



*Annual Report*  
2021|22



**green drop**  
CERTIFICATION

waste water service  
REGULATION



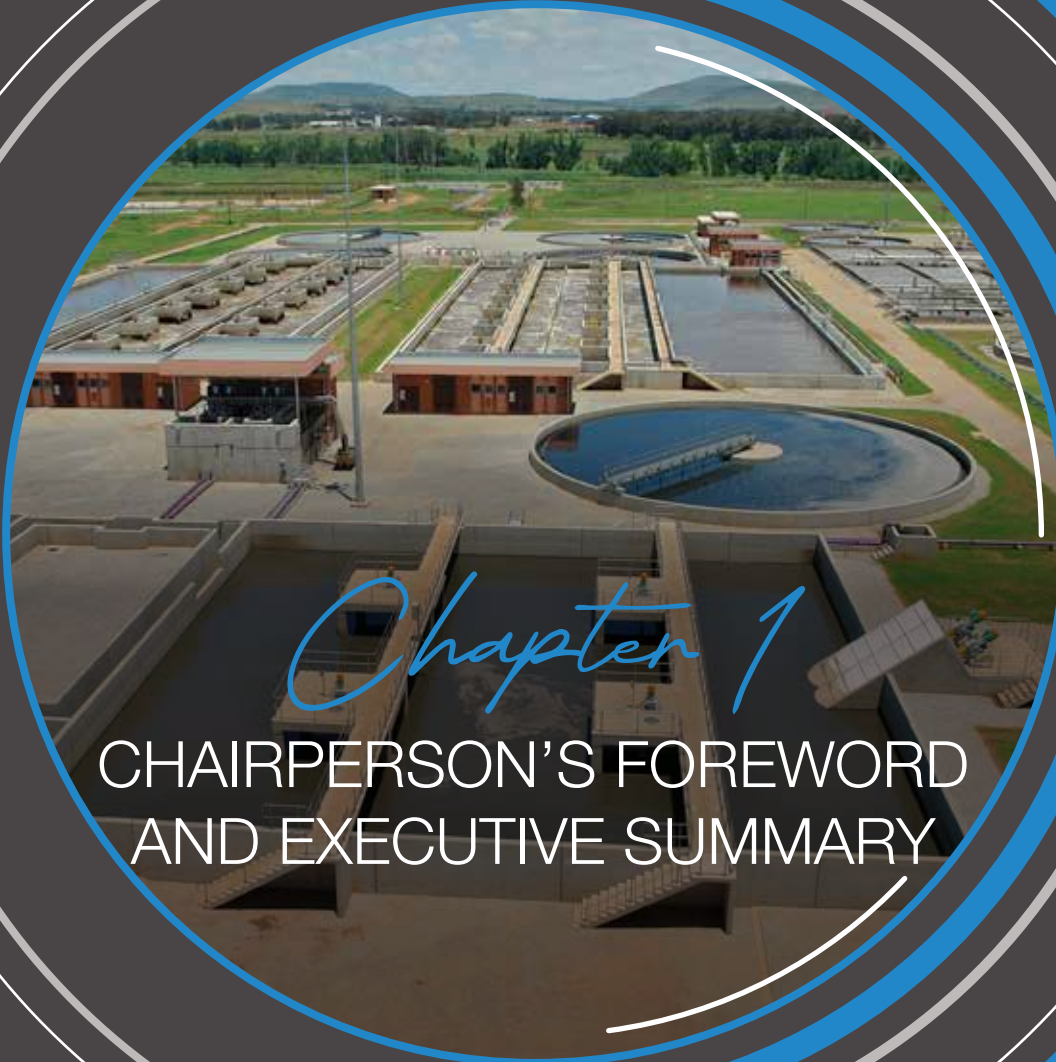
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# Terms and Abbreviations



<b>AG</b>	Auditor-General
<b>B-BBEE</b>	Broad-Based Black Economic Empowerment
<b>BNR</b>	Bio-Nutrient Removal
<b>CSR</b>	Corporate Social Responsibility
<b>CoE</b>	City of Ekurhuleni
<b>CSIR</b>	Council for Scientific and Industrial Research
<b>DWS</b>	Department of Water and Sanitation
<b>ERP</b>	Enterprise Resource Planning
<b>ERWAT</b>	Ekurhuleni Water Care Company (Non-Profit Company)
<b>EWSETA</b>	Energy and Water Sector Training Authority
<b>GCRO</b>	Gauteng City Region Observatory
<b>HOD</b>	Head of Department
<b>HR</b>	Human Resources
<b>IDP</b>	Integrated Development Plan
<b>IoDSA</b>	Institute of Directors (South Africa)
<b>IWA</b>	International Water Association
<b>LIMS</b>	Laboratory Information Management Systems
<b>LNW</b>	Lepelle Northern Water
<b>KING IV</b>	King Code of Corporate Governance (2009)
<b>KING IV</b>	King Code of Corporate Governance (2016)
<b>MFMA</b>	Municipal Finance Management Act (Act 56 of 2003)
<b>Mℓ</b>	Megaliters
<b>mSCOA</b>	Municipal Standard Chart of Accounts
<b>MTREF</b>	Medium Term Revenue and Expenditure Framework
<b>NDPW</b>	National Department of Public Works
<b>NPC</b>	Non-Profit Company
<b>OPCA</b>	Operation Clean Audit
<b>SCM</b>	Supply Chain Management
<b>SDBIP</b>	Service Delivery Budget Implementation Plan
<b>WCW's</b>	Water Care Works
<b>WRC</b>	Water Research Commission
<b>WISA</b>	Water Institute of South Africa
<b>WSA</b>	Water Services Act (Act 108 of 1997)



*Chapter 1*

CHAIRPERSON'S FOREWORD  
AND EXECUTIVE SUMMARY



## COMPONENT A

# Chairperson's Foreword

DR. NATALIE SKEEPERS

**E**RWAT is supporting the strategic direction of our major member, the CoE, into consideration. ERWAT redefined its Strategic Direction, in alignment with the CoE's planning for the future of the region. It is pivotal for the entity to achieve water quality compliance for all the Water Care Works.

### ERWAT'S VISION STATEMENT

To be a global leader in water care and resource recovery.

### ERWAT'S MISSION STATEMENT

To provide sustainable, affordable, quality water care and resource recovery services through partnerships and collaborative initiatives with external role players, utilising smart organisational practices.

In order to deliver on the agreed vision and mission statement, ERWAT has identified seven strategic objectives spanning across 6 strategic pillars namely profitability, people, environmental sustainability, operational excellence, technology and partnerships/commercialisation. These define the markers of success and effectively show how ERWAT will know when ERWAT has achieved its goals. ERWAT's strategic objectives outline what must be achieved for it to make its strategy a success.

Each of these are strategic pillars are defined below.

1. **Profitability:** ERWAT wants to ensure that it is financially sustainable and to limit its dependence on City of Ekurhuleni contributions (excluding service charges). To do this, ERWAT will need to have alternative revenue streams.

2. **People:** Human capital is critical to ERWAT's functioning and essential for ERWAT to achieve its strategic objectives. Therefore, the right talent needs to be attracted, developed, and retained.
3. **Environmental sustainability:** As a responsible corporate citizen, ERWAT needs to ensure not only financial sustainability, but also environmental sustainability.
4. **Operational Excellence:** Refers to ERWAT's mindset and the practice of adopting principles and tools that result in operational sustainability and improvements.
5. **Technology:** This is at the core of ERWAT's operations, and any operational improvements can only be addressed using technology.
6. **Partnerships/Commercialisation:** Partnerships and collaborations with external entities are noted as being essential to ERWAT's vision of being a "globally recognised water resource recovery company" and commercialisation of ERWAT's service offerings and products.

As an entity of the CoE, ERWAT needs to ensure that it aligns to the overarching vision of the city which is summarised in its long-term strategy, the Growth and Development Strategy 2055 (GDS 2055). GDS 2055 identifies five strategic initiatives and ERWAT's strategic objectives are aligned to these in its efforts to support Ekurhuleni in its endeavours to take the lead as a powerhouse in the Gauteng economy.

As part of ERWAT's strategic plan, 6 strategic initiatives linked to the 6 strategic pillars have been identified that ERWAT intends to pursue in support of its strategy. These initiatives are:

1. Sludge beneficiation and resource recovery.
2. Energy neutrality.

*ERWAT strives to keep abreast of the latest in wastewater research management through regular liaison and contact with other institutions, such as the Water Research Commission (WRC), water institutions, academia, as well as government departments such as the DWS.*

3. Water reclamation.
4. Short- and medium-term commercial business growth opportunities targeting specific industries with niche products and services.
5. Financial model strategy that looks at reassessing ERWAT's current financial models and financial market approach; and
6. ERWAT Plants & Conveyancing Regionalisation and 50 Year Master Plan.

### KEY POLICY DEVELOPMENTS

The legislative framework within which water supply and sanitation services take place is mainly provided by the Water Services Act (Act 108 of 1997) (WSA). The WSA derives its mandate from Section 27 of the Bill of Rights in the Constitution. This section of the constitution provides, among other rights, that everyone has the right to have access to sufficient food and water. One of the main objectives of the WSA is thus, to provide for the right of access to basic water supply and to basic sanitation.

ERWAT strives to keep abreast of the latest in wastewater research management through regular liaison and contact with other institutions, such as the Water Research Commission (WRC), water institutions, academia, as well as government departments such as the DWS. ERWAT is a member of the International Water Association (IWA) and a patron member of the Water Institute of South Africa (WISA). ERWAT has also entered into an agreement with the University of Stellenbosch where it supports a Chair in Wastewater studies.

The policy developments are aligned with the provincial growth and development strategy as well as the Ekurhuleni Growth and Development Strategy 2025.

### KEY SERVICE DELIVERY IMPROVEMENTS

A significant achievement for the entity was the attainment of Green Drop certification, where ERWAT won seven Green Drop awards and one award for one of the top three best performing wastewater treatment systems.

in the country. This announcement was made during the release of the Green Drop report and awards ceremony on 1 April 2022, attended by the Minister of Water and Sanitation, Minister Senzo Mchunu. ERWAT has participated in the Green Drop certification for wastewater since its inception in 2008 by the Department of Water and Sanitation (DWS), which aimed to set standards higher than minimum requirements in a quest for all water services authorities to reach exceptional levels of excellence.

ERWAT achieved six out of the eight reportable key performance indicators. ERWAT was able to exceed its targets on external revenue, audit opinion, percentage capital expenditure on planned projects, percentage procurement spend allocated to SMME's as well as the number of repeat audit findings. The annual target was achieved and exceeded due to ERWAT's undertaking of the project interventions which yielded positive results. The target for capital expenditure was achieved and exceeded due to the early delivery of goods prior to planned date and adjustment of budget downwards, due to challenges experienced during the financial year. Revenue generated from external businesses was R40 547 891 and this was boosted by the revenue generated from the City of Tshwane's Intervention Project.



The overall water quality compliance target of 82.5% was not achieved; however ERWAT has developed strategies to mitigate the challenges that were encountered to improve the performance of the various Water Care Works.

Long-term capital expenditure and the funding thereof are very important for the long-term success of ERWAT. The ability to finance and execute capital projects is of paramount importance to ERWAT. One of ERWAT's biggest challenges remains the financing of new extensions of Water Care Works. The success of future projects, as with those of the past, will continue to depend on the availability of funding. The role that our parent municipality, the CoE, will play in securing future funding will remain crucial.

### **PUBLIC PARTICIPATION**

ERWAT contributes to CoE's Department of Water and Sanitation's public participation process. All the comments and views of the community received during this process are channelled to ERWAT. ERWAT continued as an implementing agent for the upgrading of the Rooiwal Wastewater Treatment Works in the City of Tshwane. This intervention assisted in enhancing the revenue generation mechanism in this financial year.

### **FUTURE ACTIONS**

The Board will maintain the momentum while the focus will be mainly on programmes that are earmarked for revenue generation and other research initiatives. The focus will be on water reclamation and energy renewal programmes through sludge beneficiation and energy neutrality.

In the spirit of good governance, the Board and Senior Management shall continue to apply King IV principles to strengthen the governance processes and improve reporting.

### **AGREEMENTS, RESEARCH, DEVELOPMENT AND PARTNERSHIPS**

ERWAT remained actively involved in research collaborations and partnerships and maintained the momentum. The ERWAT Chair in Water Research, hosted by the Stellenbosch University Water Institute, focused its efforts mainly on wastewater-based epidemiology (WBE) research and using it as a tool to monitor COVID-19 in local communities. ERWAT actively participates in the South African Collaborative COVID-19 Environmental Surveillance System (SACCESS).

This national collaboration looks at testing wastewater for remnants of the SARS CoV-2 virus causing COVID-19. In this manner an entire community served by a wastewater treatment water care works can be screened and this data can serve as an early warning system when the number of COVID-19 cases rises. ERWAT also participates in an international collaboration, doing research within the same theme. Research outputs by ERWAT and from collaborations have been published in peer reviewed articles and presented online at local and international conferences.

Further research partnerships formed include:

1. WITS University and DANEDA – treatment of highly polluted and concentrated wastewaters: the treatment of landfill site leachate is notoriously challenging. This project will look at advanced membrane and crystallisation-based method development for leachate treatment.
2. NICD – antimicrobial resistance in wastewater research: the rise of antimicrobial resistance (AMR) among microorganisms is of increasing concern worldwide. This project will look at the role wastewater and water care works play in AMR.
3. Membrane filtration aeration mechanism – ERWAT registered a patent with respect to a micro membrane filter with a unique aeration mechanism. This work was also supported by the WRC and pilot studies are continuing.
4. WRC – Hennops River rehabilitation project: this WRC funded project in collaboration with WITS University will look at the pollution challenges facing the Kaalspruit and Hennops River.

5. City of Ekurhuleni – Resilience Forum: in response to climate change, the CoE has formed this forum to assist in identifying key focus areas for improvement, formulate policies and initiate projects. As a member, as well as a wastewater entity, ERWAT's role in this forum is of key importance.

Other local platforms on which ERWAT members serve, include various reference groups in support of WRC funded projects and the Scientific Services Forum by SALGA.

## CONCLUSION

ERWAT's success is a result of dedication, focus and concerted efforts of many role-players. Therefore, I would like to express my sincere appreciation to my colleagues on the Board of Directors as well as the Managing Director, Senior Management and Staff. The strategic direction and unwavering support of the CoE made it possible for ERWAT to achieve its strategic and operational objectives.

## *NC Keepers*

### **Dr. Natalie Skeepers**

Chairperson of the Board

Date





## COMPONENT B

# Managing Director's Overview

**MR. KENNEDY CHIHOTA**

### FOREWORD TO THE ANNUAL REPORT

I am pleased to present the ERWAT Annual Report for the period 2021/2022. In the report, we update you on the progress we have made in implementing our ERWAT Strategy and Service Delivery and Budget Implementation Plan (SDBIP). We also outline the steps we took to expand external business initiatives during the past year, despite the enormous challenges faced by all of us due to the implications brought about by the impacts of the pandemic. During the year under review the term of the previous board came to end and the new board was appointed from the 1st of March 2022 with five non-executive directors.

The spread of the Covid 19 virus threw the world into disarray. The pandemic brought three shocks, namely a public health crisis, a hammer-blow to the real economy and a stress test for the global financial system. During the acute phase of the pandemic, global supply chains were affected. Household incomes were curtailed, due to reduced employment opportunities which affected revenue streams for the City of Ekurhuleni, the main funder and shareholder of the entity. Resultantly ERWAT's budget remained constrained against a background of huge capital investment needs.

For the period under review ERWAT had a budget of R1,332 billion (including grants of R129,1 million). ERWAT achieved a revenue of R1,372 million which is 1% higher than the set target. The approved ERWAT capital expenditure budget amount was adjusted from R187 100 000 for the 2021/2022 financial year to R155 656 019. To lay the foundations for a balanced recovery, ERWAT will need to build effective revenue streams and implement prudent financial spending.

On the SDBIP performance, ERWAT had eight sets of SDBIP indicators, three City Wide and five departmental. For the fourth quarter, ERWAT achieved two out of the three City Wide indicators with one indicator not due for measurement in the fourth quarter awaiting the Auditor General audit outcome. It achieved four out of the five Departmental Wide SDBIP indicators with one indicator not achieved due to challenges experienced in the Maintenance Department occasioned by the delayed award of one of the maintenance contracts due to a court interdict brought by one of the losing bidders.

In terms of the mSCOA, ERWAT is still facing significant challenges in several modules. The True Tool, Pro-budget, Asset Management, Human Resources Management, Payments and Billing modules still have some shortcomings that need to be addressed which the City is attending to. We will be building further on this to provide a future ready and resilient work environment. These efforts include a continued commitment to enhancing our cyber resilience.

During the 2020/2021 financial year the AG raised eleven findings. The entity is making progress to address those findings and ensuring that they don't recur in the subsequent years. Despite the difficult market conditions, ERWAT stuck to its core mandate which is to provide conveyance and treatment of wastewater and to avoid pollution to receiving water bodies. To this end ERWAT achieved seven Green Drop awards, with one of its plants winning one of top three best performing wastewater treatment systems in the best plant category.

*ERWAT strives to keep abreast of the latest in wastewater research management through regular liaison and contact with other institutions, such as the Water Research Commission (WRC), water institutions, academia, as well as government departments such as the DWS.*

ERWAT has commenced with the steps towards engaging the private sector for the identified capital investment projects required to enhance revenue generation. Underpinning these various initiatives, work has begun on Public Private Partnerships and streamlining some of our business processes. These are key elements in meeting our goals of creating a more agile organisation with a culture that supports compliance, innovation, revenue generation and continuous improvement.

Under research and development, all current eight collaborations between ERWAT and research and external partners were maintained. However, some adjustments are inevitable in the face of the Covid 19 pandemic. Our planned exhibitions and attendance at conferences to showcase our research capabilities were severely curtailed. Even so, we are prompted to reflect on how our role has evolved over the past years, while staying true to our mandate to promote excellence in wastewater engineering. We will keep this purpose in the forefront of our minds as we step up our response to current challenges.

Finally, I would like to acknowledge the extraordinary efforts made by all our staff, board members and stakeholders at large. Our services and support for our stakeholders, and for the broader community, have depended in full measure on their resourcefulness, flexibility and engagement over the past year.

## COMPANY'S FUNCTIONS, POPULATION AND ENVIRONMENTAL OVERVIEW

### INTRODUCTION TO BACKGROUND DATA

ERWAT contributes to satisfying the basic requirements for sanitation by providing a proficient wastewater treatment service to thousands of industries and more than 3.5 million people who have access to sanitation. It is currently the custodian of 19 Water Care Works, treating a combined capacity of approximately 832.13 megaliters (Mℓ) of wastewater, both domestic and industrial, per day. The smallest works treat approximately 1.4 Mℓ per day, while the largest works treat up to 170 Mℓ of wastewater per day. ERWAT also operates and manages industrial effluent treatment works on behalf of industries on their premises, including the provision of scientific services. Most of ERWAT's operations are located in the eastern parts of Gauteng.

The number of households with flush toilets is increasing by approximately 30 000 per year. This puts pressure on ERWAT to keep up with the capacity demands for wastewater treatment.

### COMMENT ON BACKGROUND DATA

Key challenges arising from the demographics of the area are access to sanitation. The CoE is implementing plans to increase access to basic services. This will place a burden on ERWAT to increase capacity to cope with the additional households with access to sanitation.

## SERVICE DELIVERY OVERVIEW

### SERVICE DELIVERY INTRODUCTION

ERWAT provides bulk wastewater treatment services to the CoE, servicing over 3.5 million people and some 8 000 industries.

ERWAT's 19 Water Care Works treat on average approximately 832.13 Mℓ wastewater per day during the dry season and up to 1 000 Mℓ during the wet season.

The maintenance department has put together strategies to improve equipment availability and reliability. In response to the needs, ERWAT has developed a 5-year capital expenditure plan aimed at reducing the backlog and creating a bit of redundancy at the Water Care Works. Furthermore, ERWAT is in the process of implementing a regionalisation and 50-year master plan for wastewater conveyancing and treatment works. Emergency/stand-by generators have been procured and are in the process of being installed at the works to mitigate the challenge of power interruptions, especially unplanned power interruptions.

### COMMENT ON ACCESS TO BASIC SERVICES

An increase in developments within the CoE has placed a burden on ERWAT to cope with the additional wastewater flow to its Water Care Works. Currently the majority of ERWAT's Water Care Works are operating at over-capacity, which impacts on water quality compliance. It is therefore imperative for the CoE to increase capital budget allocation to ERWAT in line with the capacity to upgrade plans in order to achieve the access to basic service's needs.

## FINANCIAL HEALTH OVERVIEW

### INTRODUCTION FINANCIAL HEALTH

The entity's financial review is premised on the approved 2021/2022 business plan and budget. ERWAT faced some challenges with its cash-flow during the period, primarily due to delays in payment from the CoE of the USDG Grant. Total operating revenue increased from R1,042 billion to R1,372 billion (32%) which includes service charges of R1,142 billion in 2021/2022 (2020/2021: R929,4 million).

The entity ended the year with a net surplus of R377 million in 2021/2022 (2020/2021: R94 million). The increase in the net surplus is mainly attributable to an increase in service charges and R30.8 million was generated from Development contributions during the Financial Year.

Operating expenditure for the year was recorded at R992 million against a budgeted expenditure of R1,202 billion.

### FINANCIAL ANALYSIS AND RATIO COMPARISON

The strength of the statement of financial position of ERWAT remains pivotal to the continued financial sustainability of the entity. It is reported that the entity is a going concern with an accumulated surplus of R2,273 billion with total assets exceeding total liability by the same amount.

### SOLVENCY

The decrease in long-term liabilities and payables from exchange transactions impacted positively on ERWAT's solvency ratio. It decreased from 0.29 in 2020/2021 to 0.23 in 2021/2022. The solvency ratio might come under pressure in future if alternative funding sources, other than loan funding cannot be accessed. ERWAT shows a continues improvement decrease in this ratio.

## LIQUIDITY

ERWAT's current ratio increased from 1.67:1 in 2020/2021 to 2.89:1 in 2021/2022

Table 1.1: Financial Overview: 2021/2022

Details	Actual 2020/2021 R'000	Original Budget 2021/2022 R'000	Adjustment Budget R'000	Actual 2021/2022 R'000
<b>INCOME</b>				
Grants	49 830	187 100	155 656	146 798
Development Contribution	0	0	0	30 819
User Charges (service)	929 381	1 142 878	1 142 878	1 142 878
Other	63 406	601 18	60 118	52 027
<b>Sub Total</b>	<b>1 042 617</b>	<b>1 390 096</b>	<b>1 358 652</b>	<b>1 372 522</b>
Expenses	-949 196	-1 202 996	-1 202 996	-992 461
<b>Operating Surplus</b>	<b>93 421</b>	<b>187 100</b>	<b>155 656</b>	<b>380 060</b>
(Loss)/gain on disposal of assets	2 085	0	0	(4 925)
Fair Value Adjustments – Investment	1 560	0	0	253
Actuarial Gains (losses)	(2 404)	0	0	1 809
<b>Surplus (excluding grants)</b>	<b>44 832</b>	<b>0</b>	<b>0</b>	<b>230 399</b>

## COMMENT ON OPERATING RATIOS

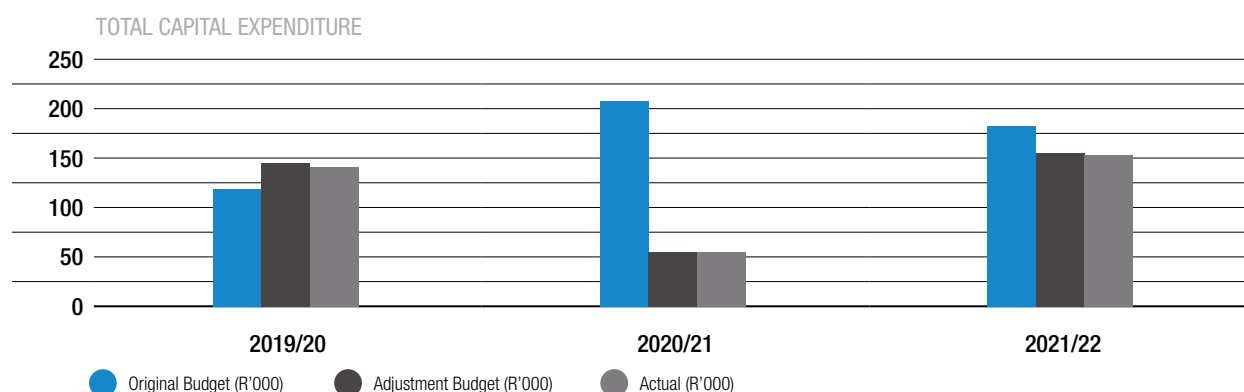
The main cost driver is the employee costs which are reported at 39.72%. The ratio is higher than normal due to the slight under-spend on the OPEX budget, while employee costs remained fairly fixed throughout the year.

Table 1.2: Operating Ratios 2021/2022

Details	%
Employee Costs	39.72
Repairs and Maintenance	10.78
Finance Charges	2.99

Table 1.3: Total Capital Expenditure

Details	Year 2019/2020 R'000	Year 2020/2021 R'000	Year 2021/2022 R'000
Original Budget	121 400	206 000	187 100
Adjustment Budget	145 636	55 830	155 656
Actual	143 643	55 976	155 016
% Capital Spent based on <b>Original</b> Budget	118,32%	27,17%	82,85%
% Capital Spent based on <b>Adjustment</b> Budget	98,63%	100,26%	99,59%



## COMMENT ON CAPITAL EXPENDITURE

The approved ERWAT capital expenditure budget amount was adjusted from R187 100 000 for the 2021/2022 financial year to R155 656 019.

The approved Capex Budget of R155 656 019 for the 2021/2022 financial year is allocated to support economic development and service delivery.

Detailed capital expenditure outlined on **Appendix N**.

## ORGANISATIONAL DEVELOPMENT OVERVIEW

### ORGANISATIONAL DEVELOPMENT PERFORMANCE

The business context of the entity offers challenges to which the organisation is on course to respond to. Organisational development issues are to attract competent and driven talent that will respond to the business challenges without necessarily being confined to their hierarchies.

These talents are specifically in the audit and risk as well as operations department. The human resources department ensures that the entity delivers on what it is known for with sufficient talent and without unnecessary work stoppages.

## AUDITOR-GENERAL REPORT

### AUDITOR-GENERAL REPORT: 2020/2021

The Auditor-General (AG) issued an Unqualified Audit Opinion for 2020/2021 material findings. The findings contained in both the audit report and final management report were addressed by way of an operation clean audit (OPCA) plan. This was developed to address these findings to improve the entities systems and prevent the recurrence going forward. Most findings were dealt with successfully and progress has been made in addressing the rest.



## STATUTORY ANNUAL REPORT PROCESS

Table 1.4: Statutory Annual Report Process

No.	Activity	Timeframe
1	Consideration of next financial year's budget and strategic process plan. Except for the legislative content, the process plan should confirm in-year reporting formats to ensure that reporting and monitoring feeds seamlessly into the annual report process at the end of the budget/strategic plan implementation period	
2	Implementation and monitoring of approved budget and strategic plan commences (In-year financial reporting).	July
3	Finalise the 4th quarter report for previous financial year	
4	Submit draft 2021/2022 annual report to internal audit and AG	
5	ERWAT submits draft annual reports to the CoE	
6	Audit committee of the CoE committee considers draft annual report of the company	
8	Chairperson tables the unaudited annual report	
9	Company submits draft annual report including consolidated annual financial statements and performance report to AG	August
10	Annual performance report as submitted to AG to be provided as input to the strategic plan analysis phase	
11	AG audits annual report including consolidated annual financial statements and performance data	September - October
12	Company receives report and starts to address the AG's comments	
13	Chairperson tables annual report and audited financial statements to members complete with the AG's Report	November
14	Audited annual report is made public and representation is invited	
15	Oversight committee assesses annual report	
16	Board adopts oversight report	
17	Oversight report is made public	December
18	Oversight report is submitted to relevant provincial councils	
19	Commencement of draft budget/ strategic plan finalisation for next financial year. Annual report and oversight reports to be used as input	January

### COMMENT ON THE ANNUAL REPORT PROCESS

The company has improved on compliance with MFMA Circular No 63 on an incremental basis. The annual report will therefore be tabled to the relevant CoE department with apposite authority to review the report on whether it succinctly follows the broad guidelines of the template provided by National Treasury whilst properly considering the unique nature of the entity and whether the quality of information provided herein provides a clear picture of the affairs of the entity.

The timelines for releasing the annual report also provide the next budget process with a wide range of data.

The alignment between the strategic plan, budget and performance management system is important to provide consistent performance information on objectives.



*Chapter 2*  
GOVERNANCE

## INTRODUCTION TO GOVERNANCE

The Board provides effective leadership based on a principled foundation and the entity subscribes to high ethical standards. Responsible leadership, characterized by the values of responsibility, accountability, fairness and transparency, has been defining characteristics of the entity since the company's establishment in 1992.

The company is a municipal entity. Political and administrative governance forms the foundation for the mandate of the entity. Intergovernmental relationships are needed to fulfil the mandate. As a municipal entity, the company takes the needs of the public into account through the public participation process of the CoE.

The fundamental objective of corporate governance has always been to do business ethically while building a sustainable company that recognises the short and long-term impact of its activities on the economy, society and the environment. In its deliberations, decisions and actions, the Board is sensitive to the legitimate interests and expectations of the company's stakeholders.

# Political and Administrative Governance

## INTRODUCTION TO POLITICAL AND ADMINISTRATIVE GOVERNANCE

The mandate of the company finds expression in the principles championed by the National DWS as well as in the operational and development objectives of the CoE as detailed in the Service Delivery Agreement and ERWAT's business plan. The business plan relates directly to the CoE's integrated development plan (IDP), service delivery budget implementation plan (SDBIP), medium term revenue and expenditure framework (MTREF) and adjustment budgets.

The fundamental objective has always been to do business ethically while building a sustainable company that recognises the short- and long-term impact of its activities on the economy, society and the environment. In its deliberations, decisions and actions, the Board is sensitive to the legitimate interests and expectations of the company's stakeholders.

The entity applies the governance principles contained in the King Report for Corporate Governance for South Africa 2016 (King IV) and continues to further entrench and strengthen recommended practices in our governance structures, systems, processes and procedures. The Board of Directors and Senior Management recognise, and are committed to, the principles of openness, integrity and accountability advocated by the King IV. Through this process, members and other stakeholders may derive assurance that the entity is being ethically managed according to prudently determined risk parameters in compliance with generally accepted corporate practices. Monitoring the entity's compliance with King IV forms part of the mandate of the audit committee. The entity has complied with the code in all respects during the year under review.

The Board of Directors have incorporated the CoE's corporate governance protocol in its Board charter which, inter alia, regulates its relationship with the CoE as its sole member and parent municipality in the interest of good corporate governance and good ethics.

The protocol is premised on the principles enunciated in the King IV. The company steadfastly consolidated its position in respect of adherence to the King IV. The entity practices are, in most material instances, in line with the principles set out in the King IV Report. Ongoing steps are however taken to align practices with King IV's recommendations and the Board continually reviews our progress to ensure that we improve our corporate governance.

## 2.1 POLITICAL GOVERNANCE

### INTRODUCTION TO POLITICAL GOVERNANCE

#### BOARD OF DIRECTORS

The Board of Directors consists of one executive director and five non-executive directors. The Board meets regularly, at least quarterly and retains full control over ERWAT. The Board remains accountable to the CoE, the majority member, with a 97% voting rights in ERWAT and its stakeholders. The directors have a collective responsibility to provide effective corporate governance that involves a set of relationships between the CoE, ERWAT and other relevant stakeholders.

The Board provides effective leadership based on a principled foundation and the entity subscribes to high ethical standards. Responsible leadership, characterised by the values of responsibility, accountability, fairness and transparency, has been a defining characteristic of the entity since the company's establishment in 1992.

Responsibilities include:

1. Setting strategic direction and goals of ERWAT and monitoring management's implementation of that strategy.
2. Appointing such committees of ERWAT as may be appropriate to assist in the discharge of its responsibilities and to determine their responsibilities.
3. Ensuring that procedures and practices are in place that protect ERWAT's assets and reputation.
4. Monitoring financial outcomes and the integrity of reporting, in particular approving annual budgets and longer-term strategic and business plans.
5. Ensuring that effective audit and compliance systems are in place to protect the ERWAT's assets and to minimise the possibility of ERWAT operating beyond legal requirements or beyond acceptable risk parameters.
6. Monitoring compliance with regulatory requirements and ethical standards.

The Board holds sufficient scheduled meetings to discharge all its duties, subject to a minimum of four meetings per year.

Key committees are functional for Governance, Risk and Compliance (GRC), Operations, Remuneration and Ethics,

Research Development & Commercial Business as well as the Nominations Committee on an ad hoc basis. The company does not have an audit committee as the oversight function is incorporated under Governance, Risk and Compliance Committee. The CoE Audit Committee performs the role of the audit function for the municipal entities.

Appendix B sets out committees and committee purposes.

Table 2.1: ERWAT Board of Directors

Board Member	Executive / Nonexecutive Director	Race	Gender	Designation
Mr CJ Cornish <sup>1</sup>	Non-Executive	Coloured	Male	<ul style="list-style-type: none"> <li>• <b>Chairperson:</b> Board of Directors</li> </ul>
Dr KC Wall <sup>1</sup>	Non-Executive	White	Male	<ul style="list-style-type: none"> <li>• <b>Chairperson:</b> Operations Committee</li> <li>• <b>Member:</b> Research, Development &amp; Commercial Business</li> </ul>
Mr D Coovadia <sup>1</sup>	Non-Executive	Indian	Male	<ul style="list-style-type: none"> <li>• <b>Chairperson:</b> Governance Risk &amp; Compliance</li> <li>• <b>Member:</b> Remuneration &amp; Ethics</li> </ul>
Mrs G Mahlangu <sup>1</sup>	Non-Executive	Black	Female	<ul style="list-style-type: none"> <li>• <b>Chairperson:</b> Remuneration &amp; Ethics</li> <li>• <b>Member:</b> Governance Risk &amp; Compliance</li> </ul>
Mr T Gopane <sup>2</sup>	Executive	Black	Male	<ul style="list-style-type: none"> <li>• Managing Director</li> </ul>
Mr T Maseko <sup>3</sup>	Executive	Black	Male	<ul style="list-style-type: none"> <li>• Interim Managing Director</li> </ul>
Dr N Skeepers <sup>4</sup>	Non-Executive	Coloured	Female	<ul style="list-style-type: none"> <li>• <b>Chairperson:</b> Research, Development &amp; Commercial Business</li> <li>• <b>Member:</b> Operations</li> <li>• <b>Chairperson:</b> Board of Directors</li> <li>• <b>Chairperson:</b> Nominations Committee</li> </ul>
Ms U Exner <sup>5</sup>	Non-Executive	White	Female	<ul style="list-style-type: none"> <li>• <b>Chairperson:</b> Research, Development and Commercial Business Committee</li> <li>• <b>Member:</b> Governance, Risk &amp; Compliance Committee</li> </ul>
Ms R Kikine <sup>5</sup>	Non-Executive	Black	Female	<ul style="list-style-type: none"> <li>• <b>Chairperson:</b> Operations Committee</li> <li>• <b>Member:</b> Remuneration &amp; Ethics Committee</li> </ul>
Mr Y Haffejee <sup>5</sup>	Non-Executive	Indian	Male	<ul style="list-style-type: none"> <li>• <b>Chairperson:</b> Governance, Risk &amp; Compliance Committee</li> <li>• <b>Member:</b> Research, Development &amp; Compliance Committee</li> </ul>
Mr N Ngwenya <sup>5</sup>	Non-Executive	Black	Male	<ul style="list-style-type: none"> <li>• <b>Chairperson:</b> Remuneration &amp; Ethics Committee</li> <li>• <b>Member:</b> Operations Committee</li> </ul>
Mr K Chihota <sup>6</sup>	Executive	Black	Male	<ul style="list-style-type: none"> <li>• Interim Managing Director</li> </ul>

<sup>1</sup> Previous Board appointment - 1 July 2021 – 31 October 2021

<sup>2</sup> Previous Board appointment - 1 July 2021 – 06 August 2021

<sup>3</sup> Previous Board appointment - 06 August - 30 November 2021

<sup>4</sup> Board re-appointment from 1 March 2022

<sup>5</sup> Board appointment 1 March 2022

<sup>6</sup> Interim appointment from 1 December 2021 to 30 June 2022



**MR CRAIG CORNISH** (NON-EXECUTIVE DIRECTOR)

**End of Term: 30 October 2021**

Mr Craig Cornish has the following qualifications: National Diploma in Accounting, Post Graduate Certificate: Senior Management Development, Post Graduate Certificate: Forensic & Investigative Auditing.

He has vast experience in auditing and financial accounting including forensic audits.

He has served on several Boards in the public and private sectors.

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**DR KEVIN WALL** (NON-EXECUTIVE DIRECTOR)

**End of Term: 30 October 2021**

Dr Kevin Wall has the following qualifications: BSc (Eng), M Urban and Regional Planning, MSc (Eng), PhD (Eng).

Dr Wall is a professionally registered engineer and a registered town and regional planner.

Dr Wall has extensive experience in engineering including water and sanitation engineering. He also has the following professional registrations: PrEng, TRP (SA), Eng, and CPRP.

Not only is he a senior member of the professional bodies, but he has also been a senior office bearer in these bodies. He has served on several Boards in the public and private sector.

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**MR DAWOOD COOVADIA** (NON-EXECUTIVE DIRECTOR) JUSTICE OF THE PEACE (JHB)

**End of Term: 30 October 2021**

Mr Dawood Coovadia has the following qualifications: BComPT Accounting Science, Hons BCompt Accounting Science.

He has vast experience in Auditing, Finance, Risk and Corporate Governance and has served on a number of Boards within the public sector sphere.

He is a qualified Chartered Accountant and a member of the following professional institutions: FSAIM, FIAC, FCIS, CMC, FIMC, MIBA, PIA(SA), FIIASA, CAT(UK) and IOD (SA).

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**MS GRACE MAHLANGU** (NON-EXECUTIVE DIRECTOR)

**End of Term: 30 October 2021**

Ms Grace Mahlangu holds a BCompt Degree and training in project management. She has many years of experience in finance and has previously served as a Board member in the private sector.



**DR NATALIE SKEEPERS** (NON-EXECUTIVE DIRECTOR)

**Re-appointment: 1 March 2022**

Dr Natalie Skeepers has the following qualifications:

Doctorate in Engineering Management (PhD), MPhil in HIV/AIDS Management in the workplace, Master of Health and Safety, BTech Degree in Environmental Health and National Diploma in Public Health.

She has a vast background in health and safety, and has held responsibility for the overall management of health and safety implementation as well as environmental management for several different sectors.

She serves on several different Boards within the public sector sphere and is also a member of the following professional institutions: CILT, ASSE, IOSH-UK.



**MS ULANDI EXNER** (NON-EXECUTIVE DIRECTOR)

**Appointment: 1 March 2022**

Ms Ulandi Exner holds a BCom Informatics Qualification and is currently finalising a qualification in MPhil IT governance.

She is a certified Director with the following certifications through ISACA: CISA, CGEIT, CRISA & CDPSE.

She has held various management roles in ICT and served on a number of boards within both the public and private sectors.

She is professionally affiliated with ICS, ISACA, IITPSA and IoDSA.



**MS RETHABILE KIKINE** (NON-EXECUTIVE DIRECTOR)

**Appointment: 1 March 2022**

Ms Rethabile Kikine holds a Bachelor of Law (LLB), Baccalaureus Procuratoris (BProc), is a Certified Ethics Officer and has certificates in Advanced Law Studies.

She has extensive experience in the risk and ethics sphere within both the public and private sectors. Admitted as an Advocate (non-practicing) through the North Gauteng High Court, she is a member of the Directors Association (SA), Ethics Practitioners Association (SA) as well as the Compliance Institute of South Africa.



**MR YAASIR HAFJEJEE** (NON-EXECUTIVE DIRECTOR)

**Appointment: 1 March 2022**

Mr Yaasir Haffejee is a registered Chartered Accountant through SAICA, a Certified Internal Audit practitioner through (CIA) and through IIA. He further holds the following qualifications:

Certificate in Risk Management Assurance, Certified Fraud Examiner, Master of Commerce in Taxation (MCom) and Bachelor of Commerce Honours in Accounting.

He has work experience of more than 18 years within the finance and audit environment. He has been employed as a Chief Audit Executive at the Metrobus SOC Ltd from the year 2020.

He is professionally affiliated with the Golden Key International Honour Society.



**MR NKULULEKO NGWENYA** (NON-EXECUTIVE DIRECTOR)

**Appointment: 1 March 2022**

Mr Nkululeko Ngwenya is an experienced Occupational Health, Safety, Regulatory, Environmental and Waste Management/ Services practitioner with 15 years demonstration? history of working in an Occupational Health, Waste Management Services, Regulatory, Risk and Project Management environment, with exposure, and experience in the implementation of OHS, Regulatory and Waste Management within the public sector.

He holds the following qualifications:

Master of Public Health, Partnership Masters Programme – Master of Sciences in Occupational, Safety Health and Environmental Management, BCom Degree in Operational Risk Management as well as international certification in Environmental and Waste Management and ICG.

He is registered a professional member of SACPCMP and is a graduate member of SAIOSH.

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**MR TUMELO GOPANE** (MANAGING DIRECTOR)

**End of Term: 31 August 2021**

Mr Tumelo Gopane holds a National Diploma in Electrical Engineering, a Bachelor of Technology in Electrical Engineering, both from the Vaal University of Technology, and a Bachelor of Science Honours in Electrical Engineering from the University of Pretoria.

He is a member and candidate engineer with the Institution of Technology, a member of the Chartered Institute for Purchasing and Supply, and a member of the South African Institute of Electrical Engineers.

His previous employers are Eskom (SOE) Ltd, Rio Tinto Plc, Anglo Platinum (Pty) Ltd and Anglo-American Plc, where he held various roles in production, engineering and strategic sourcing.

His immediate past role was that of Deputy Municipal Manager: Infrastructure & Technical Services in the City of uMhlatuze, Kwa-Zulu Natal, reporting to the Municipal Manager. He oversaw Water & Sanitation Services, Transport, Roads, Storm water and Coastal Management Services, Electricity Supply, Process Control and Telecommunications Services as well as Engineering Support Services.

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**MR THOKOZANI MASEKO** (INTERIM MANAGING DIRECTOR)

**End of Term: 06 August 2021 - 30 November 2021**

Mr Thokozani Maseko has more than 18 years' experience in the local government at senior management level. He has BTech degree in Civil Engineering, ND Civil Eng, Management Cert, and National Cert: Municipal Finance Management.


**MR KENNEDY CHIHOTA** (ACTING MANAGING DIRECTOR)

Mr Kennedy Chihota holds an Honours Degree in Civil Engineering, Masters in Water Resources Engineering and Management, Masters in Business Administration, Master's Degree in Engineering as well as a Master's Degree in Property Development which is still in progress.

He is registered with the Engineering Council of South Africa (ECSA) as a candidate engineer and registered with the Institute of Civil Engineers as a graduate engineer.


**MS. ZIMASA SOCIKWA** (COMPANY SECRETARY)

Ms. Zimasa Socikwa is a Chartered Secretary and holds a CCSA Qualification from the Chartered Governance Institute of South Africa, a Bachelor of Commerce degree from the University of Transkei, Credit Diploma from the Institute of Bankers (IOB), and Management Programme in Municipal Finance Management from Wits. She is currently finalising her LLB studies through the University of South Africa.

Ms Socikwa has vast experience in municipal entity governance oversight, and compliance. She has worked for the City of Johannesburg and City of Tshwane overseeing municipal entity governance and as a shareholder representative. Prior to joining local government Ms Socikwa worked at National Treasury as well as Absa Group.

Table 2.2: Board and Board Committee Meeting Attendance

Name	Board Meeting	Governance Risk & Compliance Committee	Remuneration & Ethics Committee	Operations Committee	Research, Development & Commercial Business	Nominations Committee	Board Lekgotla	General/ Shareholder Meetings	Total
<b>01 JULY 2021 TO 31 OCTOBER 2022</b>									
Mr Craig Cornish	2	-	-	-	-	4	0	1	7
Mr Dawood Coovadia	2	2	2			4	0	1	11
Dr Kevin Wall	2	-	-	2	2	4	0	1	11
Dr Natalie Skeepers	2	-	-	2	2	4	0	1	11
Ms Grace Mahlangu	2	2	2			4	0	1	11
Mr Tumelo Gopane	0	1	1	1	1	-	0	1	5
<b>01 MARCH 2022 TO 30 JUNE 2022</b>									
Dr Natalie Skeepers	2	1	-	-	1	4	1	1	10
Ms Ulandi Exner	1	1	-	-	1	4	1	1	9
Ms Rethabile Kikine	2	-	1	1	-	3	1	0	8
Mr Yaasir Haffejee	2	1	-	-	1	4	1	1	10
Mr Nkululeko Ngwenya	2	-	1	1	-	4	1	1	10



## BOARD COMMITTEES

The Board Committees have been established with each committee comprising at least three members, the majority of whom are Independent Non-Executive Directors. The roles and responsibilities of the Board Committees are detailed in the terms of reference for each committee.

## DECISION-TAKING

Decisions are taken at Board level. The shareholder representative acts as an observer at the Board meetings where the decisions are taken. It is the responsibility of Executive Management to implement the decisions and the strategic objectives of the entity.

## 2.2 ADMINISTRATIVE GOVERNANCE

### INTRODUCTION TO ADMINISTRATIVE GOVERNANCE

The Board of Directors provides effective leadership to the entity on principled foundation, and the entity subscribes to the governance principles of King IV as well as other applicable laws and regulations. It further entrenches and strengthens recommended practices in its governance structures, systems, processes and procedures. The Board charter sets out the Board's role and responsibilities as well as the requirements for its composition and meeting procedures. The Board and Senior Management recognise, and are committed to the principles of openness, integrity, and accountability as commended by King IV. Through this process, the members and other stakeholders derive assurance that the entity is ethically managed.

## DIRECTORS' RESPONSIBILITY IN RELATION TO INTERNAL CONTROLS AND FINANCIAL CONTROLS

The Board charter clearly sets out the Board's role and responsibilities as well as the requirements for its composition and meeting procedures and remains accountable to the members. The Board acknowledges that it is ultimately responsible for the system of internal and financial controls established by the company and places considerable importance on maintaining a strong control environment. To enable the Board to meet these responsibilities, it set out standards for internal control aimed at reducing the risk of error or loss in a cost-effective manner.

These controls are monitored throughout in the form of a quarterly financial report, operations report, human resources report and other reports submitted by management to the Board every quarter to be reviewed.

The Board mainly consists of non-executive directors who contribute an independent view to the entity matters. Given the Board's oversight role, it has unlimited access to all company information, including compliance with company rules and regulations and best governance.

The Managing Director is responsible for the day-to-day management and administration and the entire staff, assisted by the Senior Management. The Managing Director reports to the Board and is responsible for the implementation of company policy, and the organisational strategy as directed by the Board.

The Board forms an opinion regarding the annual financial statements, based on the information and explanations given by management.

Table 2.1: ERWAT Board Of Directors

Name	Designation And Function
<b>FIRST TIER</b>	
Tumelo Gopane	Managing Director (01/07/2021 to 30/08/2021)
Thokozani Maseko	Interim Managing Director (01/09/2021 to 30/11/2021)
Kennedy Chihota	Interim Managing Director (01/12/2021 to 30/06/2022)
<b>SECOND TIER</b>	
Zimasa Socikwa	Company Secretary
Wim Louw	Head of Department: Finance and SCM ( 03/12/2021 to 28/03/2022)
Dzunani Makgopa	Interim Head of Department: Finance and SCM (01/07/2021 to 02/12/2021) & (29/03/2022 to 30/06/2022)
Rodney Barnes	Head of Department: Human Resources
Alison Chapman	Head of Department: Scientific Services
Fortune Mabunda	Head of Department: Operations (01/07/2021 to 30/11/2021)
Lelentle Motaung	Interim Head of Department: Commercial Business (01/07/2021 to 03/12/2021)
Debbie Hlabioa	Interim Head of Department: Commercial Business (06/12/2021 to 30/06/2022)
Leonard Chueu	Interim Head of Department: Operations (01/12/2021 to 30/06/2022)
Ella Mutyaba	Interim Head of Department: Maintenance
Karabo Nthethe	Interim Head of Department: Infrastructure, Planning and Projects (01/07/2021 to 21/09/2021)
Sipho Mateza	Interim Head of Department: Infrastructure Planning and Projects ( 27/09/2021 to 30/06/2022)
<b>THIRD TIER</b>	
Chantel Kearns	Interim Supply Chain Manager (01/07/2021 to 30/04/2022)
Lindiwe Msibi	Supply Chain Manager ( 01/03/2022 to 30/06/2022)

# Intergovernmental Relations

## INTRODUCTION TO CO-OPERATIVE GOVERNANCE AND INTERGOVERNMENTAL RELATIONS

Intergovernmental relations are mainly carried out by the CoE at municipal level particularly through the Finance Department and Department of Water and Sanitation (DWS), which liaises directly with the entity as deemed appropriate.

At provincial level, a relationship is fostered with the Department of Human Settlement Water and Sanitation (DWS) and other water entities and various stakeholders in the water and sanitation industry. Other relations include Rand Water and other structures.

## 2.3 INTERGOVERNMENTAL RELATIONS

### NATIONAL INTERGOVERNMENTAL STRUCTURES

ERWAT strives to keep abreast of the latest in wastewater research management through regular liaison and contact with other institutions, such as the Water Research Commission (WRC), water institutions, academia and CSIR, as well as government departments such as the DWS. ERWAT is a member of the International Water Association (IWA) and a patron member of the Water Institute of South Africa (WISA). ERWAT has also entered into an agreement with the University of Stellenbosch where ERWAT will support a Chair in Wastewater studies.

ERWAT has a relationship with EWSETA for funding learnerships for learners to be trained in wastewater treatment and management.

### PROVINCIAL INTERGOVERNMENTAL STRUCTURE

ERWAT participates in meetings with neighbouring municipalities to address matters relating to service delivery. These meetings highlight areas for improvement.

### RELATIONSHIPS WITH MUNICIPAL ENTITIES

The CoE is the majority member and executive authority of the company. As such, the CoE's primary responsibility is oversight of the entity and to ensure accountability to the state and the communities. ERWAT performs municipal

services on behalf of the CoE and forms part of the city's institutional arrangements. The CoE remains legislatively obliged to ensure that municipal services are delivered in accordance with its objectives and legislative mandate.

As a municipal entity, ERWAT is thus subject to the CoE's overall strategic and policy direction, while allowing for the Company Board and Management to exercise relative autonomy in the execution of their fiduciary duties and operational responsibilities. The CoE's current municipal entities include the Ekurhuleni Housing Company SOC Ltd, the Brakpan Bus Company SOC Ltd, and the Ekurhuleni Water Care Company. Both the members and the Board play a critical role in the governance of the company. The Board of the entity remains accountable to the members and are expected to provide quarterly reports to the parent municipality.

The relationship between the CoE and its entities is governed by the regulatory framework and the corporate governance framework for municipal entities. The relationship between the municipality and the municipal entity is formalised through a service delivery agreement. Developing and implementing detailed service delivery plans are within the framework of the municipality's integrated development plan. Service delivery agreements were revised and updated for each entity. All members of the Boards of entities received Board induction training and were trained on the corporate governance framework.

The CoE has formally allocated municipal representative/s to facilitate communications between the council and the Board of Directors. The municipal representative or representatives attend meetings of the Board of Directors as a non-participating observer or observers on behalf of the municipality. The municipal representative or representatives exercise the parent municipality's rights and responsibilities at member's meetings.

The Independent regulatory office is responsible for regulating, managing and monitoring the entities for maximum member returns, financial performance, and legislative and policy compliance. The office shall be charged with the following specific responsibilities with regards to municipal entities:

1. Monitoring enterprise governance, investment performance and business sustainability.
2. Monitoring corporate policies and practices of the municipal entities.

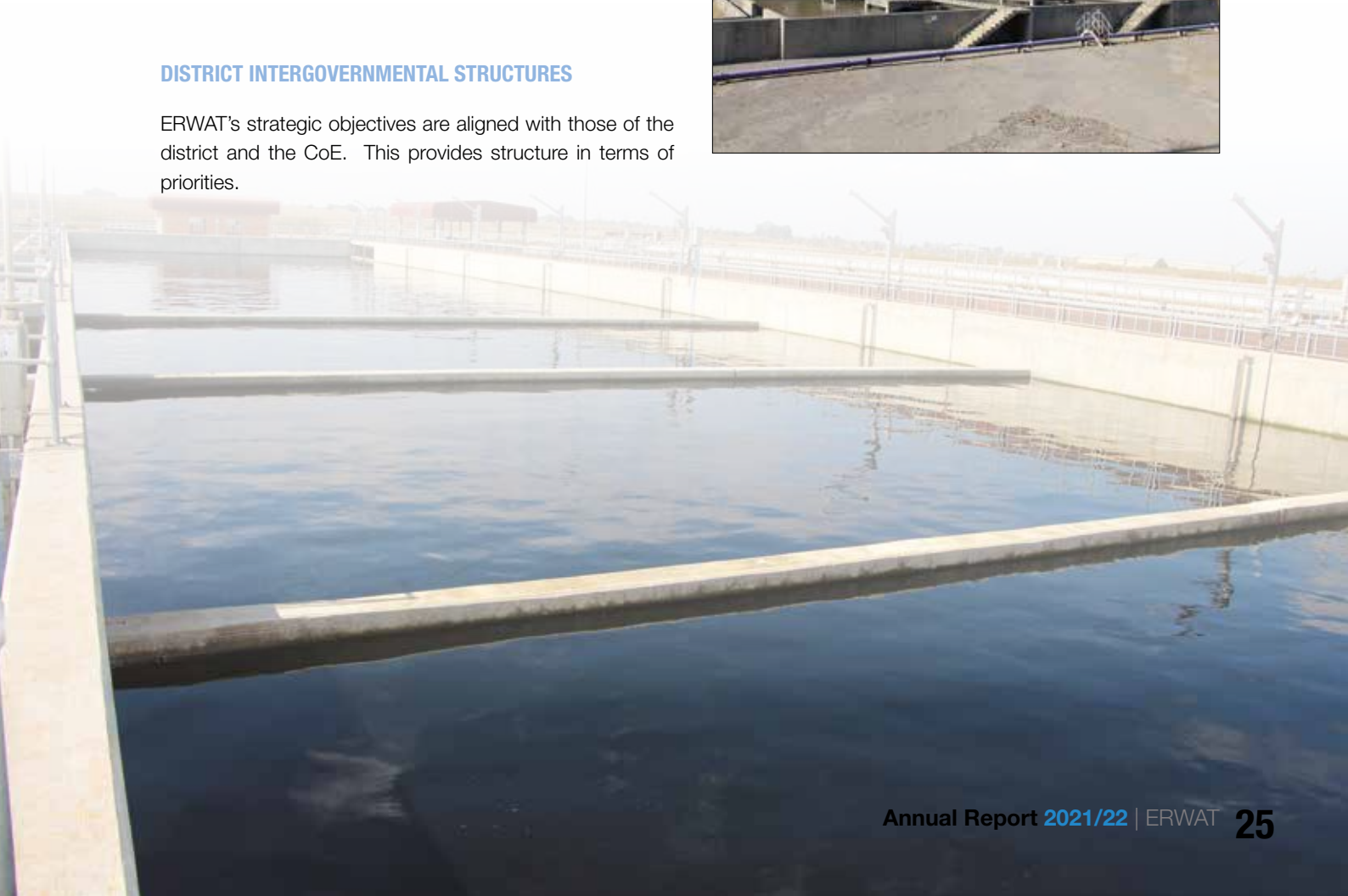
3. Playing a regulatory role.
4. Monitoring compliance with legislation and the municipality's reporting requirements.
5. Monitoring service delivery and strategic alignment; and
6. Monitoring relationships and communication between the municipality and municipal entities.

For this financial year the municipality has focused on strengthening the Board governance structure, Board induction, and review of the entity's service delivery agreements and governance maturity. The key focus areas of the service delivery agreement include:

1. Establishment of effective municipal entities oversight/ monitoring mechanisms
2. Mandate and key performance areas/indicators
3. Clear definition of roles and responsibilities
4. Reporting channels
5. Business plans
6. Establishment of clear communication lines and effective stakeholder management processes

#### **DISTRICT INTERGOVERNMENTAL STRUCTURES**

ERWAT's strategic objectives are aligned with those of the district and the CoE. This provides structure in terms of priorities.



# Public Accountability and Participation

## OVERVIEW OF PUBLIC ACCOUNTABILITY AND PARTICIPATION

During the business planning process ERWAT participates through the CoE's Department of Water and Sanitation. The input from the communities is integrated into the CoE's Department of Water and Sanitation's IDP. This is then cascaded into ERWAT's strategic five-year plan and annual business plan.

### 2.4 PUBLIC MEETINGS

#### COMMUNICATION, PARTICIPATION AND FORUMS

ERWAT relies on the public participation initiatives of the CoE. Information on the outcomes of the public participation process is provided to ERWAT. The focus is not on specific wards, but rather the whole municipal area.

#### COMMENT ON THE EFFECTIVENESS OF THE PUBLIC MEETINGS HELD

Key benefits for the CoE, ERWAT and the public from public participation meetings are the identification of priorities, sharing of information and update on performance.



### 2.5 BUSINESS PLAN PARTICIPATION AND ALIGNMENT

Business plan participation and alignment criteria	Yes/No
Does the company have impact, outcome, input, output indicators?	Yes
Does the business plan have priorities, objectives, KPIs, development strategies?	Yes
Does the business plan have multi-year targets?	Yes
Are the above aligned and can they calculate into a score?	Yes
Does the budget align directly to the KPIs in the strategic plan?	No
Do the business plan KPIs align to those of the Heads of Department?	Yes
Do the business plan KPIs lead to functional area KPIs as per the SDBIP?	Yes
Do the strategic plan KPIs align with the provincial KPIs on the 12 Outcomes?	Yes
Were the indicators communicated to the public?	Yes
Were the four quarter aligned reports submitted within stipulated time frames?	Yes

# Corporate Governance

## OVERVIEW OF CORPORATE GOVERNANCE

The governance structure of ERWAT is committed to global principles and guidelines on corporate governance. The entity relies primarily on the legislative framework set out in the new Companies Act 71 of 2008 (as amended) (“the Companies Act”) and the King IV and the service delivery agreement with the CoE. These instruments have therefore become the cornerstone of corporate governance principles in ERWAT and have been elaborated on in the strategy document developed in a Board strategic session held.

Through the preparation of quarterly performance assessment reports as well as the annual report, the entity acts in compliance with the MFMA and the Municipal Systems Act. It also promotes accountability to stakeholders for decisions taken by its governance structures and matters relating to administrative structures, throughout the financial year.

The entity applies the governance principles contained in King IV and continues to further entrench and strengthen recommended practices in our governance structures, systems, processes and procedures.

The Board of Directors and Senior Management recognise and are committed to the principles of openness, integrity and accountability advocated by the King IV. Monitoring the entity’s compliance forms part of the members’ mandate through internal audit and the audit committee.

## ETHICAL LEADERSHIP

ERWAT’s management observes high standards of business and personal ethics in the conduct of its duties and responsibilities. The company acknowledges that, through socially and environmentally responsible business along the whole value chain, the situation of the natural environment, communities and employees can be improved and thereby the sustainability of the business ensured.

## CORPORATE CITIZENSHIP

ERWAT is guided by its social and ethics strategy in the performance of its duties which relate to matters of social and economic development, good corporate citizenship, environment, health and public safety as well as consumer relationships. As the entity, we value responsible business behavior and corporate social responsibility (CSR) in that we understand that we have a role to play in furthering society’s developmental process.

## COMPLIANCE WITH LAWS, RULES, CODES AND STANDARDS

The Board is responsible for ensuring that the entity complies with applicable laws and considers adhering to non-binding rules, codes and standards.



## 2.6 RISK MANAGEMENT

### RISK MANAGEMENT

#### LEGISLATION ON RISK MANAGEMENT

Section 95 of the Municipal Finance Management Act states that “the accounting officer of a municipal entity is responsible for managing the financial administration of the entity, and must for this purpose take all reasonable steps to ensure—

- a) That the resources of the entity are used effectively, efficiently, economically, and transparently.
- b) That full and proper records of the financial affairs of the entity are kept.
- c) That the entity has and maintains effective, efficient and transparent systems-
  - (i) of financial and risk management and internal control; and
  - (ii) of internal audit complying with and operating in accordance with any prescribed norms and standards.
- d) That irregular and fruitless and wasteful expenditure and other losses are prevented.
- e) That expenditure is in accordance with the operational policies of the entity; and that disciplinary or, when appropriate, criminal proceedings are instituted against any official of the entity who has allegedly committed an act of financial misconduct or an offence in terms of Chapter 15.

#### ERWAT RISK STRATEGY

Enterprise Risk Management is critical to ERWAT in the pursuit of achieving the set strategic objective. The Board of Directors and Management are committed to implementing a robust risk management framework and processes as part of strategic and operational planning to meet the strategic objectives and improve the general performance of the entity.

The entity aims to foster a strong, positive integrated risk culture based on shared values and behaviours, to promote an open and proactive approach to managing risk that considers both threat and opportunity, and is one where risk is appropriately identified, assessed, communicated and managed enterprise wide.

#### APPROACH TO RISK MANAGEMENT

The Integrated Risk Management Policy, Framework, Board Charter and the Governance Risk and Compliance Committee Terms of Reference provide the necessary guidelines and mandate from the Board and Management on the management of risk. The Risk Management Policy and Framework were reviewed for the period under review to ensure that the documents stay relevant. The policy outlines the foundation and organisational arrangements for implementing, monitoring, reviewing and continually improving risk management across the business.

Through consistent and comprehensive application of the framework the entity will:

- a) Increase the likelihood of achieving strategic and business objectives.
- b) Encourage a high standard of accountability and increase operational resilience.
- c) Support effective decision making through increased understanding of risk exposures and opportunities.
- d) Meet compliance and governance requirements to improve the control environment.

Risk workshops take place annually with quarterly monitoring and review. There were no significant changes to the risk profile. Infrastructure remains a major challenge for the entity and failure to address it, will stifle the vision of the long-term vision of the City.

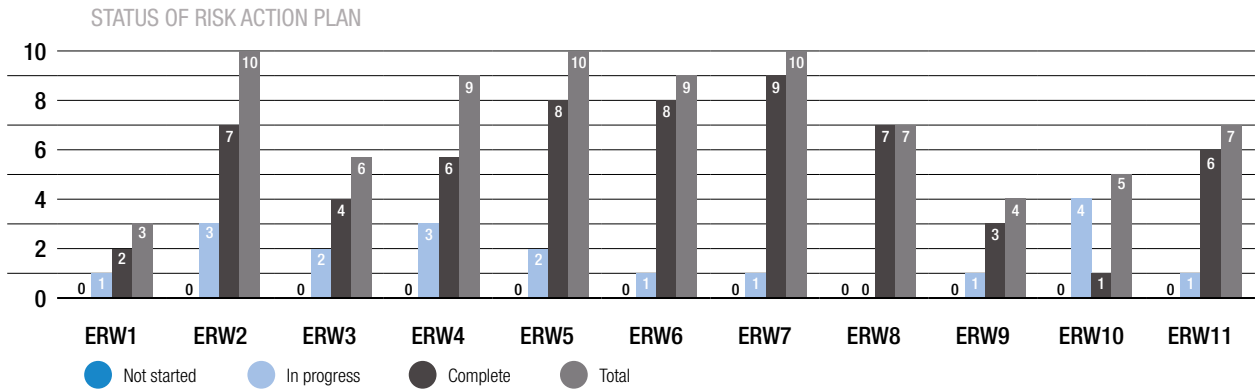
## STRATEGIC RISK PROFILE

The enterprise-wide risk profile is grouped into various categories: Infrastructure, Financial, People and Stakeholder. Across these four categories, the entity is managing risk in the following areas:

NO	Risk Category	Risk 2021/2022	Residual Rating	Reason for RR 2021/2022	Key Risk Action Plans
1	Process	Lack of integrated planning between the City and the Entity	High	Capital investment missed opportunity	Review of the 5 Year Service Delivery Agreement
2	Infrastructure	Inadequate Infrastructure to treat wastewater	High	Aging infrastructure and Technology. Plants operating above design capacity and the demands of a growing City	Implement the 2021-2022 Capital Expenditure Budget Implement 2021-2022 Maintenance Budget
3	Financial	Inadequate Cashflows to meet business requirements	High	Reliance on the City for budget, grants, and service charges	Investigate other sources of funding. (e.g., Public Private Partnerships) Develop Cost Containment Strategy
4	Financial	Inadequate revenue generation to supplement the approved budget	High	The product (grey water) the entity offers is not in high demand	Develop a Market Penetration Strategy
6	Infrastructure	Inadequate preparedness in the event of an emergency/ disaster.	High	The nature of infrastructure design is old and there are inadequate emergency dams and water by-passing systems	Review BCM Disaster Recovery Plans
7	People	Potential loss of key skills	High	Loss of staff due to Covid-19 complications and long lead times to fill vacancies	Implement the 2021-2022 Recruitment Plan Review of Covid 19 Risk Assessment, related standard operating procedures, and Personnel BCM Plans
8	Process	Potential delivery in the supply and delivery of critical goods and services	High	Disruptions in global supply chain and the impact of economy on businesses	Review of contracts and Critical Supplies Register Training on Supply Chain Management
9	Infrastructure	Potential loss of the ISO 17025 Accreditation	High	Aging Scientific Services infrastructure	Replacement of the H Vac System in the Scientific Services
10	Information Technology	Potential Loss of and Unauthorized Access Critical Information	High	Increase in Cyber war attacks	Implement a Document Management System Review ICT Security systems and related policies/procedures
11	People	Potential injuries to personnel, visitors and contractors	High	Inadequate maintenance of equipment due to budget limitations	Review of Safety related Standard Operating Procedures and Work Methods

## IMPLEMENTATION OF RISK ACTION PLANS

Not all of the risk action plans that were identified during the workshops, could be implemented, and these will carry on in the new financial year. The entailed progress on all the action plans can be found in the SDBIP Report. The status is depicted below:



## EMERGING RISKS

Risks are identified throughout the year to reduce the impact to the business. Insurance companies reduce their risk exposure. Loss of insurance cover due to inadequate maintenance of assets in line with the asset life cycle due to budget constraints.



## BUSINESS CONTINUITY MANAGEMENT

Operational resilience is key to the existence of ERWAT. The entity has a Business Continuity Management System in place to prepare for business disruptions. The major challenge in testing some of the plans is re-creating a similar environment to test the readiness of the Business Recovery Plans, as it is expensive and, in some areas, impossible.

## ERWAT BCM STRATEGY

The strategy was reviewed and approved by the Board. The strategy is informed by the output from the Business Impact Analysis (BIA) and BCM Risk Assessment (RA) and of critical processes. It is imperative that critical equipment is operational at all times in order to avoid uncontrollable pollution in the case of a disaster.

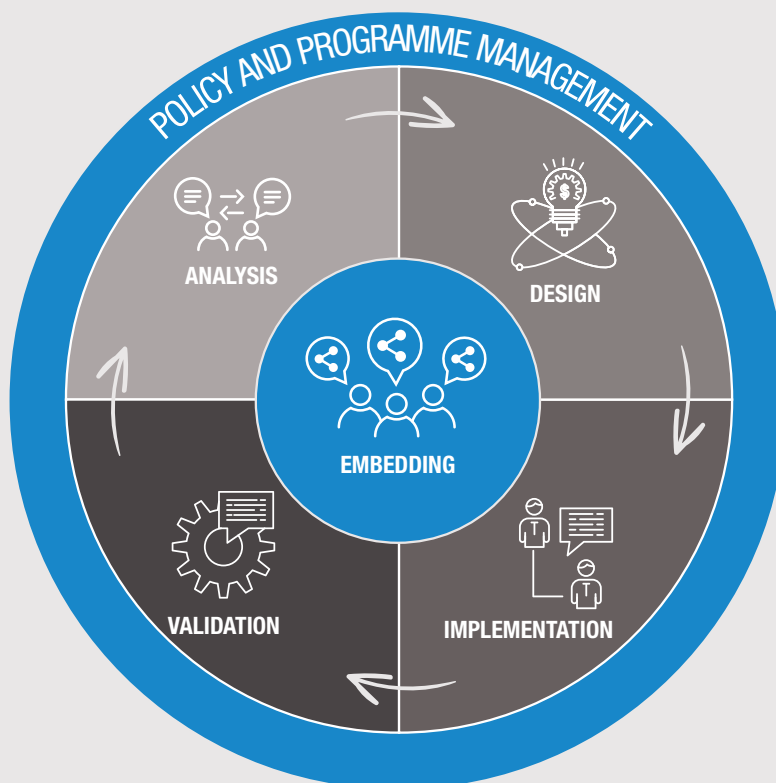
## BUSINESS RESILIENCE

Business interruptions in the form of disasters or pandemics may hit ERWAT when it is least expected, such as the Covid 19 pandemic or damage to infrastructure because of the dolomitic environment. Business Continuity Management is critical to ERWAT to ensure that the business is resilient during unforeseen events. ERWAT has Business Recovery Plans in place that are reviewed annually to remain current and relevant. The plans to deal with the pandemic were revised to deal with the current situation regarding the possibility of future pandemics, as well as to maintain resilience and to respond quickly to an interruption. Strong business continuity saves money, time and the reputation of the company.

## THE IMPACT OF COVID 19

The Covid 19 pandemic is relatively new and ERWAT continues to ensure that there are systems in place to deal with the uncertainty brought about by the pandemic. The Covid 19 Risk Assessments were reviewed to ensure that mitigations remain relevant, and that ERWAT stays abreast with the new developments. The lessons learned from the pandemic will assist the entity to be better prepared in future and to improve the Business Continuity Plans and prepare for future pandemics.

### BUSINESS RECOVERY PRINCIPLES



## 2.7 ANTI-CORRUPTION AND FRAUD

### FRAUD AND ANTI-CORRUPTION STRATEGY

#### EFFECTIVENESS OF RISK MANAGEMENT SYSTEM AND REPORTING

Fraud is an issue that all organisations may face regardless of size, industry or country. The entity reviews the Fraud Risk Profile annually as part of the broader risk management program. The monitoring of the fraud risk action plan takes place every quarter. The Anti-Fraud Framework was reviewed and approved by the Board.

#### FRAUD RISK MANAGEMENT AND REPORTING

##### KEY FRAUD RISK PROFILE

No.	Risk	Level	Key Risk Action Plans
FR1	Possible abuse of leave days (sick, annual leave)	Low	Review of the Leave Policy and related processes
FR2	Abuse of ERWAT Fleet	Low	Review of the Fleet Policy and implement a new vehicle monitoring system
FR3	Potential abuse of Supply Chain Management processes	High	Review of the Supply Chain Management Policy
FR5	Fraudulent expense disbursements (Fraudulent Claims)	Low	Conduct Fraud Risk Assessment
FR7	Employees perform unauthorised remuneration work/ moonlighting.	High	Review of the Conflict-of-Interest Policy
FR8	Leaking sensitive company (ERWAT)/ (ERWAT client) information for personal gain (Intellectual Property)	High	Implementation of Document Management System as part ERP
9	Misappropriation of assets (stealing of any form from the company by employees)	Medium	Review of Anti-Fraud Policy and Strategy
10	Electronic signature fraud	High	Investigate the implementation of an electronic signature from reputable companies

#### TRAINING AND AWARENESS

Training and awareness play a key role in the entity's efforts to embed risk management into the culture of the organisations. The training of risk champions forms part of the induction program and in the 2021/2022 Financial Year the focus was gaining new insights into risk management.

## 2.8 SUPPLY CHAIN MANAGEMENT

### OVERVIEW SUPPLY CHAIN MANAGEMENT

The entity has adopted SCM systems in compliance with the provisions of the MFMA and National Treasury and Municipal Supply Chain Management Regulations, 2017.

In terms of SCM and Broad-Based Black Economic Empowerment (B-BBEE) guidelines, the following is worth reporting:

1. The evaluation of bids is based firstly on functionality, then price and B-BBEE in accordance with National Treasury circulars.
2. The adjudication process is applied as per the MFMA and as per the SCM Policy.
3. Declaration of interest certificates are required for all parties submitting an offer and for bidders loaded on the solar database once an award is made. The information is verified against the CSD reports.
4. B-BBEE is calculated and based on information received from the suppliers and verified by certificates

confirming their B-BBEE status and CSD reports where possible.

5. The latest internal and external audit reports have identified areas for improvement which are being addressed. All procurement committee members are duly appointed by the accounting officer (Managing Director) as required by the SCM Policy.
6. These procurement committees are Bid Specification, Bid Evaluation, and Bid Adjudication Committees.

A SCM unit was established that monitors the implementation of the SCM policies and standard operating procedures (SOP), in line with the regulations which seek to modernise financial governance and improve accountability and transparency in the entity's processes. These SOP's and policies also provide for the exclusion of awards to persons in the service of the state, subject to the exemptions and regulations issued by National Treasury from time to time.

The Board oversees that the procurement policy embraces the objectives of B-BBEE and the Managing Director, as the accounting officer of the company, was tasked as the custodian for effective implementation.



## 2.9 BY-LAWS

### COMMENT ON BY-LAWS

No new by-laws were introduced in the period under review.

## 2.10 WEBSITES

### COMMENT COMPANY WEBSITE CONTENT AND ACCESS

ERWAT's website is utilised as a communications tool where information on ERWAT is shared, such as its services, Water Care Works, as well as news, vacancies as well as Research and Development papers,

ERWAT strives to publish all annual and adjustments budgets and all budget-related documents on the website. This also includes quarterly and annual reports. However, it should be noted that all reports consolidated with the parent municipality are displayed on the CoE's website.

Supply Chain Management Requests for Quotations, Formal Price Quotations and Tenders are displayed on the website.

The website is also linked to websites of associated organisations, such as CoE, the DWS, the Water Research Commission, WISA and the IWA.



## 2.11 PUBLIC SATISFACTION ON COMPANY SERVICES

### PUBLIC SATISFACTION LEVELS

According to the 2015 Gauteng City Region Observatory's (GCRO) Quality of Life Survey released in November 2016, the city recorded high satisfaction levels by its residents. The survey revealed that more than 70% of residents have recorded satisfaction with sanitation services.

ERWAT conducts customer satisfaction surveys to ascertain the level of customer satisfaction. By retaining existing customers, it provides for revenue growth by continuous improvement projects and price increases.

Table 2.8: Company Website Content and Currency of Material

Documents Published on the Company's Website	Yes/No	Publishing Date
Current annual and adjustment and all budget-related documents	No	N/A
All current budget-related policies	No	N/A
The previous annual report (2019/2020)	Yes	February 2021
The annual report (2020/2021) published	Yes	August 2022
All current performance agreements required in terms of section 57 (1)(b) of the Municipal Systems Act (2016/17) and resulting scorecards	No	N/A
All service delivery agreements (2021/2022)	No	N/A
All long-term borrowing contracts (2021/2022)	No	N/A
All SCM contracts above are prescribed values for 2021/2022	Yes	Various dates
An information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14 (2) or (4) during Year 1	No	N/A
Contracts agreed in 2021/2022 to which subsection (1) of section 33 apply, subject to subsection (3) of that section	No	N/A
Public-private partnership agreements referred to in section 120 made in 2021/2022	No	N/A
All quarterly reports tabled in the council in terms of section 52 (d) during 2021/2022	No	N/A



# Chapter 3

## SERVICE DELIVERY PERFORMANCE

(PERFORMANCE REPORT PART I)



## **INTRODUCTION TO SERVICE DELIVERY**

ERWAT's mandate is to provide bulk wastewater conveyance and treatment in terms of the approved service delivery agreement between ERWAT and the CoE.

## **ERWAT CORE BUSINESS**

### **PRE-DETERMINED CITY-WIDE OBJECTIVES**

The core business of the company is the purification of wastewater. ERWAT operates 19 Water Care Works, and each one is issued with a water use license and/or exemption by the DWS. Each water use license and/or exemption contains the final effluent water quality standards the Works must comply with.

To this end the main objective is to comply with the water use license and/or exemption effluent water quality standards at a pre-determined metro-wide objective per quarter and annually.

The company's core function is the provision of bulk wastewater treatment services.

Operations and maintenance staff are critical to service delivery. The project management office is critical for ensuring that capital projects are implemented.

# Basic Services

This component includes bulk wastewater (sanitation) only as this is the only service provided by ERWAT.

## INTRODUCTION TO BASIC SERVICES

ERWAT provides bulk wastewater treatment services on behalf of the CoE, whilst the CoE provides access to sanitation by people. The pressing need in terms of basic services is to provide sanitation services to people who are relying on pit toilets, the bucket system or do not have access to toilet facilities.

## 3.1 WASTEWATER (SANITATION) PROVISION

### INTRODUCTION TO SANITATION PROVISION

ERWAT provides bulk wastewater treatment services on behalf of the CoE and Lesedi Local Municipality. ERWAT's mandate is to ensure that the existing wastewater conveyance infrastructure and the wastewater treatment infrastructure can effectively accommodate the current and future demand.

The WCWs were originally designed to treat a total of 729.35 ML/d and can now only treat 656.35 ML/d due

Table 3.1: Employees: Operations

Job Level	2020/2021		2021/2022		
	Employees #	Approved posts #	Employees (full-time equivalents) #	Vacancies (full-time equivalents) #	Vacancies (as a % of total posts) %
A2	116	145	120	25	17%
B1	1	1	1	0	0%
B2 Driver	104	14	10	4	29%
B2 A0	96	91	5	5%	
B3	3	4	3	1	25%
B4	59	63	59	4	6%
B5	0	19	18	1	5%
C1	0	2	1	1	50%
C2	71	76	66	10	13%
C3	0	4	4	0	0%
C4	19	25	19	6	24%
C5	0	0	0	0	-
D1	0	-	-	-	-
D2	20	20	18	2	10%
D3	0	-	-	-	-
D4	4	4	4	0	0%
E1	1	1	0	1	100%
<b>Total</b>	<b>398</b>	<b>474</b>	<b>414</b>	<b>60</b>	<b>13%</b>

to being downgraded. The re-grading studies were conducted in 2016 to assess the hydraulic and organic load capacities of WCWs based on current conditions. The main contributing factors for the downgrading of the WCWs are the increase in strength of sewage as compared to the original design, the condition of the infrastructure as well as the technologies that are not suitable for treating high strength sewage to the required stringent effluent standards as per water use license (WUL) issued by DWS. The WCWs are now operating at 827.32 Mℓ/d, which is above the re-graded capacity.

Therefore, it is a priority to increase the wastewater treatment capacity to cope with the increase in demand.

The core business of the company is the purification of wastewater. ERWAT operates 19 Water Care Works, and each Works is issued with a Water Use License (WUL) by the Department of Water and Sanitation (DWS). Each WUL contains the final effluent water quality standards the Works must comply with.

To this end the main objective is to comply with the WUL effluent water quality standards at a pre-determined objective per quarter and annually.



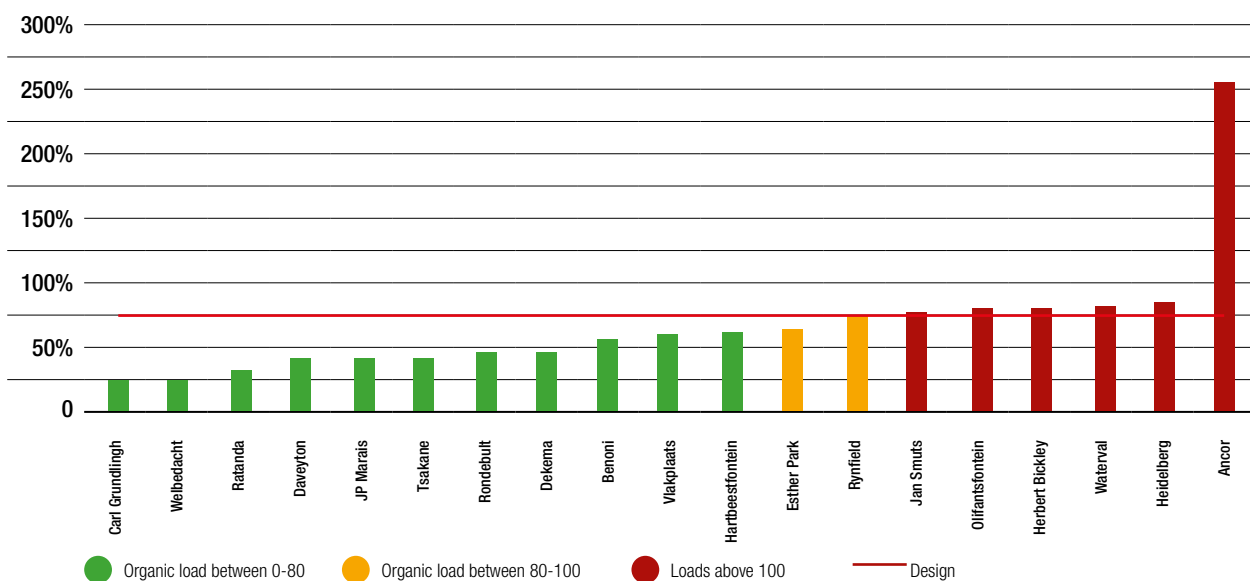
### COD LOADS (ORGANIC CAPACITY)

As can be seen in figure 1 below, during the 2021/2022 financial year six out of the nineteen Water Care Works (WCW) received organic loads more than 100%, two received between 80% and 100% of the design capacity, and eleven received below the 80% mark.

### INDUSTRIAL EFFLUENT POLLUTION

2021/2022	Number of Industrial Pollution Incidents
Q1	249
Q2	179
Q3	83
Q4	232
<b>Average</b>	<b>186</b>
<b>Total</b>	<b>743</b>

ORGANIC (COD) LOAD % 2021/2022



FLOW VS CAPACITY 2021/2022

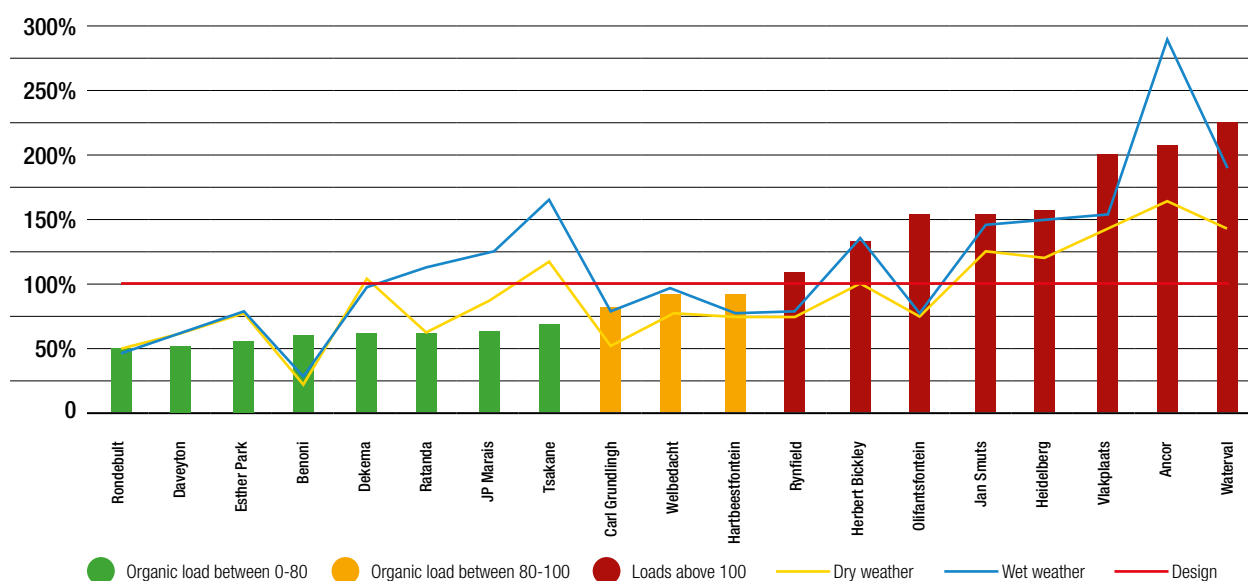


Table 3.3: Design Capacity vs Actual Flow

Plant	Hydraulic Design Capacity 2020/2021 (Mℓ)	Actual Flow (Mℓ)	Rainfall (mm)
Ancor	15.00	32.00	973.30
Benoni	7.50	4.92	897.00
Carl Grundlingh	5.20	4.39	1083.95
Daveyton	19.00	10.51	885.80
Dekema	31.00	20.91	803.40
Esther Park	1.40	0.82	899.00
Hartebeestfontein	63.00	54.67	1187.70
Heidelberg	5.40	8.45	1248.40
Herbert Bickley	15.10	20.43	1247.30
Jan Smuts	6.00	9.25	1058.50
JP Marais	15.00	11.06	1334.90
Olifantsfontein	65.00	99.62	1097.90
Ratanda	4.70	3.17	1196.50
Rondebult	20.00	10.14	1083.40
Rynfield	10.00	11.47	1007.32
Tsakane	20.00	15.91	1023.50
Vlakplaats	55.00	109.76	1064.30
Waterval	170.00	388.58	732.50
Welgedacht	95.00	81.91	775.60

● >100%    
 ● 80-100%    
 ● 0-80%

Operating WCWs above their design hydraulic capacity holds the following risks:

- a) Backflows in the outfall sewers, which will lead to blockages and spillages in the city.
- b) Delayed growth and development in the City of Ekurhuleni due to slow approval of applications for development. This also means delays in potential job creation opportunities in the city.
- c) Delayed implementation of the 10 Point Plan, including Aerotropolis.
- d) Water reclamation strategy being costly to implement.
- e) Directives being issued by the Department of Water and Sanitation for issues of non-compliance.
- f) Delayed achievement of Green Drop Certification.

## POWER DISRUPTIONS

A total of 1383 hours of outages occurred during 2021/2022 across all 19 WCWs.

2021/2022	Power Outage	Total Duration	Eskom # of outages	Eskom total duration	CoE # of outages	CoE total duration	Lesedi # of outages	Lesedi total duration
Q1	346	667	122	291	171	332	53	44
Q2	367	1406	122	620	192	606	53	180
Q3	210	885	86	345	98	459	26	81
Q4	460	1597	188	471	188	471	39	155
<b>Average</b>	<b>346</b>	<b>1139</b>	<b>130</b>	<b>432</b>	<b>162</b>	<b>467</b>	<b>43</b>	<b>115</b>
<b>Total</b>	<b>1383</b>	<b>4555</b>	<b>518</b>	<b>1728</b>	<b>649</b>	<b>1868</b>	<b>171</b>	<b>460</b>

The operational financial performance of the operations and maintenance departments are included in Chapter 5.

## CRITICAL EQUIPMENT FAILURES

Table 3.5: Equipment Failures

2021/2022	Number of Critical Equipment Failures
Q1	290
Q2	239
Q3	298
Q4	363
<b>Average</b>	<b>298</b>
<b>Total</b>	<b>1190</b>

## CAPITAL PROJECTS

In terms of approved capital expenditure for the 2021/2022 financial year, ERWAT has planned to implement the following projects which are aligned to the strategic objective of the CoE and DWS.

ITEM NO	DEPARTMENT	ORIGINAL BUDGET COST	ADJUSTMENT BUDGET COST	ACTUAL	BUDGET VARIANCE (ACT - ADJ)	BUDGET VARIANCE (ACT - OB)
1	ANCOR	R6 262 653,00	R4 531 690,00	R1 265 578,50	79%	-100%
2	BENONI	R822 894,00	R814 174,00	R4 483 557,44	-41%	-100%
3	CARL GRUNDLINGH	R0,00	R3 173 638,02	R1 155 901,78	106%	
4	DAVEYTON	R6 132 722,00	R2 409 996,00	R728 029,21	-33%	-100%
5	DEKEMA	R8 748 657,00	R2 307 747,51	R0,00	-51%	-100%
6	FINANCIAL SERVICES	R0,00	R450 000,00	R0,00	-67%	
7	FLEET	R0,00	R4 500 000,00	R23 787 010,85	-30%	
8	HARTEBEESTFONTEIN	R8 966 941,00	R6 119 826,00	R4 126 278,64	235%	-100%
9	HEIDELBERG	R3 748 064,00	R3 174 268,86	R3 694 042,34	-98%	-100%
10	HERBERT BICKLEY	R0,00	R479 285,24	R4 388 633,32	164%	
12	ICT	R0,00	R140 222,74	R8 339 803,74	3097%	
13	JAN SMUTS	R0,00	R619 592,98	R0,00	87%	
14	JP MARAIS	R7 170 434,00	R3 289 419,25	R637 327,20	-78%	-100%
15	MARKETING	R0,00	R101 229,72	R8 149 734,92	-100%	
16	MD	R0,00	R810 000,00	R39 515 247,58	-100%	
17	OLIFANTSFONTEIN INTERVENTION	R42 443 981,00	R29 753 173,86	R13 010 107,57	-20%	-100%
18	RATANDA	R3 724 676,00	R1 644 624,00	R1 265 578,50	151%	-100%
19	RONDEBULT	R6 929 630,00	R241 370,00	R4 483 557,44	1430%	-100%
20	RYNFIELD	R3 508 125,00	R5 077 490,00	R1 155 901,78	-14%	-100%
21	SCIENTIFIC SERVICES	R0,00	R18 393 217,86	R728 029,21	-55%	
22	SECURITY SERVICES	R0,00	R20 000,00	R0,00	-100%	
25	TSAKANE	R21 036 623,00	R4 817 147,65	R0,00	-87%	-100%
26	WELGEDACHT	R5 949 087,00	R11 425 993,42	R23 787 010,85	-29%	-100%
27	VLAKPLAATS	R30 516 053,00	R42 747 761,00	R4 126 278,64	-8%	-100%
28	WATERVAL	R31 139 460,00	R8 614 131,89	R3 694 042,34	51%	-100%
<b>TOTAL CAPITAL REQUIREMENT</b>		<b>R187 100 000,00</b>	<b>R155 656 000,00</b>	<b>R155 016 066,00</b>		

## UPGRADE/REFURBISHMENT OF BIOFILTER MODULE 3 AT OLIFANTSFONTEIN WATER CARE WORKS (WCW)

The upgrade/ refurbishment of Module 3 is conducted to help mitigate the over-capacity that considerably contributes to the non-compliance of the works.

The scope of work amongst others, entails the replacement of the stone filter media with lighter plastic filtration media, with the incorporation of a recycle pump station to assist with the enhancement of the biological treatment capacity and the diversion of the incoming

flow from the head of works by constructing a main inlet feed pipeline to convey the flow to the biological filtration module.

This project aims to fully restore the functionality and complete restoration of the works as well as ensure that Olifantsfontein WCW improves effluent quality and complies with the Water Use License.



## INSTALLATION OF HVAC SYSTEM AT ERWAT SCIENTIFIC SERVICES

ERWAT Scientific Services is responsible for providing analytical support to the ERWAT Operations Department to effectively operate the nineteen (19) WCWs. Furthermore, it provides testing services to a variety of clients in the public and private sectors. The Scientific Services facility renders crucial scientific services to the overall performance of the company, therefore

it is essential to upgrade the HVAC and extraction system currently installed. Part of the current system application is the extraction of harmful gasses from the fume hoods used in the Scientific Services process. The effectiveness of this system has a direct impact on the health and safety of the employees.

## MOTOR CONTROL PANELS AT VLAKPLAATS WCW

Currently the motor control centres (MCCs) at the WCW are outdated and not compatible with the current technology. There is no SCADA system installed to enable equipment automation, data acquisition and remote monitoring of the plant equipment. These shortfalls are further illuminated below:

1. Motor control centres have reached the end of their lifespan, resulting in excessive corrosion of the panels, e.g., in some instances live parts are exposed presenting an unsafe environment for personnel to work in.
2. Most of the WCW is operating manually, which is labour intensive and poses challenges in terms of process and equipment monitoring and data acquisition.

The objective is therefore to install new Motor Control Centres, Programmable Logic Controllers (PLC), Variable Speed Drives (VSD), a fibre optic network, Supervisory Control and Data Acquisition (SCADA) systems to enable automatic control, remote monitoring, and data acquisition. The new Motor Control Centres will also assist to eliminate unsafe working conditions.



## COMMENT ON ERWAT BULK WASTEWATER TREATMENT SERVICES OVERALL PERFORMANCE

ERWAT did not meet the water quality performance target, therefore the company developed strategies to mitigate the challenges that were encountered to improve performance of the various Water Care Works. ERWAT assists CoE in identifying industrial pollutants received at the WCW and CoE manages industries and enforces the Water and Sanitation by-laws.

The maintenance department has developed strategies to improve equipment availability and reliability. In response ERWAT has developed a 5-year capital expenditure plan aimed at reducing the backlog and creating a bit of redundancy at the Water Care Works. Furthermore, ERWAT is in the process of implementing a regionalization and 50-year master plan. Emergency/stand-by generators have been procured and are in the process of being installed at the WCWs to mitigate the challenge of power interruptions, especially unplanned power interruptions.

Due to the population growth and increase in demand to supply services to the community of Ekurhuleni and surroundings, ERWAT has prioritised four large construction projects that will increase the capacity of the Water Care Works.

ERWAT is striving and working hard towards addressing all Mega Catalytic projects to accommodate all new developments within the City of Ekurhuleni. The planned capacity upgrade of the Water Care Works needs to be upgraded urgently to cater for the current backlog in capacity and to make provision for future housing and industrial developments. ERWAT does not have enough Capex funds to implement the upgrade of the Water Care Works.



# Corporate and other Services

This component includes corporate policy offices, financial services, human resource services, ICT services, and property services.

## INTRODUCTION TO CORPORATE AND OTHER SERVICES

The company secretariat is the custodian of corporate policies. Policies are developed and reviewed as and when the need arises. The secretariat is also responsible to ensure that the policies are updated with changes in legislation and needs.

Corporate and other services are structured in the following departments:

1. Finance (including information and communication technology (ICT)),
2. Human Resources; and
3. Governance Legal and Compliance

Corporate and other services are provided to:

1. Operations,
2. Maintenance
3. Commercial business
4. Scientific services
5. Infrastructure, Projects and Planning

## 3.2 BOARD OF DIRECTORS

### INTRODUCTION TO BOARD OF DIRECTORS

The Board of Directors has incorporated the CoE's corporate governance protocol in its Board charter, which inter alia regulates its relationship with the CoE as its main member and parent municipality in the interest of good corporate governance and good ethics. The protocol is premised on the principles enunciated in King IV. The entity steadfastly consolidated its position in respect of adherence to King IV, and its practices are in most material instances in line with the principles set out in the report. Ongoing steps are, however, taken to align practices with the report's recommendations and the Board continually reviews progress to ensure that management improves in upholding corporate governance.

During the year under review ERWAT entrenched its risk management reviews and reporting and compliance assessments were conducted in terms of the Companies Act, the Municipal Systems Act and the MFMA. The company strived to comply in all respects during the year under review.

### COMMENT ON THE PERFORMANCE OF THE BOARD

The Board is governed through the Board charter. Meetings are convened as per the agreed annual calendar. The Board has delegated some of the functions to the established Board Committees and Senior Management. Some of the strategic responsibilities are reserved for the Board. Meetings are regularly attended.

The performance assessment of the effectiveness of the Board is conducted on an annual basis by the members.

## 3.3 FINANCIAL SERVICES

### INTRODUCTION TO FINANCIAL SERVICES

The Financial Department of the entity is tasked with the provision of financial services in an accountable, effective and transparent manner. It provides statutory financial accounting and payroll functions to the company covering income, expenditure, financial control, and budgeting and payroll services.

Focus for the year was on the implementation of the municipal standard chart of accounts and restructuring of the SCM unit to ensure compliance with MFMA and SCM regulations.

### TOTAL REVENUE

ERWAT's revenue for the period under review consists mainly of rendering wastewater treatment services to the members of the company. This amounted to R1 142 billion of a total income of R1 372 billion.

The percentage debt collection for the financial year 2021/2022 was 91.2% by taking the total value of the year's revenue collected against the bills raised in the year.

Table 3.7: Revenue Per Source

Revenue source	2020/2021 R'000	2021/2022 R'000
Service charges	929 381	1 142 878
Intervention income	3 956	1 402
Other income	55 438	69 516
Interest received – investment	3 952	11 868
Dividends received	60	60
Government grants and subsidies	49 830	146 798
<b>TOTAL</b>	<b>1 042 618</b>	<b>1 372 522</b>

Table 3.8: Financial Performance 2021/2022

Details	2020/2021		2021/2022		Variance to budget R'000
	Actual R'000	Original budget R'000	Adjustment budget R'000	Actual R'000	
Total operating revenue (Excluding Non-exchange Revenue)	992 787	1 202 996	1 202 996	1 194 505	-0,93%
<b>EXPENDITURE</b>					
- Employee costs	391 598	448 637	448 637	394 208	-11,36%
- Repairs and maintenance	79 451	119 901	119 901	106 973	-11,48%
- Other	478 110	634 458	634 458	491 280	-24,61%
<b>Total operating expenditure</b>	<b>949 159</b>	<b>1 202 996</b>	<b>1 202 996</b>	<b>992 461</b>	<b>-18,36%</b>
Net operating surplus/(deficit) Excluding Non-exchange Revenue)	(46)				

#### COMMENT ON THE PERFORMANCE OF FINANCIAL SERVICES OVERALL

The entity had a slight underspend on its total OPEX budget because of various factors, including the effects of COVID 1 on general expenditure and repairs and maintenance. The revenue from external business declined due to the loss of the pump station contract during November 2020, as well as the cancellation of the Emfuleni Local Municipality intervention, where ERWAT was the implementing agent during the 2020 financial year.

### 3.4 HUMAN RESOURCE SERVICES

#### INTRODUCTION TO HUMAN RESOURCE SERVICES

The department provides quality driven Human Capital strategies and support for ERWAT. The entity has a stable Human Resources (HR) department that consists of various components of the HR requirements and continues to provide support to the entity on all HR related matters.

The Human Resource Department consists of the following sections:

1. Employee Relations
2. HR Administration
3. Training and Development
4. Organisational Development
5. Occupational Health and Wellness

#### COMMENT ON THE OVERALL PERFORMANCE OF HUMAN RESOURCE SERVICES

The HR department serves as a support to the various departments within ERWAT in terms of recruitment, selection and appointment of staff. The department also assists with the alignment of the organisational needs to the structure to achieve its objectives.





### 3.5 INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) SERVICES

#### INTRODUCTION TO INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) SERVICES

The ICT services department has been an integral part of supporting the entity’s objectives during the Covid 19 pandemic by providing the necessary tools and training to all staff. The ICT services department maintained ICT infrastructure for the decentralised workforce and ensured risks were appropriately managed.

To allow for the effective services and support of ERWAT with a decentralised workforce, the following systems were implemented as priorities:

1. Virtualised platforms such as Microsoft Teams and Zoom

2. Remote Support Tools such as Netop and Anydesk
3. Kaspersky for effective Remote Patch Management
4. Efficient Virtual Private Networks

During the year under review, ICT took the following measures to improve performance and the following major efficiencies were achieved:

1. Improved services through the review of the ICT Service Catalogue
2. Improved efficiency of users through the procurement and roll-out of new endpoints for users
3. Improved governance through the approval of security and change management policies and procedures
4. Increased cyber security awareness initiatives

## SERVICE STATISTICS FOR ICT SERVICES

The ICT department comprises five permanent employees. ICT supports Head Office, Scientific Services and 19 Water Care Works, as well as services 31 servers and 410 laptops.

Table 3.9: Employees ICT Services

Job level	2020/2021		2021/2022			
	Employees	Approved Posts	Employees	Vacancies (Fulltime equivalents)	Vacancies (as a % of total posts)	
	#	#	#	#	%	
D2	0	1	1	1	0%	
C5	0	0	0	0	0%	
C4	1	1	0	0	100%	
C3	2	2	1	0	50%	
C2	1	3	3	0	0%	
C1	0	0	0	0	0%	

The financial performance of the ICT department for the 2020/2021 financial year is included with the finance department.

Table 3.10: Capital Expenditure: ICT Services li Rand

Capital Projects	2021/2022				
	Budget	Adjustment	Actual	Variance from original budget	Total project value
	R'000	Budget R'000	Expenditure R'000		R'000
Total all projects	4 647	4 647	4 647	0.00%	4 647
Computers	3 214	3 214	3 214	0.00%	3 214
Mobile workstation	663	663	663	0.00%	663
PA system	51	51	51	0.00%	51
Audio Visual system	711	711	711	0.00%	711
Printers	8	8	8	0.00%	8

## COMMENT ON THE OVERALL PERFORMANCE OF ICT SERVICES:

The ICT Governance within the entity remained a challenge in 2020/2021 and one of the main issues was the insufficient funding for upgrading of ICT infrastructure and seamless integration into the CoE ERP system.

### 3.6 LEGAL, RISK MANAGEMENT AND PROCUREMENT SERVICES

#### INTRODUCTION TO LEGAL, RISK MANAGEMENT AND PROCUREMENT SERVICES

The governance, legal and compliance unit has a staff complement of three. It is headed by the Company Secretary. Risk management is a division of Governance, Legal and Compliance. The priorities for the division are to ensure that ERWAT prioritises risk in its decision-making process and highlights any non-compliance matters that may have a negative impact to the organisation to the Board of Directors.

The main priorities in the 2020/2021 financial year are as follows:

1. The legal framework of contract management is adhered to, to curb potential litigations.
2. Conduct compliance risk assessments to strengthen the compliance environment within ERWAT.
3. Developed policies for fraud and ethics.
4. Developed risk framework, strategy and policy as well as compliance risk management.

#### SERVICE STATISTICS FOR LEGAL, RISK MANAGEMENT AND PROCUREMENT SERVICES

Table 3.9: Employees ICT Services

Job level	2020/2021		2021/2022		
	Employees #	Approved Posts #	Employees #	Vacancies (Fulltime equivalents) #	Vacancies (as a % of total posts) %
C3	0	0	1	0	0
D2	1	0	1	0	0



#### COMMENT ON THE OVERALL PERFORMANCE OF LEGAL; RISK MANAGEMENT AND PROCUREMENT SERVICES

A panel of legal attorneys will be appointed to provide assistance with legal services. A compliance management system was implemented through LexisNexis system. This assisted in monitoring all areas of risk including health and safety.

# Organisational Performance Scorecard

## INTRODUCTION TO ORGANISATIONAL SCORECARD

The section of the Annual Report below reflects the Annual Performance Scorecard Report for 2020/2021. The reported progress is set against the high-level commitments of ERWAT which were elevated to the annual performance scorecard of the organisation. The performance commitments in this component are meant to represent the strategic objectives as outlined in the SDBIP.

### 3.7 CITY WIDE SDBIP

<b>KPI 1 – CITY-WIDE</b>
<b>Total revenue generated from external business</b>
<b>METHOD OF MEASURE</b>
The indicator measures increased external revenue generated from commercial sources
<b>EVIDENCE</b>
Invoices coupled with general ledger showing a balance that agrees with the amount reported
<b>ANNUAL TARGET</b>
R 32 200 000.00
<b>ANNUAL ACTUAL</b>
R 40 547 891.00
<b>COMMENT</b>
Annual target achieved and exceeded due to revised SDBIP targets and current projects maintained.

<b>KPI 2 – CITY-WIDE</b>
<b>Audit Opinion</b>
<b>METHOD OF MEASURE</b>
The indicator measures increased external revenue generated from commercial sources
<b>EVIDENCE</b>
Invoices coupled with general ledger showing a balance that agrees with the amount reported
<b>ANNUAL TARGET</b>
R 32 200 000.00
<b>ANNUAL ACTUAL</b>
R 40 547 891.00
<b>COMMENT</b>
Annual target achieved and exceeded due to revised SDBIP targets and current projects maintained.

<b>KPI 2 – CITY-WIDE</b>
<b>Percentage compliance with wastewater treatment works license conditions and/or exemptions standards</b>
<b>METHOD OF MEASURE</b>
The indicator measures the compliance of wastewater works effluent to the requirements of biological and chemical indicators as per the water use license granted by the Regulator. It is calculated by dividing the number of determinants complying to the Water Use Authorization with the total number of determinants.
<b>EVIDENCE</b>
Water quality Data of each Wastewater Treatment Works (from the Lab) Spreadsheet used to calculate over all compliance. Applicable Water use authorisation of each Wastewater Treatment Works.
<b>ANNUAL TARGET</b>
82.5%
<b>ANNUAL ACTUAL</b>
85%
<b>COMMENT</b>
Annual target of 82.5% was achieved due to the following reasons: <ol style="list-style-type: none"> <li>1. Dilution of inflow due to storm water ingress</li> <li>2. Target was reduced from 85% in Q1 &amp; Q2 to 80% in Q3 &amp; Q4 due to capacity and infrastructure deterioration challenges</li> <li>3. Biggest WCW in ERWAT, Waterval WCW, average effluent compliance % increased from 86% in Q3 to 94% in Q4. (Replacement of bus bars and cables at blower house was successfully completed.)</li> </ol>

### 3.8 DEPARTMENT SDBIP

<b>KPI 1 – DEPARTMENT SDBIP</b>
<b>% Capital expenditure on planned projects</b>
<b>METHOD OF MEASURE</b>
The indicator measures the total budget spent. The indicator target is measured cumulatively across the quarters. The indicator formula is: (1) Expenditure year to date / (2) Total approved CAPEX budget for the year
<b>EVIDENCE</b>
Financial year to date expenditure report
<b>ANNUAL TARGET</b>
95%
<b>ANNUAL ACTUAL</b>
99.56%
<b>COMMENT</b>
The Annual target for capital expenditure was achieved and exceeded due to improved planning and acceleration in delayed projects.

<b>KPI 2 – DEPARTMENTS SDBIP</b>
<b>Percentage of repairs and maintenance budget spent</b>
<b>METHOD OF MEASURE</b>
The indicator measures the total budget spent. The indicator target is measured cumulatively across the quarters. The indicator formula is: (1) Expenditure year to date / (2) total approved maintenance budget approved.
<b>EVIDENCE</b>
Finance year to date expenditure report
<b>ANNUAL TARGET</b>
95%
<b>ANNUAL ACTUAL</b>
89%
<b>COMMENT</b>
ERWAT has under spent on repairs and maintenance (planned and ad-hoc) for all quarters of 2021 - 2022 YTD. However, Quarter 4 target was not achieved.  The department did not achieve the 95% target as planned. If the amount of committed funds outstanding were all paid in full during the financial year end, then the target would have been achieved. The expenditure year to date is R106 973 920,00 against the approved maintenance budget of R119 901 125,00.  This yields to 89% repairs and maintenance budget spent in Quarter 4, the variance thereof is 6%. The reasons are attributed to the delay in the appointment of spares supply contracts. The other factor is due to non-payments of invoices in the previous quarter that has resulted into significant high committed funds.

Action taken to address challenges
1. The department has started scheduling and implementing planned maintenance beginning Q1 going forward.
2. The department is also rolling out condition-based maintenance (CBM), by applying predictive maintenance techniques to arrest the increasing number of critical equipment failures.
3. To have full maintenance staff compliment in this new financial year to execute preventative maintenance plans.
4. Streamline SCM's purchase orders by using weekly tracker between the two departments. This will prevent the delays in receiving the orders from the SCM department.
5. The renewal of master service contracts for the repairs and maintenance of critical equipment has been completed.
6. The planned maintenance scheduled for bulk sewer pipeline cleaning regimen is being conducted to alleviate blockages and overflowing of spillage sewerage into the environment.

<b>KPI 3 – DEPARTMENT SDBIP</b>
<b>Percentage of procurement spend allocated to SMME's</b>
<b>METHOD OF MEASURE</b>
The indicator measures the percentage of procurement spend allocated to SMME's through ensuring appropriate application of the preferential procurement practices. This support will be calculated as a percentage of the total value paid to Small, Medium and Micro Enterprises either directly or via the principal contractor in terms of a Preferential Procurement Regulation 4 or 9 contractual condition.  The indicator formula is: (1) Rand value of procurement spend allocated to SMME's / (2) Rand value of total procurement spend *100
<b>EVIDENCE</b>
Dated and signed letter of appointment or subcontract with support (contract) amount award AND Listing (Register) of SMME supported with support amount.
<b>ANNUAL TARGET</b>
45%
<b>ANNUAL ACTUAL</b>
91.4%
<b>COMMENT</b>
Annual target achieved.

### KPI 4 – DEPARTMENT SDBIP

**Number repeat audit findings**

#### METHOD OF MEASURE

The indicator tracks the number of findings made on the same matter as of the last audit cycle. The “Repeat” findings refer to those findings that have persisted from one year of reporting to the next. These are identified as repeat findings by the Auditor-General on the following administrative areas including but not limited to: i) Annual financial statements and annual report.

The formula for the indicator is the (1) Simple count of the number of “repeat” findings itemised in the Auditor-General’s report of each municipality

#### EVIDENCE

AGSA signed management letter

#### ANNUAL TARGET

0

#### ANNUAL ACTUAL

1

#### COMMENT

Annual target not achieved, due to weakness identified in management control.

### KPI 5 – DEPARTMENT SDBIP

**Total rand value of surplus realised from revenue generated from external business.**

#### METHOD OF MEASURE

This indicator measures Total Rand Value of Surplus Realised from Revenue generated from External Business. The Annual Target for the Revenue to be Generated from External Business R32.2m. This will be calculated by subtracting the total expenditure from the revenue generated.

#### EVIDENCE

General ledger with a balance that agrees with the amount reported in Invoices Listing

#### ANNUAL TARGET

R6 500 000

#### ANNUAL ACTUAL

R30 172 900

#### COMMENT

The target of R 6 500 000 in total Rand value of surplus was exceeded.

#### REASONS FOR ACHIEVING KPI

Target for Total Rand value of surplus was achieved due to the revised SDBIP targets for revenue generated from external business and the current projects were maintained.



Table 3.12: City-Wide SDBIP

Entity	Outcome	Ref No.	Performance Indicator (Output level only)	Description of Portfolio of Evidence Verified	Baseline (Annual Performance of 2020/2021)	Annual Target for 2021/2022	Annual Planned Output as per SDBIP	Q1 Planned Target	Q1 Actual Performance	Q2 Planned Target	Q2 Actual Performance	Q3 Planned Target	Q3 Actual Performance	Q4 Planned Target	Q4 Actual Performance	Annual Actual Performance	Variance	Overall Performance Rating	Progress on Targets	Reason(s) for Variance	Remedial Action	Annual Planned Budget	Annual Actual Expenditure
<b>NATIONAL PRESCRIBED INDICATORS</b>																							
N/A																							
<b>PROVINCIAL INDICATORS</b>																							
N/A																							
<b>CITY OF EKURHULENI INDICATORS</b>																							
<b>IDP STRATEGIC OBJECTIVE 4: TO PROTECT THE NATURAL ENVIRONMENT AND PROMOTE RESOURCE SUSTAINABILITY</b>																							
ERWAT	Improved Quality of water (including wastewater)	62	Percentage compliance with wastewater treatment works license conditions and/or exemptions standards	Water quality Data of each Wastewater Treatment Works (from the Lab) Spreadsheet used to calculate over all compliance. Applicable Water use authorization of each Waste Water Treatment Works	88% (2019/2020)	82.5%	82.5%	85%	84%	85%	84%	80%	86%	80%	85%	85%	3%	Achieved	Target Achieved	1. Dilution of inflow due to stormwater ingress. 2. Target was reduced from 85% in Q1 & Q2 to 80% in Q3 & Q4 due to capacity and infrastructure deterioration challenges. 3. Biggest WCW in ERWAT, Waterval WCW, average effluent compliance % increased from 86% in Q3 to 94% in Q4. (Replacement of busbars and cables at blower house was successfully completed.	No remedial action required	R 641 110 812	R545 344 239.80
		38	Total revenue generated from external business	Invoices coupled with general ledger with a balance that agree to the amount reported	R 248 889 792 (2019/2020)	R 32 200 000	R 32 200 000	R 15 100 000	R8 122 860	R15 100 000	R11 731 475	R1000 000	R7 993 535	R1 000 000	R12 700 001	R40 547 891	R8 347 891	Achieved	The target was exceeded by R8 347 891	The target was exceeded due to the revised SDBIP target and current projects were maintained.	No remedial action required since the target was exceeded	OPEX	OPEX
		39	Audit Opinion	Dated and signed Audit report from AGSA	Unqualified Audit Opinion	Unqualified Audit Opinion	Unqualified Audit Opinion	N/A	N/A	N/A	Unqualified Audit Opinion	Unqualified Audit Opinion	N/A	N/A	N/A	Unqualified Audit Opinion	None	Achieved	Target Achieved	N/A	No remedial action required	OPEX	OPEX
<b>IDP STRATEGIC OBJECTIVE 1: TO PROMOTE INTEGRATED HUMAN SETTLEMENTS THROUGH MASSIVE INFRASTRUCTURE AND SERVICES ROLLOUT</b>																							
ERWAT	Improved Quality of Water including Wastewater	1.M	Percentage of Capital Expenditure on Planned Projects	Finance year to date expenditure report	100.26%	95%	95%	35%	5.74%	60%	18.99%	80%	43.27%	95%	99.56%	99.56%	+4.56%	Achieved and exceeded	Target exceeded	The target for capital expenditure was achieved and exceeded due to the early delivery of goods prior to planned date and adjustment of budget downwards, due to challenges experienced during the financial year.	Improve planning and procurement processes.	R 187 000 000 (Original) R 155 656 000 (Adjusted)	R 154 978 492.18

Table 3.12: City-Wide SDBIP (continued)

Entity	Outcome	Ref No.	Performance Indicator (Output level only)	Description of Portfolio of Evidence Verified	Baseline (Annual Performance of 2020/2021)	Annual Target for 2021/2022	Annual Planned Output as per SDBIP	Q1 Planned Target	Q1 Actual Performance	Q2 Planned Target	Q2 Actual Performance	Q3 Planned Target	Q3 Actual Performance	Q4 Planned Target	Q4 Actual Performance	Annual Actual Performance	Variance	Overall Performance Rating	Progress on Targets	Reason(s) for Variance	Remedial Action	Annual Planned Budget	Annual Actual Expenditure
<b>IDP STRATEGIC OBJECTIVE 1: TO PROMOTE INTEGRATED HUMAN SETTLEMENTS THROUGH MASSIVE INFRASTRUCTURE AND SERVICES ROLLOUT</b>																							
ERWAT	Improved Quality of Water including Wastewater	2.M	Percentage expenditure on Repairs and Maintenance Budget	Finance year to date expenditure report	83.75% (2019/2020)	95%	95%	25%	9%	50%	35%	75%	52%	95%	89%	89%	6%	Not Achieved	Target not achieved	The reasons are attributed the delay in the appointment of spares supply contracts. The other factor is due to non-payments of invoices in the previous quarter that has resulted into significant high committed funds.	If the amount of committed funds outstanding are all paid in full during this financial year end, then the target will be achieved	R 119 901 125.00	R 106 132 790.00
	Improved Quality of Water including Wastewater	3.M	Percentage of procurement spend allocated to SMME's	Dated and signed Letter of appointment or subcontract with support amount Award AND Listing (Register) of SMME supported with support amount	R105 810 543 (87%)	45%	45%	45%	87%	45%	93%	45%	89%	45%	97%	91.4%	46.4%	Achieved	Target achieved and exceeded	Invoices paid to bidders awarded goods and or services with an EME or QSE BEE accreditation.	No remedial action required	OPEX R1 202 996 021	R131 326 666
	To build a clean, Capable and Modernised Local State	GG3	Number repeat audit findings	AGSA signed management letter	4 repeat audit findings noted in the AGSA signed management letter for the 2019/2020 regularly audit	0 repeat audit findings noted in the AGSA signed management letter for the 2020/2021 regularly audit	0 repeat audit findings noted in the AGSA signed management letter for the 2020/2021 regularly audit	N/A	N/A	N/A	8	0	N/A	N/A	N/A	8	8	Not achieved	Not achieved	Weakness identified in Management control	Audit findings to be addressed part of the OPCA plan	OPEX/CAPEX	OPEX/CAPEX
	Improved quality of water including waste water	5.M	Total rand value of surplus realised from revenue generated from external business	General Ledger with a balance amount that agrees with the amount reported AND Listing of invoices	New KPI	R6.5m	R6.5m	R1.7m	R4 483 964	R1.7m	R7 017 841	R1.6m	R3 627 090	R1.5m	R8 544 005	R23 672 900	R17 172 900	Achieved	Achieved	Target for Total Rand value of surplus was achieved due to the revised SDBIP targets for revenue generated from external business and the current projects were maintained	None	OPEX	OPEX



# Chapter 4

## ORGANISATIONAL DEVELOPMENT PERFORMANCE

(PERFORMANCE REPORT PART II)

## INTRODUCTION TO ORGANISATIONAL DEVELOPMENT PERFORMANCE

ERWAT employed a total of 747 employees as of 30 June 2022. During the 2021/2022 financial year, a total of 111 new employees were appointed, 75 permanent employees and 36 non-permanent employees.

A total of 46 employees left the service of the company of which 9 employees resigned, 14 contracts ended, 12 retired, 2 employees were dismissed, and nine employees passed away during the financial year.

## STRATEGIC OBJECTIVES OF THE HUMAN RESOURCES DEPARTMENT

To plan, recruit, develop and retain a highly competent and diverse workforce, develop a positive corporate culture that promotes commitment to excellence and to ensure that the organisation meets its social and legal responsibilities towards its employees with particular regard to conditions of employment, quality of work life and create opportunities for all, in support of the organisational strategy.

The HR department is responsible for the following:

1. Recruitment
2. Performance management
3. Training
4. Movement/promotion of staff
5. Terminations (e.g., resignations, retirement, etc.).

# Introduction to the Company's Personnel

## 4.1 EMPLOYEE TOTALS, TURNOVER AND VACANCIES

Table 4.1: Employees

Department	2020/2021		2021/2022		
	Employees	Approved Posts	Employees	Vacancies (Fulltime equivalents)	Vacancies (as a % of total posts)
	#	#	#	#	%
Commercial Business	8	12	10	2	16%
Legal, Compliance and Risk	1	2	2	0	0%
Company Secretariat	1	1	1	0	0%
Top Structure	5	8	3	5	63%
Infrastructure Planning and Projects	16	21	18	3	14%
Maintenance	87	101	88	13	13%
Scientific Services	58	63	61	2	3%
Finance and SCM	12	35	31	4	11%
Operations	397	469	410	59	13%
Office of the MD	0	2	2	0	0%
Corporate Services	25	37	33	4	11%
<b>Totals</b>	<b>610</b>	<b>751</b>	<b>659</b>	<b>92</b>	<b>12%</b>

Employees and approved posts numbers are as of 30 June 2022, as per the approved organogram.

Table 4.2: Vacancy Rate 2021/2022

Department	Position	Date Vacant
Scientific Services	Control Scientist	New Position
	Administrator Laboratory	New Position
IPAP	Head of Department: IPAP	30/04/2016
	Executive Secretary: IPAP	30/09/2021
	Engineer: Process (Grade 2)	New Position
	Senior Engineer: Projects (Grade 4)	06/02/2021
Finance and SCM	Accountant Budgeting & Expenditure	New Position
	Payroll Supervisor	30/10/2021
	Trial Balance Officer	31/01/2021
	Administration Officer Verification	New Position
	Chief Financial Officer	31/03/2022
Operations	Works Manager (x 2)	01/05/2021
	Administration Officer	01/09/2017
	Head of Department Operations	31/01/2021
	Senior Process Controllers (x 6)	New Position
	Process Controllers (x 10)	New Position
	Administrator	New Position
	Process Operator (x 4)	New Position

Table 4.2: Vacancy Rate 2021/2022 (continued)

Department	Position	Date Vacant
Operations (continued)	Heavy Equipment Operator	New Position
	Assistant Operator (x 5)	New Position
	Tractor Driver (x 3)	New Position
	Driver	New Position
	General Worker (x 25)	New Positions
Maintenance	Head of Department: Maintenance	01/07/2018
	Executive Secretary: Maintenance	18/11/2016
	Maintenance Manager	01/03/2021
	Fitter	New Position
	Handyman	New Position
	Assistant Artisan (x 9)	New Position
Commercial Business	Executive Secretary: Commercial Business	12/04/2021
	Head of Department: Commercial Business	23/09/2020
Health and Safety	Manager Health & Safety	New Position
Office of the Managing Director	Managing Director	05/09/2021
Security	Security Coordinator	01/12/2020
ICT	System Analyst	01/04/2022
	ICT Administration Officer	01/07/2021

Table 4.3: Turn-Over Rate

Details	Total no of appointments as at the beginning of financial		No of terminations during the financial Year	Turn-over Rate*
	year	#		
	#	#	#	%
2019/2020	106	79		10%
2020/2021	13	27		4.3%
2021/2022	111	46		4.1%

\*Number of employees terminated divided by the number of positions occupied at the beginning of the year.

## COMMENT ON VACANCIES AND TURNOVER

The 2021/2022 recruitment plan was noted and approved by Board and was in line with the structures as well as budget for the 2021/2022 financial year.

The vacancy turnover rate for 2021/2022 has decreased in comparison with the previous financial year.

# Introduction to the Company's Personnel

## INTRODUCTION TO COMPANY'S WORKFORCE MANAGEMENT

The total number of employees as of 30 June 2022 is 747 (includes permanent and non-permanent), which is an increase compared to the previous year of 746 (permanent and non-permanent).

### 4.2 POLICIES

No.	Name of Policy	Completed %	Reviewed %	Last Approved Date
HRM 001	Acting Policy	100%	100%	23/02/2021
HRM 002	Career and Succession Planning Policy	100%	100%	23/02/2021
HRM 003	Cellular Phone Allowance Policy	100%	100%	23/02/2021
HRM 004	Conflict of Interest Policy	100%	100%	23/02/2021
HRM 005	Employment Equity Policy	100%	100%	23/02/2021
HRM 006	Flexi Time Policy	100%	100%	12/02/2015
HRM 007	Funeral Claim Policy	100%	100%	23/02/2021
HRM 008	HIV/AIDS Policy	100%	100%	23/02/2021
HRM 009	Home Ownership Scheme Policy	100%	100%	02/09/2021
HRM 010	Induction Policy	100%	100%	23/02/2021
HRM 011	Job Evaluation Policy	100%	100%	23/02/2021
HRM 012	Leave Policy	100%	100%	02/09/2021
HRM 013	Long Service Award Policy	100%	100%	23/02/2021
HRM 014	Medical Aid Subsidy Policy	100%	100%	23/02/2021
HRM 015	Medical Surveillance Policy	100%	100%	23/02/2021
HRM 016	Overtime Policy	100%	100%	23/02/2021
HRM 017	Performance Management Policy	100%	100%	23/02/2021
HRM 018	Protection Of Personal Information	100%	100%	23/02/2021
HRM 019	Recruitment Policy	100%	100%	23/02/2021
HRM 020	Remuneration Policy	100%	100%	02/09/2021
HRM 021	Retrenchment Policy	100%	100%	23/02/2021
HRM 022	Sexual Harassment Policy	100%	100%	23/02/2021
HRM 023	Small Tool Scheme Policy	100%	100%	23/02/2021
HRM 024	Smoking Policy	100%	100%	23/02/2021
HRM 025	Stand-By Service Policy	100%	100%	23/02/2021
HRM 026	Substance Abuse Policy	100%	100%	23/02/2021
HRM 027	Social Media Policy	100%	100%	23/02/2021
HRM 028	Tool of Trade Vehicle Scheme and Travel Allowance Policy	100%	100%	12/02/2015
HRM 029	Training and Development Policy	100%	100%	23/02/2021
HRM 030	Travel and Subsistence Policy	100%	100%	02/09/2021
HRM 031	Uniform Allowance Policy	100%	100%	23/02/2021
HRM 032	Workplace Bullying	100%	100%	23/02/2021

## COMMENT ON WORKFORCE POLICY DEVELOPMENT

All policies are reviewed by Senior Management, the Employment Equity Committee as well as ERWAT's Board of Directors on an ad-hoc basis.

### 4.3 INJURIES, SICKNESS AND SUSPENSIONS

Table 4.5: Number and Cost of Injuries on Duty

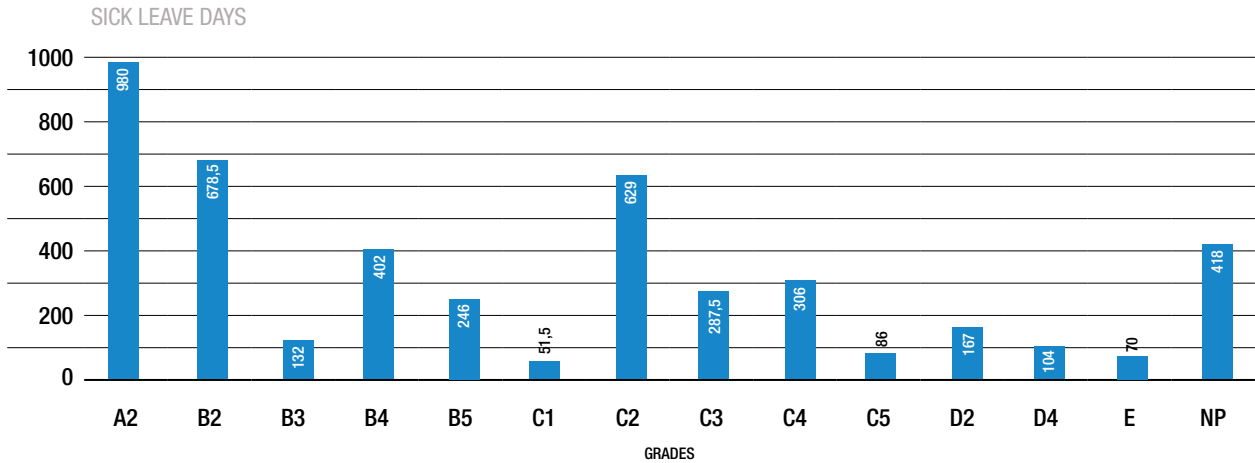
Type of injury	Injury Leave Taken Days	Employees using Injury Leave #	Proportion of Employees using Sick Leave %	Average Injury Leave per Employee Days	Estimated Cost (Basic) R
Injury on duty	13	2	39%	6.5	15 705.01
Permanent disability	N/A	0	N/A	N/A	N/A
Temporary disability	N/A	0	N/A	N/A	N/A
<b>Total</b>	<b>13</b>	<b>2</b>	<b>39%</b>	<b>6.5</b>	<b>15 705.01</b>

Table 4.6: Number of Days and Cost of Sick Leave (Excluding Injuries on Duty)

Patterson Profile Level	Total Sick Leave Days	Employees using Sick Leave #	Total Employees in Post #	*Average Sick Leave per Employee Days	Estimated Cost (Basic) R
Non-permanent	418	71	89	4.7	456 562.16
A	980	107	128	7.7	398 955.41
B	1458.5	162	241	6.1	1 016 814.98
C	1352	164	239	5.7	2 060 302.60
D	271	27	47	5.8	1 234 153.07
Executives	70	4	3	23.3	410 256.76
<b>Total</b>	<b>4549.5</b>	<b>535</b>	<b>747</b>	<b>6.1</b>	<b>5 577 044.98</b>

\*Average is calculated by taking sick leave in column 2 divided by total employees in column 4





### COMMENT ON INJURY AND SICK LEAVE

ERWAT's Human Resources Management (HRM) system enables the organisation to track all types of leave and report on such, on a quarterly basis.

Table 4.7: Disciplinary Action Taken on Cases of Financial Misconduct

Position	Nature of Alleged Misconduct and Rand Value of any Loss	Disciplinary Action Taken	Date Finalised
N/A	N/A	N/A	N/A

### COMMENT ON SUSPENSIONS AND CASES OF FINANCIAL MISCONDUCT

There are currently no employees under suspension and the disciplinary process of irregular expenditure has commenced.

### COMMENT ON PERFORMANCE REWARDS

No performance rewards were awarded during the 2021/2022 financial year.



# Capacitating the Company's Workforce

## INTRODUCTION TO WORKFORCE CAPACITY DEVELOPMENT

ERWAT's skills development plan is drafted with information received from all Departments and Personal Development Plans (PDP's) to ensure the advancement of skills development throughout the organisation. The training and development budget is linked to the training needs and Workplace Skills Plan (2021/2022) submitted to the Energy and Water Sectoral Education and Training Authority (EWSETA).

Table 4.9: Skills Matrix

		Number of skills employees required and actual as of 30 June 2022												
Management Level	Gender	Employees in post as of 30 June 2022 #	Learnerships			Skills programme and other short courses			Other forms of training			Total		
			Actual: End of Year 20/21	Actual: End of Year 21/22	Year 21/22 Target	Actual: End of Year 20/21	Actual: End of Year 21/22	Year 21/22 Target	Actual: End of Year 20/21	Actual: End of Year 21/22	Year 21/22 Target	Actual: End of Year 20/21	Actual: End of Year 21/22	Year 21/22 Target
			Senior Officials and Managers	Female	28	0	0	0	6	15	15	3	2	2
	Male	96	0	0	0	37	30	30	20	8	8	57	38	38
Technician and associate professional	Female	167	30	0	0	99	110	110	55	0	0	184	125	125
	Male	283	40	0	0	168	125	125	3	30	30	211	140	140
Professionals and unskilled	Female	54	0	12	12	26	56	56	6	9	9	32	77	77
	Male	119	0	24	24	84	49	49	5	16	16	89	89	89
Sub Total	Female	249	30	12	12	131	181	181	64	11	11	225	204	204
	Male	498	40	24	24	289	204	204	28	54	54	357	282	282
<b>Total</b>		<b>747</b>	<b>70</b>	<b>36</b>	<b>36</b>	<b>420</b>	<b>385</b>	<b>385</b>	<b>92</b>	<b>65</b>	<b>65</b>	<b>582</b>	<b>486</b>	<b>486</b>

Table 4.10: Skills Development Expenditure

		Original Budget and Actual Expenditure on skills development					
Gender	No of employees in post as of 30 June 2022	Learnerships			Skills programmes & other short courses		
		Actual: End 2019/2020	Actual: End 2020/2021	2021/2022 Target	Actual: End of 2019/2020	Actual: End 2020/2021	2021/2022 Target
Female	241	R 950 687	R 850 000	R 850 000	R 967 792	R 967 792	R 1 450 500
Male	507	R1 359 587	R1 698 000	R 900 000	R 1 564 000	R 1 564 000	R 1 850 000
<b>Total</b>	<b>748</b>	<b>R 2 310 274</b>	<b>R 2 548 000</b>	<b>R 1 750 000</b>	<b>R 2 535 792</b>	<b>R 2 535 792</b>	<b>R 3 300 500</b>

Table 4.11: Skills Development Expenditure

Original Budget and Actual Expenditure on skills development		
2021/2022	Original Budget	Actual
Totals	R 4 160 432	R 2 967 370.18 (to be confirmed)

**COMMENT ON SKILLS DEVELOPMENT AND RELATED EXPENDITURE AND THE FINANCIAL COMPETENCY REGULATIONS**

During the last financial year, ERWAT realigned its Training Plan to ensure the enhancement of skills of all employees, thus ensuring that there is a development process in the workplace. The 2021/2022 Workplace Skills Plan was successfully submitted to the Energy and Water Sectoral Education and Training Authority (EWSETA) and approved. Training is centred on Organisational, Departmental, and Personal Development Plans.

ERWAT has commenced Wastewater Process Control & Operations Learnerships Programmes for 34 employees

and awarded three bursaries to university students during Quarter 3 of the 2021/2022 Financial Year. The learnerships are aligned to Training Plans and Personal Development Plans of the above-mentioned employees.

The impact of Covid-19 Regulations delayed contact training, specifically statutory (safety) training. In future ERWAT is expected to increase its training budget to 1% of the compensation budget as legislated by the Skills Development Act 97 of 1998.

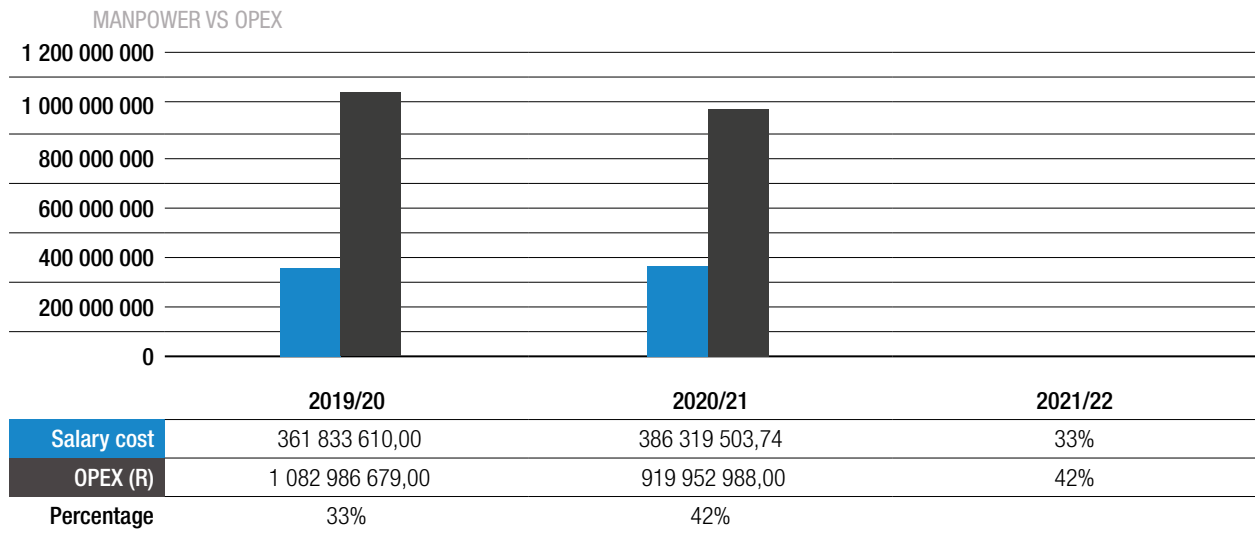
ERWAT is currently conducting Work Capacity Programme and Skills Audit Analysis Projects to determine the organisational and individual requirements needed to create a learning organisation.



# Capacitating the Company's Workforce

## INTRODUCTION TO WORKFORCE EXPENDITURE

The effective management of workforce expenditure is critical to the success of the organisation. It enables the organisation to ensure the optimal utilisation of its current workforce and contributes to managing the overall manpower expenditure.



## COMMENT ON WORKFORCE EXPENDITURE

Increase in expenditure on manpower is due to ERWAT's revised employment structure that was approved as well as the process of filling vacancies.

Table 4.12: Number of Employees Whose Salaries Were Increased Due to their Positions Being Upgraded

Paterson Profile Group	Gender	Total
A	Female	0
	Male	0
B	Female	0
	Male	0
C	Female	0
	Male	0
D	Female	0
	Male	0
E	Female	0
	Male	0
<b>Total</b>		<b>0</b>

Those with disabilities are shown in brackets '(x)' in the 'Number of beneficiaries' column as well as in the numbers at the right-hand side of the column

## COMMENT ON UPGRADED POSTS AND THOSE THAT ARE AT VARIANCE WITH NORMAL PRACTICE

During the period under review, there were no employees whose salaries were increased due to their positions being upgraded.

# Introduction to the Company's Personnel

## DISCLOSURES OF FINANCIAL INTERESTS

Below is the declaration of interest from the Heads of Departments provided as required by the PM Regulations 805 of 2006.

Table 4.13: Disclosures of Financial Interest

Period 1 July 2021 to 30 June 2022		
Position	Name	Description of Financial Interests (Nil / or Details)
Managing Director	Tumelo Gopane	Partnership: Farming Business
Head of Department: Finance and SCM	Wim Louw	Nil
Company Secretary	Zimasa Socikwa	Nil
Head of Department: Scientific Services	Alison Chapman	Nil
Head of Department: Operations	Fortune Mabunda	Nil
Head of Department: Human Resources	Rodney Barnes	Nil
Interim Head of Department: Commercial Business	Lelentle Motaung	Nil
Interim Head of Department: Infrastructure Planning and Projects	Karabo Nthethe	Nil
Interim Head of Department: Maintenance	Nganamakabane Mutyaba	Nil
Interim Head of Department: Finance and SCM	Dzunani Makgopa	Director: Mansah Consulting Director: Dzunare Trading
Interim Managing Director	Kennedy Chihota	Nil



# *Chapter 5*

## FINANCIAL PERFORMANCE



## INTRODUCTION

Chapter 5 contains information regarding financial performance and highlights specific accomplishments. The chapter comprises three components:

1. Component A: Statement of Financial Performance
2. Component B: Spending Against Capital Budget
3. Component C: Other Financial Matters

# Statements of Financial Performance

## INTRODUCTION TO FINANCIAL STATEMENTS

This component provides an overview of the financial performance of the entity and focuses on the financial health of the company.

ERWAT performed reasonably well in the year under review. Operating income increased from R1,042 billion in 2020/2021 to R1,372 billion in 2021/2022 year. Operating expenditure increased from R949,2 million in 2020/2021 to R992,4 million in 2021/2022.

## 5.1 FINANCIAL SUMMARY

Table 5.1: Financial Summary

Description	Ref	2019/20 Actual R'000	2020/21 Actual R'000	Current year 2021/2022			Year 2021/2022 Variance	
				Original Budget R'000	Adjusted Budget R'000	Actual R'000	Original Budget %	Adjusted Budget %
<b>REVENUE BY SOURCE</b>								
Service charges - sanitation revenue		879 041	929 381	1 142 878	1 142 878	1 142 878	100,00%	100,00%
Interest earned - external investments	1	2 861	3 951	3 722	3 722	11 868	320,00%	320,00%
Dividends received		97	60	-	-	60	0%	0%
Other revenue		112 570	59 395	56 395	56 395	73 887	128,00%	128,00%
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>994 569</b>	<b>992 787</b>	<b>1 202 996</b>	<b>1 202 996</b>	<b>1 228 694</b>	<b>102,00%</b>	<b>102,00%</b>
<b>EXPENDITURE BY TYPE</b>								
Employee related costs		356 850	391 598	463 856	452 597	394 208	85,00%	87,10%
Debt impairment		-146	2 470	1 743	1 743	2 177	124,93%	124,93%
Depreciation & asset impairment		92 891	101 272	100 968	100 968	105 610	104,60%	104,60%
Finance charges		48 444	30 780	51 252	41 252	29 694	50,00%	71,98%
Bulk purchases	2	236 381	249 139	301 077	321 894	251 872	84,00%	78,25%
Other expenditure		117 760	94 486	164 197	164 640	101 926	64,97%	61,91%
Repairs and Maintenance		140 747	79 451	119 901	119 901	106 974	89,22%	89,22%
<b>Total Expenditure</b>	3	<b>992 928</b>	<b>949 196</b>	<b>1 202 996</b>	<b>1 202 996</b>	<b>992 461</b>	<b>82,50%</b>	<b>82,50%</b>
<b>Surplus/(Deficit)</b>		<b>(1 641)</b>	<b>43 591</b>	<b>-</b>	<b>-</b>	<b>236 233</b>		

Table 5.1: Financial Summary (continued)

Description	Ref	2019/20 Actual R'000	2020/21 Actual R'000	Current year 2021/2022			Year 2021/2022 Variance	
				Original Budget R'000	Adjusted Budget R'000	Actual R'000	Original Budget %	Adjusted Budget %
Surplus/(Deficit) – Including Grants and Contributions		183 167	49 830	187 100	155 656	155 016	82.85%	99.59%
Transfers recognised - capital		(143 658)	(49 830)	(187 100)	(155 656)	(155 016)	82.85%	99.59%
Surplus/(Deficit) before taxation		39 482	0	0	0	0		
Taxation								
<b>Surplus/(Deficit) for the year</b>		<b>39 482</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		
Capital Expenditure & funds sources	4, 6							
Capital Expenditure								
Funded by:								
National Government		143 658	49 830	187 100	155 656	155 016	82,85%	99,59%
<b>Transfers recognised - capital</b>		<b>143 643</b>	<b>49 830</b>	<b>187 100</b>	<b>155 656</b>	<b>155 016</b>		
To be determined								
Borrowing	1	-						
Internally generated funds		-	6 146	0	0	0		
<b>Total Capital Funding</b>		<b>143 658</b>	<b>55 976</b>	<b>187 100</b>	<b>155 656</b>	<b>155 016</b>	<b>82.85%</b>	<b>99.59%</b>
Financial Position								
Total current assets		349 535	289 640	567 579	567 579	567 579	100%	100%
Total non-current assets		2 238 846	2 191 220	2 234 794	2 234 794	2 234 794	100%	100%
Total current liabilities		319 919	2000 768	196 666	196 666	196 666	100%	100%
Total non-current liabilities		431 564	384 181	332 598	332 598	332 598	100%	100%
Equity		1 828 141	1 895 911	2 273 109	2 273 109	2 273 109	100%	100%
Cash flows								
Net cash from (used) operating		147 453	256 134	336 156	336 156	336 156	100%	100%
Net cash from (used) investing		(146 482)	(53 815)	(154 109)	(154 109)	(154 109)	100%	100%
Net cash from (used) financing		(53 388)	(53 473)	(52 727)	(52 727)	(52 727)	100%	100%
Cash/cash equivalents at the year end		2 067	150 914	280 235	280 235	280 235	100%	100%

## COMMENT ON FINANCIAL PERFORMANCE:

### MATERIAL DIFFERENCES BETWEEN BUDGET AND ACTUAL AMOUNTS

TOTAL OPERATING EXPENSE - 83% ACHIEVED DUE TO THE FOLLOWING REASONS:

ERWAT has 18% under-expenditure on its total OPEX due to the following reasons:

1. A 12% under-expenditure on employee costs due to the delayed recruitment plan as per the new structure. The delay was predominantly caused by a moratorium placed on recruitment by the Board of Directors, as well as the lack of the Board to appoint the advertised HoD positions.
2. A 75% under-expenditure in directors' remuneration since the term of the Board ended during the second quarter and ERWAT was left without a Board. The number of directors also decreased from eight to five in prior years.
3. 11% under-expenditure in Repairs and Maintenance because of the delay in the appointment of spares supply contracts. The other factor is due to non-payments of invoices in the previous quarter that has resulted into significant high committed funds. If the amount of committed funds outstanding is paid in full during this financial year end, the target will be achieved.
4. A 28% saving in interest expense. A 28% saving in interest expense was due to lower interest rates.

5. A 22% under-expenditure in bulk purchases since the capturing occurs one month in arrears. The expenditure should normalise in accordance with the budget by July 2022.
6. A 38% under-expenditure in general expenditure mainly because of budget for the PPP program with the DBSA was delayed, pending council approval. Further COVID-related savings were experienced as employees were predominantly working from home. Savings arose from expenditure such as training, consulting fees, travel and accommodation, printing and consumables.

## COMMENT ON OPERATING TRANSFERS AND GRANTS

The parent municipality, CoE, allocates a portion of the infrastructure grants that they receive toward bulk sanitation services. This amounted to R187.1m in the 2021/2022 financial year. It is the only grant that ERWAT received from the CoE.

Due to reductions of the grants received by the COE, ERWAT's CAPEX grant from the CoE was adjusted downward during the year, leaving the entity with a grant amount of R155.96m.

ERWAT experienced major challenges with collecting outstanding invoices for the USDG grants from the CoE in the 2021/2022 financial year.

This has resulted in non-compliance with the MFMA in terms of payment to suppliers within 30 days.

## 5.2 GRANTS

Table 5.2: Grant Performance

Description	2020/21		Adjustment budget R'000	2021/22		
	Actual R'000	Budget R'000		Actual R'000	Original budget %	Adjustment budget %
Other grant providers – the CoE capital grant	49 830	187 100	155 696	155 016	82.85%	99.59%
<b>TOTAL</b>	<b>49 830</b>	<b>187 100</b>	<b>155 696</b>	<b>155 016</b>	<b>82.85%</b>	<b>99.59%</b>



## 5.3 ASSET MANAGEMENT

### INTRODUCTION TO ASSET MANAGEMENT

The South African Constitution requires municipalities (and thus also municipal entities) to strive, within their financial and administrative capacity, to achieve the following objectives:

1. Providing democratic and accountable government for local communities
2. Ensuring the provision of services to communities in a sustainable manner
3. Promoting social and economic development
4. Promoting a safe and healthy environment
5. Encouraging the involvement of communities and community organisations in matters of local government

The way the company manages its capital assets is central to meeting the above requirements. Accordingly, the Municipal Systems Act specifically highlights the duty of municipalities (and thus also municipal entities) to provide services in a manner that is sustainable. The MFMA requires municipalities and municipal entities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of capital assets with the accounting officer.

The company is also required to comply with GRAP. ERWAT converted to GRAP on 1 July 2009.

The Occupational Health and Safety Act requires entities to provide and maintain a safe and healthy working environment, and in particular, to keep its immovable capital assets safe.

Effective management of capital assets is central to the entity providing an acceptable standard of services. Capital assets impact the quality of the living environment and opportunities to prosper. Not only is there a requirement to be effective, but the way the entity discharges its responsibilities as a municipal entity is also important. The entity must demonstrate good governance and customer care, and the processes adopted must be efficient and sustainable. Officials are custodians of the capital assets.

The goal of asset management is to achieve the required level of service in the most cost-effective manner, which is achieved through management of the asset's life cycle.

Key elements of the asset management policy include the asset strategy and asset management plans.

### ASSET STRATEGY

The entity adopts an integrated approach to asset management:

1. Taking the entity's strategy, converting that into an asset management strategy and producing plans based upon an analysis of service delivery options.
2. Formulating an asset management strategy consisting of detailed plans for acquisitions and close up replacements, operation and maintenance as well as disposals in terms of the entity's policies.
3. Informing the annual budget, using the detailed plans.
4. Funding each approved asset management plan appropriately through the budget.
5. Including in the SDBIP the measurable objectives and targets of each asset management plan.
6. Reporting on the performance of assets as measured in terms of service delivery

### ASSET MANAGEMENT PLANS

The development of asset management plans is an interactive process that starts with the identification of service delivery needs and ends with an approved "multi-year" budget based on the most cost-effective method of delivering that service.

During that process the asset manager should:

1. Consider the service-level requirements
2. Review the current levels of service provided from the relevant assets
3. Conduct a gap analysis of the required vs. current service levels
4. Identify a range of options to resolve that service-level gap
5. Conduct a preliminary assessment of the feasibility of various options
6. Develop a business case for the most feasible option or options. This business case should include:
  - 6.1. The proposed service delivery option,
  - 6.2. Identified benefits and identified needs,
  - 6.3. A full life-cycle-costs forecast,
  - 6.4. Reliable revenue forecasts including other funding sources.
  - 6.5. A risk assessment across the whole life cycle of each option, and

6.6. Performance measures that can be used to assess the success of the options and implementation progress.

The asset manager will consult with other divisions in the development of the entity's asset management plans. For example, they should:

1. Review any legislative issues with the entity's legal department.
2. Review any human resource issues with the human resource manager; and
3. Review other issues with any other relevant managers, e.g., information technology, chief financial officer and HR.

Asset management plans should also include asset maintenance plans to ensure provision in the budget for appropriate funding to guarantee that existing assets continue to perform at the required levels and standards of service. ERWAT is in the process of developing an asset maintenance plan.

## ASSET LIFECYCLE

The asset life cycle is a key concept underpinning asset management. An asset life cycle covers all phases of an asset's life starting with planning, through its acquisition, operation, maintenance and eventual disposal. Management of these phases should be aligned to the entity's planning, budgeting, monitoring and reporting processes. In summary the phases are as follows:

1. The planning phase deals with the planning for service delivery that drives the need for assets. This phase will include input into the budget and asset management plans. Various acquisition options should be considered during this phase.
2. The acquisition phase deals with the purchase, construction or manufacture of new assets.
3. The operation and maintenance phase deals with the operation of the assets, maintenance/refurbishment, enhancement/rehabilitation, depreciation and impairment. This phase includes activities of a capital and current nature.
4. The disposal phase deals with the timing and disposal of the assets including the disposal costs and specific requirements for the assets, e.g., dismantling costs, etc.

An asset's life cycle is determined by its useful life to the entity. This useful life might be shorter than its economic life.

## 1. ASSET LIFE-CYCLE COSTS

A clear understanding of asset life-cycle costs is crucial for the development of cost-effective asset management plans and options. The analysis of life-cycle costs should cover the four broad phases, thus covering the entire life of the asset, including any environmental rehabilitation at the end of its life.

This analysis will be based upon estimates and include all cash flows such as operation, maintenance, administration, capital, and financing costs. The budget should differentiate between capital and operational costs including depreciation.

These are typical asset life-cycle costs:

- 1.1. Planning-phase costs – concept design costs, scientific studies, environmental impact studies and feasibility studies. These costs are usually incurred when weighing up the different options, before deciding on the best option.
- 1.2. Acquisition-phase costs and revenues – special levies, purchase price / construction costs (labour, materials, and components), detailed design costs (not feasibility analysis), transportation costs, installation and commissioning cost, use of own assets in construction (limited to depreciation over duration of use), freight, legal fees, warehousing costs, initial consumables (e.g. initial set of tyres for a vehicle) and all other costs required to bring that asset to its proper working condition and location for intended use (excluding training on use of the new asset, should this be required).
- 1.3. Operation and maintenance-phase costs:
  - Operation - fuel or energy costs, operational labour, security costs, safety costs, training c o s t s , performance monitoring costs, cleaning costs and consumables.
  - 1.3.1. Maintenance - spare parts and repair labour.
  - 1.3.2. Administration (asset specific) - insurance, rates and taxes, management fees, etc.
  - 1.3.3. Rehabilitation and renewal - upgrade costs, modification costs if this improves asset life etc. (capital), re-training costs (current), etc.
  - 1.3.4. Asset-related receipts – tariffs, etc.
- 1.4. Disposal-phase costs - disposal costs (like auctioneer fees, etc.), storage costs, environmental rehabilitation costs, decommissioning costs, demolition costs, etc.

## 2. PLANNING, BUDGETING PHASE AND FUNDING

The entity needs to plan for the level of services they need and how they will use the available funds to maintain and expand those services. This should include service delivery options and funding alternatives.

This phase requires clear answers to the following questions:

- 1.1. What existing assets does the entity have and where are they? (Asset registers)
- 1.2. What are the existing assets worth? (Valuation)
- 1.3. What is their condition and their expected remaining useful life? (Condition assessments)
- 1.4. What is the expected or required level of service?
- 1.5. How can that level of service be achieved? (Asset management and operational plans)
- 1.6. What additional assets does the entity require? (Gap analysis)
- 1.7. How much will that level of service cost and when or how can it be funded? (Multi-year capital and operating budgets)
- 1.8. How can ERWAT ensure that its level of service is “financially sustainable”? (Fiscal policy, short to long-term financial plans)
- 1.9. How will ERWAT manage and monitor the delivery of that level of service? (Performance management system and performance agreements).
- 1.10. The funding strategies should optimise the entity’s ability to achieve its strategic objectives. Loans to acquire assets should not be longer than the life of the assets they are used to acquire
- 1.11. The funding strategy should consider available sources of finance such as operating surpluses, cash-backed reserves, loans, grants, and cash donations. This should be part of a long-term cash flow forecast.

Table 5.3: Treatment of the Three Largest Assets Acquired In 2021/2022

ASSET 1	
<b>Name</b>	Vlakplaats – MCC PANELS
<b>Description</b>	Capacity enhancement and plant optimization
<b>Asset type</b>	Fixed (Infrastructure)
<b>Key staff involved</b>	IPAP, Maintenance, Operations, SCM and Finance
<b>Staff responsibilities</b>	Project manager ensures that quality work is performed
<b>Year</b>	2021/2022
<b>Asset value</b>	R21 421 270,87
<b>Capital implications</b>	Budget constraints
<b>Future purpose of asset</b>	Asset built to meet plant capacity needs
<b>Describe key issues</b>	
<b>Policies in place to manage asset</b>	Asset management policy
ASSET 2	
<b>Name</b>	Olifantsfontein – Intervention
<b>Description</b>	Capacity upgrade
<b>Asset type</b>	Fixed (Infrastructure)
<b>Key staff involved</b>	IPAP, Maintenance, Operations, SCM and Finance
<b>Staff responsibilities</b>	Project manager ensures that quality work is performed
<b>Year</b>	2021/2022
<b>Asset value</b>	R 23 508 126
<b>Capital implications</b>	Budget constraints
<b>Future purpose of asset</b>	Asset built to meet plant capacity needs, remote monitoring and data acquisition.
<b>Describe key issues</b>	
<b>Policies in place to manage asset</b>	Asset management policy

Table 5.3: Treatment of the Three Largest Assets Acquired In 2021/2022 (continued)

ASSET 3	
<b>Name</b>	Medium Voltage at Various WCW
<b>Description</b>	Plant optimisation
<b>Asset type</b>	Fixed (Infrastructure)
<b>Key staff involved</b>	IPAP, Maintenance, Operations, SCM and Finance
<b>Staff responsibilities</b>	Project manager ensures that quality work is performed
<b>Year</b>	2021/2022
<b>Asset value</b>	R 31 101 689,36
<b>Capital implications</b>	Budget Constraints
<b>Future purpose of asset</b>	To replace the old unsafe and unreliable MV equipment to ensure a sustainable power delivery to the WCW. The aim was to prolong the MV Network lifecycle, thus ensuring a sustainable power supply to water treatment facilities, that in turn enables a sustained compliance with the water use license.
<b>Describe key issues</b>	Temporary switching down of the WCW due to system failure and unsafe work conditions. This may lead to noncompliance of the plant.
<b>Policies in place to manage asset</b>	Asset management policy

#### COMMENT ON ASSET MANAGEMENT

The status of all the assets including assets at the WCWs was ascertained during the year. The need was identified to formalise the asset policy, strategy and plans. These issues will be addressed in the 2021/22 financial year.

On the positive side, strong leadership is in place for asset management. A culture of open-mindedness towards improvement and intent to change exists, which will support the implementation of the asset management policy and plans.

Table 5.4: Repairs and Maintenance Expenditure 2020/2021

Detail	Original budget	Adjustment budget	Actual	Budget variance
Repairs and maintenance expenditure	140 347	90 088	79 451	88%

#### COMMENT ON REPAIR AND MAINTENANCE EXPENDITURE

The Maintenance Department, led by an acting Head of Department is responsible for all repairs and maintenance work in the entity. Expenditure on maintenance, both planned and ad hoc maintenance is extremely important, as it not only improves efficiencies on the WCWs but extends the useful lives of the infrastructure.

ERWAT also has a facilities development plan that provides for long term infrastructure needs. This is executed by the IPAP department in consultation with all other relevant departments.

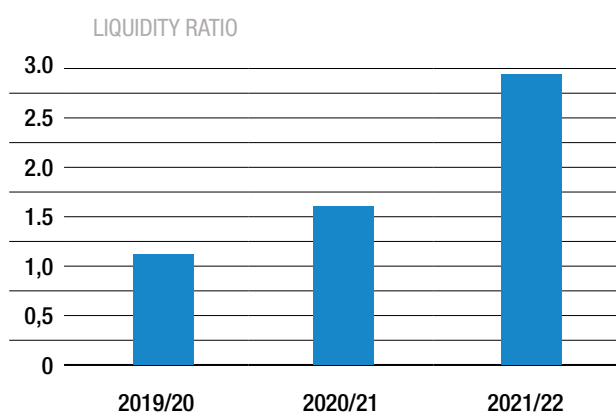
## 5.4 FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS

### LIQUIDITY

ERWAT's current ratio improved from 1.67:1 in 2020/21 to 2.89:1 in the 2021/22 year. This is mainly because of improved working capital management within the entity.

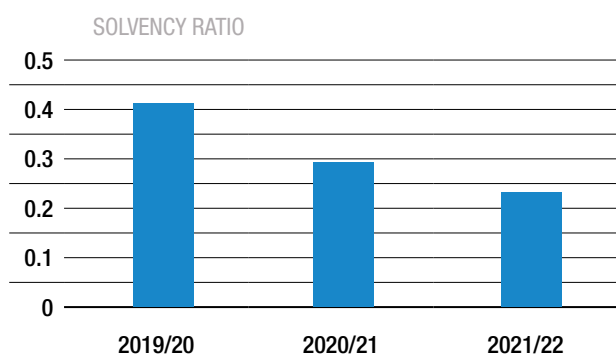
### SOLVENCY

ERWAT's debt: equity ratio has improved from 0.29 to 0.21 from the 2020/2021 to 2021/2022 financial year. This is due to the reduction in borrowings as a result of repayments. ERWAT has de-emphasised the use of debt as a form of CAPEX funding.



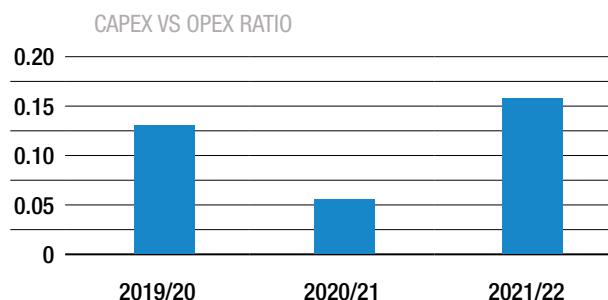
### SOLVENCY RATIO

The entity's solvency position improved from a solvency ratio of 0.41 in 2019/20 to 0.23 in 2020/21.



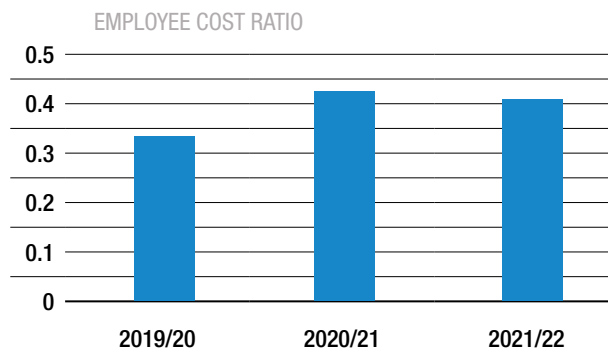
### CAPITAL EXPENDITURE TO OPERATING EXPENDITURE RATIO

This ratio has improved from 0.06:1 in 2020/21 to 0.16:1 in 2021/22. Significant steps were taken by the Board of Directors and management to improve the situation and address the issues of capacity and project management skills as well as improved planning.



### EMPLOYEE COST RATIO

Employee cost as a percentage of operating expenditure has decreased slightly from 42% in 2020/21 to 40% in 2021/22.



### COMMENT ON FINANCIAL RATIOS

The financial health of ERWAT has shown improvement during the year, with both its solvency and liquidity positions having improved on 30 June 2022.

# Spending against Capital Budget

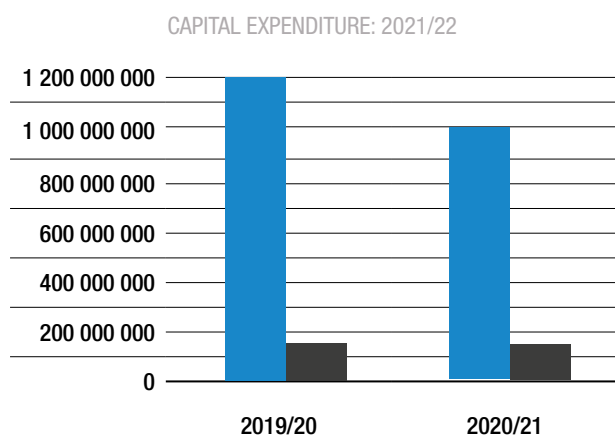
## INTRODUCTION TO SPENDING AGAINST CAPITAL BUDGET

Capital expenditure for the year amounted to R155 016m which is 99.59% of the budget of R155 656m.

Capital expenditure relates mainly to construction projects that will have value lasting over many years. Capital expenditure is funded from grants, borrowings and operating expenditures and surpluses.

Component B deals with capital spending indicating where the funding comes from and whether the company is able to spend the available funding as planned. The different sources of funding as well as how these funds are spent are indicated.

## 5.5 CAPITAL EXPENDITURE



## 5.6 SOURCES OF FINANCE

### COMMENT ON SOURCES OF FUNDING

ERWAT had long-term loans from Infrastructure Finance Corporation Ltd (INCA) and Nedbank. The loans are used specifically to fund long-term infrastructure projects such as the extension of existing Water Care Works and construction of new Water Care Works. The other sources of funding are own funds, generated through savings as well as the USDG allocation from the CoE.

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## 5.7 CAPITAL SPENDING ON 5 LARGEST PROJECTS

Table 5.5: Source of Capital Funding

Source of finance	2020/21		2021/22		Variance %
	Actual R'000	Original Budget R'000	Adjustment budget R'000	Actual R'000	
Grant	49 830	187 100	155 656	155 016	99.59
Internally generated funding	6 866	0	0	0	N/A
External loan	-	0	0	0	N/A
<b>TOTAL</b>	<b>56 696</b>	<b>187 100</b>	<b>155 656</b>	<b>156 891</b>	<b>99.59</b>
Percentage of finance	%	%	%	%	%
Grant	100	100	100	99.59	-0.44
Internally generated funding	0	0	0	0	N/A
External loan	0	0	0	0	N/A

Table 5.6: Capital Expenditure of 5 Largest Projects\*

Name of Project	Current: 2021/22			Original Variance (%)	Adjustment variance (%)
	Original Budget	Adjustment Budget	Actual Expenditure		
A - MEDIUM VOLTAGE	R35 766 942,76	R35 766 942,76	R35 766 942,76	-100%	0%
B - MCC PANELS AT VLAKPLAATS	R30 000 000,00	R21 421 270,87	R21 421 270,87	29%	0%
C - OLIFANTSFONTEIN INTERVENTION	R38 007 879,20	R16 099 376,01	R12 572 266,38	67%	22%
D - SELF PRIMING PUMPS	R8 900 000,00	R9 975 685,57	R9 476 901,30	-6%	5%
E - SCIENTIFIC SERVICES HVAC System	R19 500 000,00	R12 000 000,00	R8 343 39,14	57%	30%

\* Projects with the highest capital expenditure in 2021/22

Name of Project - A	Installation of Medium Voltage at Various ERWAT Plants
Objective of Project	The medium voltage infrastructure at certain WCW has reached its lifespan and became an operational and safety concern. This project had the main objective of upgrading the critical MV infrastructure affected to ensure safe, continuous and reliable power supply.
Delays	Delays experienced were mainly weather related throughout the project life as the majority of the project took place during the rainy season. Facilitating shutdowns together with electricity suppliers also caused some delays.
Future Challenges	None anticipated
Anticipated citizen benefits	To ensure that WCWs comply with the Water Use License and protecting the environment.

Name of Project - B	Motor Control Centre Panels at Vlakplaats WCW
Objective of Project	The objective is to enable Plant Automation, remote monitoring and data acquisition. The new Motor Control Centres (MCC) will also assist to eliminate the unsafe working conditions
Delays	National Electricity Grid Constraints
Future Challenges	The currently installed MCC Panels are not compatible with the current technology and there is no SCADA system installed to enable equipment automation
Anticipated citizen benefits	The plant will be operating remotely, it will become easily to have the plant data and to also to see which equipment items fail more often.

Name of Project - C	Olifantsfontein Intervention
Objective of Project	<p>The objective of the projects is to resuscitate the biological filtration module at the Olifantsfontein Water Care Works in order to help mitigate the overcapacity that considerably contributes to the non-compliance of the plant.</p> <p>The scope of work amongst others entails the replacement of the rock filter media with a lighter filtration synthetic media, with the incorporation of a recycle pump station to highly assist with the enhancement of the biological treatment capacity and the diversion of the incoming flow from the head of works by constructing main inlet feed pipeline to convey the flow to the biological filtration module.</p> <p>This project aims to fully restore the functionality and complete restoration of the plant and ensure that Olifantsfontein WCW improves effluent quality and complies with the Water Use License after failure to take reasonable measures to prevent pollution from occurring, continuing or recurring at Olifantsfontein WCW.</p>
Delays	Late payments resulted in contractor decelerating on site and reducing resources and manpower's due to contractors' cash flow affected.
Future Challenges	None
Anticipated citizen benefits	To restore the plant capacity and ensure that Olifantsfontein WCW complies with the Water Use License

Table 5.6: Capital Expenditure of 5 Largest Projects (continued)

Name of Project - D	Installation of Self Priming Pumps at Various ERWAT Plants
<b>Objective of Project</b>	The pumping systems were designed based on the conditions which were prevalent two decades ago, thus, these systems prove to be inefficient in today's conditions which might be due to an increase in population in the surrounding areas both residentially and industrially, state of the equipment, and other changes in operational functions. The currently installed pumps have been repaired several times to restore performance and efficiency. However the desired results were not achieved as the pumps are now operating outside the expected service life, and repairing these pumps has become uneconomical. Therefore, a project was initiated for the pumps to be replaced with improved new pumps to avoid future operational stoppages.
<b>Delays</b>	Lack of points of isolation at the plants which led to spillages, load shedding affecting power driven tools and issuing of the purchase order.
<b>Future Challenges</b>	National Electricity Grid Constraints
<b>Anticipated citizen benefits</b>	Improved pumping efficiency and flow handling to avoid backflow and spillages to the rivers.

Name of Project - E	SCIENTIFIC SERVICES – HVAC SYSTEM
<b>Objective of Project</b>	Extraction of harmful gasses/acids and the heating and cooling of the laboratories for effective operation of Scientific Services equipment
<b>Delays</b>	Transporting/Importing of critical equipment
<b>Future Challenges</b>	The temporary shutting down of certain laboratories/rooms for the installation of fume hoods/ extraction systems
<b>Anticipated citizen benefits</b>	To improve the quality of sample testing which will assist in improving the quality of effluent, furthermore the system has a direct impact on the health and safety of the employees

### COMMENTS ON CAPITAL PROJECTS

The five largest capital projects are Olifantsfontein WCW Intervention; Installation of Medium Voltage at various ERWAT WCWs; Motor Control Centre panels at Vlakplaats WCW, Installation of self-priming pumps at various ERWAT WCWs; HVAC system at ERWAT Scientific Services.

The costs and actual expenses on these projects are provided in the table above.



## 5.8 BASIC SERVICE AND INFRASTRUCTURE BACKLOGS – OVERVIEW

### INTRODUCTION TO BASIC SERVICE AND INFRASTRUCTURE BACKLOGS

The CoE and ERWAT undertook a comprehensive Wastewater Conveyance and Treatment Systems Regionalisation and 50-year Master Plan to provide direction for wastewater treatment infrastructure planning, investment and implementation to the year 2070. The study included a review of the City's current wastewater treatment infrastructure and an analysis of alternative solutions to accommodate future wastewater treatment needs.

The urgently required WCW capacity upgrades to accommodate the current legal commitments, including Human Settlements projects in line with the 50-year Master Plan and Regionalization of WCW in a short to medium term, is illustrated in the table below.

### COMMENT ON BACKLOGS

ERWAT is currently experiencing capacity constraints at most of its Water Care Works. This will affect the CoE in meeting the Growth and Development Strategy (GDS2055), which will directly impact the development of the Aerotropolis, mega catalytic projects and economic growth. The demand for wastewater treatment services and its resources is increasing continuously within the CoE due to the rapid growth of population and urbanization. ERWAT does not access MIG grants for capital projects.

Table 5.7: Service Backlogs as at 30 June 2021

No	Water Care Works (WCW)	Ultimate 50-year capacity (Mℓ/d)	Design/Regraded Capacity (Mℓ d)	Operating Capacity (Mℓ/d)	Backlog Upgrade Capacity (Mℓ/d)	2025 Capacity Upgrade (Mℓ d)	2035 Capacity Upgrade	2075 Capacity Upgrade (Mℓ/d)
1	Jan Smuts	9	4,5	11,46	6,96	4,5		
2	Vlakplaats	83	55	114,19	59,19	28		
3	Waterval	663	170	353,2	183,2	250	119	180
4	Ancor	100	15	28,54	13,54	35	15	35
5	Herbert Bickley	124,1	15,1	21,12	6,02	25	45	40
6	Olifantsfontein	196	65	106,64	41,64	50	20	50
7	Welgedacht	274	87	81,38		60	80	40
8	Ratanda	23,7	4,7	4,05		10	10	
9	Hartebeestfontein	287	63	53,52		40	40	150
10	JP Marais	15	15	11,9				
11	Rondebult	20	20	13				

# Spending against Capital Budget

## INTRODUCTION TO CASH FLOW MANAGEMENT AND INVESTMENTS

Cash flow is the lifeblood of ERWAT's business. Cash is derived from sales and collections of accounts receivables. Cashflow enables the entity to meet all expenses and debt obligations. The goal of good cash flow management is to have enough cash on hand when you need it.

ERWAT manages cash flow conservatively. ERWAT does not have any significant long-term investments, and available cash consists of its own funds used primarily for operating

expenditure. Grants and loans are used exclusively for the funding of larger capital projects. Minor capital is funded through savings in operating expenditure and depreciation.

ERWAT prepares the cash flow projection for the financial year and the cash flow budget is approved on/or before the 30 May by the Board of Directors. The actual cash flow is monitored against the budget monthly and variances are reported to the Board of Directors as well as the CoE monthly and quarterly.

### 5.1 CASH FLOW

#### CASH FLOW STATEMENT

	Note(s)	2022 R	2021 Restated* R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>RECEIPTS</b>			
Service charges		1 091 458 692	976 267 695
Development contribution		22 165 228	23 879 778
Grants received		73 247 707	116 397 095
Interest income		11 868 233	3 951 641
Dividends received		59 925	60 118
Other income		33 116 248	128 106 387
		<b>1 231 916 033</b>	<b>1 248 662 714</b>
<b>PAYMENTS</b>			
Employee costs		(395 738 668)	(382 300 799)
Suppliers		(470 326 861)	(579 448 331)
Finance costs		(29 693 534)	(30 779 632)
		<b>(895 759 063)</b>	<b>(992 528 762)</b>
<b>Net cash flows from operating activities</b>	26	<b>336 156 970</b>	<b>256 133 952</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment*	8	(155 016 066)	(56 354 392)
Proceeds from insurance payout and other recoveries		907 038	2 539 600
<b>Net cash flows used in investing activities</b>		<b>(154 109 028)</b>	<b>(53 814 792)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of long-term borrowings		(51 466 376)	(52 212 550)
Net finance lease payments		(1 260 512)	(1 260 542)
<b>Net cash flows used in financing activities</b>		<b>(52 726 888)</b>	<b>(53 473 092)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>129 321 054</b>	<b>148 846 068</b>
Cash and cash equivalents at the beginning of the year		150 913 937	2 067 866
Rounding difference		(3)	3
<b>Cash and cash equivalents at the end of the year</b>	7	<b>280 234 988</b>	<b>150 913 937</b>

## COMMENT ON CASH FLOW OUTCOMES

ERWAT's cash reserves increased from R151m in 2020/2021 to R280m in 2021/2022, demonstrating an improvement in the cash flow management of the entity.

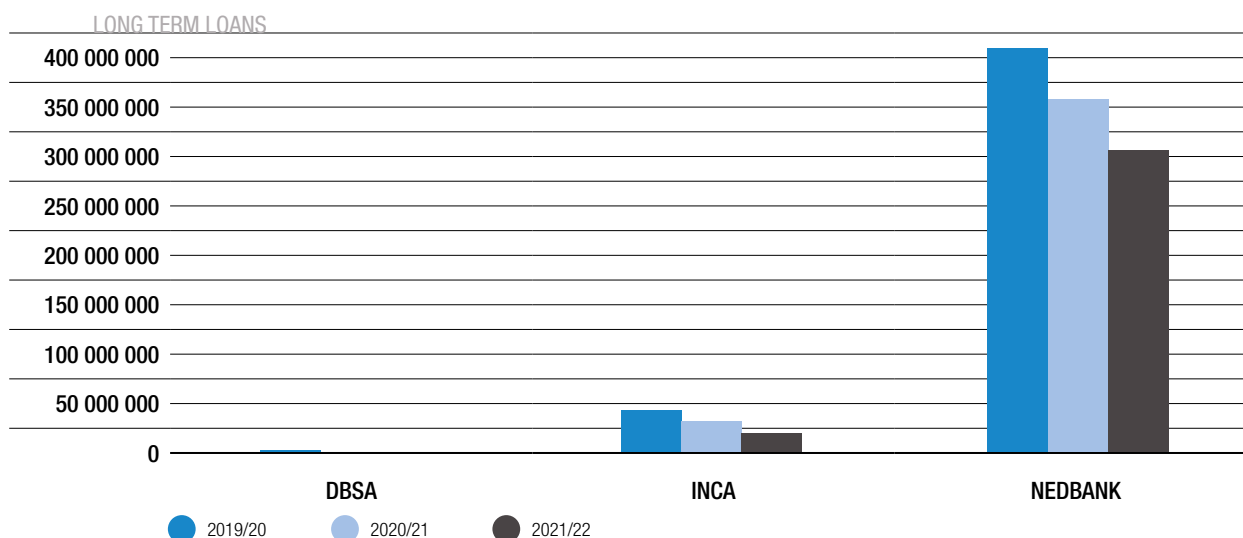
## 5.10 BORROWING AND INVESTMENTS

### INTRODUCTION TO BORROWING AND INVESTMENTS

ERWAT has long-term loans from INCA and Nedbank. The loans were used specifically to fund long-term infrastructure projects such as the extension of existing plants and construction of new plants.

Table 5.9: Long Term Loans from 2019/2020 to 2021/2022

Loan provider	Outstanding balances as of 30 June 2021		
	2019/2020	2020/2021	2021/2022
DBSA	1 152 011	-	-
INCA	40 385 638	32 109 153	22 721 758
NEDBANK	404 367 914	361 583 860	319 504 879
<b>TOTAL LOANS</b>	<b>445 905 363</b>	<b>393 693 013</b>	<b>342 226 637</b>



### COMMENT ON BORROWING AND INVESTMENTS

ERWAT has de-emphasized on debt as a form of CAPEX funding and is planning on settling the loans on time. These loans mature in November 2024 and November 2029 respectively and were used to fund previous CAPEX requirements of the entity.

## 5.11 PUBLIC PRIVATE PARTNERSHIPS

### PUBLIC PRIVATE PARTNERSHIPS

ERWAT did not undertake any contracts or projects during the year by means of public private partnerships.

There are three long term contracts in place, namely the agreements with the members of ERWAT, namely the CoE, City of Johannesburg and Lesedi Local Municipality, which were entered into for the purification of wastewater received from said members.

# Other Financial Matters

## 5.12 SUPPLY CHAIN MANAGEMENT

### SUPPLY CHAIN MANAGEMENT

The entity has adopted SCM systems in compliance with the provisions of the MFMA and the National Treasury and Municipal Supply Chain Management Regulations, 2017.

In terms of SCM and Broad-Based Black Economic Empowerment (B-BBEE) guidelines, the following is worth reporting:

1. The evaluation of bids is based firstly on functionality, then price and B-BBEE in accordance with National Treasury circulars
2. The adjudication process is applied as per the MFMA and as per the SCM Policy
3. Declaration of interest certificates are required for all parties registering on the supplier database
4. B-BBEE is calculated and based on information received from the suppliers and verified by certificates confirming their B-BBEE status where possible
5. The latest internal and external audit reports have identified areas for improvement which are being addressed. All procurement committee members are duly appointed by the accounting officer (Managing Director) as required by the SCM Policy
6. These procurement Committees are Bid Specification, Bid Evaluation and Bid Adjudication Committees

A SCM unit was established that monitors the implementation of the SCM policies in line with the regulations which seek to modernize financial governance and improve accountability and transparency in the entity's processes. These policies also provide for the exclusion of awards to persons in the service of the state, subject to the exemptions and regulations issued by National Treasury from time to time.

The Board oversees that the procurement policy embraces the objectives of B-BBEE and the Managing Director, as the accounting officer of the company, was tasked as the custodian for effective implementation.

## 5.13 GRAP COMPLIANCE

### GRAP COMPLIANCE

GRAP is the acronym for Generally Recognized Accounting Practice, and it provides the rules by which municipalities are required to maintain their financial accounts. Successful GRAP compliance will ensure that municipal accounts are comparable and more informative for the municipality. It will also ensure that the municipality is more accountable to its citizens and other stakeholders. Information on GRAP compliance is needed to enable National Treasury to assess the pace of progress and consider the implications.

ERWAT complies with GRAP. The annual financial statements have been prepared in accordance with GRAP, including interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with Section 122(3) of the MFMA.



# *Chapter 6*

## AUDITOR-GENERAL AUDIT FINDINGS

## INTRODUCTION

The Constitution S188 (1) (b) states that the function of the AG includes the auditing and reporting on the accounts, financial statements and financial management of all municipalities. MSA section 45 states that the results of performance measurement must be audited annually by the AG.

The annual financial statements set out in Volume II were audited within the regulated timeframe. The audit report is contained in Volume III.

The outcome of the audit was unqualified opinion with material misstatements. Component A covers the AG's opinion for 2020/2021; Component B covers the same for 2021/2022

# AG opinion of Financial Statements 2020/21

## 6.1 AUDITOR-GENERAL REPORTS 2020/2021 FINANCIAL YEAR

Table 6.1: Auditor-General Report on Financial Performance 2020/2021

Audit Report Status:	Unqualified audit opinion
Non-compliance issues	Remedial Action Taken
<b>Irregular expenditure NOT prevented</b>	<ol style="list-style-type: none"> <li>1. Management to implement National treasury guidelines on deviations through development of an SOP.</li> <li>2. Management has implemented measures to adequately monitor the progress on the procurement plan at EXCO level to ensure that procurement processes are commenced well in advance.</li> <li>3. Management has ended all irregular contracts and obtained/are obtaining new contracts for the services.</li> <li>4. Irregular contracts are under investigation to ensure appropriate consequence management procedures are implemented.</li> <li>5. Training of staff/stakeholders on SCM legislation is ongoing.</li> <li>6. ERWAT has drafted a UIFW reduction plan and SOP for implementation.</li> </ol>
<b>SCM - Deviations not in line with SCM Reg 36 (minor breach)</b>	A SOP on contract management has been drafted for implementation.
<b>Consequence Management - Instances of investigations NOT timeously completed to determine if someone is responsible for irregular expenditure incurred, as required by municipal budget and reporting regulations 75(1)</b>	Per discussion with management, the investigations are dealt with at the level of the COE, as such although management agreed with the finding in principle, the finding was forwarded to the COE for formal response and was not yet received at the date of the finalisation of this report. The finding is reported as annexure A - Matters affecting the audit report.
<b>Fruitless and wasteful expenditure</b> a) <b>Fruitless and wasteful expenditure NOT prevented</b> b) <b>Interest - Relaxation of the MFMA Provisions not considered resulting in overstatement of FEW</b>	Management has implemented the following controls to avoid future fruitless and wasteful expenditure: <ol style="list-style-type: none"> <li>1. Investigation of any invoice with interest levied prior to payment. The invoice is to be discussed with the service provider as well as the user department in order to resolve the issues</li> <li>2. The process to change banking details has been improved, with the addition of a form signed by the employee with their ID number and a bank confirmation letter confirming the employees banking details</li> <li>3. Robust review processes implemented around the submission of VAT returns and the manual process involved in submission thereof</li> <li>4. Requested a credit on all interest charged by service providers where the service provider was at fault</li> <li>5. Interest incurred and paid is deducted from the defaulting employee's salary</li> </ol>

Table 6.2: Auditor-General Report On Service Delivery Performance 2020/2021

Audit Report Status:	Unqualified audit opinion
Non-compliance issues	Remedial Action Taken
<b>No material non-compliance affecting the audit report noted.</b>	Not applicable

# Auditor-General Opinion Year 2021/22

## 6.2 AUDITOR-GENERAL REPORT 2020/2021 FINANCIAL YEAR

ERWAT will complete and submit the Draft Annual Performance Report with the Draft Annual Financial Statements, within the legislated deadlines, to the Auditor-General South Africa (AGSA). The Auditor-General South Africa will audit the 2021/22 Annual Report and issue an audit opinion after audit process. The section will be updated upon receipt of the Audit Report by AGSA.

### AG REPORT ON THE FINANCIAL STATEMENTS: YEAR 2021/2022

Not Applicable

Table 6.3: Auditor-General Report on Financial Performance 2021/2022

<b>Audit Report Status:</b>	<b>N/A</b>
<b>Non-compliance issues</b>	<b>Remedial Action Taken</b>
<b>Not Applicable</b>	<b>Not Applicable</b>

Table 6.3: Auditor-General Report on Service Delivery Performance 2021/2022

<b>Audit Report Status:</b>	<b>N/A</b>
<b>Non-compliance issues</b>	<b>Remedial Action Taken</b>
<b>Not Applicable</b>	<b>Not Applicable</b>

### COMMENTS ON AUDITOR-GENERAL'S OPINION 2021/2022

Not Applicable

### COMMENTS ON MFMA SECTION 71 RESPONSIBILITIES

Section 71 of the MFMA requires municipalities to return a series of financial performance data to the National Treasury at specified intervals throughout the year. The chief financial officer states that these data sets have been returned according to the reporting requirements.



# GLOSSARY

<b>Accessibility indicators</b>	Explore whether the intended beneficiaries are able to access services or outputs.
<b>Accountability documents</b>	Documents used by executive authorities to give “full and regular” reports on the matters under their control to Parliament and provincial legislatures as prescribed by the Constitution. This includes plans, budgets, in-year and annual reports.
<b>Activities</b>	The processes or actions that use a range of inputs to produce the desired outputs and ultimately outcomes. In essence, activities describe “what we do”.
<b>Adequacy indicators</b>	The quantity of input or output relative to the need or demand.
<b>Annual Report</b>	A report to be prepared and submitted annually based on the regulations set out in Section 121 of the MFMA. Such a report must include annual financial statements as submitted to and approved by the AG.
<b>Approved Budget</b>	The annual financial statements of a municipality as audited by the AG and approved by council or a provincial or national executive.
<b>Baseline</b>	Current level of performance that a municipality aims to improve when setting performance targets. The baseline relates to the level of performance recorded in a year prior to the planning period.
<b>Basic municipal service</b>	A municipal service that is necessary to ensure an acceptable and reasonable quality of life to citizens within that particular area. If not provided it may endanger the public health and safety or the environment.
<b>Budget year</b>	The financial year for which an annual budget is to be approved – means a year ending on 30 June.
<b>Cost indicators</b>	The overall cost or expenditure of producing a specified quantity of outputs.
<b>Distribution indicators</b>	The distribution of capacity to deliver services.
<b>Financial Statements</b>	Includes at least a statement of financial position, statement of financial performance, cash-flow statement, notes to these statements and any other statements that may be prescribed.
<b>General Key performance indicators</b>	After consultation with MECs for local government, the Minister may prescribe general key performance indicators that are appropriate and applicable to local government generally.
<b>Impact</b>	The results of achieving specific outcomes, such as reducing poverty and creating jobs.
<b>Inputs</b>	All the resources that contribute to the production and delivery of outputs. Inputs are “what we use to do the work”. They include finances, personnel, equipment and buildings.
<b>Integrated Development Plan (IDP)</b>	Set out municipal goals and development plans.
<b>National Key performance areas</b>	<ul style="list-style-type: none"> <li>a) Service delivery and infrastructure</li> <li>b) Economic development</li> <li>c) Municipal transformation and institutional development</li> <li>d) Financial viability and management</li> <li>e) Good governance and community participation</li> </ul>
<b>Outcomes</b>	The medium-term results for specific beneficiaries that are the consequence of achieving specific outputs. Outcomes should relate clearly to an institution’s strategic goals and objectives set out in its plans. Outcomes are “what we wish to achieve”.

**Outputs** The final products, or goods and services produced for delivery. Outputs may be defined as "what we produce or deliver". An output is a concrete achievement (i.e., a product such as a passport, an action such as a presentation or immunization, or a service such as processing an application) that contributes to the achievement of a Key Result Area.

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**Performance Indicator** Indicators should be specified to measure performance in relation to input, activities, outputs, outcomes and impacts. An indicator is a type of information used to gauge the extent to which an output has been achieved (policy developed, presentation delivered, service rendered)

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**Performance Information** Generic term for non-financial information about municipal services and activities. Can also be used interchangeably with performance measure.

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**Performance Standards:** The minimum acceptable level of performance or the level of performance that is generally accepted. Standards are informed by legislative requirements and service-level agreements. Performance standards are mutually agreed criteria to describe how well work must be done in terms of quantity and/or quality and timeliness, to clarify the outputs and related activities of a job by describing what the required result should be. In this EPMS performance standards are divided into indicators and the time factor.

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**Performance Targets:** The level of performance that municipalities and its employees strive to achieve. Performance targets relate to current baselines and express a specific level of performance that a municipality aims to achieve within a given time period.

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**Service Delivery Budget Implementation Plan** Detailed plan approved by the mayor for implementing the municipality's delivery of services; including projections of the revenue collected and operational and capital expenditure by vote for each month. Service delivery targets and performance indicators must also be included.

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**Vote** One of the main segments into which a budget of a municipality is divided for appropriation of money for the different departments or functional areas of the municipality. The vote specifies the total amount that is appropriated for the purpose of a specific department or functional area.

Section 1 of the MFMA defines a "vote" as:

- a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
- b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned

# APPENDICES

## Appendix A

# Councillors: Committee Allocation and Council Attendance

Not applicable

## Appendix B

# Committees and Committee Purpose

### COMMITTEES (OTHER THAN EXECUTIVE COMMITTEE) AND PURPOSES OF COMMITTEES

Committees	Purpose of Committee
<b>Governance Risk &amp; Compliance</b>	The Finance Committee supports the Board of Directors in discharging its finance and audit oversight
<b>Remuneration and Ethics</b>	The Remuneration and Ethics Committee has an independent role, operating as an overseer and a market of recommendations to the Board for its consideration and final approval about the company remuneration of directors and executives. This process should be fairly and responsibly the disclosure of director remuneration and should be accurate, complete and transparent.
<b>Operations</b>	The Operations Committee supports the Board of Directors in overseeing operations of the entities.
<b>Research Development &amp; Commercial Business</b>	The Research Development and Committee Business Committee is responsible for identifying and optimisation of the research and development conducted at ERWAT that could be translated into revenue generation mechanism.

## Appendix C

# Third Tier Administrative Structure

Not applicable

## Appendix D

# Functions of Municipality/Entity

### ENTITY FUNCTIONS

ENTITY FUNCTIONS	Function Applicable to Municipality (Yes / No) *	Function Applicable to Entity (Yes / No)
Constitution Schedule 4, Part B functions: Water and sanitation services limited to potable water supply systems and domestic wastewater and sewage disposal systems	Yes	ERWAT

## Appendix E Ward Reporting

Not applicable

## Appendix F Ward Information

Not applicable

## Appendix G Ward Information

### MUNICIPAL AUDIT COMMITTEE RECOMMENDATIONS

Date of Committee	Committee recommendations during 2020/2021	Recommendations adopted (enter Yes) If not adopted (provide explanation)
TBA	TBA	TBA

## Appendix H Long Term Contracts and Public Private Partnership

ERWAT did not have Public Private Partnerships during the 2020/2021 financial year.

There are three long term contracts in place, namely the agreements with the members of ERWAT, including the CoE, City of Johannesburg and Lesedi Local Municipality, which were entered into for the purification of wastewater received from said members.

## Municipal Entity/Service Provider Performance Schedule

Not applicable as ERWAT does not have any municipal entities and does not outsource any municipal functions or services.

### MUNICIPAL ENTITY/SERVICE PROVIDER PERFORMANCE SCHEDULE: CITY-WIDE INDICATORS

Entity	(a) Service Indicators	2020/2021		2021/2022	
		Target	Actual	Target	Actual
<b>Ekurhuleni Water Care Company (ERWAT) provides bulk wastewater conveyance and a highly technical and proficient wastewater treatment service to some industries and people who have access to sanitation services within Ekurhuleni.</b>	Total revenue generated from external business	R 55 706 522.52	59 010 259.96	R 32 200 000	R40 547 891
	Audit Opinion	Unqualified Audit Opinion	Unqualified Audit Opinion	Unqualified Audit Opinion	Unqualified Audit Opinion
	Percentage compliance with wastewater treatment works license conditions and/or exemptions standards	89%	89%	82.5%	84.75%
	Percentage of Capital expenditure on planned projects	95%	100,26%	95%	99.59%
	Percentage of repairs and maintenance budget spent	90%	90%	95%	89.22%
	Percentage of procurement spend allocated to SMME's	(33.33%)	87%	45%	91.4%
	Number repeat audit findings	0 audit findings cleared	35 audit findings cleared in full by the end of Q4 2020/2021	0 audit findings cleared	4 audit findings cleared in full by the end of Q4 2021/2022

## Appendix J

## Ward Information

### DISCLOSURES OF FINANCIAL INTEREST

Period 1 July 2020 to 30 June 2021		
Position	Name	Description of Financial Interests (Nil / or Details)
Managing Director	Tumelo Gopane	Partnership: Farming Business
Head of Department: Finance & SCM (Suspended)	Wim Louw	Nil
Company Secretary	Zimasa Socikwa	Nil
Head of Department: Scientific Services	Alison Chapman	Nil
Head of Department: Operations	Fortune Mabunda	Nil
Head of Department: Human Resources	Rodney Barnes	Nil
Interim Head of Department: Commercial Business	Lelentle Motaung	Nil
Interim Head of Department: Infrastructure Planning and Projects	Karabo Nthethe	Nil
Interim Head of Department: Maintenance	Nganamakabane Mutyaba	Nil
Interim Head of Department: Finance and SCM	Dzunani Makgopa	Director: Mansah Consulting Director: Dzunare Trading

## Appendix K

## Revenue Collection Performance

### I) REVENUE COLLECTION PERFORMANCE BY VOTE

Entity	2020/21		Current: 2021/22		2021/22 Variance	
	Actual	Original Budget	Adjusted Budget	Actual	Original Budget	Adjustments Budget
73121341000FAZZZZER	8 706 690	3 722 160	3 722 160	11 868 233	170,61%	170,61%
73481423300FAZZZZER	35 087 823	56 395 600	46 395 600	26 959 993	70,64%	85,86%
73501423300FAZZZZER	929 638 778	1 142 878 261	1 142 878 261	1 142 878 261	100,00%	100,00%
73331423300FAZZZZER	23 871 087	-	-	-	0,00%	0,00%
73171420910FAZZZZER	-	-	-	-	0,00%	0,00%
73311423300FAZZZZER	-	-	10 000 000	1 402 201	0,00%	335,89%
73121252810FAZZZZER	56 696 138	187 100 000	155 656 019	146 797 610	69,30%	83,30%
73171420910FAZZZZER				30 819 051	0,00%	0,00%
73251144470FAZZZZER				831 794	0,00%	0,00%
73122300501ZZMRCZZER				29 780	0,00%	0,00%
73301425510FAZZZZER				250	0,00%	0,00%
73481420911FAZZZZER				10 760 592	0,00%	0,00%
73121380900FAZZZZER				114 427	0,00%	0,00%
73121342020FAZZZZER				59 925	0,00%	0,00%
<b>Total Revenue by Vote</b>	<b>1 054 001 516</b>	<b>1 390 096 021</b>	<b>1 358 652 040</b>	<b>1 372 522 118</b>	<b>98,74%</b>	<b>101,02%</b>

Variations are calculated by dividing the difference between actual and original/adjustments budget by the actual. This table is aligned to MBRR table A3

## II) REVENUE COLLECTION PERFORMANCE BY SOURCE

Description	2020/21		2021/22		2021/22 Variance	
	Actual	Original Budget	Adjusted Budget	Actual	Original Budget	Adjustments Budget
Service charges	929 381	1 142 878	1 142 878	1 142 878	100,00%	100,00%
Development contribution	-	-	-	-	0,00%	0,00%
Intervention Income	-	-	-	-	0,00%	0,00%
Other income	63 713	56 396	56 396	70 919	125,75%	125,75%
Interest received – investment	3 951	3 722	3 722	11 868	320,00%	320,00%
Dividends received	60	-	-	60	0,00%	0,00%
Government grants and subsidies	56 696	187 100	155 656	146 797	78,00%	94,00%
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>1 054 000</b>	<b>1 390 096</b>	<b>1 358 652</b>	<b>1 372 522</b>	<b>98,74%</b>	<b>101,02%</b>

Variations are calculated by dividing the difference between actual and original/adjustments budget by the actual. This table is aligned to MBRR table A4.

## Appendix L

# Conditional Grants Received: Excluding MIG

## GRANT PERFORMANCE

Description	2020/21		2021/22		2021/22 Variance	
	Actual	Budget	Adjusted Budget	Actual	Original Budget	Adjustments Budget
	R'000	R'000	R'000	R'000	%	%
Other grant providers – the CoE capital grant	49 830	187 100	155 696	155 016	82.85	99.59
<b>TOTAL</b>	<b>49 830</b>	<b>187 100</b>	<b>155 696</b>	<b>156 016</b>	<b>82.85</b>	<b>99.59</b>

## Appendix M

## Capital Expenditure – New & Upgrade/ Renewal Programmes: Including MIG

### I) CAPITAL EXPENDITURE – NEW ASSETS PROGRAMME

Description	2020/21		2021/22		Planned Capital expenditure		
	Actual	Original Budget	Adjusted Budget	Actual Expenditure	2022/23	2023/24	2024/25
<b>Capital expenditure by Asset Class Infrastructure - Total</b>	<b>570</b>				<b>27 166</b>	<b>3 568</b>	<b>46 333</b>
Sewerage purification	570				27 166	3 568	46 333
<b>Other assets - Total</b>							
General vehicles		3 796	3 158	3 144			
Plant & Equipment	673	19 455	16 185	16 115			
Computers - hardware/ equipment		6 030	5 016	4 995			
Furniture and other equipment	302						
Buildings							
<b>Intangibles</b>	-						
Computers - software & programming							
<b>TOTAL</b>	<b>3474</b>	<b>29 280</b>	<b>24 359</b>	<b>24 253</b>	<b>27 166</b>	<b>3 568</b>	<b>46 333</b>

### II) CAPITAL EXPENDITURE – UPGRADE/RENEWAL PROGRAMME

Description	2020/21		2021/22		Planned Capital expenditure		
	Actual	Original Budget	Adjusted Budget	Actual Expenditure	2022/23	2023/24	2024/25
<b>Capital expenditure by Asset Class</b>							
<b>Infrastructure -Total</b>	<b>47 525</b>	<b>157 820</b>	<b>131 297</b>	<b>130 725</b>	<b>91 532</b>	<b>99 996</b>	<b>111 954</b>
Sewerage purification	47 525	157 820	131 297	130 725	91 532	99 996	111 954
<b>Other assets - Total</b>	<b>4 977</b>						
General vehicles	-						
General vehicles	4 867						
Plant & Equipment	110						
Computers - hardware/ equipment	-						
Furniture and other equipment	-						
Buildings							
<b>Intangibles</b>	-						
Computers - software & programming	-						
<b>TOTAL</b>	<b>52 502</b>	<b>157 820</b>	<b>131 297</b>	<b>130 725</b>	<b>91 532</b>	<b>99 996</b>	<b>111 954</b>

## Appendix N

## Capital Programme by Project Current Year

## CAPITAL PROGRAMME BY PROJECT: 2021/22

NO	Section	Description	Original Budget	Adjustment Budget	Actual	Variance (Act - Adj) %	Variance (Act - OB) %	Total Project Value
1	ERWAT	ANCOR	R6 262 653,00	R4 531 690,00	R1 265 578,50	79%	-100%	R1 265 578,50
2	ERWAT	BENONI	R822 894,00	R814 174,00	R4 483 557,44	-41%	-100%	R4 483 557,44
3	ERWAT	CARL GRUNDLING	R0,00	R3 173 638,02	R1 155 901,78	106%		R1 155 901,78
4	ERWAT	DAVEYTON	R6 132 722,00	R2 409 996,00	R728 029,21	-33%	-100%	R728 029,21
5	ERWAT	DEKEMA	R8 748 657,00	R2 307 747,51	R0,00	-51%	-100%	R0,00
6	ERWAT	FINANCIAL SERVICES	R0,00	R450 000,00	R0,00	-67%		R0,00
7	ERWAT	FLEET	R0,00	R4 500 000,00	R23 787 010,85	-30%		R23 787 010,85
8	ERWAT	HARTEBEESTFONTEIN	R8 966 941,00	R6 119 826,00	R4 126 278,64	235%	-100%	R4 126 278,64
9	ERWAT	HEIDELBERG	R3 748 064,00	R3 174 268,86	R3 694 042,34	-98%	-100%	R3 694 042,34
10	ERWAT	HERBERT BICKLEY	R0,00	R479 285,24	R4 388 633,32	164%		R4 388 633,32
12	ERWAT	ICT	R0,00	R140 222,74	R8 339 803,74	3097%		R8 339 803,74
13	ERWAT	JAN SMUTS	R0,00	R619 592,98	R0,00	87%		R0,00
14	ERWAT	JP MARAIS	R7 170 434,00	R3 289 419,25	R637 327,20	-78%	-100%	R637 327,20
15	ERWAT	MARKETING	R0,00	R101 229,72	R8 149 734,92	-100%		R8 149 734,92
16	ERWAT	MD	R0,00	R810 000,00	R39 515 247,58	-100%		R39 515 247,58
17	ERWAT	OLIFANTSFONTEIN INTERVENTION	R42 443 981,00	R29 753 173,86	R13 010 107,57	-20%	-100%	R13 006 349,57
18	ERWAT	RATANDA	R3 724 676,00	R1 644 624,00	R1 265 578,50	151%	-100%	R1 265 578,50
19	ERWAT	RONDEBULT	R6 929 630,00	R241 370,00	R4 483 557,44	1430%	-100%	R4 483 557,44
20	ERWAT	RYNFIELD	R3 508 125,00	R5 077 490,00	R1 155 901,78	-14%	-100%	R1 155 901,78
21	ERWAT	SCIENTIFIC SERVICES	R0,00	R18 393 217,86	R728 029,21	-55%		R728 029,21
22	ERWAT	SECURITY SERVICES	R0,00	R20 000,00	R0,00	-100%		R0,00
25	ERWAT	TSAKANE	R21 036 623,00	R4 817 147,65	R0,00	-87%	-100%	R0,00
26	ERWAT	WELGEDACHT	R5 949 087,00	R11 425 993,42	R23 787 010,85	-29%	-100%	R23 787 010,85
27	ERWAT	VLAKPLAATS	R30 516 053,00	R42 747 761,00	R4 126 278,64	-8%	-100%	R4 126 278,64
28	ERWAT	WATERVAL	R31 139 460,00	R8 614 131,89	R3 694 042,34	51%	-100%	R3 694 042,34
<b>TOTAL CAPITAL REQUIREMENT</b>			<b>R187 100 000,00</b>	<b>R155 656 000,00</b>	<b>R155 016 066,00</b>			

## Appendix O

## Capital Programme by Project by Ward Current Year

Not applicable

## Appendix P

## Service Connection Backlogs at Schools and Clinics

Not applicable

## Appendix Q

## Service Backlogs Experienced By The Community Where Another Sphere Of Government Is Responsible For Service Provision

Not applicable

## Appendix R

## Declaration of Loans And Grants Made by the Municipality

### DECLARATION OF LOANS AND GRANTS MADE BY THE MUNICIPALITY: 2021/22

All Organisation or Person in receipt of Loans */Grants* provided by the municipality	Nature of project	Conditions attached to funding	Value 2021/22 R' 000	Total Amount committed over previous and future year
INCA	LONG TERM INFRASTRUCTURE PROJECTS		22 271 758	19 742 632
NEDBANK	LONG TERM INFRASTRUCTURE PROJECTS		319 504 879	84 678 883

\* Loans/Grants - whether in cash or in kind

## Appendix S

## Declaration of Returns not Made in Due Time Under MFMA S71

Not applicable, all MFMA s71 returns were made in due time.

## Appendix T

## National and Provincial Outcome for Local Government

Not applicable



*Chapter 7*

ANNUAL FINANCIAL  
STATEMENTS

# General Information

**Legislation governing the municipal entity's operations** Municipal Finance Management Act (Act 56 of 2003). Municipal Systems Act, Structure Act, National Water Act and the Companies Act (Act No. 71 of 2008). The annual financial statements have been audited in compliance with the Companies Act and Municipal Finance Management Act.

**Accounting Officer** K Chihota

**Interim Head of Department - Financial Services** S Dinath AGA (SA)

**Directors** Dr NC Skeepers (Chairperson of Board of Directors - Appointed 01 March 2022)  
Y Haffejee (Non-executive - Appointed 01 March 2022)  
N Ngwenya (Non-executive - Appointed 01 March 2022)  
RI Kikine (Non-executive - Appointed 01 March 2022)  
U Exner (Non-executive - Appointed 01 March 2022)

**Registered office** Hartebeestfontein Office Park  
R25 (Bapsfontein/Bronkhorstspuit) Kempton Park  
1619

**Business address** Hartebeestfontein Office Park  
R25 (Bapsfontein/Bronkhorstspuit) Kempton Park  
1619

**Postal address** P O Box 13106  
Norkem Park 1631

**Controlling entity** City of Ekurhuleni Metropolitan Municipality incorporated in South Africa

**Bankers** ABSA Bank  
Corporate and Investment Banking 15 Alice Lane  
Sandton 2196

**Auditors** Auditor-General South Africa  
39 Scott Street, Bramley, Johannesburg

**Company secretary** Z Socikwa

**Company registration number** 1992/005753/08

**Preparer** The annual financial statements were prepared under the supervision of:  
S Dinath AGA (SA) Interim Head of Department - Financial Services

**Nature of business and principal activities** Bulk Wastewater Treatment

# Board's Responsibilities and Approval

The directors are required by the Municipal Finance Management Act (Act 56 of 2003) to maintain adequate accounting records and are 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 directors to ensure that the annual financial statements fairly represent the state of affairs of ERWAT as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The directors acknowledge that they are ultimately 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 directors to meet these responsibilities, the board 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 ERWAT. While operating risk cannot be fully eliminated, ERWAT endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are 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 directors have reviewed ERWAT's cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, they are satisfied that ERWAT has, or has access to adequate resources to continue in operational existence for the foreseeable future.

ERWAT is wholly dependent on the City of Ekurhuleni Metropolitan Municipality for continued funding of operations. The annual financial statements are prepared on the basis that ERWAT is a going concern and that the City of Ekurhuleni Metropolitan Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the entity.

Although the board is primarily responsible for the financial affairs of the entity, they are advised by the entity's internal auditors.

The external auditors are responsible for auditing ERWAT's annual financial statements. The annual financial statements have been examined by ERWAT's external auditors and their report is presented in the Annual Report.

The annual financial statements set out on pages 104 to 166, which have been prepared on a going concern basis, were approved by the Board on 31 August 2022 and were signed on its behalf by:

*NC Skeepers*

**Dr. NC Skeepers**

Chairperson of Board of Directors  
Non-Executive Director



**K Chihota**

Accounting Officer  
Interim Managing Director

# Board's Report

The directors submit their report for the year ended 30 June 2022.

## 1. REVIEW OF ACTIVITIES

### MAIN BUSINESS AND OPERATIONS

ERWAT is a municipal entity. The principal activity of the entity is conveyance and treatment of wastewater and the provision of related engineering services and products. The operating results and the state of affairs of the Entity are set out in the attached annual financial statements and the annual report.

Net surplus of the entity was R 377 197 304, (2021: surplus R 94 662 836).

## 2. GOING CONCERN

We draw attention to the fact that at 30 June 2022, the entity had an accumulated surplus of R 2 273 109 057 and that the entity's total assets exceeded its liabilities by R 2 273 109 057.

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 future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## 3. SUBSEQUENT EVENTS

The directors are not aware of any material matter or circumstance arising since the end of the period.

## 4. SHARE CAPITAL / CONTRIBUTED CAPITAL

ERWAT does not have share capital since it was founded as a Non-Profit Company.

## 5. COMPANY SECRETARY

The Company Secretary of the entity is Z Socikwa.

**Business address:** Hartebeestfontein Office Park  
R25 (Bapsfontein/  
Bronkhorstspuit) Kempton Park  
1619

**Postal address:** PO Box 13106  
Norkem Park 1631

# Statement of Financial Position

AS AT 30 JUNE 2022

		<b>2022</b>	<b>2021</b>
	Note(s)	R	Restated* R
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Trade receivables from exchange transactions	3	156 046 960	90 469 264
Receivables from non-exchange transactions	4	105 997 472	23 793 746
Other receivables from exchange transactions	5	17 093 719	16 509 867
Other financial assets	6	8 206 355	7 953 227
Cash and cash equivalents	7	280 234 987	150 913 937
		<b>567 579 493</b>	<b>289 640 041</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment*	8	2 228 320 454	2 183 376 489
Intangible assets	9	6 473 534	7 844 059
		<b>2 234 793 988</b>	<b>2 191 220 548</b>
<b>Total Assets</b>		<b>2 802 373 481</b>	<b>2 480 860 589</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Payables from exchange transactions	10	104 870 311	113 389 255
Provisions	11	27 231 928	31 621 706
VAT payable	12	8 746 086	618 515
Current portion of long-term borrowings	13	53 025 985	51 758 586
Current portion of finance lease obligation	14	305 462	1 213 915
Current portion of employee benefit obligation	15	2 486 000	2 166 000
		<b>196 665 772</b>	<b>200 767 977</b>
<b>NON-CURRENT LIABILITIES</b>			
Non-current portion of long-term borrowings	13	289 200 652	341 934 427
Non-current portion of finance lease obligation	14	-	239 432
Non-current portion of employee benefit obligation	15	43 398 000	42 007 000
		<b>332 598 652</b>	<b>384 180 859</b>
<b>Total Liabilities</b>		<b>529 264 424</b>	<b>584 948 836</b>
<b>Net Assets</b>		<b>2 273 109 057</b>	<b>1 895 911 753</b>
Accumulated surplus		2 273 109 057	1 895 911 753

\* See Note 33 & 32

# Statement of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2022

		<b>2022</b>	<b>2021</b>
	Note(s)	R	Restated* R
<b>REVENUE</b>			
<b>REVENUE FROM EXCHANGE TRANSACTIONS</b>			
Service charges	17	1 142 878 261	929 381 355
Intervention income	45	1 402 202	3 956 411
Other income	18	38 696 836	55 438 039
Interest income	19	11 868 233	3 951 641
Dividends received	19	59 925	60 118
<b>Total revenue from exchange transactions</b>		<b>1 194 905 457</b>	<b>992 787 564</b>
<b>REVENUE FROM NON-EXCHANGE TRANSACTIONS</b>			
<b>TRANSFER REVENUE</b>			
Government grants & subsidies	16	146 797 610	49 830 000
Development contribution	16	30 819 051	-
<b>Total revenue from non-exchange transactions</b>		<b>177 616 661</b>	<b>49 830 000</b>
<b>Total revenue</b>	16	<b>1 372 522 118</b>	<b>1 042 617 564</b>
<b>EXPENDITURE</b>			
Employee related costs	20	(394 207 775)	(391 597 929)
Depreciation and amortisation	21	(105 610 137)	(101 271 726)
Finance costs	22	(29 693 534)	(30 779 632)
Debt Impairment	23	(2 177 382)	(2 470 179)
Bulk purchases and materials	24	(251 872 470)	(249 138 832)
Repairs and maintenance - Contracted services	8	(106 973 920)	(79 451 130)
General Expenses	25	(101 926 271)	(94 486 713)
<b>Total expenditure</b>		<b>(992 461 489)</b>	<b>(949 196 141)</b>
<b>Operating surplus</b>		<b>380 060 629</b>	<b>93 421 423</b>
(Loss) Gains on disposal of assets		(4 925 453)	2 085 360
Fair value adjustments - Investments		253 128	1 559 714
Actuarial gains (losses)	15	1 809 000	(2 403 661)
		<b>(2 863 325)</b>	<b>1 241 413</b>
<b>Surplus for the year</b>		<b>377 197 304</b>	<b>94 662 836</b>

An amount of R 146 797 610 (2020/2021: R 49 830 000) included in Total revenue (Note 16) is ring-fenced for capital expenditure and has been utilised as such.

Gains (Loss) on disposal of assets includes both loss on sale of assets to the value of (R 5 832 491) (2020/2021: (R 454 240)) including an amount of R 3 813 (gain) recovered from an employee for a stolen laptop as well as the insurance payouts deemed to be proceeds from investment activities amounting to R 907 038 (2020/2021: R 2 539 600).

\* See Note 33 & 32

# Statement of Changes in Net Assets

FOR THE YEAR ENDED 30 JUNE 2022

	<b>Accumulated surplus R</b>	<b>Total net assets R</b>
<b>Balance at 01 July 2020 as restated*</b>	<b>1 801 248 917</b>	<b>1 801 248 917</b>
<i>Changes in net assets</i>		
Surplus for the year restated (Note 32 & 33)	94 662 836	94 662 836
<b>Balance at 01 July 2021 as restated* (Note 32 &amp; 33)</b>	<b>1 895 911 753</b>	<b>1 895 911 753</b>
<i>Changes in net assets</i>		
Surplus for the year	377 197 304	377 197 304
<b>Balance at 30 June 2022</b>	<b>2 273 109 057</b>	<b>2 273 109 057</b>

\* See Note 33 & 32

# Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2022

	Note(s)	2022 R	2021 Restated* R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>RECEIPTS</b>			
Service charges		1 091 458 692	976 267 695
Development contribution		22 165 228	23 879 778
Grants received		73 247 707	116 397 095
Interest income		11 868 233	3 951 641
Dividends received		59 925	60 118
Other income		33 116 248	128 106 387
		1 231 916 033 1	248 662 714
<b>PAYMENTS</b>			
Employee costs		(395 738 668)	(382 300 799)
Suppliers		(470 326 861)	(579 448 331)
Finance costs		(29 693 534)	(30 779 632)
		<b>(895 759 063)</b>	<b>(992 528 762)</b>
<b>Net cash flows from operating activities</b>	26	<b>336 156 970</b>	<b>256 133 952</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment*	8	(155 016 066)	(56 354 392)
Proceeds from insurance payout and other recoveries		907 038	2 539 600
<b>Net cash flows used in investing activities</b>		<b>(154 109 028)</b>	<b>(53 814 792)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of long-term borrowings		(51 466 376)	(52 212 550)
Net finance lease payments		(1 260 512)	(1 260 542)
<b>Net cash flows used in financing activities</b>		<b>(52 726 888)</b>	<b>(53 473 092)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>129 321 054</b>	<b>148 846 068</b>
Cash and cash equivalents at the beginning of the year		150 913 937	2 067 866
Rounding difference		(3)	3
<b>Cash and cash equivalents at the end of the year</b>	7	<b>280 234 988</b>	<b>150 913 937</b>

\* See Note 33 &amp; 32

# Statement of Comparison of Budget and Actual Amounts

FOR THE YEAR ENDED 30 JUNE 2022

	Original Budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>FINANCIAL PERFORMANCE</b>								
Service charges	1 142 878 261	-	1 142 878 261	1 142 878 261	1 142 878 261	-	100 %	100 %
Investment revenue	3 722 160	-	3 722 160	3 722 160	11 928 158	8 205 998	320 %	320 %
Intervention income	-	-	-	-	1 402 202	1 402 202		
Other own revenue	56 395 600	-	56 395 600	56 395 600	72 485 053	16 089 453	129 %	129 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>1 202 996 021</b>	<b>-</b>	<b>1 202 996 021</b>	<b>1 202 996 021</b>	<b>1 228 693 674</b>	<b>25 697 653</b>	<b>102 %</b>	<b>102 %</b>
Employee costs	(463 856 692)	11 259 221	(452 597 471)	(452 597 471)	(394 207 775)	58 389 696	87 %	85 %
Debt impairment	(1 742 850)	-	(1 742 850)	(1 742 850)	(2 177 382)	(434 532)	125 %	125 %
Depreciation and asset impairment	(100 968 000)	-	(100 968 000)	(100 968 000)	(105 610 137)	(4 642 137)	105 %	105 %
Finance charges	(51 252 448)	10 000 000	(41 252 448)	(41 252 448)	(29 693 534)	11 558 914	72 %	58 %
Bulk purchases and materials	(301 077 760)	(20 815 990)	(321 893 750)	(321 893 750)	(251 872 470)	70 021 280	78 %	84 %
Other expenditure *	(284 098 271)	(443 231)	(284 541 502)	(284 541 502)	(214 732 682)	69 808 820	75 %	76 %
<b>Total expenditure</b>	<b>(1 202 996 021)</b>	<b>-</b>	<b>(1 202 996 021)</b>	<b>(1 202 996 021)</b>	<b>(998 293 980)</b>	<b>204 702 041</b>	<b>83 %</b>	<b>83 %</b>
<b>Surplus</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>230 399 694</b>	<b>230 399 694</b>		
Transfers recognised - capital	187 100 000	(31 443 981)	155 656 019	155 656 019	146 797 610	(8 858 409)	94 %	78 %
<b>Surplus after capital transfers and contributions</b>	<b>187 100 000</b>	<b>(31 443 981)</b>	<b>155 656 019</b>	<b>155 656 019</b>	<b>377 197 304</b>	<b>221 541 285</b>	<b>242 %</b>	<b>202 %</b>
<b>Surplus for the year</b>	<b>187 100 000</b>	<b>(31 443 981)</b>	<b>155 656 019</b>	<b>155 656 019</b>	<b>377 197 304</b>	<b>221 541 285</b>	<b>242 %</b>	<b>202 %</b>
<b>CAPITAL EXPENDITURE AND FUNDS SOURCES</b>								
Total capital expenditure	187 100 000	(31 443 981)	155 656 019	155 656 019	155 016 066	(639 953)	100 %	83 %
Retentions balance and additional unprocessed invoices	-	-	-	-	-	-		
<b>SOURCES OF CAPITAL FUNDS</b>								
Transfers recognised - capital	187 100 000	(31 443 981)	155 656 019	155 656 019	155 016 066	(639 953)	100 %	83 %
<b>CASH FLOWS</b>								
Net cash from operating activities	338 031 732	-	338 031 732	338 031 732	336 156 970	(1 874 762)	99%	99%
Net cash used in investing activities	(155 983 791)	-	(155 983 791)	(155 983 791)	(154 109 028)	1 874 763	99%	99%
Net cash used in financing activities	(52 726 888)	-	(52 726 888)	(52 726 888)	(52 726 888)	-	100 %	100 %
Net decrease in cash and cash equivalents	129 321 053	-	129 321 053	129 321 053	129 321 054	1	100 %	100 %
Cash and cash equivalents at the beginning of the year	150 913 937	-	150 913 937	150 913 937	150 913 937	-	100 %	100 %
Cash and cash equivalents at year end	280 234 990	-	280 234 990	280 234 990	280 234 991	(1)	100 %	100 %

\* Other Expenditure includes General Expenditure as well as Repairs and Maintenance.

The budget is approved on an accrual basis by nature of classification. The approved budget covers the period from 01 July 2021 to 30 June 2022.

The budget and accounting basis are the same: both are on the accrual basis. The financial statements are prepared using a classification on the nature of expenses in the statement of financial performance.

Refer to note 42 for a detailed analysis and reasons for significant variances.

# Accounting Policies

## 1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS BASIS OF PREPARATION

These annual financial statements were prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and related directives, issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

The entity's financial statements comply with Standards of GRAP.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise.

### 1.1 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. When any significant judgments and sources of estimation uncertainty are applicable, they have been disclosed in the relevant notes and policies.

In the process of applying the entity's accounting policies, management has made the following significant accounting judgments, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

Financial assets carried at cost, amortised cost, and fair value

ERWAT assesses its financial assets carried at cost, amortised cost and fair value for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, management makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

### IMPAIRMENT OF RECEIVABLES

The impairment for trade receivables, held to maturity investments, loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

The calculation in respect of the impairment of receivables is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed on an individual basis as well as per service-identifiable categories across all debtor classes.

These calculations require the use of estimates and assumptions. It is reasonably possible that assumptions may change, which may then impact estimations and may then require material adjustments to the carrying value of receivables.

#### **IMPAIRMENT OF OTHER FINANCIAL ASSETS**

ERWAT follows the guidance of GRAP 104 to determine when other financial assets are impaired. This determination requires significant judgment. In making this judgment, ERWAT evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

#### **OPERATING LEASE COMMITMENTS - ENTITY AS LESSOR OR LESSEE**

Leases where risks and rewards of ownership are not transferred to the lessee are classified as operating leases. Payments received or paid under operating leases are recognised in the statement of financial performance on a straight-line basis over the period of the lease.

#### **FINANCE LEASE OBLIGATION - ENTITY AS A LESSEE**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of lease property, or if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. Finance charges are allocated to each period during the lease term so as to produce a constant periodic rate of the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### **POST-EMPLOYMENT BENEFITS**

The cost of defined-benefit pension plans and other employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subjects to significant uncertainty.

#### **IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT**

The calculation in respect of impairment of property, plant and equipment is based on an assessment of the extent to which the recoverable amount of the asset has declined below the carrying amount. This was performed on an across all classes of property, plant and equipment basis.

Estimates and assumptions are applied in determining certain inputs to the impairment of property, plant and equipment, including the remaining useful economic life of assets by the entity.

## PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Management's judgment is required when recognising and measuring provisions, as well as when measuring contingent liabilities and contingent assets. Provisions are discounted where the effect of discounting is material, using cost of capital.

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in the note relating to Provisions.

## USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT HELD AT COST

The useful lives of assets are based on management's estimates. Management considers the impact of technology, service requirements and required return on assets to determine the optimum useful-life expectation, where appropriate. The estimated residual values of assets is also based on management's judgment on whether the assets will be sold or used to the end of their useful lives, and an assessment of their likely condition at that time.

## FAIR VALUE ESTIMATION

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by ERWAT is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. ERWAT uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables is assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to ERWAT for similar financial instruments.

## IMPAIRMENT OF NON-FINANCIAL ASSETS

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

ERWAT reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

## SEGMENT REPORTING (GRAP 18)

Management have assessed whether segment reporting is required and have concluded that management only operates one segment namely Wastewater Management and therefore GRAP 18 does not apply.

## 1.2 PRESENTATION AND FUNCTIONAL CURRENCY

These annual financial statements are presented in South African Rand, which is the functional currency of the entity.

## 1.3 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 or the fair value 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 bring 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. Cost also includes initial estimates of the costs of dismantling and removing the asset and restoring the site on which it is located. 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.

Property, plant and equipment are subsequently measured at cost, less accumulated depreciation and accumulated impairment losses. Where Property, plant and equipment are acquired through non-exchange transactions, the cost is deemed to be the item's fair value on the date of acquisition. The cost of an item of Property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets was measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent cost is capitalised when the recognition and measurement criteria of an asset are met.

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

The entity maintains and acquires assets to provide a social service to the community. The useful lives and economic lives of these assets are equal and consequently no residual values are determined.

Depreciation recognised on Property, plant and equipment is determined with reference to the useful lives and residual values of the underlined items. The useful lives and residual values of assets are based on management's estimations of the asset's condition, or expected condition at the end of the period of use, and its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating how the condition and use of the asset informs the useful life and residual value, management considers the impact of technology and minimum service requirements of the assets.

The entity depreciates separately each part of an item of Property, plant and equipment that has a cost that is significant in relation to the total cost of the item. Costs of replacing parts are capitalised and the existing parts being replaced are derecognised. Depreciation starts when the asset is available for use. Work in progress is not depreciated. Depreciation is calculated at cost, using the straight-line method, over the estimated useful lives of the assets.

The depreciation rates are based on the following estimated useful lives.

Work in progress represents capital expenditure incurred on projects/assets under construction, not yet completed or not yet available for use at period end. Work in progress is not depreciated.

<b>AFS CLASS</b>	<b>RANGE IN YEARS</b>
Land	Indefinite
Leased assets	5 - 11
Furniture & Fixtures, office and computer equipment	3 - 51
Buildings	15 - 81
Motor vehicles	8 - 35
Plant and Machinery	6 - 45
Wastewater Infrastructure	4 - 82

The asset management policy contains the details of the components and their specific useful life estimates.

The residual value, the useful life and the depreciation method of PPE are reviewed at least at every reporting date.

At each reporting date all items of PPE are reviewed for any indication that they may be impaired. An impairment exists when an asset's carrying amount is greater than its recoverable amount. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If there is an indication of impairment, the asset's recoverable amount is calculated. An impairment loss is recognised in the Statement of Financial Performance and the depreciation charge relating to the asset is adjusted for future periods.

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

## 1.4 INTANGIBLE ASSETS

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identified as an intangible asset when it 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, assets or liability; or arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate 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 initially recognised at cost. The cost of an intangible asset acquired through a non-exchange transaction, shall be its fair value as at the date of acquisition. Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

Amortisation recognised on intangible assets is determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management's estimations of the asset's condition, expected condition at the end of the period of use, and its current use, and expected future use as well as the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating how the condition and use of the asset informs the useful life and residual value, management considers the impact of technology and minimum service requirements of the assets.

Intangible assets are subsequently measured at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from its use or disposal. Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

ITEM	RANGE IN YEARS
Computer software	07 - 24

The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the asset is derecognised.

## 1.5 FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

A financial asset is cash; a residual interest of another entity; or a contractual right to (i) received cash or another financial asset from another entity; (ii) exchange financial assets or financial liabilities with another entity that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity; or exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

- a) Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- (i) the entity designates at fair value at initial recognition or
  - (ii) are held for trading.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or non-collectability.

- b) Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.
- c) Financial instruments at fair value comprise financial assets or financial liabilities that are:
- (i) derivatives;
  - (ii) combined instruments that are designated at fair value;
  - (iii) instruments held for trading. A financial instrument is held for trading if:
    - (1) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
    - (2) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - (iv) non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - (v) financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>CLASS</b>	<b>CATEGORY</b>
Trade debtors from exchange and non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange and non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>CLASS</b>	<b>CATEGORY</b>
Long-term borrowings	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

### 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 using trade date accounting.

### INITIAL MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

### SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

### FAIR VALUE MEASUREMENT CONSIDERATIONS

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique.

## GAINS AND LOSSES

A gain or loss arising from a change in the fair value of a financial asset measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

## IMPAIRMENT AND NON-COLLECTABILITY OF FINANCIAL ASSETS

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset is impaired.

### a) Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

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 directly OR 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.

### b) Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

## DERECOGNITION

### a) Financial assets

The entity derecognises financial assets (or a portion thereof) when the contractual rights to the cash flows from the financial assets expire, are settled or waived or when the entity has transferred all of the significant risks and rewards of ownership using trade date accounting.

On derecognition of a financial asset (or part of a financial asset), the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

### b) Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished (when the obligation specified in the contract is discharged, cancelled, expires or waived).

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction, are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

## PRESENTATION

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability are recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

## 1.6 PROVISIONS AND CONTINGENCIES

A provision is recognised when the entity has a present obligation (legal or constructive) as a result of a past event and 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 amount of the obligation.

The entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date. Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

## LEAVE PROVISION

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end.

## LONG SERVICE AWARDS

Liabilities for long service awards are recognised based on long service awards to be made for 12 months following reporting period.

## 1.7 IMPAIRMENT OF CASH-GENERATING ASSETS

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. Useful life is either:

- (a) the period of time over which an asset is expected to be used by the entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the entity.

Criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets are as follow:

Despite the overall objective of ERWAT being service delivery to the residents of Ekurhuleni Metropolitan area, ERWAT does have a division whose sole mandate is the generation of cash through commercial business activities. All the assets that are directly attributed to Commercial Business activities are classified as cash generating assets/units.

### IDENTIFICATION

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

### VALUE IN USE

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

## RECOGNITION AND MEASUREMENT (INDIVIDUAL ASSET)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

## REVERSAL OF IMPAIRMENT LOSS

The entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

## REDESIGNATION

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset may only occur when there is clear evidence that such a redesignation is appropriate.

### 1.8 IMPAIRMENT OF NON-CASH-GENERATING ASSETS

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

Criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets are as follow: The overall objective of ERWAT's assets is the provision of bulk water care services to the residents of the Ekurhuleni

Metropolitan Area. ERWAT does not bill consumers directly and only receives service charges from its parent municipality in order to defray costs incurred in the provision of services to the community along with a nominal management fee to cover other indirect costs.

## IDENTIFICATION

When the carrying amount of a cash-generating asset exceeds its recoverable amount or when the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The entity assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists the entity estimates the recoverable amount or the recoverable service amount of the asset.

Factors that are taken into account in identifying whether an asset is impaired include external sources of information such as the technological, legal or regulatory context in which the asset is used, as well as internal sources of information such as evidence of physical damage of the asset, and significant long-term changes with an adverse effect on the entity that have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used.

Irrespective of whether there is any indication of impairment, the entity also assesses an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable or recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

## VALUE IN USE

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life. Value in use of non-cash-generating assets is the present value of the non-cash-generating assets' remaining service potential.

When estimating the value in use of a cash-generating asset, the entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows. The present value of the remaining service potential of a non-cash-generating asset is determined using the most appropriate of the following approaches:

- Depreciated replacement cost approach;
- Restoration cost approach;
- Service units approach

## RECOGNITION AND MEASUREMENT

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount or recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, the entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

## REVERSAL OF IMPAIRMENT LOSS

The entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount or recoverable service amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

## REDESIGNATION

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occurs when there is clear evidence that such a redesignation is appropriate.

## 1.9 SHARE CAPITAL / CONTRIBUTED CAPITAL

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary shares are classified as equity. Mandatory redeemable preference shares are classified as liabilities.

If the entity reacquires its own equity instruments, the consideration paid, including any directly attributable incremental costs (net of income taxes) on those instruments is deducted from equity until the shares are cancelled or reissued. No gain or loss is recognised in surplus or deficit on the purchase, sale, issue or cancellation of the entity's own equity instruments. Consideration paid or received shall be recognised directly in equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## 1.10 EMPLOYEE BENEFITS DEFINED CONTRIBUTION PLANS

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Where an employee has rendered services to the municipality during the year, the municipality immediately recognises the contribution payable to a defined contribution plan in exchange for that service, as an expense.

The municipality provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are expensed in the year in which they become payable.

## DEFINED BENEFIT PLANS

For defined benefit plans the cost of providing the benefits is determined using the projected credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative non-recognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

The municipality does not apply “defined benefit accounting” to the defined benefit funds to which it is a member where these funds, as classified in terms of IAS 19 as multi-employer plans, as sufficient information is not available to apply the principles involved.

To the extent that a surplus or deficit in the place, based on available information, may affect the amount of future contributions, these are assessed. In the case of surpluses, no change is made in the rate of contributions. In the case of deficits, the municipality will increase contributions on a phased basis. To the extent that the full discounted value of obligations to the funds is not fully accounted for at year end, a contingent liability arises and is reported on accordingly.

## MEDICAL AID: CONTINUED MEMBERS

The municipality provides post-retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the municipality is associated, a member (subject to the applicable conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for the portion as determined by Council from time to time, of the medical aid membership fee, and the municipality for the remaining portion.

## 1.11 REVENUE FROM EXCHANGE TRANSACTIONS

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Revenue from exchange transactions refers to revenue that accrued to the entity directly in return for services rendered to the value of which approximates the consideration received or receivable.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in increases in net assets, other than increases relating to contributions from owners.

Revenue is recognised as follows:

Service charges are based on a fixed amount agreed between ERWAT and its parent municipality for the provision of water care services for the municipality and is accrued on a monthly basis.

Revenue is recognised when the risk is passed on to the consumer.

All other revenue is recognised as it accrues.

Revenue is measured at the fair value of the consideration received or receivable.

When the inflow of cash or cash equivalents is deferred and the fair value of the consideration is less than the nominal amount of cash received or receivable, the arrangement effectively constitutes a financing transaction. The fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue. Interest revenue is recognised on a time proportional basis.

Intervention revenue:

Intervention revenue relates to revenue earned for the maintenance of the bulk sewer network in Emfuleni Local Municipality. ERWAT recognises revenue receivable from the Department of Human Settlements, Water and Sanitation as the revenue is earned, i.e., as the expenditure is incurred.

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

- The entity has transferred to the buyer 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 reliably measured.
- The costs incurred or to be incurred in respect of the transaction can be reliably measured.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when that inflow results in increases in net assets, other than increases relating to contributions from owners.

## 1.12 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue is recognised as follows:

Grants received or receivable are recognised as assets when the resources that have been transferred to ERWAT meet the definition and criteria for recognition as assets.

A corresponding liability is recognised to the extent that the grant and transfer recognised as an asset is subject to conditions that require that the Entity either consumes the future economic benefits or service potential of the asset as specified, or that in the event that the conditions are breached, the Entity returns such future economic benefits or service potential to the transferor. The liability is transferred to revenue when the conditions attached to the grants and transfers are met. Grants and transfers that are not subject to any conditions are recognised as revenue when the assets are initially recognised.

Development Contributions that are not subject to any conditions are recognised as revenue when the contribution is received. Where Development Contributions have conditions associated with it, the revenue is recognised when all conditions associated with the contribution have been met. Where development contributions have been received but the condition has not been met, a liability is recognised.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councilors or officials is virtually certain.

All other revenue is recognised as it accrues.

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. As the entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the entity. When, as a result of a non-exchange transaction, the entity recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

## **TRANSFERS, INCLUDING GRANTS AND RECEIPTS**

The entity recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset. Transferred assets are measured at their fair value as at the date of acquisition.

## **GIFTS AND DONATIONS, INCLUDING GOODS IN-KIND**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

## **SERVICES IN-KIND**

Except for financial guarantee contracts, the entity recognises services in-kind that are significant to its operations and/or service delivery objectives as assets and recognises the related revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the entity's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the entity discloses the nature and type of services in-kind received during the reporting period.

### 1.13 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 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.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis. Income for leases is disclosed under revenue in the statement of financial performance.

#### 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.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

#### FINANCE LEASES - LESSEE

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Any contingent rents are expensed in the period in which they are incurred.

### 1.14 BORROWING COSTS

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds. All borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.15 INCOME TAX

The Entity is exempt from tax due to it being a Non-Profit Company under Section 21 of the Companies Act.

The entity is exempt for Income Tax in terms of Section 10(1)(cA)(i) of the Income Tax Act, 1962 ( the Act) provides an exemption from normal tax of:

- receipts and accruals of any institution, board , or body (other than a company as defined in the Companies Act, any co-operative, closed corporation, trust, water service provider);
- established by or under any law and which, in the furtherance of its sole or principal objective:
  - conducts scientific, technical or industrial research;
  - provides necessary or useful commodities, amenities or services to the State (includes any provincial administration) close up or members of the general public; or
  - carries on activities ( including the rendering of financial assistance by way of loans or otherwise) designated to promote commerce, industry or agriculture or any branch

### 1.16 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, entity or organ of state and expenditure in the form of a grant which is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.17 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.18 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.19 BUDGET INFORMATION

The approved budget is prepared in accordance with legislative requirements on an accrual basis, and is consistent with accounting policies as adopted by the Council for the preparation of these financial statements, and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2021/07/01 to 2022/06/30. These figures are those approved by Council both at the beginning and during the year, following a period of consultation with the public as part of the Integrated Development Plan (IDP). The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments to material differences are provided in the notes to the annual financial statements.

Budget information is inherently uncertain due to its forward-looking nature. Budgeted amounts are determined on the basis of past experience, as well as other specific information that might apply, including the existence of contracts that are already in effect. A comparison between the budget and actual outcomes is presented in the statement of comparison of budget and actual amounts. (Appropriation statement.)

A difference of 10% or more between budget and actual amounts is regarded as material. All material differences are explained in the notes to the annual financial statements.

## 1.20 RELATED PARTIES

The disclosure of related parties is carried out on the basis of GRAP 20 Related Party Disclosure, in terms of Directive 5 (“Determining the GRAP Reporting Framework”) issued by the Accounting Standards Board.

A related party is a person or an entity with the ability to control or jointly control the other party or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

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 person in their dealings with the entity.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the ventures).

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed, except for transactions with controlled entities, which are disclosed in full.

## 1.21 EVENTS AFTER REPORTING DATE

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

Reporting date means the date of the last day of the reporting period to which the financial statements relate. The entity adjusts the amounts recognised in its financial statements to reflect adjusting events after the reporting date. The entity does not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting date, the information is disclosed in the financial statements.

## 1.22 COMMITMENTS

Items are classified as commitments when the entity has committed itself to future transactions that will normally result in an outflow of cash.

The entity discloses commitments for each class of capital assets (PPE and Intangible assets) recognised in the financial statements as well as future minimum lease payments under non-cancelable operating leases for each of the following periods:

- Not later than one year,
- Later than one year and not later than five years, and
- Later than five years.

## 1.23 GOING CONCERN

These annual financial statements have been prepared on a going concern basis.

## 1.24 COMPARATIVE FIGURES

When the presentation or classification of items in the annual financial statements is amended due to better presentation and/or better understandability and/or comparability and/or due to the implementation of a new or amended standard, prior period comparative amounts are reclassified. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

## 1.25 CHANGE IN ACCOUNTING ESTIMATES

A change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities. Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors.

The effect of a change in an accounting estimate, other than to the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets, is recognised prospectively by including it in surplus or deficit in:

- (a) the period of the change, if the change affects that period only; or
- (b) the period of the change and future periods, if the change affects both.

To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of net assets, it is recognised by adjusting the carrying amount of the related asset, liability or item of net assets in the period of the change.

Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of the change in estimate. A change in an accounting estimate may affect only the current period's surplus or deficit or the surplus or deficit of both the current period and future periods.

However, a change in the estimated useful life of or the expected pattern of consumption of economic benefits or service potential embodied in a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as revenue or expense in the current period. The effect, if any, on future periods is recognised as revenue or expense in those future periods.

## 1.26 PRIOR PERIOD ERROR

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- (a) was available when financial statements for those periods were authorised for issue; and
- (b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Retrospective restatement is correcting the recognition, measurement and disclosure of amounts of elements of financial statements as if a prior period error had never occurred.

The entity corrects material prior period errors retrospectively, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error, in the first set of financial statements authorised for issue after their discovery by:

- (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity restates the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity restates the comparative information to correct the error prospectively from the earliest date practicable.

## 1.25 ACCOUNTING BY PRINCIPALS AND AGENTS

### IDENTIFICATION

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

### IDENTIFYING WHETHER AN ENTITY IS A PRINCIPAL OR AN AGENT

When the entity is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether an entity is a principal or an agent requires the entity to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit

## BINDING ARRANGEMENT

The entity assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

## ASSESSING WHICH ENTITY BENEFITS FROM THE TRANSACTIONS WITH THIRD PARTIES

When the entity in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the entity concludes that it is not the agent, then it is the principal in the transactions.

The entity is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the entity has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. The entity applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the entity is an agent.

## RECOGNITION

The entity, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal/agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The entity, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The entity recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP 31.

## 2. NEW STANDARDS AND INTERPRETATIONS

### 2.1 STANDARDS AND INTERPRETATIONS ISSUED, BUT NOT YET EFFECTIVE

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2022 or later periods:

<b>STANDARD/ INTERPRETATION</b>	<b>EFFECTIVE DATE: YEARS BEGINNING ON OR AFTER</b>	<b>EXPECTED IMPACT:</b>
GRAP 25: Employee Benefits	01 April 2022	No Impact
GRAP 104: Financial Instruments	01 April 2022	Impact is currently being assessed

# Notes to the Annual Financial Statements

	<b>2022</b>	<b>2021</b>
	<b>R</b>	<b>R</b>
<b>3. TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
<b>GROSS BALANCES</b>		
Commercial business receivables	25 556 296	24 006 804
Related party debtors	140 260 146	74 054 561
	<b>165 816 442</b>	<b>98 061 365</b>
<b>LESS: ALLOWANCE FOR IMPAIRMENT</b>		
Commercial business - Provision for bad debts	(9 769 482)	(7 592 101)
<b>NET BALANCE</b>		
Commercial business receivables	15 786 814	16 414 703
Related party debtors	140 260 146	74 054 561
	<b>156 046 960</b>	<b>90 469 264</b>
<b>AGEING OF COMMERCIAL BUSINESS - TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
Current (0 -30 days)	7 907 060	8 159 441
31 - 60 days	3 621 616	3 066 024
61 - 90 days	369 478	712 925
91 - 120+ days	13 658 142	12 068 414
Less: Allowance for impairment	(9 769 482)	(7 592 101)
	<b>15 786 814</b>	<b>16 414 703</b>
<b>AGEING OF RELATED PARTY - TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
Current (0 -30 days)	110 421 775	1 974 459
31 - 60 days	1 053 748	47 789 397
61 - 90 days	1 016 752	588 292
91 - 120+ days	27 767 871	23 702 413
	<b>140 260 146</b>	<b>74 054 561</b>
<b>TOTAL</b>		
Current (0 -30 days)	118 328 835	10 133 900
31 - 60 days	4 675 364	50 855 421
61 - 90 days	1 386 230	1 301 217
91 - 120+ days	41 426 013	35 770 827
	<b>165 816 442</b>	<b>98 061 365</b>
Less: Allowance for impairment	(9 769 482)	(7 592 101)
	<b>156 046 960</b>	<b>90 469 264</b>
<b>LESS: ALLOWANCE FOR IMPAIRMENT</b>		
91 - 120+ days	(9 769 482)	(7 592 101)

### 3. TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS (CONT.)

2022  
R

2021  
R

#### RECONCILIATION OF ALLOWANCE FOR IMPAIRMENT

Balance at beginning of the year	(7 592 101)	(5 121 922)
Reversal of allowance	(2 177 381)	(2 470 179)
	<b>(9 769 482)</b>	<b>(7 592 101)</b>

#### REASONS FOR MATERIAL MOVEMENTS IN TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS:

Related party debtors from exchange transactions increased with 89,5 percent. This is mainly due to the Service Charges invoice to the value of R 105 899 654 (incl VAT) which was still outstanding at 30 June 2022 and received on the 7th of July 2022.

#### TRADE RECEIVABLES PAST DUE BUT NOT IMPAIRED

Trade receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2022, R 37 718 303 (2021: R 76 238 902) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	4 675 364	50 855 420
2 months past due	1 386 230	1 301 217
3 months past due	31 656 709	24 082 265

#### RECEIVABLES FROM EXCHANGE TRANSACTIONS ENCUMBERED

Receivables with a carry value of R 156 046 960 (30/06/2021: R 90 469 264) are encumbered in respect of a long-term borrowing, as disclosed in the long-term borrowing note 13. ERWAT has agreed to cede to its controlling entity claims against its book debtors, in event of ERWAT defaulting on its obligation in terms of the loan. ERWAT thereby cedes, assigns and transfers unto and in favour of City of Ekurhuleni Metropolitan Municipality all of ERWAT's rights, title and interest in and to all book debts, present and future, due and to become due to ERWAT, in the event that ERWAT defaults on its obligation in terms of the loan of R 550 million advanced by Nedbank Ltd. This cession shall endure for as long as ERWAT is indebted to Nedbank Ltd, and the guarantee provided by City of Ekurhuleni Metropolitan Municipality in favour of Nedbank Ltd for the loan remains in effect.

### 4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Development contribution	26 058 915	17 405 092
Government grants & subsidies	79 938 557	6 388 654
	<b>105 997 472</b>	<b>23 793 746</b>

#### AGEING OF RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Current (0 - 30 days)	46 646 651	6 489 595
31 - 60 days	35 277 920	-
91 - 120+ days	24 072 901	17 304 151
	<b>105 997 472</b>	<b>23 793 746</b>

#### 4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (CONT.)

**2022**  
 R

**2021**  
 R

##### REASONS FOR MATERIAL MOVEMENTS IN RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS:

Although Receivables due to Development contributions increased with 49,7 percent it is mainly due to the increase in Receivables relating to Government grants & subsidies which contributed to the significant increase in Receivables from non- exchange transactions. This is due to the accelerated Capital expenditure and the delayed payments in Grant revenue from the City.

##### RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS ENCUMBERED

Receivables with a carry value of R 105 997 472 (30/06/2021: R 23 793 746) are encumbered in respect of a long-term borrowing, as disclosed in the long-term borrowing note 13. ERWAT has agreed to cede to its controlling entity claims against its book debtors, in event of ERWAT defaulting on its obligation in terms of the loan. ERWAT thereby cedes, assigns and transfers unto and in favour of City of Ekurhuleni Metropolitan Municipality all of ERWAT's rights, title and interest in and to all book debts, present and future, due and to become due to ERWAT, in the event that ERWAT defaults on it's obligation in terms of the loan of R 550 million advanced by Nedbank Ltd. This cession shall endure for as long as ERWAT is indebted to Nedbank Ltd, and the guarantee provided by City of Ekurhuleni Metropolitan Municipality in favour of Nedbank Ltd and guarantee for the loan remains in effect.

##### RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS PAST DUE BUT NOT IMPAIRED

Management does not consider any receivables from non-exchange transactions to be impaired, regardless of their age, as they relate solely to transactions with CoE which is the controlling entity of ERWAT. In addition, past experience has shown that all receivables from the controlling entity are recoverable.

Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2022, R 59 350 011 (2021: R 17 304 151) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	35 277 920	-
3 months past due	24 072 091	17 304 151

#### 5. OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

Deposits	14 590 667	13 962 138
Prepaid expenses	2 465 637	2 489 180
Medical aid	37 415	58 549
	<b>17 093 719</b>	<b>16 509 867</b>

## 6. OTHER FINANCIAL ASSETS

NAME OF ENTITY	Carrying Amount June 2022	Carrying Amount June 2021	Fair Value June 2022	Fair Value June 2021
Sanlam demutualisation shares	825 302	957 986	825 302	957 986
Old Mutual demutualisation shares	429 864	525 650	429 864	525 650
Old Mutual unit trust	6 951 189	6 469 591	6 951 189	6 469 591
	<b>8 206 355</b>	<b>7 953 227</b>	<b>8 206 355</b>	<b>7 953 227</b>

### FAIR VALUE

The fair values of listed or quoted investments are determined annually at least and are based on the quoted market price. A quoted market price is a Level 1 input in terms of GRAP 104.120.

	2022 R	2021 R
Cash and cash equivalents consist of:		
Bank balances	280 234 987	150 913 937

The entity has the following bank accounts:

ACCOUNT NUMBER / DESCRIPTION	Bank statement balances		Cash book balances	
	30 June 2022	30 June 2021	30 June 2022	30 June 2021
ABSA BANK - Current account - 260 -170-120	214 828 335	147 799 607	214 828 335	148 030 298
ABSA BANK - Salary account - 260-170-139	65 406 652	2 883 639	65 406 652	2 883 639
<b>Total</b>	<b>280 234 987</b>	<b>150 683 246</b>	<b>280 234 987</b>	<b>150 913 937</b>

## 8. PROPERTY, PLANT AND EQUIPMENT\*

RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 30 JUNE 2022	30 June 2022			30 June 2021		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	Carrying value
Land	13 017 283	-	13 017 283	13 017 283	-	13 017 283
Buildings	42 085 756	(10 633 974)	31 451 782	42 099 612	(9 570 839)	32 528 773
Plant and machinery	66 146 766	(25 487 237)	40 659 529	50 616 400	(24 361 334)	26 255 066
Furniture and fixtures, office and computer equipment	33 519 940	(20 135 340)	13 384 600	33 678 293	(17 564 645)	16 113 648
Motor vehicles	64 519 817	(30 302 817)	34 217 000	61 840 293	(27 030 680)	34 809 613
Buildings - Assets under construction	15 848 707	-	15 848 707	15 848 707	-	15 848 707
Infrastructure, Wastewater purification works - Assets under construction	418 185 949	-	418 185 949	385 288 631	-	385 288 631
Infrastructure, Wastewater purification works	2 376 315 019	(714 786 414)	1 661 528 605	2 293 971 718	(634 483 949)	1 659 487 769
Plant and machinery - Assets under construction	26 999	-	26 999	26 999	-	26 999
<b>Total</b>	<b>3 029 666 236</b>	<b>(801 345 782)</b>	<b>2 228 320 454</b>	<b>2 896 387 936</b>	<b>(713 011 447)</b>	<b>2 183 376 489</b>

### RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 30 JUNE 2021

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	13 017 283	-	-	-	-	13 017 283
Buildings	32 528 773	322 645	(12 156)	-	(1 064 835)	31 774 427
Plant and machinery	26 255 066	10 872 665	(1 002 901)	-	(2 745 593)	33 379 237
Furniture and fixtures, office and computer equipment	16 113 648	4 920 445	(268 431)	-	(2 991 057)	17 774 605
Motor vehicles	34 809 613	3 144 236	(615 052)	-	(3 815 911)	33 522 886
Buildings - Assets under construction	15 848 707	-	-	-	-	15 848 707
Infrastructure, Wastewater purification works	1 659 487 769	1 277 065	(3 678 033)	247 433 362	(93 878 132)	1 810 642 031
Infrastructure, Wastewater purification works - Assets under construction	385 288 631	134 479 010	(247 433 362)	-	272 334 279	
Plant and machinery - Assets under construction	26 999	-	-	-	-	26 999
	<b>2 183 376 489</b>	<b>155 016 066</b>	<b>(5 576 573)</b>	<b>-</b>	<b>(104 495 528)</b>	<b>2 228 320 454</b>

### RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 30 JUNE 2021

	Opening balance	Additions	Disposals	Transfers	Prior period errors (Note 33)	Depreciation	Total
Land	13 017 283	-	-	-	-	-	13 017 283
Buildings	33 584 935	-	-	-	-	(1 056 162)	32 528 773
Plant and machinery	28 192 843	873 827	(43 808)	-	157 934	(2 925 730)	26 255 066
Furniture and fixtures, office and computer equipment	18 515 516	546 400	(9)	-	188 269	(3 136 528)	16 113 648
Motor vehicles	39 064 632	-	(377 589)	-	-	(3 877 430)	34 809 613
Buildings - Assets under construction	15 848 707	-	-	-	-	-	15 848 707
Infrastructure, Wastewater purification works	1 662 172 503	233 391	(32 834)	86 590 884	(37 229)	(89 438 946)	1 659 487 769
Infrastructure, Wastewater purification works - Assets under construction	419 313 824	54 700 774	-	(86 590 884)	(2 135 083)	-	385 288 631
Plant and machinery - Assets under construction	26 999	-	-	-	-	-	26 999
	<b>2 229 737 242</b>	<b>56 354 392</b>	<b>(454 240)</b>	<b>-</b>	<b>(1 826 109)</b>	<b>(100 434 796)</b>	<b>2 183 376 489</b>

## 8. PROPERTY, PLANT AND EQUIPMENT\*(CONT.)

Depreciation per the note 21 for 2021 was previously stated at R 100 434 796 but has been restated to R 100 125 822 due to prior year errors of R 308 974 as detailed in note 32.

Infrastructure, wastewater purification works - Assets under construction (Opening balance) was previously stated at R 419 313 824 but has been restated to R 417 178 741 due to prior year errors of R 2 135 083 as detailed in note 32.

RECONCILIATION OF WORK IN PROGRESS - 30 JUNE 2022	Included within Infrastructure	Included within Buildings	Included within Other PPE	Total
Opening balance	385 288 631	15 848 707	26 999	401 164 337
Additions/capital expenditure	134 479 010	-	-	134 479 010
Transferred to completed items	(247 433 362)	-	-	(247 433 362)
	<b>272 334 279</b>	<b>15 848 707</b>	<b>26 999</b>	<b>288 209 985</b>

RECONCILIATION OF WORK IN PROGRESS - 30 JUNE 2021	Included within Infrastructure	Included within Buildings	Included within Other PPE	Total
Opening balance	419 313 824	15 848 707	26 999	435 189 530
Additions/capital expenditure	54 700 774	-	-	54 700 774
Prior period error (Note 33)	(2 135 083)	-	-	(2 135 083)
Transferred to completed items	(86 590 884)	-	-	(86 590 884)
	<b>385 288 631</b>	<b>15 848 707</b>	<b>26 999</b>	<b>401 164 337</b>

LEASED ASSETS	Cost	Accumulated Depreciation	Net book value
Furniture and fixtures	4 393 230	(2 825 122)	1 568 108
Wastewater purification works	3 348 631	(2 071 589)	1 277 042
	<b>7 741 861</b>	<b>(4 896 711)</b>	<b>2 845 150</b>

EXPENDITURE INCURRED TO REPAIR AND MAINTAIN PROPERTY, PLANT AND EQUIPMENT INCLUDED IN STATEMENT OF FINANCIAL PERFORMANCE	2022 R	2021 R
Employee related costs	57 031 668	58 294 135
Contracted services	106 973 920	79 451 130
General expenses	2 524 289	2 128 902
	<b>166 529 877</b>	<b>139 874 167</b>

The total carrying value of projects taking significantly longer to complete at 30 June 2022 is R 127 185 942.

ERWAT experienced significant delays in the Water use license application approval from the department of Human settlements, Water and Sanitation. (Vlakplaats).

Additional scope of works required (e.g. Tsakane due to sand that needed to be pumped out).

Suppliers based overseas being unable to travel to commission certain technology due to COVID restrictions. (Hartebeestfontein - Nereda section).

Project handover delays due to defects noted during the defects liability period. (Tsakane).

## 9. INTANGIBLE ASSETS

	30 June 2022			30 June 2021		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	14 303 530	(7 829 996)	6 473 534	16 005 802	(8 161 743)	7 844 059

### RECONCILIATION OF INTANGIBLE ASSETS - 30 JUNE 2022

	Opening balance	Disposals	Amortisation	Total
Computer software	7 844 059	(255 918)	(1 114 607)	6 473 534

### RECONCILIATION OF INTANGIBLE ASSETS - 30 JUNE 2021

	Opening balance	Amortisation	Total
	8 989 964	(1 145 905)	7 844 059

## 10. PAYABLES FROM EXCHANGE TRANSACTIONS

	2022 R	2021 R
Trade payables	74 721 384	78 588 564
Deposits	11 780	11 780
Accrued bonus	7 712 319	7 804 602
Accrued overtime	4 086 841	4 398 731
Payroll creditors	5 751 239	5 728 361
Related party payables	6 090 685	10 385 042
Retention	3 321 109	3 346 506
Debtors with credit balances	1 775 411	1 689 507
Accrued shift standby & transport allowance	1 399 543	1 436 162
	<b>104 870 311</b>	<b>113 389 255</b>

## 11. PROVISIONS

### RECONCILIATION OF PROVISIONS - 30 JUNE 2022

	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Long service awards provision	459 437	839 050	(827 519)	-	470 968
Leave pay provision	31 162 269	26 760 960	(16 864 865)	(14 297 404)	26 760 960
	<b>31 621 706</b>	<b>27 600 010</b>	<b>(17 692 384)</b>	<b>(14 297 404)</b>	<b>27 231 928</b>

### RECONCILIATION OF PROVISIONS - 30 JUNE 2021

	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Long service awards provision	566 017	322 485	(429 065)	-	459 437
Leave pay provision	27 111 275	31 162 269	(13 389 968)	(13 721 307)	31 162 269
	<b>27 677 292</b>	<b>31 484 754</b>	<b>(13 819 033)</b>	<b>(13 721 307)</b>	<b>31 621 706</b>

## 11. PROVISIONS (CONT.)

### LONG SERVICE AWARDS

The amount payable in relation to long service awards in future years meets the definition of a provision. ERWAT determines the value of the long service awards to be made for 12 months following reporting period. The criteria used to calculate the long service award provision is as follows:

- a) All employees with 5 years of continued service will qualify for an award of 10% of their basic monthly salary
- b) 10 years continued service: an award of 20% of the employee's basic monthly salary
- c) 15 years continued service: an award of 30% of the employee's basic monthly salary
- d) 20 years continued service: an award of 40% of the employee's basic monthly salary
- e) 25 years continued service: an award of 50% of the employee's basic monthly salary

### LEAVE PAY PROVISION

The liability is based on the total accrued leave days at 30 June 2022. The payment of the leave and the amount are uncertain as employees take their leave at different stages during the year or may choose to cash in the leave days accumulated.

	<b>2022</b>	<b>2021</b>
	<b>R</b>	<b>R</b>
VAT	8 746 086	618 515

### REASONS FOR MATERIAL MOVEMENTS IN VAT PAYABLE BALANCE

The VAT payable in the current financial year is in line with the monthly VAT repayments made to SARS. The prior year VAT figure was significantly lower than usual due to factors such as the accrual for Consulting and Professional fees raised during the prior financial period reversed during the current year. The value of this accrual at 30 June 2021 was R 32 Million (inclusive of VAT) which reduced the VAT payable significantly.

## 13. LONG TERM BORROWINGS

### AT AMORTISED COST

Bank loan - Nedbank (Secured)	319 504 879	361 583 860
Six monthly JIBAR plus 2.32% currently @ 30/06/2022: 8.153% (30/06/2021: 6.445%) Redeemable 30/11/2029.		
The loan is repayable in bi-annual installments, the last repayment amount for the 2021/2022 financial year was R 32 677 365 (31/05/2022) and the next repayment amount due is R 34 124 332 (30/11/2022).		
Bank loan - INCA (Unsecured)	22 721 758	32 109 153
INCA @ 30/06/2022: 6.00% (30/06/2021: 4.75%) Redeemable 28/06/2024.		
The loan is repayable in bi-annual installments, the last repayment amount for the 2021/2022 financial year was R 5 605 869 (30/06/2022) and the next repayment amount due is R 5 837 850 (31/12/2022).		
	<b>342 226 637</b>	<b>393 693 013</b>
<b>Total long term borrowings</b>	<b>342 226 637</b>	<b>393 693 013</b>

### 13. LONG TERM BORROWINGS (CONT.)

**2022**  
 R

**2021**  
 R

Refer to notes 3 and 4 for information relating to debtors ceded against the Nedbank loan. Refer to note 39 for the utilisation of long-term liabilities reconciliation.

#### NON-CURRENT LIABILITIES

At amortised cost	289 200 652	341 934 427
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#### CURRENT LIABILITIES

At amortised cost	53 025 985	51 758 586
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### 14. FINANCIAL LEASE OBLIGATION

#### MINIMUM LEASE PAYMENTS DUE

- within one year	305 462	1 213 915
- in second to fifth year inclusive	-	239 432
<b>Present value of minimum lease payments</b>	<b>305 462</b>	<b>1 453 347</b>
Non-current liabilities	-	239 432
Current liabilities	305 462	1 213 915
	<b>305 462</b>	<b>1 453 347</b>

#### FINANCE LEASES

The finance lease relates to:

The renting of printing equipment - Two separate lease agreements were entered into during the 2019/2020 financial year. The leases were classified as Finance leases and the Net Present Value of the printing equipment was capitalised in terms of GRAP 13 and a finance lease obligation recognised.

As it was not possible to determine the interest rate implicit in the lease, the incremental borrowing rate was utilised. The incremental borrowing rate utilised is 12%. The lease is for a term of 36 months with a compulsory extension of 24 months at zero rental cost to ERWAT.

### 15. EMPLOYEE BENEFIT OBLIGATIONS

The amounts recognised in the statement of financial position are as follows:

CARRYING VALUE	June 2021/22	June 2020/21
Opening balance	44 173 000	39 839 000
Benefit paid	(2 336 000)	(3 156 661)
Net expense recognised in the statement of financial performance	4 047 000	7 490 661
	<b>45 884 000</b>	<b>44 173 000</b>

The obligation is due to a post-retirement medical aid benefit offered by ERWAT. In the event that a medical aid contributing employee retires, ERWAT will continue to pay 66,6% of the medical aid contribution provided that the requirements of the policy are met by the employee.

## 15. EMPLOYEE BENEFIT OBLIGATIONS (CONT.)

The entity does not have any specific assets set aside to prefund for this liability, therefore no asset value is included in the valuation.

CARRYING VALUE	June 2021/22	June 2020/21
Non-current liabilities	(43 398 000)	(42 007 000)
Current liabilities	(2 486 000)	(2 166 000)
	<b>(45 884 000)</b>	<b>(44 173 000)</b>

### NET EXPENSE RECOGNISED IN THE STATEMENT OF FINANCIAL PERFORMANCE

CARRYING VALUE		
Current service cost	(1 189 000)	(1 136 000)
Interest cost	(4 667 000)	(3 951 000)
Actuarial gain/(losses)	1 809 000	(2 403 661)
	<b>(4 047 000)</b>	<b>(7 490 661)</b>

### KEY ASSUMPTIONS USED

The actuarial valuation for 30 June 2022 as well as the prior year (30 June 2021) have been performed by ZAQ Consultants and Actuaries.

The key financial assumptions are as follows:

Discount rates used	11.77 %	11.80 %
Medical cost inflation rates	9.21 %	8.95 %
Proportion of retiring members who are married	90,00 %	90,00 %
Average retirement age	63 years	63 years

The above table June 2021/22 has been included for indicative purposes only, by calculating the implied duration of the liability and using the interest rates that correspond to the implied duration. The implied duration used for this valuation was 9.55 years.

The yield curve has been used for discounting purposes. This yield curve is a series of more than 1000 different interest rates, depending on the duration. The main characteristic of using the yield curve as opposed to the point estimates as was used in the past, is that payments which occur at different time periods, will be discounted at different interest rates.

A payment which is expected to be made in 10 years, will be discounted with the 10-year interest rate. Likewise, a payment which is expected to be made in 30 years, will be discounted with a 30 year interest rate. In the past, all future payments were discounted with the same interest rate. The interest rate used was that of a bond that matched the implied duration of the liability.

## 15. EMPLOYEE BENEFIT OBLIGATIONS (CONT.)

### OTHER ASSUMPTIONS

The assumed discount rate had a significant effect on the amounts recognised in surplus or deficit. A one (1%) percentage point change in the assumed discount rate would have the following effects:

	One percentage point increase	One percentage point decrease
Defined benefit obligation at the start of the period (ended 30 June 2022)	(40 961 000)	(51 925 000)
Service costs	(1 018 000)	(1 594 000)
Interest costs	(5 136 000)	(5 542 000)
	<b>June 2021/22</b>	<b>June 2020/21</b>
Defined benefit obligation	45 884 000	44 173 000
Surplus (deficit)	1 809 000	(2 403 661)
Experience adjustments on plan liabilities	1 222 000	(4 201 339)

### 16. REVENUE

	<b>2022</b>	<b>2021</b>
	<b>R</b>	<b>R</b>
Service charges	1 142 878 261	929 381 355
Other income	38 696 836	55 438 039
Interest received - investment	11 868 233	3 951 641
Intervention Income	1 402 202	3 956 411
Dividends received	59 925	60 118
Government grants & subsidies	146 797 610	49 830 000
Development contribution	30 819 051	-
	<b>1 372 522 118</b>	<b>1 042 617 564</b>

#### THE AMOUNT INCLUDED IN REVENUE ARISING FROM EXCHANGES OF GOODS OR SERVICES ARE AS FOLLOWS:

Service charges	1 142 878 261	929 381 355
Other income	38 696 836	55 438 039
Interest received - investment	11 868 233	3 951 641
Intervention Income	1 402 202	3 956 411
Dividends received	59 925	60 118
	<b>1 194 905 457</b>	<b>992 787 564</b>

#### THE AMOUNT INCLUDED IN REVENUE ARISING FROM NON-EXCHANGE TRANSACTIONS IS AS FOLLOWS:

Government grants & subsidies	146 797 610	49 830 000
Development contribution	30 819 051	-
	<b>177 616 661</b>	<b>49 830 000</b>

### REASONS FOR SIGNIFICANT MOVEMENT IN DEVELOPMENT CONTRIBUTIONS

Development contributions are not budgeted for due to its ad hoc nature. These contributions are received from the City of Ekurhuleni Metropolitan Municipality as and when there are new developments within the City where the bulk connections for these developments affects the volumes of inflows of effluents into our Wastewater Care Works. There were no such contributions received during the previous financial year.

<b>17. SERVICE CHARGES</b>	<b>2022</b>	<b>2021</b>
	<b>R</b>	<b>R</b>
Sewerage and sanitation charges	1 142 878 261	929 381 355

## **18. OTHER INCOME**

Discount received	114 427	38 140
Other income from commercial business	37 720 585	55 053 849
Learnership income	831 794	284 195
Tender income	30 030	61 855
	<b>38 696 836</b>	<b>55 438 039</b>

Included in the income from commercial business is income received from housing and leasing, commercial business, laboratory, operations and technical.

## **19. INVESTMENT REVENUE**

### **DIVIDEND RECEIVED**

Unit trusts - Local	59 925	60 118
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### **INTEREST INCOME**

Interest received: Bank	6 021 680	3 259 284
Interest received: Deposits / Exchange & Non-exchange receivables	5 846 553	692 357
	<b>11 868 233</b>	<b>3 951 641</b>
	<b>11 928 158</b>	<b>4 011 759</b>

### **REASONS FOR SIGNIFICANT MOVEMENT IN INTEREST INCOME**

Interest income consists of interest received on positive bank balances and Interest raised on long outstanding Debtors. The bank balance of R 280 234 987 is close to double that of the prior year being R 150 913 937 and therefore the interest received increased significantly. In addition the interest raised on Receivables from non-exchange transactions was significantly higher due to long outstanding receivables specifically relating to Development Contributions & Government grants and subsidies.

## 20. EMPLOYEE RELATED COSTS

	2022 R	2021 R
Basic	236 382 888	231 124 861
Bonus	15 622 840	15 209 001
Bursary schemes	78 628	-
Car allowance	10 932 724	11 119 138
Cell phone and data card allowances	4 945 004	5 222 201
Company contributions	68 381 853	63 667 774
Housing benefits and allowances	3 709 181	3 375 649
Leave pay provision charge	12 463 556	17 440 962
Long service awards	839 050	730 859
Overtime payments	35 206 302	37 111 943
Other short term costs	369 200	355 954
Post-retirement - medical loss	1 189 000	1 136 000
Remuneration of non-executive directors	991 278	1 964 041
Sanlam disability fund	687 004	750 220
Workmen's compensation	2 409 267	2 389 326
	<b>394 207 775</b>	<b>391 597 929</b>

## REMUNERATION OF THE CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR

Annual Remuneration	309 406	1 704 359
Contributions to UIF, Medical and Pension Funds	51 211	304 269
Telephone and data card allowance	9 434	52 800
Bonus and performance related payments	503 048	142 030
	<b>873 099</b>	<b>2 203 458</b>

The remuneration of the Chief Executive Officer is included in the employee related costs. Please refer to the note on Directors and executive emoluments for more detailed breakdown of the Chief Executive Officer.

Please refer to note 41 for the details of remuneration of the managers and directors.

## REMUNERATION OF HEAD OF DEPARTMENT - FINANCIAL SERVICES

Annual Remuneration	1 715 009	2 052 216
Travel Allowance	76 500	285 366
Contributions to UIF, Medical and Pension Funds	402 282	467 179
Cell phone and data card allowance	48 600	58 624
Bonus and performance related payments	561 706	99 476
<b>Total</b>	<b>2 804 097</b>	<b>2 962 861</b>

The remuneration of the Head of Department - Financial Services is included in the employee related costs. Please refer to the note on Directors and executive managers emoluments for a more detailed breakdown of the Head of Department - Financial Services.

The current remuneration of the Head of Department - Financial Services comprises the remuneration paid to two (2) employees as disclosed in note 41 and the prior year that of three (3) employees.

The Acting Managing Director is paid by the City of Ekurhuleni and is therefore not included in remuneration of Directors.

Please refer to note 41 for the details of remuneration of directors and executive managers.

## 20. EMPLOYEE RELATED COSTS (CONT.)

2022  
R

2021  
R

### REMUNERATION OF EXECUTIVE MANAGERS EXCLUDING HEAD OF DEPARTMENT - FINANCIAL SERVICES

Annual Remuneration	7 568 981	7 845 430
Travel Allowance	524 760	598 676
Contributions to UIF, Medical and Pension Funds	1 826 376	1 767 493
Cell phone and data card allowance	224 432	248 994
Bonus and performance related payments	1 139 164	596 806
	<b>11 283 713</b>	<b>11 057 399</b>

### REMUNERATION OF NON-EXECUTIVE DIRECTORS

Annual Remuneration	924 833	3 033 161
Travel Allowance/Claims	2 445	-
Cell phone and data card allowance	64 000	96 000
	<b>991 278</b>	<b>3 129 161</b>

### IN-KIND BENEFITS

ERWAT directors have the option of the use of a company owned laptop. The directors salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution.

## 21. DEPRECIATION AND AMORTISATION

Property, plant and equipment*	104 495 530	100 125 822
Intangible assets	1 114 607	1 145 904
	<b>105 610 137</b>	<b>101 271 726</b>

Refer to note 8 and 9.

\* The amount of R100 125 822 in the 2020/2021 year is a restated amount and was previously reported as R100 434 796. The difference of R 308 974 is due to a prior period error as disclosed in note 32.

## 22. FINANCE COSTS

Interest on long-term borrowings	24 904 996	26 565 946
Finance leases	112 627	241 826
Unwinding of discount - Employee benefit obligation	4 667 000	3 951 000
Interest on overdue accounts	8 911	14 827
Other interest paid - SARS	-	6 033
	<b>29 693 534</b>	<b>30 779 632</b>

## 23. DEBT IMPAIRMENT

Debt impairment	2 177 382	2 470 179
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Refer to note 3.

## 24. BULK PURCHASES AND MATERIALS

	2022 R	2021 R
Electricity	157 366 140	142 431 957
Water	10 281 532	12 200 511
Sewer purification	84 224 798	94 506 364
	<b>251 872 470</b>	<b>249 138 832</b>

## 25. GENERAL EXPENSES

Advertising	719 426	662 696
Assessment rates & municipal charges	2 700 043	1 794 885
Auditors remuneration	2 491 118	2 570 892
Bank charges	257 321	527 919
Cleaning*	246 084	-
Computer expenses	2 482 525	1 988 416
Conferences and seminars	104 796	19 777
Consulting and professional fees	6 467 032	11 217 185
Donations	10 000	-
Refreshments	853 097	396 195
Fines and penalties	-	28 265
Flowers	1 343	-
Health, safety and protective clothing	2 620 522	1 687 219
Fuel and other fleet costs**	13 615 761	15 243 044
Insurance	9 776 319	5 628 388
Laboratory charges	4 260 518	5 279 943
Lease rental	150	285 480
Marketing and public relations	518 979	870 819
Staff recruitment fees	526 364	362 604
Printing and stationery	1 138 478	659 104
Rental of equipment	356 700	1 026 790
Research and development costs	869 550	1 401 667
Security	28 417 100	26 942 973
Sewerage and waste disposal	83 199	87 207
Subscriptions and membership fees	259 332	313 442
Telephone and fax	2 860 745	2 927 450
Training	2 995 485	3 457 006
Transport and freight - sludge management**	16 928 454	8 926 075
Travel	365 830	181 272
	<b>101 926 271</b>	<b>94 486 713</b>

\* Previously cleaning expenditure was covered under a maintenance contract. During the current financial period these services were performed by ERWAT staff and the related consumables were classified under the Cleaning line item.

\*\* During the previous financial period all fuel costs were disclosed under Fuel and other fleet costs separate from Transport and Freight. During the current financial period the fuel and other costs relating to sludge management of the Operations Department could be separated from the fuel and other fleet costs under the Fleet Department and classified accordingly. The description for Transport and freight was therefore amended to Transport and freight - sludge management.

## 26. CASH GENERATED FROM OPERATIONS

	2022 R	2021 R
Surplus	377 197 304	94 662 836
<b>Adjustments for:</b>		
Depreciation and amortisation	105 610 137	101 271 726
Loss on sale of assets	5 832 491	454 240
Insurance payout	(907 038)	(2 539 600)
Fair value adjustments	(253 128)	(1 559 714)
Finance costs - Finance leases	112 627	241 826
Debt impairment	2 177 382	2 470 179
Movements in retirement benefit liability	1 711 000	4 334 000
Movements in provisions	(4 389 778)	3 944 414
<b>Changes in working capital:</b>		
Other receivables from exchange transactions	(583 852)	(2 075 628)
Trade receivables from exchange transactions	(65 577 696)	119 608 168
Other receivables from non-exchange transactions	(82 203 726)	90 446 873
Debt impairment	(2 177 382)	(2 470 179)
Payables from exchange transactions	(8 518 942)	(155 594 766)
VAT	8 127 571	2 939 577
	<b>336 156 970</b>	<b>256 133 952</b>

## 27. AUDITORS' REMUNERATION

Fees	2 491 118	2 570 892
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## 28. FINANCIAL INSTRUMENTS DISCLOSURE

### CATEGORIES OF FINANCIAL INSTRUMENTS

30 JUNE 2022

FINANCIAL ASSETS	At fair value	At amortised cost	Total
Other financial assets	8 206 355	-	8 206 355
Trade receivables from exchange & receivables from non-exchange transactions	-	262 044 432	262 044 432
Other receivables from exchange transactions*	-	14 628 082	14 628 082
Cash and cash equivalents	-	280 234 987	280 234 987
	<b>8 206 355</b>	<b>556 907 501</b>	<b>565 113 856</b>
FINANCIAL LIABILITIES		At amortised cost	Total
Payables from exchange transactions **		104 870 312	104 870 312
Long-term borrowings - Current portion		53 025 985	53 025 985
Long-term borrowings - Non-current portion		289 200 652	289 200 652
		<b>447 096 949</b>	<b>447 096 949</b>

\* excluding prepayments

\*\* excluding payments received in advance

**28. FINANCIAL INSTRUMENTS DISCLOSURE (CONT.)**
**2022**  
 R

**2021**  
 R

**30 JUNE 2021**
**FINANCIAL ASSETS**

	At fair value	At amortised cost	Total
Other financial assets	7 953 227	-	7 953 227
Trade receivables from exchange & receivables from non-exchange transactions	-	114 263 010	114 263 010
Other receivables from exchange transactions*	-	14 020 687	14 020 687
Cash and cash equivalents	-	150 913 937	150 913 937
	<b>7 953 227</b>	<b>279 197 634</b>	<b>279 197 634</b>

**FINANCIAL LIABILITIES**

	At amortised cost	Total
Payables from exchange transactions **	113 389 255	113 389 255
Long-term borrowings - Current portion	51 758 586	51 758 586
Long-term borrowings - Non-current portion	341 934 427	341 934 427
	<b>507 082 268</b>	<b>507 082 268</b>

\* excluding prepayments

\*\* excluding payments received in advance

**FINANCIAL INSTRUMENTS IN STATEMENT OF FINANCIAL PERFORMANCE**
**30 JUNE 2022**

	At amortised cost	Total
Interest income (calculated using the effective interest method) for financial instruments at amortised cost	11 868 233	11 868 233
Interest expense (calculated using the effective interest method) for financial instruments	(25 026 534)	(25 026 534)
Debt impairment	(2 177 382)	(2 177 382)
Fair value adjustments - Investments	253 128	253 128
	<b>(15 082 555)</b>	<b>(15 082 555)</b>

**30 JUNE 2021**

	At amortised cost	Total
Interest income (calculated using the effective interest method) for financial instruments at amortised cost	3 951 641	3 951 641
Interest expense (calculated using effective interest method) for financial instruments at amortised cost*	(26 828 632)	(26 828 632)
Debt impairment	(2 470 179)	(2 470 179)
Fair value adjustments - Investments	1 559 714	1 559 714
	<b>(23 787 456)</b>	<b>(23 787 456)</b>

\* Excludes Unwinding of discount - Employee benefit obligation

## 29. CAPITAL COMMITMENTS

2022  
R

2021  
R

### AUTHORISED CAPITAL EXPENDITURE

#### ALREADY CONTRACTED FOR BUT NOT PROVIDED FOR

• Land and Buildings	5 653 563	5 439 604
• Furniture and fittings	4 565 252	4 748 520
• Motor vehicles	985 112	186 875
• Wastewater works	141 040 812	117 798 692
• Plant and machinery	14 303 997	1 071 791
	<b>166 548 736</b>	<b>129 245 482</b>

#### TOTAL CAPITAL COMMITMENTS

Approved and contracted	166 548 736	129 245 482
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This committed expenditure relates to all classes of assets as mentioned above and will be financed by available bank facilities, retained surpluses, existing cash resources and funds internally generated, etc.

## 30. CONTINGENCIES

Contingencies are broken down into the following categories:

- Category A - Contingencies relating to Eskom
- Category B - Bank Guarantees
- Category C - Guarantees
- Category D - Legal matters

### CATEGORY A - CONTINGENCIES RELATING TO ESKOM

Eskom contract that stipulates that if Eskom over-spends the quoted amount, they will be entitled to recover the variance up to 15% of the initial quoted amount. Eskom will refund ERWAT should the cost be less than the quoted value.

### CATEGORY B - BANK GUARANTEES

Eskom Rand Limited	954 600	954 600
Eskom Rand Limited	950 000	950 000
Stadsraad van Springs	90 000	90 000
Stadsraad van Midrand	94 200	94 200
Stadsraad van Kempton Park	80 750	80 750
Eskom	61 400	61 400
Randwateraad	15 750	15 750
Eskom	33 300	33 300
Eskom	46 500	46 500
Eskom	69 000	69 000
Town Council of Benoni	163 000	163 000
Stadsraad van Brakpan	22 000	22 000
Stadsraad van Heidelberg	87 100	87 100
Eskom	109 800	109 800
Stadsraad van Boksburg	145 000	145 000
	<b>2 922 400</b>	<b>2 922 400</b>

### 30. CONTINGENCIES (CONT.)

**2022**  
 R

**2021**  
 R

#### CATEGORY C - GUARANTEES

Standard Bank - 216324009 M.A. Sathekge	14 000	14 000
Nedperm C.P. Mokgolobotho	3 800	3 800
	<b>17 800</b>	<b>17 800</b>

#### CATEGORY D - LEGAL MATTERS

HM Eyethu Construction and Plant Hire CC	-	2 300 000
MS Khudu	-	570 000
Namston General Construction CC	5 000 000	5 000 000
Maziya General Services CC	12 827 019	-
	<b>17 827 019</b>	<b>7 870 000</b>
<b>Total Contingencies</b>	<b>20 767 219</b>	<b>10 810 200</b>

#### CONTINGENT ASSET

At the date of the publication of the financial statements, the outcome of the investigation in the theft of fuel was uncertain. Due to the uncertainty of the investigation, it is not appropriate to recognise a debtor for the recovery of the fruitless and wasteful expenditure that arose as a result of the loss. Due to the uncertainty that exists, a contingent asset will be disclosed.

#### CONTINGENT ASSETS

Subsequent to the disciplinary hearing in respect of the fruitless and wasteful expenditure referred to in Note 36, civil proceedings were instated against the employee concerned to recover an amount of R 200 000. According to Council's legal advisors, it is probable that the proceedings will result in the recovery of the full amount but this recovery is still not certain.

As per correspondence on 21 June 2022 with the Legal advisors the matter is still pending before the Court.

### 31. RELATED PARTIES

#### RELATIONSHIPS

<b>Directors</b>	Refer to the general information section as well as directors and executive managers emoluments note 41
<b>Accounting Officer</b>	Mr. K Chihota
<b>Controlling entity</b>	City of Ekurhuleni Metropolitan Municipality
<b>Controlled entities</b>	Refer to note
<b>Fellow entities controlled by CoE</b>	<ul style="list-style-type: none"> <li>• City of Ekurhuleni Metropolitan Municipality</li> <li>• Brakpan Bus Company</li> <li>• Ekurhuleni Development Company</li> <li>• Germiston phase 2 trading as Ekurhuleni Housing Company.</li> </ul>
<b>Members of key management</b>	Refer to the general information section as well as directors and executive managers emoluments note 41.

### 31. RELATED PARTIES (CONT.)

2022  
R

2021  
R

#### RELATED PARTY BALANCES

##### AMOUNT INCLUDED IN PAYABLES FROM EXCHANGE TRANSACTIONS REGARDING RELATED PARTIES

City of Ekurhuleni Metropolitan Municipality	6 090 685	10 385 042
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##### AMOUNTS INCLUDED IN TRADE RECEIVED FROM EXCHANGE TRANSACTIONS

City of Ekurhuleni Metropolitan Municipality	140 260 146	74 054 561
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##### AMOUNTS INCLUDED IN RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

City of Ekurhuleni Metropolitan Municipality	105 997 471	23 793 746
--	-------------	------------

##### AMOUNTS INCLUDED IN OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

City of Ekurhuleni Metropolitan Municipality	2 700 932	2 400 932
--	-----------	-----------

#### RELATED PARTY TRANSACTIONS

##### PURCHASES FROM RELATED PARTIES

City of Ekurhuleni Metropolitan Municipality	145 057 654	94 416 389
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##### SALES TO RELATED PARTIES

City of Ekurhuleni Metropolitan Municipality	1 115 638 499	928 098 329
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##### GRANTS AND DEVELOPMENT CONTRIBUTIONS

Grants - City of Ekurhuleni Metropolitan Municipality	146 797 610	49 830 000
Development contribution - City of Ekurhuleni Metropolitan Municipality	30 819 051	-

#### GUARANTEE AND DEBTORS CEDED

The controlling entity guaranteed the Nedbank loan to ERWAT, with a carry value of R 319 504 879 (30/06/2021: R 361 583 860) as disclosed in the long-term borrowing note 13. The guarantee shall expire at 15h00, 10 calendar days after the full repayment or settlement of all amounts owed by ERWAT to Nedbank Ltd in terms of the contract. Refer to notes 3 and 4.

#### REMUNERATION - NON-EXECUTIVE DIRECTORS AND EXECUTIVE MANAGERS

The remuneration of the non-executive directors, the executive directors and executive managers is included in note 41.

#### LEASED ASSETS

The following works included under infrastructure, are leased assets from related parties (City of Ekurhuleni Metropolitan Municipality).

LEASED ASSETS	Cost	Accumulated depreciation	Net book value
Waste water purification works	3 348 631	(2 071 589)	1 277 042

### 32. PRIOR PERIOD ERRORS

The following errors were identified during the current financial period:

Property, plant and equipment:

- 1) Some assets were depreciated by the Solar accounting system incorrectly in the 2020/2021 financial period.
  - 1.1) The error resulted in the carrying value of Property, plant and equipment being understated in the 2020/21 financial period by R 308 974 and depreciation being overstated by the same amount.
- 2) The retention value for an infrastructure project was capitalised at the incorrect value in the 2018/2019 financial period.
  - 2.1) The error resulted in the carrying value of Property, plant and equipment being overstated in the 2018/2019 through 2020/2021 financial periods by R 2 135 083 and Payables from exchange transactions being overstated by the same amount.

Prior year adjustments were processed to correct these errors, the effect of the corrections are as follows:

	2022 R	2021 R
<b>STATEMENT OF FINANCIAL POSITION</b>		
Property, plant and equipment (Decrease) - Note 8	-	(1 826 109)
Payables from exchange transactions (Decrease) - Note 10	-	2 135 083
Accumulated surplus - 1 July 2021 (page 8) (Increase)	-	(308 974)
<b>STATEMENT OF FINANCIAL PERFORMANCE</b>		
Depreciation - PPE (Decrease) - Note 21	-	(308 974)
Surplus for the year (Increase) - Page 7	-	308 974

### 33. PRIOR-YEAR ADJUSTMENTS

Presented below are those items contained in the statement of financial position and statement of financial performance that have been affected by prior-year adjustments:

<b>STATEMENT OF FINANCIAL POSITION</b>					
30 JUNE 2021	Note	As previously reported	Correction of error	Restated	
Property, plant and equipment - (Decrease)	8	2 185 202 598	(1 826 109)	2 183 376 489	
Payables from exchange transactions (Decrease)	10	(115 524 339)	2 135 083	(113 389 256)	
		<b>2 069 678 259</b>	<b>308 974</b>	<b>2 069 987 233</b>	
	Note	As previously reported	Correction of error	Rounding difference	Restated
Surplus for the year (Increase) - Page 7		94 353 861	308 974	1	94 662 836

## 34. RISK MANAGEMENT

### CAPITAL

The entity's activities expose it to a variety of financial risks: market risk (including currency risk, fair value, interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

### LIQUIDITY RISK

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an on-going review of future commitments and credit facilities.

AT 30 JUNE 2022	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	53 025 985	54 382 035	126 923 077	107 895 541
Trade and other payables	104 870 312	-	-	-

AT 30 JUNE 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	51 758 586	52 955 108	138 997 419	149 981 900
Trade and other payables	113 389 255	-	-	-

\*Excluded payments received in advance - contract in progress.

### INTEREST RATE RISK

The entity's interest rate risk arises from long term-borrowings. ERWAT manages interest rate risk so that fluctuations in variable rates do not have a material impact on surplus/(deficit).

The entity manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

At year end, financial instruments exposed to interest rate risk are indicated in note 13 ERWAT's income and operating cash are substantially independent of changes in market rates.

### CAPITAL RISK MANAGEMENT

#### 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 and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an on-going basis.

#### PRICE RISK

The entity is exposed to equity securities price risks because of investments held by the entity and classified on the statement of financial position as other financial assets.

The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going concern in order to provide returns for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

### 34. RISK MANAGEMENT (CONT.)

The capital structure of the entity consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in note 13 cash and cash equivalents disclosed in note 7.

Consistent with others in the industry, the entity monitors capital on a basis of the gearing. There are no externally imposed capital requirements.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

#### OTHER FINANCIAL ASSETS

Short term investments are not to be made with financial institutions with ratings lower than A1/F1 as defined in the National Rating Definitions. ERWAT's exposure to any one financial institution, for short term investments, is limited as follows:

>A1+/F1+ Short Term Rating: 5% of institution's total equity as published from time to time in the banking sector Credit Ratings Report.

>A1/F1 Short Term Rating: 4% of institution's total equity as published from time to time in the banking sector Credit Ratings Report.

Financial assets exposed to credit risk at 30 June 2022 were as follows:	2022	2021
	R	R
Trade receivables from exchange & receivables from non-exchange transactions	262 044 432	114 263 010
Deposits	14 590 667	13 962 138
Cash and cash equivalents	280 234 987	150 913 937
Listed shares	8 206 355	7 953 227
	<b>565 076 441</b>	<b>287 092 312</b>

TOTAL BORROWINGS	30 June 2022	30 June 2021
Other financial liabilities	(342 226 636)	(393 693 013)
Less: Cash and cash equivalents	280 234 987	150 913 937
Net debt	(61 991 649)	(242 779 076)
Total Net assets	2 273 109 057	1 895 911 753
<b>Total capital</b>	<b>2 211 117 408</b>	<b>1 653 132 677</b>

#### MARKET RISK

##### CURRENCY RISK

ERWAT only transacts in its functional currency (South African Rand) and its only involvement with foreign currencies relates to the situation where imported goods and services are procured. No material transactions denominated in foreign currencies occurred in the current financial year.

In order to manage ERWAT's exposure related to the procurement of goods or services denominated in a foreign currency, the Rand value will be determined at the time of procurement, or where this not possible the Rand value will be determined as close as possible to the time of procurement.

### 35. GOING CONCERN

We draw attention to the fact that at 30 June 2022, the entity had an accumulated surplus of R 2 273 109 057 and that the entity's total assets exceed its liabilities by R 2 273 109 057.

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 future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

	<b>2022</b>	<b>2021</b>
	<b>R</b>	<b>R</b>
Opening balance	1 355 497	1 249 396
Fruitless and wasteful expenditure incurred	8 911	106 101
	<b>1 364 408</b>	<b>1 355 497</b>

### 36. FRUITLESS AND WASTEFUL EXPENDITURE

#### CONSEQUENCE MANAGEMENT

##### 2021/2022:

INTEREST INCURRED ON A TELKOM ACCOUNT PAID LATE R 8 911,39

The interest portion to be deducted from the responsible employee's salary until fully recovered.

##### 2020/2021:

PENALTIES CHARGED BY SARS R 28 265,19

Item currently under investigation

SALARY PAYMENT MADE TO FICTITIOUS ACCOUNT R 77 836,16.

Item currently under investigation, a docket has been opened with the SAPS and is underway in collaboration with the affected bank.

##### 2019/2020:

FUEL THEFT

Item was processed by MPAC. The matter was referred to SAPS for investigation. The implicated employee resigned from his employment at ERWAT before disciplinary proceedings were instituted. Court proceedings have been initiated and are pending.

INTEREST CHARGED BY JHB WATER

Item was processed by MPAC, disciplinary action against those implicated is pending.

DIESEL TANK

Item was processed by MPAC, disciplinary action taken against those implicated and finalised. The service provider has since been located who has indicated that they will complete the project.

### 37. IRREGULAR EXPENDITURE

	2022 R	2021 R
Opening balance	605 359 103	544 057 407
Add: Irregular Expenditure - current	59 664 631	61 301 696
Add: Irregular Expenditure - prior year non-compliance identified in the current year	21 303 946	-
Add: Irregular Expenditure - current overspending on approved budget	-	-
Add: Irregular Expenditure - prior year overspent on approved budget identified in the current year	-	-
	<b>686 327 680</b>	

### CASES UNDER INVESTIGATIONS

Irregular expenditure arising from the 2017/2018 financial period, incurred in the current and comparative financial period. This irregular expenditure relates to an operation and maintenance contract that was awarded to a contractor whose CIDB grading was below the required grading for the value of the particular contract.	-	9 379 125
Irregular expenditure arising from the 2017/2018 financial period, incurred in the 2021/2022 financial period. This irregular expenditure relates to expenditure incurred over the allowable 15/20% variance amount.	72 186	27 691 484
Irregular expenditure arising from the 2018/2019 financial period, incurred in the current and comparative financial period. This irregular expenditure relates to a mandatory requirement not enforced at bid evaluation stage.	-	14 104 684
Irregular expenditure arising from the 2017/2018 financial period, incurred in the 2021/2022 financial period. The irregular expenditure relates to the incorrect use of SCM Regulation 36(1)(v).	5 419 992	7 597 743
Irregular expenditure arising from the 2019/2020 financial period, incurred in the 2019/2020 financial period. The irregular expenditure relates to the incorrect use of SCM Regulation 36(1)(v).	-	135 100
Irregular expenditure identified in the 2020/2021 financial period. The irregular expenditure relates to the incorrect application of the SCM regulation 36(1)(v). (deviations)	-	2 393 560
Irregular expenditure identified in the 2021/2022 financial period. The irregular expenditure relates to expenditure incurred on an expired contract.	8 338 128	-
Irregular expenditure incurred in the 2021/2022 financial period. The irregular expenditure relates to the bid awarded incorrectly due to an error in the scoring.	9 150 666	-
Irregular expenditure incurred in the 2021/2022 financial period. The irregular expenditure relates to the Tender awarded not in line with CIDB regulation 21(3)	4 407 129	-
Irregular expenditure incurred in the 2021/2022 financial period. The irregular expenditure relates to non-compliance to Preferential Procurement Regulation 9 (1) if feasible to subcontract for a contract above R30 million, an organ of state must apply subcontracting to advance designated groups.	26 897 992	-
Irregular expenditure incurred in the 2021/2022 financial period. The irregular expenditure relates to non-compliance to Preferential Procurement Regulation 4(2), states that a tender that fails to meet any pre-qualifying criteria stipulated in the tender documents is an unacceptable tender.	3 560 809	-
Irregular expenditure incurred in the 2021/2022 financial period. The irregular expenditure relates to B-BBEE points allocated to a bidder who did not submit a valid certificate	1 817 729	-
Irregular expenditure identified in the 2021/2022 financial period. The irregular expenditure relates to expenditure incurred in prior periods.	21 303 946	-
	<b>80 968 577</b>	<b>61 301 696</b>

## 37. IRREGULAR EXPENDITURE (CONT.)

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### CONSEQUENCE MANAGEMENT

#### CURRENT PERIOD

Irregular expenditure identified in the 2021/2022 financial period. The irregular expenditure relates to expenditure incurred on an expired contract:

Item under investigation.

#### PRIOR PERIOD

Irregular expenditure arising from the 2018/2019 financial period, incurred in the current and comparative financial period. This irregular expenditure relates to the incorrect application of SCM regulation 36 (deviations).

Item has been processed by MPAC.

Irregular expenditure arising from the 2017/2018 financial period, incurred in the current and comparative financial period. This irregular expenditure relates to an operation and maintenance contract that was awarded to a contractor whose CIDB grading was below the required grading for the value of the particular contract.

Item has been processed by MPAC and disciplinary action for persons implicated has been initiated and still in progress.

Irregular expenditure arising from the 2017/2018 financial period, incurred in the current and comparative financial periods. This irregular expenditure relates to expenditure incurred over the allowable 15/20% variance amount: Item has been processed by MPAC and disciplinary action for persons implicated has been initiated and still in progress.

Irregular expenditure arising from the 2018/2019 financial period, incurred in the current and comparative financial period. This irregular expenditure relates to a mandatory requirement not enforced at bid evaluation stage:

Item has been processed by MPAC.

Irregular expenditure arising from 2015/2016 financial period, incurred in the 2016/2017 financial periods. The irregular expenditure relates to the incorrect use of SCM Regulation 36(1)(v):

Item has been processed by MPAC and disciplinary action for persons implicated has been initiated and still in progress.

Irregular expenditure arising from 2016/2017 financial period, incurred in the current and comparative financial periods. The irregular expenditure relates to expenditure incurred on an expired contract:

Item has been processed by MPAC and disciplinary action for persons implicated has been initiated and still in progress.

Irregular expenditure arising from the 2017/2018 financial period, incurred in the 2021/2022 financial period. The irregular expenditure relates to the incorrect use of SCM Regulation 36(1)(v):

Item has been processed by MPAC and disciplinary action for persons implicated has been initiated and still in progress.

Awards made on RFQ'S without inviting at least the minimum prescribed number of written quotations:

Item has been processed by MPAC and disciplinary action for persons implicated has been initiated and still in progress.

Irregular expenditure arising from the 2019/2020 financial period, incurred in the 2020/2021 financial period. The irregular expenditure relates to the incorrect use of SCM Regulation 36(1)(v):

Item under investigation.

Irregular expenditure identified in the 2021/2022 financial period. The irregular expenditure relates to expenditure incurred on expired contracts:

Item under investigation

**38. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT**
**2022**  
 R

**2021**  
 R

**AUDIT FEES**

Subscription / fee	2 491 118	2 570 892
Amount paid	(2 491 118)	(2 570 892)
	-	-

**PAYE, UIF AND SDL**

Opening balance	5 725 461	5 293 917
Subscription / fee	74 349 253	71 453 919
Amount paid	(74 437 384)	(71 022 375)
	<b>5 637 330</b>	<b>5 725 461</b>

**PENSION AND MEDICAL AID DEDUCTIONS**

Opening balance	58 549	39 346
Subscription / fee	92 188 668	88 867 539
Amount paid	(92 209 803)	(88 848 336)
	<b>37 414</b>	<b>58 549</b>

**VAT**

VAT payable	8 746 086	618 515
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All VAT returns have been submitted by the due date throughout the year.

**39. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION**

Outstanding long-term liabilities at the beginning of the year	393 693 013	445 905 563
Redemption of loans	(51 695 087)	(51 721 604)
Interest accrued/(reversed)	228 711	(490 946)
	342 226 637	393 693 013
Used to finance property, plant and equipment	(340 029 451)	(391 724 538)
<b>Interest Accrued</b>	<b>2 197 186</b>	<b>1 968 475</b>

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

**OUTSTANDING LONG-TERM LIABILITIES**

Opening balance	393 693 013	445 905 563
Redemption of loans	(51 695 087)	(51 721 604)
Interest accrual (reversal)	228 711	(490 946)
	<b>342 226 637</b>	<b>393 693 013</b>

#### 40. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the board and includes a note to the annual financial statements.

The details of the deviations disclosed were documented and reported to the board of directors.

#### THE DEVIATIONS INCURRED, AS LISTED HEREUNDER, HAVE BEEN APPROVED

	June 2022	June 2021	June 2020
Minor breach	-	2 065 258	2 724 123
Emergencies	-	403 540	1 976 050
Sole suppliers	2 462 153	684 107	177 028
Impracticability	2 552 443	14 351 134	18 913 373
	<b>5 014 597</b>	<b>17 504 039</b>	<b>23 790 574</b>

#### 41. DIRECTORS AND EXECUTIVE MANAGERS EMOLUMENTS

NON-EXECUTIVE MEMBERS	Salary or Fee	Bonuses and performance related payments	Retirement Fund contributions	Medical contributions	Travel allowance/claim	Telephone and data allowance	Total package 30 June 2022	Total package 30 June 2021
GM Mahlangu (Resign date: 31 October 2021)	29 006	-	-	-	-	6 400	35 406	367 267
Dr. NC Skeepers (Resign date: 31 October 2021)	120 083	-	-	-	-	6 400	126 483	367 267
K Wall (Resign date: 31 October 2021)	120 083	-	-	-	-	6 400	126 483	367 267
D Coovadia (Resign date: 31 October 2021)	120 083	-	-	-	-	6 400	126 483	367 267
CJ Cornish (Chairperson from 1 June 2017 - Resign date: 31 October 2021)	164 142	-	-	-	-	6 400	170 542	494 975
Dr NC Skeepers (Chairperson from 1 March 2022)	152 192	-	-	-	-	6 400	158 592	-
Y Haffejee (Appointed: 1 March 2022)*	-	-	-	-	1 345	6 400	7 745	-
N Gwenya (Appointed: 1 March 2022)*	-	-	-	-	1 100	6 400	7 500	-
Rl Kikine (Appointed: 1 March 2022)	109 622	-	-	-	-	6 400	116 022	-
U Exner (Appointed: 1 March 2022)	109 622	-	-	-	-	6 400	116 022	-
<b>Subtotal</b>	<b>924 833</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2 445</b>	<b>64 000</b>	<b>991 278</b>	<b>1 964 043</b>

\* These Directors are in the service of the state and thus will only be given cellphone and data allowances as well as be compensated for travelling.

#### 41. DIRECTORS AND EXECUTIVE MANAGERS EMOLUMENTS (CONT.)

<b>CHIEF EXECUTIVE OFFICER</b>	<b>Salary or Fee</b>	<b>Bonuses and performance related payments</b>	<b>Retirement Fund contributions</b>	<b>Medical contributions</b>	<b>Travel allowance/claim</b>	<b>Telephone and data allowance</b>	<b>Total package 30 June 2022</b>	<b>Total package 30 June 2021</b>
T Gopane (Managing Director from 01 September 2016 - Resigned 05 September 2021)	309 406	503 048	10 089	-	9 434	41 122	873 099	2 203 459
<b>Subtotal</b>	<b>309 406</b>	<b>503 048</b>	<b>10 089</b>	<b>-</b>	<b>9 434</b>	<b>41 122</b>	<b>873 099</b>	<b>2 203 459</b>
<b>EXECUTIVE MANAGERS</b>								
WI Louw - Head of Department - Financial Services	936 448	504 737	105 469	76 500	30 600	201 574	1 855 328	1 958 450
FM Mabunda - Head of Department - Operations	633 852	294 281	74 895	77 760	22 032	124 986	1 227 806	1 765 838
M Tsotetsi - Head of Department - Commercial Business	-	-	-	-	-	-	-	407 387
RW Barnes - Head of Department - Human Resources	1 278 527	215 038	98 200	78 000	40 800	276 713	1 987 278	1 919 033
A Chapman - Head of Department - Laboratory	1 064 786	197 083	113 296	30 000	40 800	230 267	1 676 232	1 642 054
ZZ Socikwa - Company Secretary	1 250 842	178 591	45 264	156 000	40 800	92 053	1 763 550	1 693 224
L Chueu - Interim Head of Department - Maintenance	556 060	41 273	-	24 000	12 000	108 633	741 966	1 177 770
EM Khomela - Interim Head of Department - Development	-	-	-	-	-	-	-	966 569
LMM Motaung - Interim Head of Department - Commercial Business	162 734	16 592	20 179	19 500	6 000	14 823	239 828	563 831
K Nthethe - Interim Head of Department - Development	275 682	20 885	15 134	18 000	6 000	18 797	354 498	469 147
S Mateza - Interim Head of Department - Development	764 566	56 837	116 994	49 500	18 000	98 403	1 104 300	231 880
J Engelbrecht - Interim Head of Department - Financial Services	-	-	-	-	-	-	-	682 778
DM Makgopa - Interim Head of Department - Financial Services	778 561	56 968	43 320	-	18 000	51 919	948 768	321 632
NE Mutyaba - Interim Head of Department - Maintenance	975 008	72 832	101 662	72 000	24 000	126 234	1 371 736	220 664
DM Hlabioa - Interim Head of Department - Commercial Business	606 925	45 752	29 442	-	14 000	120 402	816 521	-
<b>Subtotal</b>	<b>9 283 991</b>	<b>1 700 869</b>	<b>763 855</b>	<b>601 260</b>	<b>273 032</b>	<b>1 464 804</b>	<b>14 087 811</b>	<b>14 020 257</b>
<b>Total</b>	<b>10 518 230</b>	<b>2 203 917</b>	<b>773 944</b>	<b>603 705</b>	<b>346 466</b>	<b>1 505 924</b>	<b>15 952 188</b>	<b>18 187 760</b>

## 42. BUDGET DIFFERENCES

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### MATERIAL DIFFERENCES BETWEEN BUDGET AND ACTUAL AMOUNTS

#### TOTAL REVENUE - 102% REALISED DUE TO THE FOLLOWING REASONS:

##### INVESTMENT REVENUE - 320% REALISED

Interest received - Due to the timing of capital expenditure the average bank balance during the year was slightly higher than anticipated and resulted in higher than budgeted interest income earned.

##### OTHER OWN REVENUE - 129% REALISED

A significant part of the other own revenue consists of Development Contribution revenue generated which is not budgeted for due to its unpredictability. An amount of R 30 819 051 was invoiced during the year ended 30 June 2022.

##### INTERVENTION INCOME - 100% REALISED

ERWAT also earned income to the value of R 1 402 202 (2020/2021:R 5 436 831) from the City of Tshwane - Rooiwal Project.

#### TOTAL OPERATING EXPENSES - 83% SPENT DUE TO THE FOLLOWING REASONS:

##### EMPLOYEE RELATED COSTS - SALARIES & WAGES - 87% SPENT

The budget for the year included planned appointments which did not realise during the current financial period. In addition the previous Board's term ended 31 October 2021. A new Board was only appointed as at 1 March 2022. Two of the current board members do not receive remuneration from ERWAT other than reimbursive expenses.

##### BULK PURCHASES - 78% ACHIEVED

The main contributor to ERWAT's bulk purchases is Electricity, but also includes Water Charges, Rates and Water Care Chemicals. ERWAT is not realistically able to reduce these costs as the demand for these items increases due to increased inflow treated while the cost per unit for these items increases

##### OTHER EXPENSES - 75% SPENT

Other expenses have been under spent by 25%. This is however not representative of the actual costs savings due to the budget cut imposed. The following facts are important to note:

- Significant under-expenditure in feasibility studies
- Significant under-expenditure on travel due to the introduction of the cost containment regulations
- Significant under-expenditure on professional fees due to delays in finalising agreements for maintenance of the ICT environment.
- Significant under-expenditure on litigation and legal consultation fees due a lack of new matters of a legal nature.

##### FINANCE CHARGES – 72% SPENT

ERWAT budgeted for an increase in interest rates, however the interest rates were actually lowered significantly from the 2019/2020 period which continued into the current financial period and as a result ERWAT spent less than its budget on interest.

### 43. TENDER AWARDED TO CLOSE FAMILY MEMBER IN SERVICE OF THE STATE

Description	Supplier name	Relationship to Director	Name	Position in organ of state	Paid amount
COVID-19 REQUIREMENTS - THERMOMETER NON-CONTACT SCANNER - HUMAN USE ONLY	SIYAKHA- ISIZWE TRADING ENTERPRISE 84	Sister to GK Mulaudzi	NR Mulaudzi	Dr, at Pholosong	82 800
		Wife to GK Mulaudzi	NR Mazibuko	Prof. at Johannesburg Water	
		Mother to GK Mulaudzi	ME Mulaudzi	Head of Tsakane Clinic	
Bid ERW2007/11/135 WELGEDACHT WCW EXTENSION and Bid ERW201902/TNDR-001 APPOINTMENT OF A PSP FROM THE PANEL FOR PROFESSIONAL SERVICES FOR THE UPGRADE OF OLIFANTSFONTEIN WCW	ROYAL HASKONING DHV	Mother of B Nthuli	L Dladla	Deputy Director: National Department of Health	4 986 924
		Wife of SW Sithole	T Sithole	Associate Director at City of Johannesburg	
ERW202007/TNDR-015 REPLACEMENT OF SELF-PRIMING AND HORIZONTAL END SUCTION PUMPS AT VARIOUS ERWAT WCW	TLM ENGINEERING SERVICES	Spouse	LJ Phophi	Department of Education	10 911 469
SUPPLY AND DELIVERY OF VARIOUS LABORATORY CONSUMABLES	BASHUMI INSTRUMENTS AND CONSTRUCTION SERVICES	Husband of RE Senoamadi	C Senoamadi	Chief Director Finance Officer: Gauteng Department of Health	322 951
CASEWARE SOFTWARE LICENSE SUPPORT	ADAPT IT	Husband of N Mbambo	DMS Mbambo	Operations and Maintenance Manager - SANRAL	135 179
					<b>16 439 324</b>

### 44. SERVICES IN-KIND

#### CITY OF EKURHULENI

##### INTERNAL AUDIT & AUDIT COMMITTEE

The City of Ekurhuleni shares internal audit and audit committee services with ERWAT. These are paid by the City of Ekurhuleni on behalf of all entities that make use of it. ERWAT has determined these services received for free are not significant to our operations and therefore ERWAT does not recognise these services.

The audit committee sits both quarterly to process routine items as well on an ad-hoc basis to discuss the financial statements of ERWAT and the other entities of the City of Ekurhuleni Metropolitan Municipality.

The internal audit function is shared by ERWAT and the other entities with the City of Ekurhuleni Metropolitan Municipality. The areas covered by this shared internal audit include quarterly and annual financial statement reviews, supply chain management, financial risk, maintenance, green drop compliance, fleet, adequacy of infrastructure, risk management and corporate governance and human resources.

##### PTPI AND BCX

The City of Ekurhuleni incurs costs on behalf of ERWAT for the implementation of mSCOA which includes: software licenses, software development, technical support and provision of ERP implementation consultants. These services are provided by the City of Ekurhuleni to all of its entities in order to ensure uniformity in reporting and compliance with the mSCOA regulations.

## 45. INTERVENTION INCOME

2022  
R

2021  
R

### ROOIWAAL INTERVENTION

Intervention income - 5% Management fee

1 402 202

5 436 802

**1 402 202**

**5 436 802**

Ekurhuleni water care company (ERWAT) was appointed as an Implementing Agent for the phase1 upgrade and urgent refurbishment at the Rooiwaal waste water treatment works and related works project, in terms of section 110(2) of Local Government: Municipal Finance Management Act; for a three-year period by City of Tshwane (CoT) which commenced during the first quarter of the current financial year. This note presents the income earned in relation to this intervention project.

### DESCRIPTION OF ARRANGEMENT

The project objectives of the City of Tshwane are to undertake upgrades and urgent refurbishment of Rooiwaal Wastewater Treatment Plant, which will mainly consist of limited and focused areas of work. The areas currently identified are as follows:

- Refurbishment of the Inlet Works
- Construction of one new Primary Settling Tank (PST)
- Restoration of the incoming sewage by-pass pipeline from North/West Works to East Works.
- Refurbishment of the Biological Nutrient Removal (BNR) Fine Bubble Diffusion Aeration System
- Refurbishment of a total of eight (8) Anaerobic Digesters
- Refurbishment of Sludge Dewatering Building and system.
- Improve the functioning of the flow balancing tanks

As per the Service Level Agreement between ERWAT and CoT, the following services must be provided

- Project planning activities
- Design activities
- Construction and Commissioning Activities
- Project close out and handover
- Asset capitalisation
- Project documentation management and reporting

### ASSESSMENT OF WHETHER A PRINCIPAL-AGENT RELATIONSHIP EXISTS AND SIGNIFICANT JUDGEMENTS MADE

Based on the substance over form arrangement, the three criteria per GRAP 109 are met i.e. ((i) Signed agreement, (ii) existence of third parties and (iii) undertaking transactions on behalf of and for the benefit of the other entity) demonstrate that there is a binding arrangement between COT and ERWAT, hence in line with GRAP 109, Par 18, principal-agent arrangements do exist which confer enforceable rights and obligations on the parties to the arrangement.

In this arrangement COT is considered the Principal and ERWAT the Agent.

## 45. INTERVENTION INCOME (CONT.)

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### SIGNIFICANT TERMS AND CONDITIONS OF THE ARRANGEMENT

ERWAT shall ensure that:

1. Assisting the City in carrying out conceptualisation of phase 1 upgrade and urgent refurbishment at Rooiwal Waste Water Treatment Works and related works with respect to project management best practices and technical solutions to the identified problems.
2. Advise the City in the budgetary processes in respect of the project.
3. Assisting the City with solicitation of requisite approvals from relevant authorities.
4. When required, undertake the procurement of Professional Service Providers (PSPs) on behalf of the City, ensuring that the procurement procedures are in line with all the legislative provisions, Municipal Finance Management Act (MFMA), Public Finance Management Act (PFMA) and Supply Chain Management (SCM) Regulations.
5. Ensure that all necessary documentation (professional indemnity, etc.) is solicited from PSPs prior to concluding with them.
6. Review and approve the designs of the PSPs in consultation with the City and ensure that all necessary input to the designs has been sought from interested and effected parties.
7. Manage the performance of the PSPs accordingly.
8. Undertake the procurement of Contractors on behalf of the City, ensuring that the procurement procedures are in line with all the legislative provisions, Municipal Finance Management Act (MFMA), Public Finance Management Act (PFMA) and Supply Chain Management (SCM) Regulations, including contract price adjustment (CPA) and rate of exchange (RoE) provisions.
9. Ensure that all necessary documentation (guarantees, sureties, etc.) are solicited from Contractors prior to concluding contracts with them.
10. Manage the performance of the Occupational Health and Safety Agent as appointed by the City.
11. Manage the performance of Contractors accordingly.
12. Manage the commissioning process in such a manner that it ensures a seamless transition to the end user.
13. Ensure preparation of Close-Out Report by the PSP (engineering consultants) and its approval by the City.
14. Issuance of copies of Close-Out documents which include copy of As-built Layout Plans, Certificates of Completion, Operation Manuals and Maintenance Plans.
15. Assist the City in the process of capitalisation of the Assets by providing required documentation and technical expertise, where necessary.
16. Ensure that all the documentation confirming the paper trail on all processes followed is filed accordingly and availed to the City as and when requested.
17. Provide reports to the City in the intervals and format requested as stated and agreed upon in the Implementation Plan.
18. Establish administrative processes to ensure that all procedures and documentation relating to the contract are effectively managed.
19. Ensure adequate variation management and variation procedures must be used for all changes to the contract of PSPs. Ensuring that all procurement activities are executed in accordance with ERWAT SCM Policies and MFMA.

The Implementation Agent shall undertake any other functions relating to the project scope of work to give effect to the objectives of this agreement.

## 45. INTERVENTION INCOME (CONT.)

### PURPOSE, SIGNIFICANT RISKS AND BENEFITS ASSOCIATED WITH THE RELATIONSHIP

The purpose of the principal agent relationship is for ERWAT to act as implementing agent to the COT.

The benefit to ERWAT of this relationship is a 5% management fee earned on entering into transactions on behalf of the COT, while the COT gains the implementation services of ERWAT which includes expertise and knowledge that ERWAT has accumulated for nearly 30 years in the wastewater care works industry.

The risk of non-performance of sub-contractors is mitigated through contract management procedures. Cash-flow risk is in turn mitigated by COT making direct payments to the Contractors and Sub-Contractors.

VAAL RIVER INTERVENTION	2022 R	2021 R
Intervention income	-	1 897 417
Repairs and maintenance - Intervention expenses	-	(3 377 808)
	-	<b>(1 480 391)</b>

Total Intervention income for the 2020/2021 year amounted to R 3 956 411.

During the 2019/2020 financial period ERWAT was appointed by the DHSWS to perform intervention services in relation to the Vaal River Intervention. This note presents the income earned in relation to this intervention project.

### DESCRIPTION OF ARRANGEMENT

ERWAT has been appointed as the implementing agent of the capital components of the Vaal River System Intervention which are as follows:

1. Rising main replacement;
2. Bulk pipeline replacement and program;
3. A total of 44 pump stations; and
4. Refurbishment of three wastewater treatment works.

This included making administrative arrangements for the project, day to day project management, sewer line cleaning, repairs and maintenance of property, plant and equipment

### ASSESSMENT OF WHETHER A PRINCIPAL-AGENT RELATIONSHIP EXISTS AND SIGNIFICANT JUDGEMENTS MADE

Based on the substance over form arrangement, the three criteria per GRAP 109 are met i.e. ((i) Signed agreement, (ii) existence of third parties and (iii) undertaking transactions on behalf of and for the benefit of the other entity) demonstrate that there is a binding arrangement between DWS and ERWAT, hence in line with GRAP 109, Par 18, principal-agent arrangements do exist which confer enforceable rights and obligations on the parties to the arrangement.

In this arrangement DWS is considered the Principal and ERWAT the Agent.

## 45. INTERVENTION INCOME (CONT.)

### SIGNIFICANT TERMS AND CONDITIONS OF THE ARRANGEMENTS

ERWAT shall ensure that:

1. The wastewater services infrastructure is restored to an operational state and raw sewer spillage into Vaal River Systems is stopped. The project is executed as set out in the implementation plan to stop raw sewer spillage into the Vaal River System and address the following wastewater services infrastructure:
  - 1.1. Gravity and Rising main: Leakage and deficiencies in sewer network system replaced and repaired.
  - 1.2. Pump Stations: Prioritise upgrade of forty-four (44) pump stations.
  - 1.3. Wastewater Treatment Works: All three (3) treatment plants should be refurbished to optimal functionality.
2. Carry out its obligations with reasonable care, diligence, skill efficiency and economy and in accordance with generally accepted professional techniques required, as well as employ appropriate technology, and observe sound and acceptable management practices;
3. Act in a fiduciary manner towards the DWS and as conscientious advisor to the DWS and shall, at all times, support and safeguard the DWS and the Waste Services Authority and undertake to perform its obligations under this Agreement in a manner that will not detract from the image of DWS;
4. Execute its obligations in compliance with the Agreement, the Implementation Protocol, Implementation plan and the specific Project Conditions;
5. Support the development of Implementation Plans, technical reports and feasibility studies;
6. Manage and facilitate project implementation;
7. Ensure that it has access to sufficient and adequate capacity to execute its obligations in terms of the Agreement;
8. Manage performance of Contractors including without limitation contract management and performance management of Contractors;
9. Ensure that the projects are implemented as set out in the Implementation Plan;
10. In accordance with the relevant legislation act in a fiduciary manager to properly manage the finances of each project in order to ensure that the total Project cost does not exceed the budget specified in the Implementation Plans, as amended by any variation order/s in scope of budget approved by the DWS;
11. Carry out procurement processes in accordance with the supply chain management legislative framework and any other SCM circulars/guidelines and issues by DWS applicable to Implementing Agents; and
12. ERWAT may not enter into contracts with third parties that will carry on beyond the duration of the period of this agreement, unless prior approval for extension of this agreement is granted by the DWS.

### PURPOSE, SIGNIFICANT RISKS AND BENEFITS ASSOCIATED WITH THE RELATIONSHIP

The DWS, in terms of the Regional Bulk Infrastructure Grant, is responsible for funding the Vaal River System Intervention. The purpose of the principal agent relationship is for ERWAT to act as implementing agent of the capital components of the Vaal River System Intervention Projects utilising nearly 30 years of experience as municipal entity focusing exclusively on wastewater treatment and bulk sanitisation services.

The benefit to ERWAT of this relationship is a 5% management fee earned on entering into transactions on behalf of the DWS, while the DWS gains the implementation services of ERWAT, which includes expertise and knowledge that ERWAT has accumulated for nearly 30 years in the wastewater care works industry.

The risk of non-performance of sub-contractors is mitigated through contract management procedures. Cash-flow risk is in turn mitigated by DWS making payment to ERWAT prior to ERWAT making payment to the third parties with whom it entered into transactions with.

#### **45. INTERVENTION INCOME (CONT.)**

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##### **AGGREGATE AMOUNT OF REVENUE THAT THE ENTITY RECOGNISES AS COMPENSATION FOR THE TRANSACTIONS CARRIED OUT ON BEHALF OF THE PRINCIPAL**

The aggregate (expense)/revenue recognised as compensation for the transactions carried out on behalf of the principal is (R 1 480 391) (2019/2020: R 10 0336 560).

##### **AMOUNTS RELATING TO THE VAAL RIVER INTERVENTION INCLUDED IN TRADE RECEIVABLES AND PAYABLES FROM EXCHANGE TRANSACTIONS**

At 30 June 2021 an amount of R 0 relating to the Vaal River Intervention was included in Trade receivables from exchange transactions (2019/2020: R 77 810 301).

At 30 June 2021 an amount of R 0 relating to the Vaal River Intervention was included in Payables from exchange transactions (2019/2020: R 73 634 793).



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