast Water	x	
Amatola Water	X	
Bushbuckridge Water	X	
Bloem Water	X	
Botshelo Water		X
Lepelle Northern Water	X	
Magalies Water	X	
Mhlathuze Water	X	
Namakwa Water	X	
Overberg Water	X	
Rand Water	X	
Sedibeng Water	X	
Umgeni Water	X	
Ikangala Water		X
Pelladri Water		X

## **QUALIFIED AUDITS**

- **QUALIFIED AUDITS**  
Albany Coast Water  
Magalies Water  
Mhlathuze Water  
Sedibeng (North West Region)
- **QUALIFIED WITH EMPHASIS OF MATTER**  
Bushbuckridge Water  
Ikangala Water
- **EMPHASIS OF MATTER**  
Botshelo Water

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**THE END**

**THANK YOU**

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