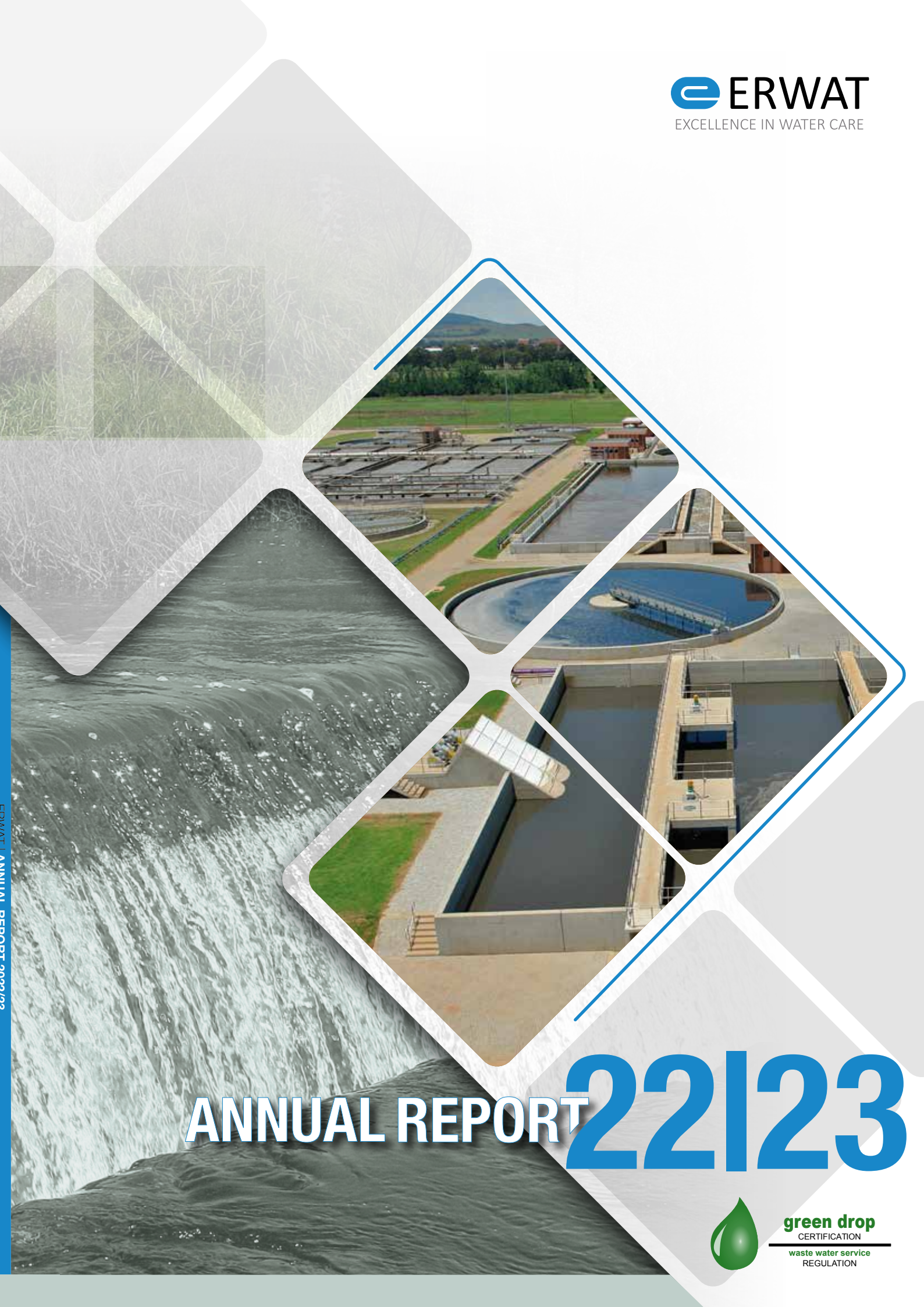


ERWAT | ANNUAL REPORT 2022/23

# ANNUAL REPORT 22|23





# Contents

Terms and Abbreviations .....	2
<b>CHAPTER 1 CHAIRPERSON'S FOREWORD AND EXECUTIVE SUMMARY .....</b>	<b>3</b>
Component A: Chairperson's Foreword .....	4
Component B: Managing Director's Overview .....	7
<b>CHAPTER 2 GOVERNANCE .....</b>	<b>12</b>
Component A: Political and Administrative Governance .....	13
Component B: Intergovernmental Relations .....	18
Component C: Public Accountability and Participation .....	20
Component D: Overview of Corporate Governance .....	21
<b>CHAPTER 3 SERVICE DELIVERY PERFORMANCE (PERFORMANCE REPORT PART I) .....</b>	<b>28</b>
Component A: Basic Services .....	29
Component B: Corporate and Other Services .....	34
Component C: Organisational Performance Scorecard .....	38
<b>CHAPTER 4 ORGANISATIONAL DEVELOPEMNT PERFORMANCE (PERFORMANCE REPORT PART II) .....</b>	<b>53</b>
Component A: Introduction to the Company's Personnel .....	54
Component B: Managing the Company's Workforce .....	56
Component C: Capacitating the Company's Workforce .....	59
Component D: Managing the Company's Expenditure .....	61
Component E: Introduction to the Company's Personnel .....	62
<b>CHAPTER 5 FINANCIAL PERFORMANCE .....</b>	<b>63</b>
Component A: Statements of Financial Performance .....	64
Component B: Spending Against Capital Budget .....	72
Component C: Cash Flow Management and Investments .....	76
Component D: Other Financial Matters .....	78
<b>CHAPTER 6: AUDITOR-GENERAL FINDINGS .....</b>	<b>79</b>
Component A: AG Opinion of the Financial Statments 2020/21 .....	80
Component B: AG Opinion of the Financial Statments 2021/22 .....	82
<b>CHAPTER 7: ANNUAL FINANCIAL STATEMENTS .....</b>	<b>83</b>
General Information .....	85
Board's Responsibilities and Approval .....	86
Board's Report .....	87
Statement of Financial Position .....	88
Statement of Financial Performance .....	89
Statement of Changes in Net Assets .....	90
Cash Flow Statement .....	91
Statement of Comparison of Budget and Actual Amounts .....	92
Accounting Policies .....	93
Notes to the Annual Financial Statements .....	114
<b>GLOSSARY .....</b>	<b>152</b>
<b>APPENDICES .....</b>	<b>155</b>

# Terms and Abbreviations

<b>AGSA</b>	Auditor-General of South Africa
<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 enchanting 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 six strategic pillars namely profitability, people, environmental sustainability, operational excellence, technology and partnerships/commercialisation. These define the markers of success and effectively how ERWAT will know when ERWAT has achieved its goals. ERWAT's strategic objectives outline what must be achieved in order for it to make its strategy a success.

Each of these are strategic pillars are defined below.

1. **Profitability:** ERWAT wants to ensure that ERWAT is financially sustainable and to limit ERWAT's dependence on City of Ekurhuleni contributions (excluding service charges). In order to do this, ERWAT needs 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 developed, attracted and retained.
3. **Environmental sustainability:** As a responsible corporate citizen, ERWAT needs to ensure not just 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 through the use of 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 six strategic initiatives are linked to the six strategic pillars that ERWAT intends to pursue in support of its strategy. These initiatives are:

1. Sludge beneficiation and resource recovery.
2. Energy neutrality.
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.
6. And ERWAT Plants & Conveyancing Regionalisation and the 50 Year Masterplan.

## KEY POLICY DEVELOPMENTS

The legislative framework within which water supply and sanitation services operate is governed by the Water Services Act (WSA) 108 of 1997. 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 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 Department of Water and Sanitation (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 Waste Water 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

As part of the annual Service Delivery Budget Implementation Plan (SDBIP) ERWAT was originally responsible for nine SDBIP indicators. During its budget adjustments the City of Ekurhuleni cascaded an additional six indicators to ERWAT, as required by the MFMA Circular 88, bringing the total number of indicators to 15. The entity achieved 10 out of 15 SDBIP indicators translating to 67% performance. The major issue with the new indicators cascaded during budget adjustment is the fact that these were new indicators and the targeting thereof still subject to empirical realistic setting. Going into the new financial year, these targets will be corrected. It is important to note that the entity achieved its target for compliance target, which is the core mandate of the entity.

The overall water quality compliance target of 77.5% was achieved. Furthermore, ERWAT has developed strategies to improve performance of the various water care works. Long-term capital expenditure and the funding thereof is very important for the success of ERWAT. The ability to finance and execute capital projects is of paramount importance. 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 the City's DWS public participation process. All the comments and views of the community received during this process are channelled to ERWAT.

## FUTURE ACTIONS

The Board will ensure that the momentum is retained, while focusing mainly on programmes that are earmarked for revenue generation and other research initiatives. These programmes and initiatives include 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.

*The Board will ensure that the momentum is retained, while focusing mainly on programmes that are earmarked for revenue generation and other research initiatives. These programmes and initiatives include water reclamation and energy renewal programmes through sludge beneficiation and energy neutrality.*

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

ERWAT recognises the importance and value of academic and applied research and continued to collaborate with various universities and institutes during the past year. Wastewater-based epidemiology (WBE), which is the use of raw wastewater to monitor the burden of disease in human communities, is gaining more and more attention worldwide.

Being in a beneficial position of having easy access to wastewater, ERWAT is a key role-player in WBE research, and has been involved in local and international projects focussed on anti-microbial resistance (AMR), pathogen detection and the continued monitoring for SARS-CoV2, the causative agent of COVID-19 in humans.

ERWAT remains committed to transferring skills and disseminating knowledge to the broader water and sanitation sectors, academia, and the public. Research outcomes are regularly published in peer-reviewed articles and findings presented at local and international conferences. During the past year, ERWAT staff members actively served on various local forums (e.g. the Hennops River, Ekurhuleni Resilience and SALGA Science forums), committees, such as the Water Research Commission (WRC) Reference Groups and more recently an independent advisory panel for the cholera outbreak.

Further research will focus on improving our operational performance to produce better quality effluents, while lowering our energy demands. ERWAT will continue to pursue partnerships with institutes and universities offering innovating technologies and solutions to address these challenges. Enhancing water security in Ekurhuleni has been identified as a top priority by the recently published Green Cities Action Plan and ERWAT will commit to research, and projects directed at the reuse of treated effluent in local farming.

## **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 Skeepers*

**Dr. Natalie Skeepers**

Chairperson of the Board

Date: 1 March 2024



COMPONENT B

# Managing Director's Overview

**MR. KENNEDY CHIHOTA**

## FOREWORD TO THE ANNUAL REPORT

Once again it is my pleasure to present the ERWAT Annual Report for the reporting period 2022/2023. The report highlights the progress we have made towards delivering on our mandate as instructed by our shareholders and required by legislative prescriptions enshrined primarily in the National Water Act. The financial year 2022/23 can be best described as a recovery year after the World Health Organization declared in May 2023 that COVID-19 is no longer a “global health emergency” while emphasizing that it remains a global health threat. In its wake COVID-19 left broken economies which meant that many of our stakeholders who pay for services directly or indirectly via the City of Ekurhuleni continue to struggle to pay for such services as they have not fully recovered. As if that was not enough, all of our treatment plants suffered from massive load shedding which oscillated for the greater part of the financial year between stages 4 and 6. Gratefully though, load shedding has relented in the past two months of the financial year and we are hopeful that the electricity availability factor will continue to improve.

A lot of progress was made during the reporting, all the challenges notwithstanding. ERWAT achieved a very healthy cash balance which cumulatively breached the R600 million mark for the greater part of the year. This translates to just

over five months cover on our monthly obligations. This trend was a result of deliberate efforts to buttress our going concern position. In terms of governance, the entity has a fully functional Board and the relevant Board Committees. However one board member resigned and the shareholder, the City of Ekurhuleni is busy with replacement initiatives.

For the period under review, ERWAT had a budget of R1,456 billion (including grants of R70 million). ERWAT achieved a revenue of R1,476 million which is 1% higher than the set target. The approved ERWAT capital expenditure budget amount was adjusted to R102 670 444 for the 2022/2023 financial year and ERWAT managed to spend R99 005 109.14 or 96.43%. All the financial ratios were quite good with the debt equity ratio of 0.18 against an industry norm of 0.40. The current ratio is 4.36:1 against an industry norm of 2:1 and lastly a cash ratio of 2.59 against an industry norm of 1.0. Therefore, there is no doubting ERWAT's ability to discharge its obligations as a going concern.

On the Annual SDBIP performance ERWAT originally had 9 SDBIP indicators until Quarter 2. The City of Ekurhuleni during budget adjustments cascaded an additional 6 indicators as required by the MFMA Circular 88 bringing the total number of indicators to 15. The entity achieved 10 out of 15 SDBIP indicators translating to 67% performance. The major issue with the new indicators cascaded during

budget adjustment is the fact that these were new indicators and the targeting thereof still subject to empirical realistic setting. Going into the new financial year, these targets will be correctly set. Importantly though is the fact that the entity achieved its target for compliance target which is the core mandate of the entity.

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 developing these modules to provide a future-ready and resilient work environment. These efforts include a continued commitment to enhancing our cyber-resilience.

During the 2021/2022 financial year audit cycle the AGSA raised twenty-five findings. The entity is making progress to address those findings and ensuring that they don't recur in the future. Significant progress was also achieved towards addressing internal audit findings and an action plans was compiled to address the eleven strategic risks and fraud risks. There is, however, a number of dependencies in some of the action list items as they relate to the need for a financial injection.

During the course of the year ERWAT, through the CoE Water and Sanitation Department, accelerated efforts towards addressing over capacity challenges on nine of our water care works (WCW). To this end five WCW have engineering consultants assigned to address these challenges and it is hoped that before the end of the 2023/2024 financial year, design reports will be ready in preparation for actual construction, subject to funding availability. In addition, the Board approved one additional strategic project namely the construction of at least two solar farms on a pilot basis. This will bring the much-needed reliability in the supply of electricity. Discussions have already commenced with possible funders to this effect.

Under research and development all current collaborations between ERWAT and research and external partners were maintained. Finally, it would be remiss of me not mention the gallant efforts individually and collectively by the Board, Senior Management and the rest of the staff at ERWAT in making sure that we continue to steer the ship towards greater success. 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 satisfy 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 are 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 regionalization and 50-year masterplan for wastewater conveyancing and

treatment works. Emergency/stand-by generators have been procured and are in a process of being installed at the works to mitigate the challenge of power interruptions, especially unplanned power interruptions.

### COMMENT ON ACCESS TO BASIC SERVICES

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 water quality compliance. It is therefore imperative for the CoE to increase capital budget allocation to ERWAT in line with the capacity 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 2022/2023 business plan and budget. Total operating revenue increased from R1,371 billion to R1,476 billion which includes service charges of R1,336 billion in 2022/2023 (2021/2022: R1,142 billion).

The entity ended the year with a net surplus of R251 million in 2022/2023 (2021/2022: R379 million). The increase in the net surplus is mainly attributable to an increase in service charges during the financial year.

Operating expenditure for the year was recorded at R1,212 billion against a budgeted expenditure of R1,385 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 accumulated surplus of R2,518 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 0.23 in 2021/2022 to 0.20 in 2022/2023. The solvency ratio might come under pressure in future if alternative funding sources, other than loan funding cannot be accessed. ERWAT has shown a continuous improvement with a decrease in the ratio annually.

### LIQUIDITY

ERWAT's current ratio increased from 2.85:1 in 2021/2022 to 4.06:1 in 2022/2023.

Table 1.1: Financial Overview: 2022/2023

Details	Actual 2020/2021 R'000	Original Budget 2022/2023 R'000	Adjustment Budget R'000	Actual 2022/2023 R'000
<b>INCOME</b>				
Grants	146 798	80 000	70 000	70 000
Development Contribution	30 819	-	-	-
User Charges (service)	1 142 878	1 277 926	1 336 988	1 336 988
Other	50 587	37 722	48 700	69 870
<b>Sub Total</b>	<b>1 371 082</b>	<b>1 395 648</b>	<b>1 455 688</b>	<b>1 476 859</b>
Expenses	(988 944)	(1 315 648)	(1 385 688)	(1 212 120)
<b>Operating Surplus</b>	<b>382 138</b>	<b>80 000</b>	<b>70 000</b>	<b>264 739</b>
(Loss)/gain on disposal of assets	(4 925)	-	-	(721)
Fair Value Adjustments – Investment	253	-	-	686
Actuarial Gains/(Losses)	1 809	-	-	-12 961
Assets written off				-0.1
<b>Surplus (excluding grants)</b>	<b>379 275</b>	<b>80 000</b>	<b>70 000</b>	<b>251 743</b>

## COMMENT ON OPERATING RATIOS

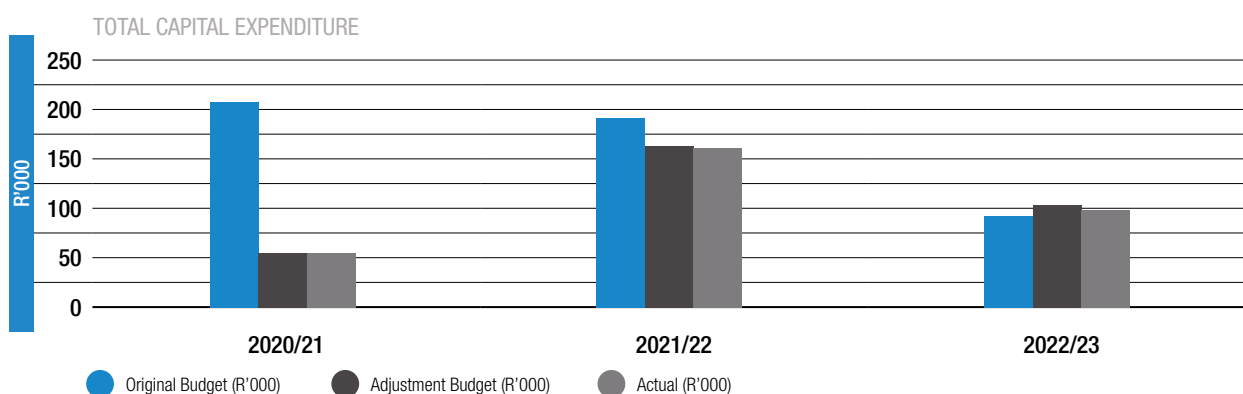
The main cost driver is the employee costs that is reported at 33.58%. The ratio is higher than normal due to the slight underspend on the OPEX budget, while employee costs remained fixed throughout the year.

Table 1.2: Operating Ratios 2022/2023

Details	%
Employee Costs	33.58%
Repairs and Maintenance	13.74%
Finance Charges	2.91%

Table 1.3: Total Capital Expenditure

Details	Year	Year	Year
	2020/2021	2021/2022	2022/2023
	R'000	R'000	R'000
Original Budget	206 000	187 100	91 559
Adjustment Budget	55 830	155 656	102 670
Actual	55 976	155 016	99 004
% Capital Spent based on <b>Original</b> Budget	27.17%	82.85%	108.13%
% Capital Spent based on <b>Adjustment</b> Budget	100.26%	99.59%	96.43%



## COMMENT ON CAPITAL EXPENDITURE

The approved ERWAT capital expenditure budget amount was adjusted from R 91 558 800 for the 2022/2023 financial year to R102 670 444.

The approved Capex Budget of R102 670 444 for the 2022/2023 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: 2021/2022

The AGSA issued an Unqualified Audit Opinion for 2021/2022 material findings. The findings contained in the audit report and final management report were addressed through 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	Finalize the 4th quarter report for previous financial year	
4	Submit draft 2022/2023 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 and start 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 finalization 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.



**Mr. Kennedy Chihota**

Managing Director

Date:



# 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, characterised by the values of responsibility, accountability, fairness, and transparency, have been defining characteristics of the entity since the company's establishment in 1992.

ERWAT is a municipal owned entity currently registered as a non-profit company. Political and administrative governance forms the foundation for the mandate of the entity. Intergovernmental relationships are needed to fulfill the mandate. As a municipal entity, the company takes into account 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 recognizes 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 DHSWS 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 recognizes 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 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 respect during the year under review.

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 majority 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 thus consists of one executive and 5 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 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 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, which is subject to a minimum of four meetings per year.

The Board has established key functional committees for Governance and Compliance, 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 and Compliance Committee. The CoE Audit Committee performs the role of the audit function for all CoE 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
<b>Dr N Skeepers</b>	Non-Executive	Coloured	Female	<ul style="list-style-type: none"> <li>Chairperson: Board of Directors</li> <li>Chairperson: Nominations Committee</li> </ul>
<b>Ms U Exner</b>	Non-Executive	White	Female	<ul style="list-style-type: none"> <li>*Chairperson: Research, Development &amp; Commercial Business (1 July 2022 – 30 September 2022)</li> <li>Chairperson: Risk &amp; ICT Governance</li> <li>Member: Governance &amp; Compliance</li> </ul>
<b>Ms R Kikine</b>	Non-Executive	Black	Female	<ul style="list-style-type: none"> <li>Chairperson: Operations Committee</li> <li>Member: Remuneration &amp; Ethics Committee</li> </ul>
<b>Mr Y Haffejee</b>	Non-Executive	Indian	Male	<ul style="list-style-type: none"> <li>*Chairperson: Governance, Risk &amp; Compliance (1 July 2022 – 30 September 2022)</li> <li>Chairperson: Governance &amp; Compliance</li> <li>Member: Risk &amp; ICT Governance</li> </ul>
<b>Mr N Ngwenya</b>	Non-Executive	Black	Male	<ul style="list-style-type: none"> <li>Chairperson: Remuneration &amp; Ethics Committee</li> <li>Member: Operations Committee</li> </ul>
<b>Mr K Chihota</b>	Executive	Black	Male	<ul style="list-style-type: none"> <li>Managing Director</li> </ul>

\* Board Committee reconstituted from Research, Development & Commercial Business to Risk & ICT Governance.

\*\* Board Committee reconstituted from Governance Risk & Compliance to Governance & Compliance.



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

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

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



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

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 several boards within both the public and private sectors.

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



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

Ms. Rethabile Kikine holds a Bachelor of Laws (LLB), BProc and 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, 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)

Mr. Yaasir Haffejee has to his credit a BCom Hons in Accounting, a MCom in Taxation, and is a Certified Internal Auditor (CIA), Certified Fraud Examiner (CFE), possesses a Certification in Risk Management Assurance and is a Chartered Accountant (SA). He is currently the Chief Audit Executive of a Municipal owned Entity.



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

Mr. Nkululeko Ngwenya is an experienced Occupational Health, Safety, Regulatory, Environmental and Waste Management/Services with 15 years of demonstration history of working in an Occupational Health, Waste Management Services, Regulatory, Risk and Project Management, 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 master's 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 as a professional member of SACPCMP and is a graduate member of SAIOSH.



**MR KENNEDY CHIHOTA** (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, 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 degree in Bachelor of Commerce 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 finalizing 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	Special Board Meeting	Governance Risk & Compliance Committee	Governance & Compliance Committee	Risk & ICT Governance Committee	Remuneration & Ethics Committee	Operations Committee	Research, Development & Commercial Business	Nominations Committee	Board Lekgotla	General/ Shareholder Meetings	Total
<b>01 JULY 2022 TO 30 JUNE 2023</b>												
<b>Dr Natalie Skeepers</b>	4	4	-	-	-	-	-	-	6	0	1	15
<b>Ms Ulandi Exner</b>	4	3	1	2	3	-	-	1	4	0	1	19
<b>Ms Rethabile Kikine</b>	4	4	-	-	-	4	1	-	3	0	1	17
<b>Mr Yaasir Haffejee</b>	4	4	1	3	2	-	-	1	4	0	1	20
<b>Mr Nkululeko Ngwenya</b>	4	4	-	-	-	4	1	-	3	0	1	17
<b>Mr Kennedy Chihota</b>	4	3	1	3	3	4		1	7	0	1	27

## BOARD COMMITTEES

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

The Board committees were reconstituted to balance the workload that was carried out by the committee members. It is critical to note that board committees represent an essential part of the corporate governance process and have clear reporting procedures and scope.

The Board committees were re-constituted as follows:

- a) The Governance Risk and Compliance Committee was separated into Governance and Compliance Committee to establish a Risk and ICT Governance Committee
- b) The Research Development and Commercial Business Committee was incorporated into the Operations Committee

## DECISION-TAKING

Decisions are taken at the 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 recognize and are committed to the principles of openness, integrity, and accountability as are 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 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 quarterly financial report, operations report, human resources report and other reports submitted by management to the Board every quarter to be reviewed.

The Board consists of mainly non-executive directors who contribute an independent view to the entity matters. Given the Board's oversight it has an 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, the organizational strategy as directed by the Board.

The Board has an opinion regarding the annual financial statements that is based on the information and explanations given by management.

Table 2.3: Administrative Structure

Name	Designation And Function
<b>FIRST TIER</b>	
<b>Mr. Kennedy Chihota</b>	Managing Director
<b>SECOND TIER</b>	
<b>Ms. Zimasa Socikwa</b>	Company Secretary
<b>Mr. Kedibone Mashaakgomo</b>	Chief Financial Officer (01/10/2022 to 09/06/2023)
<b>Mr. Shaheed Dinath</b>	Interim Head of Department: Finance & SCM (01/07/2022 to 30/09/2022) Interim Chief Financial Officer From 12/06/2023
<b>Mr. Rodney Barnes</b>	Executive Manager: Human Resources
<b>Ms. Alison Chapman</b>	Executive Manager: Scientific Services
<b>Ms. Debbie Hlabioa</b>	Interim Executive Manager: Commercial Business
<b>Mr. Leonard Chueu</b>	Interim Executive Manager: Operations Interim Executive Manager: Maintenance (11/08/2022 to 30/06/2023)
<b>Ms. Loura Roodde</b>	Interim Executive Manager: Operations (11/08/2022 to 30/06/2023)
<b>Mr. Siphon Mateza</b>	Interim Head of Department: Infrastructure Planning and Projects
<b>THIRD TIER</b>	
<b>Ms. Lindiwe Msibi</b>	Supply Chain Manager

# Intergovernmental Relations

## INTRODUCTION TO CO-OPERATIVE GOVERNANCE AND INTERGOVERNMENTAL RELATIONS

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

At the provincial level, a relationship is fostered with the Department of Human Settlement Water and Sanitation (DHSWS) 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 DHSWS. ERWAT is a member of the International Water Association (IWA) and a patron member of the Water Institute of South Africa (WISA).

ERWAT has a relationship with Energy and Water Sectoral Education and Training Authority (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 ensuring accountability to the state and the communities. ERWAT performs municipal services on behalf of the CoE and form 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 municipal entities current entities include - Ekurhuleni Housing Company SOC Ltd and 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 members' 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.
6. Monitoring relationships and communication between the municipality and municipal entities.



*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.*

For this financial year the municipality has focused on strengthening Board governance structure, Board induction, and review of 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 5-year plan and annual business plan.

## 2.4 PUBLIC MEETINGS

### COMMUNICATION, PARTICIPATION AND FORUMS

ERWAT relies on the public participation 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 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 information and update on performance.

## 2.5 BUSINESS PLAN PARTICIPATION AND ALIGNMENT

Table 2.4: 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

# 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 recognize 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 is 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, and health and public safety as well as consumer relationships. As an entity, we value responsible business behaviour and corporate social responsibility (CSR) in that we understand as a company; 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

### 2.6.1 GOVERNANCE STRUCTURE AND PRINCIPLES

ERWAT Board of Directors is dedicated to upholding best principles and guidelines on corporate governance. The entity is committed to ensuring transparency, accountability, and integrity in our operations. Our governance practices are primarily guided by the legislative framework set out in the Companies Act 71 of 2008 (as amended) (“the Companies Act”) and the King IV principles. Additionally, the entity has a Service Delivery Agreement with the City of Ekurhuleni (CoE) a parent municipality, which further strengthens our commitment to effective governance and service delivery.

At ERWAT, Management and the Board recognise that an effective risk management is a crucial aspect of operations with a clear commitment to the risk management process in order to ensure the achievement of our strategic objectives while safeguarding the interests of our stakeholders. Our comprehensive risk management framework provides a structured approach to proactively address potential threats and exploit opportunities.

### 2.6.2 RISK MANAGEMENT COMPLIANCE AND ACCOUNTABILITY

To ensure compliance with Section 95 of the Municipal Finance Management Act (MFMA) that states that entity has to maintain an efficient and transparent system of financial, risk management and financial controls. ERWAT recognises the importance of aligning risk management with the entity’s overall strategic objectives. By integrating risk management into strategic planning processes, it gives assurance that risks are considered and addressed in a proactive and strategic manner. This alignment allows Management and the Board to make informed decisions, enhance resilience, and optimise opportunities for success. The Board reports demonstrates the adherence and commitment to risk management and further promotes accountability to the shareholder.

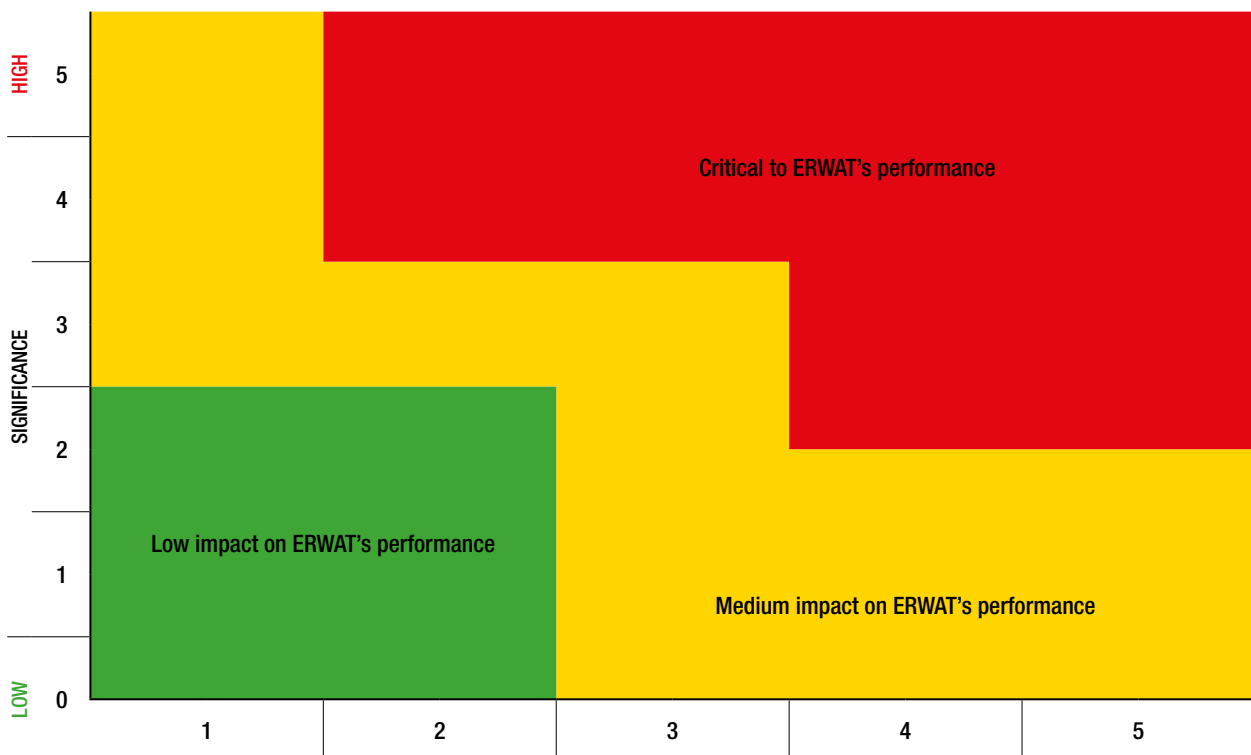
### 2.6.3 ERWAT RISK STRATEGY

ERWAT's Risk Management Framework provides a structured approach for identifying, assessing, mitigating, and monitoring risks. It provides guidelines to be followed in order to effectively manage risks and support decision-making processes. The process entail risk identification, assessing the risk, developing strategies and implementing action plans to minimize the impact of risk and continuous monitoring and review. Risk Reporting and Communication: Communicating risk-related information to stakeholders, including senior management, the Board of Directors, and relevant departments. Reporting should include the identification and assessment of risks, the status of risk mitigation measures, and any emerging risks that require attention.

Fostering a risk-aware culture within ERWAT, where all employees understand their roles and responsibilities in managing risks. This includes providing awareness programs, encouraging open communication about risks, and promoting accountability at all levels.

Integrating risk management into decision-making processes is improving, including strategic planning, project management, and operational activities. This ensures that risks are considered and addressed when making important decisions in a fast paced changing world.

### 2.6.4 THE THRESHOLDS TO DETERMINE THE IMPACT THAT AN OBJECTIVE HAS ON PERFORMANCE AT THE APPLICABLE LEVELS ARE DEPICTED IN THE MATRIX



## 2.6.5 STRATEGIC RISK PROFILE

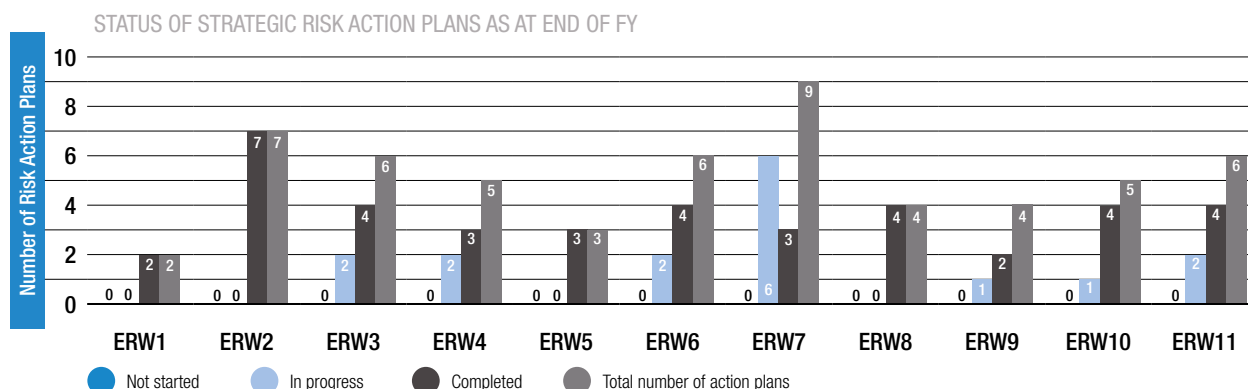
The enterprise-wide risk profile has 11 Strategic Risks and these are grouped into various categories: Infrastructure, Financial, People and Process.

No.	Context	RISK 2022/2023	RR	Key Risk Action Plans
1	The failure to participate in any forum established by the shareholder where key decisions are made will lead to missed opportunities	Lack of integrated planning between the City and the Entity	Med	<ul style="list-style-type: none"> <li>The entity to participate in the Shareholder's Capital Investment Forum where key decisions take place</li> <li>Finalize the review of the Service Delivery Agreement between the City of Ekurhuleni (shareholder) and ERWAT (entity)</li> </ul>
2	Inefficient infrastructure has a potential to limit the city's ability to accommodate population growth and economic development. As cities expand and populations increase, the demand for water and wastewater services rises. If the existing infrastructure is unable to handle this increased demand, it can hinder urban development, discourage businesses, and deter investment	Inadequate Infrastructure to treat wastewater	High	<ul style="list-style-type: none"> <li>Implement the 2022-2023 Capital Expenditure Budget to improve operational efficiencies</li> <li>Implement 2022-2023 Maintenance Budget for planned and reactive maintenance to improve efficiencies</li> <li>Organic testing and profiling of industrial effluent using Finger Printing Technology to identify substances coming through the Water Care Works</li> </ul>
3	Depending heavily on the city for budgetary allocations means that the entity's financial resources are largely determined by the city's decisions. If the city faces budget cuts or reallocates funds to other priorities, the entity may experience reduced financial support, leading to inadequate cash flows to sustain its operations and deliver services	Inadequate Cashflows to meet business requirements	Med	<ul style="list-style-type: none"> <li>Investigate other sources of funding (e.g., Public Private Partnerships) in order to supplement the budget allocated to the entity by the City for capital projects</li> <li>Review the Financial Model and determine Cost Reflective Tariff in order to motivate for additional funding</li> <li>Improve Debt Collection recovery processes to improve the debt management</li> <li>Review of Financial Management Policies</li> </ul>
4	Grey water may not have a high demand as a commodity itself, its value lies in its potential for water conservation, resource efficiency, and sustainable practices. By offering services and solutions that utilise grey water effectively, the entity promotes environmental stewardship and addressing water-related challenges	Inadequate revenue generation to supplement the approved budget	Med	<ul style="list-style-type: none"> <li>Develop a Market Penetration Strategy to increase the entity's market share, revenue, and overall competitiveness within the existing target market</li> </ul>
5.	Delayed Approvals and Permits: Employee strikes, Community strikes and demands from business forums can disrupt the running of the projects. Protests, demonstrations, or negotiations can lead to delays in obtaining necessary permits, licenses, or environmental clearances.	Possible failure to achieve Capital Expenditure set target	Med	<ul style="list-style-type: none"> <li>Improve relationships with the communities residing in vicinities where the entity operates through the Corporate Social Responsibility program</li> <li>Review Business Continuity Management Policy to stay relevant to the changing business environment</li> <li>Reduce unprotected strikes by Disciplinary hearings for unprotected strikes</li> </ul>

No.	Context	RISK 2022/2023	RR	Key Risk Action Plans
6	Aging infrastructure may suffer from deterioration, corrosion, or wear and tear over time. This can compromise the structural integrity of emergency dams and water bypassing systems, making them more vulnerable to failure during extreme weather events or disasters	Inadequate preparedness in the event of an emergency/ disaster	High	<ul style="list-style-type: none"> <li>Review BCM Disaster Recovery Plans to ensure that they are relevant to the changing business environment</li> </ul>
7	When key employees with specialised skills and knowledge exit the system, there is a risk of losing critical institutional knowledge and expertise. This can result in a knowledge gap, making it challenging to maintain the same level of productivity, quality, and innovation in their absence	Potential loss of key skills	High	<ul style="list-style-type: none"> <li>Implement the 2022-2023 Recruitment Plan prioritising the filling of key positions in the E level Band</li> </ul>
8	Global supply chains are vulnerable to various risks, such as natural disasters, political instability, trade disputes, pandemics, or transportation disruptions. These disruptions can lead to delays in the delivery of goods, shortages of raw materials or components, increased costs, and production interruptions	Potential delivery in the supply and delivery of critical goods and services	High	<ul style="list-style-type: none"> <li>Review of contracts and Critical Supplies Register as part of the BCM program</li> <li>Update the Procurement Plan for 2022/2023 in line with business requirements and the allocated budget</li> <li>Review SCM Delegation of Authority</li> </ul>
9	Aging infrastructure includes outdated scientific equipment, tools, and technology. This can result in reduced efficiency, limited capabilities, and decreased reliability of scientific services. It may also hinder the organization's ability to keep up with advancements in research methods and technology, potentially impacting the quality and competitiveness of its services	Potential loss of the ISO 17025 Accreditation	High	<ul style="list-style-type: none"> <li>Replacement of the H Vac System in the Scientific Services to improve cooling and extraction of fumes</li> </ul>
10	Data breaches may occur when unauthorized individuals gain access to confidential information stored within ERWAT systems or databases. This can result in the exposure of personal data, trade secrets, intellectual property, or sensitive financial and customer information. Data breaches can occur due to various factors, such as cyberattacks, human error, or inadequate security measures. As technology advances so is hacking	Potential Loss of and Unauthorized Access Critical Information	High	<ul style="list-style-type: none"> <li>Implement a Document Management System to improve record management</li> <li>Review ICT Security systems and related policies/procedures</li> </ul>
11	Workplace accidents may occur due to various factors, such as slips, trips, falls, machinery malfunctions, electrocutions, or exposure to hazardous substances. These accidents can result in injuries ranging from minor cuts and bruises to severe injuries, disabilities, or even fatalities	Potential injuries to personnel, visitors and contractors	High	<ul style="list-style-type: none"> <li>Review of Safety related Standard Operating Procedures and Work Methods to improve the safety environment</li> </ul>

## 2.6.6 IMPLEMENTATION OF RISK ACTION PLANS

The risk action plans could not be implemented all of them as identified during the workshops. These will carry on in the new financial year. The detailed progress on all the action plans can be found in the SDBIP Report. The status is depicted below:



## 2.7 ANTI-CORRUPTION AND FRAUD

### 2.7.1 EFFECTIVENESS OF RISK MANAGEMENT SYSTEM AND REPORTING

Management and the Board is committed to implementing a comprehensive fraud prevention program, that has a potential to minimize the risk of fraud, protect the entity's assets and reputation, ensure compliance with regulations, and maintain public trust. Regular reviews, monitoring, and continuous improvement of fraud prevention measures demonstrates the zero-tolerance stance and the endeavour to manage fraud risks proactively. 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 Fraud Risk Action Plan takes place every quarter.

### 2.7.2 FRAUD RISK MANAGEMENT

Fraud risk assessments helps assist the entity to evaluate the effectiveness of the existing internal controls and identify areas for improvement. It also allows to assess the adequacy of segregation of duties, authorization processes, access controls, and monitoring mechanisms. A strong control environment has a potential to deter fraudsters and provide early detection of fraudulent activities.

#### FRAUD RISK PROFILE

No.	Context	RR	Key Risk Action Plans
FR1	Possible abuse of leave days (sick, annual leave)	Med	<ul style="list-style-type: none"> <li>Review the Human Resources related policies to align with changes in legislation</li> </ul>
FR2	Abuse of ERWAT Fleet	Low	<ul style="list-style-type: none"> <li>Conduct the Vehicle Take Home assessment to safeguard the entity fleet for staff on standby</li> <li>Implement the 2022/2023 Driver Training Program to improve driver awareness and safety</li> </ul>
FR3	Potential abuse of Supply Chain Management processes	High	<ul style="list-style-type: none"> <li>Review of the Supply Chain Management Policy to align with National Treasury requirements</li> <li>Development of the Contract Management Policy and related Standard Operating Procedures to improve the SCM environment</li> <li>Update the Procurement Plan for 2022/2023 in line with business requirements and the allocated budget</li> <li>Conduct various training on Supply Chain Management to reduce possible workshops</li> </ul>

No.	Context	RR	Key Risk Action Plans
FR4	Potential use of payroll business processes to commit fraud	Med	<ul style="list-style-type: none"> <li>Integration of HR system into the Payroll as part of ERP to reduce human error</li> </ul>
FR5	Fraudulent expense disbursements (Fraudulent Claims)	Low	<ul style="list-style-type: none"> <li>Review the Travel Policy</li> <li>Conduct an Ethics Risk Assessment</li> </ul>
FR6	Expense Account fraud	Low	<ul style="list-style-type: none"> <li>Review the Travel Policy</li> </ul>
FR7	Fraudulent Write off on bad debts in collusion with supplier	Low	<ul style="list-style-type: none"> <li>Seek approval from the Board to write off debts that cannot be recovered after exploring all collection efforts</li> </ul>
FR8	Employees perform unauthorized remuneration work/ moonlighting	High	<ul style="list-style-type: none"> <li>Review of the Conflict-of-Interest Policy</li> </ul>
FR9	Leaking sensitive company (ERWAT)/ (ERWAT client) information for personal gain (Intellectual Property)	High	<ul style="list-style-type: none"> <li>Implementation of Document Management System as part ERP</li> </ul>
FR10	Misappropriation of assets (stealing of any form from the company by employees)	Medium	<ul style="list-style-type: none"> <li>Review the Asset Management Policy</li> <li>Conduct an audit for the tagging of all assets</li> </ul>
FR11	Electronic signature fraud	Medium	<ul style="list-style-type: none"> <li>Investigate the implementation of an electronic signature from reputable companies</li> </ul>

### 2.7.3 WHISTLEBLOWING

#### WHISTLEBLOWER PROTECTION:

Establishing mechanisms to protect whistleblowers who report suspected fraud is crucial. ERWAT has a confidential ethics line reporting system that allows employees, contractors, and stakeholders to report fraud anonymously without fear of retaliation. Timely investigation of reported cases and appropriate actions against perpetrators is key to demonstrate the entity's commitment to addressing fraud

### 2.8 SUPPLY CHAIN MANAGEMENT

#### OVERVIEW SUPPLY CHAIN MANAGEMENT

The entity has adopted Supply Chain Management (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 modernize 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.

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.

## 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,

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.

Table 2.8: Company Website Content and Currency of Material

Documents Published on the Company's Website	Yes/No	Publishing Date
All service delivery agreements (2022/2023)	No	N/A
All long-term borrowing contracts (2022/2023)	No	N/A
All SCM contracts above are prescribed values for 2022/2023	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 2022/2023 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 2022/2023	No	N/A
All quarterly reports tabled in the council in terms of section 52 (d) during 2022/2023	No	N/A
All service delivery agreements (2022/2023)	No	N/A
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 2022/2023 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 2022/2023	No	N/A
All quarterly reports tabled in the council in terms of section 52 (d) during 2022/2023	No	N/A

## 2.11 PUBLIC SATISFACTION ON COMPANY SERVICES

### PUBLIC SATISFACTION LEVELS

According to the Gauteng City-Region Observatory's (GCRO) Quality of Life Survey 6 (2020/21). Data collection for this survey took place from October 2020 to May 2021 in the context of a province and City hard hit by the COVID-19 pandemic and lockdown. 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.



# 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 works 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 to 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 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 eradicate the backlog and increase the capacity to match the demand.

#### HYDRAULIC CAPACITY

Figure 1 below depicts a very gloomy picture of the ERWAT Water Care Works with regards to treatment capacity. Nine (9) out of the nineteen (19) plants are operating above their design capacity, two (2) are operating between 80% and 100% (this is a trigger point for upgrade), with eight (8) operating below the acceptable level of the 80% mark.

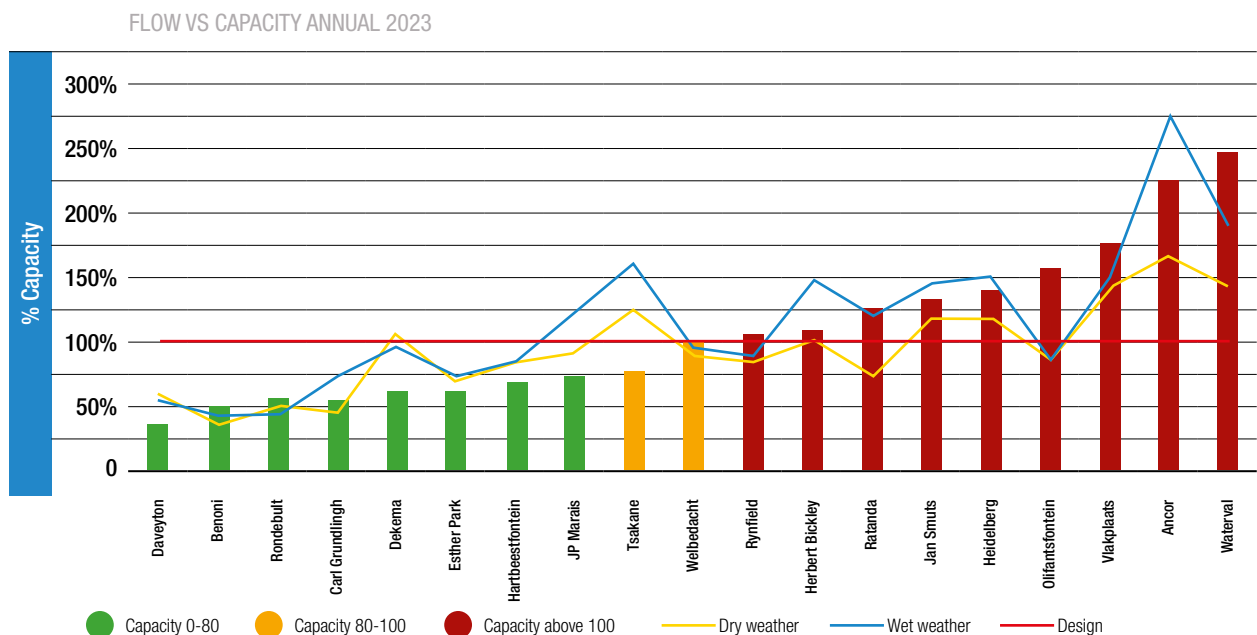
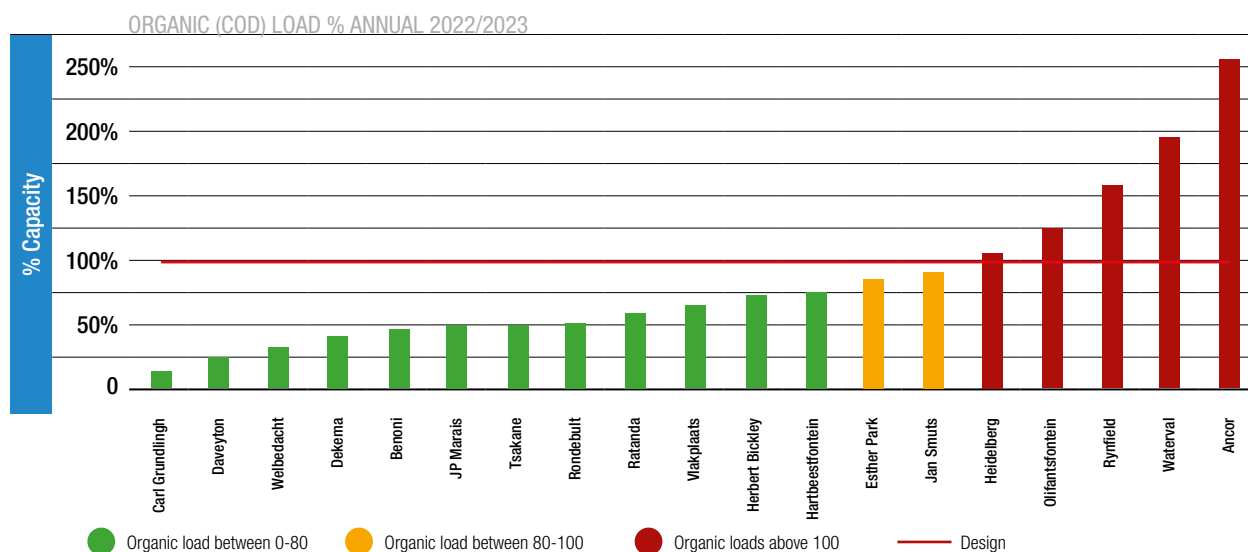


Table 3.3: Design Capacity vs Actual Flow

Plant	Hydraulic Design Capacity 2022/2023 (Mℓ)	Actual Flow (Mℓ)	Rainfall (mm)
Ancor	15.00	34.11	783.00
Benoni	7.50	3.74	742.50
Carl Grundlingh	5.20	3.14	1117.10
Daveyton	19.00	7.07	629.90
Dekema	31.00	19.76	905.10
Esther Park	1.40	0.90	1112.00
Hartebeestfontein	63.00	45.41	862.50
Heidelberg	5.40	7.50	1751.00
Herbert Bickley	15.10	16.45	864.80
Jan Smuts	6.00	7.72	841.50
JP Marais	15.00	11.82	996.50
Olifantsfontein	65.00	102.01	1008.00
Ratanda	4.70	5.98	907.80
Rondebult	20.00	11.80	793.60
Rynfield	9.80	10.44	778.00
Tsakane	20.00	16.40	720.50
Vlakplaats	55.00	97.01	799.70
Waterval	170.00	416.42	660.50
Welgedacht	95.00	93.23	740.00

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) Non-achievement of Green Drop Certification.



As can be seen in figure 2 above, during the 2022/2023 financial year, five (5) out of the nineteen (19) Water Care Works (WCW) received organic loads more than 100% two (2) received between 80% and 100% of the design capacity, and twelve (12) received below the 80% mark.

### CAPITAL PROJECTS

In terms of approved capital expenditure for the 2022/2023 financial year, ERWAT has planned to implement the following projects which are aligned to the strategic objective of the CoE and DWS.

Table 3.3: Design Capacity vs Actual Flow

ITEM NO	DEPARTMENT	ORIGINAL BUDGET COST	ADJUSTMENT BUDGET COST	ACTUAL	BUDGET VARIANCE (ACT - ADJ)	BUDGET VARIANCE (ACT - OB)
1	Ancor	R 3 649 929,00	R 1 495 887,00	R 1 495 887,00	-1%	-60%
2	Benoni	R 2 450 739,00	R 2 178 114,00	R 2 178 114,00	10%	-2%
3	Carl Grundlingh	R 7 667 353,00	R 12 707 103,00	R 12 707 103,00	-9%	51%
4	Daveyton	R 703 652,00	R 899 664,00	R 899 664,00	2%	30%
5	Dekema	R 2 864 932,00	R 2 729 052,00	R 2 729 052,00	79%	70%
6	Hartebeestfontein	R 7 339 549,00	R 16 303 308,00	R 12 554 718,00	-21%	34%
7	Heidelberg	R 1 903 968,00	R 1 903 968,00	R 1 903 968,00	0%	0%
8	Herbert Bickley	R 1 992 409,00	R 1 777 195,00	R 1 777 195,00	0%	-11%
9	Jan Smuts	R 348 193,00	R 655 312,00	R 655 312,00	93%	262%
10	JP Marais	R 1 991 510,00	R 2 076 618,00	R 2 076 618,00	74%	81%
12	Olifantsfontein	R 35 312 152,00	R 29 310 320,00	R 21 184 615,00	-8%	-45%
13	Ratanda	R 1 194 389,00	R 1 194 389,00	R 1 194 389,00	0%	0%
14	Rondebult	R 1 230 408,00	R 1 459 893,00	R 1 459 893,00	-19%	-4%
15	Rynfield	R 1 458 276,00	R 1 350 520,00	R 1 350 520,00	0%	-7%
16	Scientific Services	R 6 000 000,00	R 12 256 887,00	R 12 256 887,00	11%	126%
17	Tsakane	R 1 795 545,00	R 1 827 844,00	R 1 827 843,00	0%	2%
18	Vlakplaats	R 3 122 956,00	R 4 717 912,00	R 6 592 207,00	-17%	75%
19	Waterval	R 3 490 761,00	R 8 533 105,00	R 8 533 106,00	-46%	32%
20	Welgedacht	R 7 042 079,00	R 9 293 353,00	R 9 293 353,00	14%	50%
<b>Total Capital Requirement</b>		<b>91 558 800,00</b>	<b>102 670 444,00</b>	<b>R99 004 230,47</b>	<b>96.43%</b>	<b>108%</b>

## CAPITAL EXPENDITURE OF 5 LARGEST PROJECTS\*

### INSTALLATION OF HVAC SYSTEM AT ERWAT SCIENTIFIC SERVICES

The 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.

### APPOINTMENT OF SERVICE PROVIDER/S TO SUPPLY, DELIVER & INSTALL ALL ANALYTICAL INSTRUMENTATION AND ASSOCIATED EQUIPMENT ON AS AND WHEN REQUIRED BASIS IN ALL ERWAT WATER CARE WORKS FOR A PERIOD OF 36 MONTHS

Getting the best measurements of efficiency from the plant and processes calls for reliable, accurate instrumentation. Measuring instruments are used in a wide range of applications to measure the different volumetric flows, such as Pressure and Level measurement, Channel Flow measurement, Dissolved Oxygen measurement, Suspended Solids Mixed Liquid measurement, and Temperature measurement. The objective of the project is to enhance plant performance, efficiency and reliability to ensure compliance of wastewater works effluent to the requirements as per the water use license granted by the Regulator. The project is a three (3) year contract on an as when required basis for all nineteen (19) Water Care Works.



### THE UPGRADE AND REPLACEMENT OF AERATORS AT CARL GRUNDLING WASTEWATER CARE WORKS PLANT

Carl Grundling WWCW is located at portion 58 Varkensfontein in Nigel and falls under district drainage 5 (DD5), discharging effluent to Nigel dam. The plant treats both domestic and industrial wastewater having an average inflow of 3.1MI/d and a chemical oxygen demand (COD) of 1242 mg/l at 95th percentile for the past three years. The plant operates as an extended activation sludge process using Pasveer ditch as the main biological reactor. Brush aerators are primarily used to supply oxygen for biological treatment in the aerobic basin of the Pasveer ditch. However, brush aerators pose maintenance problems with motor, bearing, gear and coupling failures. ERWAT embarked on a feasibility study inclusive of RFPs/RFIs from a service provider and site verification to evaluate the feasible aeration technology to replace the current aerators using a defined criterion. Based on the criteria used, it was decided that the horizontal aspirating aerators are the most feasible option for use at Carl Grundling WWTP.

### APPOINTMENT OF SERVICE PROVIDER/S TO SUPPLY, DELIVER & INSTALL ALL GEARBOXES ON AS AND WHEN REQUIRED BASIS IN ALL ERWAT WATER CARE WORKS FOR A PERIOD OF 36 MONTHS

ERWAT requires the services of a service provider/s to supply and install Gearboxes on as and when required basis. The equipment's mentioned are critical in the operation of ERWAT, the Gearboxes are essential for the supply of oxygen for the aerobic basin and to assist with mixing in the Anoxic and Anaerobic basins. The project is a three (3) year contract on an as when required basis for all nineteen (19) Water Care Works.

### APPOINTMENT OF SERVICE PROVIDER/S TO SUPPLY, DELIVER & INSTALL HIGHMAST LIGHTS ON AS AND WHEN REQUIRED BASIS IN ALL ERWAT WATER CARE WORKS FOR A PERIOD OF 36 MONTHS

ERWAT Water Care Works are designed to operate continuously (24 Hours/day). This contract includes the design, supply, delivery to site, off-loading, erection,

installation, commissioning, testing, and handing over in full working order a high mast lighting structure, including floodlight luminaries, at various ERWAT plants on an "as and when" basis for a period of thirty-six months. High mast lighting provides safety, clear viewing, and security in large areas or locations where intense lighting is desired. Lighting system provides optimized visibility and helps promote a safe work environment and increase productivity. The state-of-the-art LED lights were erected at various ERWAT plants.

### COMMENT ON ERWAT BULK WASTEWATER TREATMENT SERVICES OVERALL PERFORMANCE

ERWAT meet the water quality performance target, however strategies to improve performance of the various Water Care Works to be implemented. ERWAT assists CoE in identifying industrial pollutants received at the WCW and CoE manages industries and enforce 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 masterplan. Emergency/stand-by generators have been procured and are in a 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 prioritized 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 FINANCIAL SERVICES

The Financial Department of the entity is tasked with provision of financial service 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 community. This amounted to R1,336 billion of a total income of R1,476 billion.

The percentage debt collection for the financial year 2022/2023 was 95% 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	2021/2022 R'000	2022/2023 R'000
Service charges	1 142 878	1 336 988
Intervention income	1 162	60
Other income	38 792	40 845
Interest received – investment	10 573	28 852
Dividends received	60	112
Government grants and subsidies	146 798	70 000
<b>TOTAL</b>	<b>1 340 263</b>	<b>1 476 859</b>

Table 3.8: Financial Performance 2022/2023

Details	2021/2022		2022/2023		Variance to budget %
	Actual R'000	Original budget R'000	Adjustment budget R'000	Actual R'000	
Total operating revenue (Excluding Non-exchange Revenue)	1 193 465	1 315 648	1 385 688	1 406 859	101.53%
<b>EXPENDITURE</b>					
• Employee costs	394 208	488 802	513 442	407 018	79.27%
• Repairs and maintenance	106 974	135 317	205 304	166 578	81.14%
• Other	487 762	691 528	666 943	638 523	95.74%
<b>Total operating expenditure</b>	<b>988 944</b>	<b>1 315 648</b>	<b>1 385 688</b>	<b>1 212 120</b>	<b>87.47%</b>
<b>Net operating surplus/(deficit) Excluding Non-exchange Revenue)</b>	<b>204 521</b>	<b>-</b>	<b>-</b>	<b>194 739</b>	

## COMMENT ON THE PERFORMANCE OF FINANCIAL SERVICES OVERALL

The entity ended the year with a net surplus of R251 million in 2022/2023 (2021/2022: R379 million). The increase in the net surplus is mainly attributable to an increase in service charges during the financial year.

The entity reported a 13% under-expenditure on its total OPEX budget primarily due to not achieving its targeted spend for repairs and maintenance, bulk purchases, employee costs and general expenditure which are significant cost drivers.

The entity's liquidity and solvency ratio's improved when compared to prior financial years.

## 3.4 HUMAN RESOURCE SERVICES

### INTRODUCTION TO HUMAN RESOURCE SERVICES

The department provides quality driven Human Capital strategies and support to 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 HR Department consists of the following sections, which include:

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 in order to achieve its objectives.

## 3.5 INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) SERVICES

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

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

1. Improved governance through the implementation of DPISA's corporate governance of ICT policy framework;
2. Increased cyber security awareness initiatives.

### SERVICE STATISTICS FOR ICT SERVICES

The ICT department comprises of five permanent employees. ICT supports Head Office, Scientific Services and 19 Water Care Works, as well as services 31 servers and approximately 350 laptops.

Table 3.9: Employees Ict Services

Job level	2022/2023		2023/2024		
	Employees	Approved Posts	Employees	Vacancies (fulltime equivalents)	Vacancies (as a % of total posts)
	No.	No.	No.	No.	%
D2	1	1	1	0	0%
C5	0	0	0	0	0%
C4	0	1	1	1	50%
C3	1	2	2	1	50%
C2	3	3	3	0	0%
C1	0	0	0	0	0%

The financial performance of the ICT department for the 2022/20231 financial year is included with the finance department.

Table 3.10: Capital Expenditure: ICT Services in Rand

Job level	2022/2023				
	Budget R'000	Adjustment Budget R'000	Actual Expenditure R'000	Variances from original budget	Total project value R'000
<b>Total all projects</b>	72	-	72	0.00%	72
Server storage enclosure	16	-	16	0.00%	16
Audio Visual system	54	-	54	0.00%	54
Printers	2	-	2	0.00%	2

### COMMENT ON THE OVERALL PERFORMANCE OF ICT SERVICES:

The ICT Governance within the entity is showing improvement with the implementation of the DPISA's corporate governance policy framework within the 2022/2023 year. Insufficient funding for upgrading of ICT infrastructure remained a challenge during the year.

### 3.6 LEGAL, RISK MANAGEMENT AND PROCUREMENT SERVICES

This component includes legal, risk management and procurement services.

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

The governance, legal and compliance unit has a staff compliment 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 prioritizes risk in its decision-making process and highlights any non-compliance matters that may have a negative impact to the organization to the Board of Directors.

The main priorities in the 2022/2023 financial year are as follows:

1. The legal framework of contract management is adhered to, in order 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 3.11: Employees Legal and Risk Management

Job level	2021/2022		2022/2023		
	Employees	Approved Posts	Employees	Vacancies (fulltime equivalents)	Vacancies (as a % of total posts)
	No.	No.	No.	No.	%
C3	1	1	1	0	0
D2	1	1	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 below section of the Annual Report reflects the Annual Performance Scorecard Report for 2022/2023. The reported progress is against the set of high-level commitments of ERWAT which were elevated to the annual performance scorecard of the organization. The performance commitments in this component are meant to represent the strategic objectives as outlined in the SDBIP.

### 3.7 CITY WIDE SDBIP

#### KPI 1 – CITY-WIDE

##### PERCENTAGE OF WASTEWATER TREATMENT CAPACITY UNUSED

##### METHOD OF MEASURE

The percentage of wastewater treatment capacity unused. Sewer treatment capacity refers to the maximum amount of sewage that a facility is allowed to treat or to direct to a particular reuse or effluent disposal system. This refers to the collective available design capacity of all facilities servicing the municipal area. ‘Available design capacity’ refers to the overall design capacity that is available on a daily basis. If part of the treatment facility requires refurbishment or is not in operation this should be excluded from ‘available design capacity’.

- 1-  $\frac{((1) \text{ Total volume of wastewater treated over the last year}}{((2) \text{ Daily wastewater treatment plant available design capacity} \times 365))}$

##### EVIDENCE

Dated and signed report indicating actual flows received and treated per WCW and totaled for ERWAT system (19 WCW) drawn from LIMS (Laboratory Information Management System), in conjunction with the original or re-graded design hydraulic capacity (available capacity) per WCW for the ERWAT system (total of 19 WCW).

##### ANNUAL TARGET

-50%

##### ANNUAL ACTUAL

-44%

##### COMMENT

Annual target achieved due realistic target setting given the prevailing inundation challenges.

##### REASONS FOR VARIANCE

Water Care Works received less overflows than the anticipated planned overflow figure.

##### CORRECTIVE MEASURE

Even though the target was achieved the intention is to eliminate completely the negative unused capacity and have at least 20% unused capacity. To this end more financial resources are required to eliminate any negative unused capacity and create some spare capacity.

## KPI 2 – CITY-WIDE

### TOTAL REVENUE GENERATED FROM EXTERNAL BUSINESS.

#### METHOD OF MEASURE

Increased Commercial Business revenue generated from commercial sources (Absolute Rand Value per quarter). The indicator target is measured across the Quarters. Revenue generated from: External Income (none NDA).

#### EVIDENCE

Invoices - (The invoices to be coupled with sales report with a balance that agree to the amount reported for SDBIP purposes).

#### ANNUAL TARGET

R 34 000 000.00

#### ANNUAL ACTUAL

R 39 837 379

#### COMMENT

Annual target was achieved and surpassed due to realistic targeting and a number of revenue enhancement projects that were ongoing.

#### REASONS FOR VARIANCE

A positive variance of R5 837 379 was achieved due to a number of revenue enhancement projects that were ongoing.

#### CORRECTIVE MEASURE

The momentum of ongoing projects will be maintained to ensure that the target is maintained.

## KPI 3 – CITY-WIDE

### AUDIT OPINION

#### METHOD OF MEASURE

The Audit Opinion is defined by the AGSA. It is given across a qualitative, ordinal scale including Unqualified with no findings; Unqualified with findings; Qualified with findings; Adverse with findings; and disclaimed with findings. For those who have not completed the process 'Outstanding audits' are recorded.

#### EVIDENCE

Dated and signed audit report from AGSA

#### ANNUAL TARGET

Unqualified Audit Opinion

#### ANNUAL ACTUAL

Unqualified Audit Opinion

#### COMMENT

Annual target achieved. The audit outcome has remained unchanged with an unqualified opinion with findings on compliance with laws and regulations. The financial statements were submitted for audit within legislated deadline of the 31 August 2022. Management was commended for the preparation of financial statements that were free from material misstatements. Misstatements were identified on the financial statements submitted for audit, however, these misstatements were either not material or resulted from isolated incidents (i.e. were anomalous).

#### REASONS FOR VARIANCE

None

#### CORRECTIVE MEASURE

Even though the target was achieved, management will continue to ensure that adequate controls are implemented and that there is effective monitoring of compliance and adherence with applicable laws and regulations in order to avoid repeat audit findings.

### KPI 4 – CITY-WIDE

#### PERCENTAGE COMPLIANCE WITH WASTEWATER TREATMENT WORKS LICENSE CONDITIONS AND/OR EXEMPTIONS STANDARDS.

##### METHOD OF MEASURE

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.

##### EVIDENCE

Water quality data of each wastewater treatment works (from the Laboratory).

Spreadsheets were used to calculate all compliance.

Applicable Water use authorization of each Wastewater Treatment Works.

##### ANNUAL TARGET

77.5%

##### ANNUAL ACTUAL

80%

##### COMMENT

Although the annual target of 77.5% was achieved, ERWAT still experienced serious challenges namely ongoing load shedding, pollution incidents, critical equipment breakdowns and continuous inundation of plants due to increased water demand driven by socio-economic growth in the City of Ekurhuleni.

##### REASONS FOR VARIANCE

The annual target was achieved due to the target being reduced from 80% in Q1 & Q2 to 75% in Q3 & Q4 due to capacity challenges, power outages, chemical shortages, and infrastructure deterioration challenges. Resultantly, after changing the target, the new target was realistic given all the challenges that were being faced.

##### CORRECTIVE MEASURE

Although the target was achieved the entity will continue to address the challenges faced during the 2021/22 financial year. This will entail installation of generators to critical stages of the equipment process, exploring alternative chemicals for dosing and application of the organic tariff to polluters.

### 3.8 DEPARTMENT SDBIP

#### KPI 1: DEPARTMENTAL SDBIP

##### % CAPITAL EXPENDITURE ON PLANNED PROJECTS

###### METHOD OF MEASURE:

Increase ERWAT Water Care Works (WCW) treatment capacity and improve process efficiency through infrastructure development projects (CAPEX). The total capital expenditure on major capital projects is associated with increasing capacity and improving process efficiency in ERWAT Wastewater Treatment Plant according to green drop requirements and ERWAT Facility Development Plan (FDP 2032).

###### EVIDENCE

Project progress reports (weekly, quarterly and annual reports)

- a) Payments certificates
- b) Invoices

###### ANNUAL TARGET

95%

###### ANNUAL ACTUAL

96.43%

###### COMMENT

Annual target for capital expenditure was achieved and exceeded due to improved planning and acceleration of delayed projects.

###### REASONS FOR VARIANCE

A positive variance of 1.43% was achieved due to improved planning and acceleration of delayed projects.

###### CORRECTIVE MEASURE

Improved planning and acceleration of delayed projects momentum will be maintained during the 2023/24 financial year.

#### KPI 2 – DEPARTMENTAL SDBIP

##### PERCENTAGE OF REPAIRS AND MAINTENANCE BUDGET SPENT

###### METHOD OF MEASURE:

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.

###### EVIDENCE

Finance year to date expenditure report (Budget Variance Report)

###### ANNUAL TARGET

95%

###### ANNUAL ACTUAL

84.73%

###### COMMENT

Annual target not achieved due increased budget during the Q3 adjustment period.

### REASONS FOR VARIANCE

The department did not achieve the 95% target as planned due to the increased budget which was allocated during the adjustment and increased to R205 303 526. The approval of that adjustment budget was done only in Q3 of the financial year, thus delays in procurement processes.

### CORRECTIVE MEASURE

Scheduling and implementing of planned maintenance will commence from the first quarter. In addition, condition-based maintenance (CBM) will be accelerated through applying predictive maintenance techniques to arrest the increasing number of critical equipment failures.

## KPI – 3 DEPARTMENT SDBIP

### PERCENTAGE OF PROCUREMENT SPEND ALLOCATED TO SMME'S

#### METHOD OF MEASURE

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

#### EVIDENCE

Dated and signed Letter of appointment or subcontract with support (contract) amount Award AND Listing (Register) of SMME supported with support amount

#### ANNUAL TARGET

45%

#### ANNUAL ACTUAL

95%

#### COMMENT

The entity has a deliberate policy to promote small, medium and micro enterprises (SMME) and their response to tenders advertised was very high leading to target achievement.

#### REASONS FOR VARIANCE

SMME's response to tenders was very high leading to target achievement.

#### CORRECTIVE MEASURE

The momentum of ensuring that SMMEs respond to tenders will be maintained.

## **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 itemized in the Auditor-General’s report of each municipality

#### **EVIDENCE**

AGSA signed a management letter

#### **ANNUAL TARGET**

0

#### **ANNUAL ACTUAL**

5

#### **COMMENT**

Annual Target not achieved because the 2021/2022 Audit outcome yielded five repeat finds.

#### **REASONS FOR VARIANCE**

Although management resolved some findings, five (5) remained unresolved. The repeat findings are as follows:

- a) Misstatements identified in the notes to annual financial statements submitted for audit- Financial instruments and Fruitless and wasteful expenditure note.
- b) Reasonable steps not taken to prevent irregular expenditure.
- c) Reasonable steps not taken to prevent fruitless and wasteful expenditure.
- d) Consequence Management - Instances of irregular expenditure NOT investigated to determine if someone is responsible for irregular expenditure incurred.
- e) Reason for the approved deviation is not in line with SCM regulation 36..

#### **CORRECTIVE MEASURE**

Management has developed and implemented a detailed action plan for the audit findings raised. Management, the Audit and Risk Committee, Board and its Sub-Committees will monitor the developed plan quarterly.

## **KPI – 5 DEPARTMENT SDBIP**

### **TOTAL RAND VALUE OF SURPLUS REALISED FROM REVENUE GENERATED FROM EXTERNAL BUSINESS**

#### **METHOD OF MEASURE**

This will be calculated by subtracting the total expenditure from the revenue generated.

#### **EVIDENCE**

- a) Income and expenditure report with a balance that agree to the amount reported
- b) Invoices Listing
- c) Invoices - (The invoices to be coupled with income and expenditure report with a balance that agree to the amount reported for SDBIP purposes)

#### **ANNUAL TARGET**

R10 000 000

#### **ANNUAL ACTUAL**

R21 966 863

#### **COMMENT**

The target of R 10 000 000 in total rand value of surplus was exceeded due to a number of revenue enhancement projects that were ongoing.

#### **REASONS FOR VARIANCE**

A positive variance of R12,966,863 was achieved due to a number of revenue enhancement projects that were ongoing.

#### **CORRECTIVE MEASURE**

The momentum of ongoing projects will be maintained to ensure that the target is maintained.

## **KPI 6 – DEPARTMENT SDBIP**

### **PERCENTAGE OF TOTAL MUNICIPAL OPERATING EXPENDITURE SPENT ON CONTRACTED SERVICES PHYSICALLY RESIDING WITHIN THE MUNICIPAL AREA**

#### **METHOD OF MEASURE**

This indicator measures the value of municipal operating expenditure that has been spent on payments to contracted organisations with a physical address within the municipal area as a percentage of the total operating expenditure on payments to all contracted organisations. Contracted services are inclusive of consultancy services and refer to services rendered by any entity outside of the municipality secured through a public procurement process.

Indicator Formula: (1) R-value of operating expenditure on contracted services within the municipal area / (2) Total municipal operating expenditure on contracted services.

The indicator is reported quarterly.

#### **EVIDENCE**

Signed Expenditure report on municipal operating expenditure spent on contracted services

#### **ANNUAL TARGET**

8%

#### ANNUAL ACTUAL

7%

#### COMMENT

A total amount of R5 496 000 expenditure has been incurred on contracted service tenders awarded during 2022/2023, whereof R400 000 are with COE based service providers.

#### REASONS FOR VARIANCE

Responses received from bidders responding to open tender processes were received from areas in and outside the CoE area.

#### CORRECTIVE MEASURE

The momentum of bid advertisements will be enhanced to ensure that the target is reached.

### KPI 7 – DEPARTMENT SDBIP1

#### TOTAL OPERATING EXPENDITURE AS A PERCENTAGE OF TOTAL OPERATING EXPENDITURE BUDGET

##### METHOD OF MEASURE

The indicator measures the extent to which operating expenditure has been spent during the financial year. Operating Expenditure (non-capital spending) is costs which the municipality incurs through its normal operations.

Indicator Formula: (1) Actual Operating Expenditure / (2) Budgeted Operating Expenditure This indicator results will be reported quarterly.

##### EVIDENCE

Signed Excel spreadsheet as extracted from Budget statements for the period

##### ANNUAL TARGET

95%

##### ANNUAL ACTUAL

87.00%

##### COMMENT

The main drivers of under expenditure were employee costs and repairs and maintenance.

##### REASONS FOR VARIANCE

Variation primarily driven by under expenditure in employee costs, bulk purchases and repairs and maintenance.

##### CORRECTIVE MEASURE

To ensure that the repairs and maintenance budget is fully spent scheduling and implementing of planned maintenance will commence from the first quarter. For employee costs all vacant positions will be filled during the first quarter of the year.

## **KPI 8 – DEPARTMENT SDBIP**

### **IRREGULAR, FRUITLESS AND WASTEFUL, UNAUTHORISED EXPENDITURE AS A PERCENTAGE OF TOTAL OPERATING EXPENDITURE**

#### **METHOD OF MEASURE**

The indicator measures the extent to which the municipality has incurred irregular, fruitless and wasteful and unauthorised expenditure. Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Irregular expenditure is incurred by the municipality in contravention of a requirement of the law. Unauthorized expenditure includes overspending of the total amount appropriated in the approved budget.

Indicator Formula: ((1) Irregular + (2) Fruitless and Wasteful + (3) Unauthorised Expenditure) / (4) Total Operating Expenditure

The Audited Annual Financial Statements for the previous financial year are finalised in January of the following financial period for the previous financial period, therefore this indicator will be reported annually in the Q3 of the following financial year for the previous financial year-end

#### **EVIDENCE**

The Audited Annual Financial Statements for the previous financial year as finalised in January of the following financial period for the previous financial period,

#### **ANNUAL TARGET**

0%

#### **ANNUAL ACTUAL**

69.29%

#### **COMMENT**

Annual target was not achieved. During the 2021/22 audit year, the AG identified a number of contracts as irregular were the entity was already contractually committed.

#### **REASONS FOR VARIANCE**

Contracts amounting to R 101 079 477 were identified by AG as irregular during 2021/2022 financial period audit and these could be terminated abruptly as that could have led to litigation by the contracted parties.

#### **CORRECTIVE MEASURE**

Management will ensure that the controls around the review and monitoring of compliance with applicable laws and regulations are stricter in order to avoid / prevent irregular expenditure. In addition management now includes immediate termination clause in contracts should they be deemed as irregular by the AGSA.

## **KPI 9 – DEPARTMENT SDBIP**

### **REPAIRS AND MAINTENANCE AS A PERCENTAGE OF PROPERTY, PLANT, EQUIPMENT AND INVESTMENT PROPERTY**

#### **METHOD OF MEASURE**

This indicator measures the extent at which the municipality spent on repairs and maintenance of infrastructure assets relative to its asset base. Repairs and maintenance is a group of accounts consisting of labour costs, material costs, secondary costs and etc.

#### **EVIDENCE**

The Audited Annual Financial Statements for the previous financial year as finalised in January of the following financial period for the previous financial period,

#### ANNUAL TARGET

4%

#### ANNUAL ACTUAL

7.47%

#### COMMENT

Annual target was achieved to high ratio of repairs and maintenance budget compared to PPE.

#### REASONS FOR VARIANCE

Annual target achieved to high ratio of repairs and maintenance budget compared to PPE.

#### CORRECTIVE MEASURE

The repairs and maintenance budget will continuously be increased to ensure the ratio is maintained and reduce equipment breakdowns.

### KPI 10 – DEPARTMENT SDBIP

#### PERCENTAGE OF TENDER CANCELLATIONS

##### METHOD OF MEASURE

This indicator measures the percentage of tender cancellations in relation to the total number of tender business cases that was recorded, advertised and closed.

Indicator Formula: (1) Number of tenders cancelled / (2) Total number of tenders advertised and closed. The indicator is reported quarterly.

##### EVIDENCE

Signed and dated SCM report containing tender cancellations in relation to the total number of tender business cases that was recorded, advertised and closed.

##### ANNUAL TARGET

5%

##### ANNUAL ACTUAL

4.16%

##### COMMENT

Target was achieved. 24 Bids were advertised and closed during the 2022/2023 financial period. One tender was cancelled by ERWAT due to the bidder's poor quality of services on a contract awarded through the open tender process.

##### REASONS FOR VARIANCE

Internal controls have been implemented which reduced the number of tender cancellations.

##### CORRECTIVE MEASURE

Management will continue to enhance its internal controls.

## **KPI 11 – DEPARTMENT SDBIP**

### **NET SURPLUS /DEFICIT MARGIN FOR WASTEWATER**

#### **METHOD OF MEASURE**

Wastewater is measured separately to track the extent to which the municipality generates surplus or deficit. Total expenditure, in this context, refers to direct costs, overhead costs and capital financing costs incurred in providing wastewater and sanitation services. Direct costs include employee related costs, bulk purchases, repairs and maintenance, contracted services, debt impairment, depreciation and other costs not grouped under the above-mentioned categories. Overhead costs, also referred to as indirect costs, are costs that are not directly attributable to a service but are incurred in running a municipality as a whole, for example office space or computer software and all charges or recoveries. Capital financing costs are costs associated with financing infrastructure expansion or rehabilitation of existing assets, for example interest and redemption charges.

The Audited Annual Financial Statements for the previous financial year are finalised in January of the following financial period for the previous financial period, therefore this indicator will be reported annually in the Q3 of the following financial year for the previous financial year-end.

#### **EVIDENCE**

The Audited Annual Financial Statements for the previous financial year as finalised in January of the following financial period for the previous financial period.

#### **ANNUAL TARGET**

49%

#### **ANNUAL ACTUAL**

16.06%

#### **COMMENT**

Annual target was not achieved as it was introduced during budget adjustment in March 2023.

#### **REASONS FOR VARIANCE**

Management was unable to achieve the targeted net surplus for the year due to its original net surplus projections being very high and not aligned to the total expenditure target set.

#### **CORRECTIVE MEASURE**

The target for the 2023/2024 financial year has been adjusted and aligned to ERWAT's operations and its net surplus projections.

Annual Actual Expenditure		CAPEX	R6 794 665,30	Unqualified Audit Opinion	OPEX
Annual Planned Budget		CAPEX	R8 000 000	Unqualified Audit Opinion	OPEX
Remedial Action		Even though the target was achieved the intention is to eliminate completely the negative unused capacity and have at least 20% unused capacity. To this end more financial resources are required to eliminate any negative unused capacity and create some spare capacity.			
Reason(s) for Variance		Water Care Works received less overflows than the anticipated planned overflow figure. . . . .			
Progress on Targets		Achieved	Achieved	Achieved	Target Achieved
Overall Performance Rating		-44%	Achieved	Achieved	Achieved
Variance		-6%	R5 837 379.00	None	2%
Annual Actual Performance		-44%	R 39 837 379	Unqualified Audit Opinion	80%
Q4 Actual Performance		-44%	R12 819 276.00	N/A	81%
Q4 Planned Target		-50%	R8 000 000	N/A	75%
Q3 Actual Performance		-44%	R 10 076 693	N/A	81%
Q3 Planned Target		-50%	R8 000 000	N/A	75%
Q2 Actual Performance		N/A	R10 247 257.76	Unqualified	79%
Q2 Planned Target		N/A	R10 000 000	Unqualified	80%
Q1 Actual Performance		N/A	R6 694 152.70	N/A	78%
Q1 Planned Target		N/A	R8 000 000	N/A	80%
Annual Planned Output as per SDBIP		-50%	R34 000 000	Unqualified Audit Opinion	77.5%
Annual Target for 2022/2023		-50%	R34 000 000	Unqualified Audit Opinion	77.5%
Baseline (Annual Performance of 2021/2022)		New indicator	R 40 547 890	Unqualified	84%
Description of Portfolio of Evidence Verified		Dated and signed report indicating actual flow received and treated per-WCW and totalised for ERWAT system (19 WCW) drawn from LIMS (Laboratory Information Management System), in conjunction with the original or re-graded design hydraulic capacity (available capacity) per WCW for the ERWAT system (total of 19 WCW).			
Performance Indicator (Output level only)		Percentage of wastewater treatment capacity unused	WS4.31	Total revenue generated from external business	Invoices coupled with general ledger with a balance that agree to the amount reported
Ref No.			ERW1.1	Audit Opinion	Dated and signed Audit report from AGSA
Outcome		Improved quality of water (incl. wastewater)			
Entity		Ekurhuleni Water Care Company (ERWAT)a			
<b>NATIONAL PRESCRIBED INDICATORS</b>					
N/A					
<b>PROVINCIAL INDICATORS</b>					
N/A					
<b>CITY OF EKURHULENI INDICATORS</b>					
<b>IDP STRATEGIC OBJECTIVE 1: TO DELIVER RELIABLE, AFFORDABLE AND SUSTAINABLE SERVICES AND ENSURE IMPROVED INFRASTRUCTURE MAINTENANCE</b>					
<b>IDP STRATEGIC OBJECTIVE 2: TO BUILD A CLEAN, CAPABLE AND MODERNISED LOCAL STATE</b>					
<b>IDP STRATEGIC OBJECTIVE 4: TO PROTECT THE NATURAL ENVIRONMENT AND PROMOTE RESOURCE SUSTAINABILITY</b>					

		IDP STRATEGIC OBJECTIVE 1: TO PROMOTE INTEGRATED HUMAN SETTLEMENTS THROUGH MASSIVE INFRASTRUCTURE AND SERVICES ROLLOUT				
Annual Actual Expenditure	R99 004 23	173 954 709	OPEX/ CAPEX	N/A		
Annual Planned Budget	R102 670 444	135 317 019	OPEX/ CAPEX	N/A		
Remedial Action	Improved planning and acceleration of delayed projects momentum will be maintained during the 2023/ 2024					
Reason(s) for Variance	Improved planning and acceleration of delayed projects momentum will be maintained during the 2023/ 2024					
Progress on Targets	Achieved	Target not achieved	Achieved	Target not achieved		
Overall Performance Rating	Achieved	Not Achieved	Achieved	Target not achieved		
Variance	1.43%	10.27%	50%	5		
Annual Actual Performance	96.43%	84.73%	95%	5		
Q4 Actual Performance	96.43%	84.73%	92%	0		
Q4 Planned Target	95%	95%	45%	0		
Q3 Actual Performance	68.31%	68,36%	93%	5		
Q3 Planned Target	80%	75%	45%	0		
Q2 Actual Performance	69.94%	43%	98%	5		
Q2 Planned Target	60%	50%	45%	0		
Q1 Actual Performance	36.84%	18%	96%	0		
Q1 Planned Target	35%	25%	45%	0		
Annual Planned Output as per SDBIP	95%	95%	45%	0		
Annual Target for 2022/2023	95%	95%	45%	0		
Baseline (Annual Performance of 2021/2022)	100.26%	91%	93%	3		
Description of Portfolio of Evidence Verified	Finance year to date expenditure report					
Performance Indicator (Output level only)	Percentage of Capital Expenditure on Planned Projects					
Ref No.	1.M	2.M	3.M	4.M		
Outcome	Improved Quality of Water including Wastewater					
Entity	ERWAT	ERWAT	ERWAT	ERWAT		
	Expenditure report from Finance AND Listings of R&M vote numbers and expenditure					
	Expenditure on Repairs and Maintenance Budget					
	Dated and signed Letter of appointment or subcontract with support (contract) amount Award AND Listing (Register) of SMME supported with support amount					
	AGSA signed management letter					
	Percentage of procurement spend allocated to SMME's					
	Number of Repeat Audit Findings					
	Improved Quality of Water including Wastewater					
	The department did not achieve the 95% target as planned due to the increased budget which was allocated during the adjustment and increased to R205 303 526. The approval of that adjustment budget was done only in Q3 of the financial year, thus delays in procurement processes.					
	Scheduling and implementing of planned maintenance will commence from the first quarter. In addition, condition-based maintenance (CBM) will be accelerated through applying predictive maintenance techniques to arrest the increasing number of critical equipment failures.					
	The momentum of ensuring that SMMEs respond to tenders will be maintained.					
	Small, medium and micro enterprises' response to tenders was very high leading to target achievement.					
	Although management resolved some findings, five (5) remained unresolved. The repeat findings are as follows: Misstatements identified in the notes to annual financial statements submitted for audit- Financial instruments and Fruitless and wasteful expenditure note. Reasonable steps not taken to prevent irregular expenditure. Reasonable steps not taken to prevent fruitless and wasteful expenditure.					
	Consequence Management - Instances of irregular expenditure NOT investigated to determine if someone is responsible for irregular expenditure incurred. Reason for the approved deviation is not in line with SCM regulation 36					
	Management has developed and implemented a detailed action plan for the audit findings raised. Management, the Audit and Risk Committee, Board and its Sub-Committees will monitor the developed plan quarterly.					

Annual Actual Expenditure	OPEX	7%	OPEX	N/A	OPEX	OPEX
Annual Planned Budget	OPEX	8%	OPEX	N/A	OPEX	OPEX
Remedial Action	The momentum of ongoing projects will be maintained to ensure that the target is maintained.					
Reason(s) for Variance	A positive variance of R11 966 863 was achieved due to a number of revenue enhancement projects that were ongoing.					
Progress on Targets	Achieved	not achieved	Target not achieved	Target not achieved	Target achieved	Target achieved
Overall Performance Rating	Achieved	not achieved	Target not achieved	Target not achieved	Target achieved	Target achieved
Variance	R11 966 863	-1%	8.00%	69.29%	3.47%	0.84%
Annual Actual Performance	R21 966 863	7%	87.00%	69.29%	7.47%	4.16%
Q4 Actual Performance	R 8 593 754.18	93%	87.00%	0%	0%	4.16%
Q4 Planned Target	R 3 000 000	6%	95%	0%	0%	5%
Q3 Actual Performance	R 5 244 717.52	0%	56%	69.29%	7.47%	13%
Q3 Planned Target	R 2 000 000	6%	70%	0%	4%	5%
Q2 Actual Performance	R5 736 303.56	0%	0%	0%	0%	0%
Q2 Planned Target	R3 000 000	0%	0%	0%	0%	5%
Q1 Actual Performance	R2 392 087.47	0%	0%	0%	0%	0%
Q1 Planned Target	R 2 000 000	0%	0%	0%	0%	5%
Annual Planned Output as per SDBIP	R10 000 000	8%	95%	0%	4%	5%
Annual Target for 2022/2023	R10 000 000	8%	95%	0%	4%	5%
Baseline (Annual Performance of 2021/2022)	R23 672 900	New KPI	New KPI	New KPI	New KPI	New KPI
Description of Portfolio of Evidence Verified	Sales report with a balance amount that agrees with the amount reported AND Listing of invoices generated from external business					
Performance Indicator (Output level only)	Percentage of total municipal operating expenditure spent on contracted services physically residing within the municipal area					
Ref No.	5.M	LED1.11	FM1.12	FM4.11	FM5.31	FM6.13
Outcome	Improved quality of water including wastewater					
Entity	ERWAT					
Reason(s) for Variance	Responses received from bidders responding to open tender processes were received from areas in and outside the COE area.					
Reason(s) for Variance	Variation primarily driven by under expenditure in employee costs, bulk purchases and repairs and maintenance.					
Reason(s) for Variance	Contracts amounting to R 101 079 477 were identified by AG as irregular during 2021/2022 financial period audit and these could be terminated abruptly as that could have led to litigation by the contracted parties.					
Reason(s) for Variance	Annual target achieved to high ratio of repairs and maintenance budget compared to PPE.					
Reason(s) for Variance	Internal controls have been implemented which reduced the number of tender cancellations.					
Reason(s) for Variance	The momentum of bid advertisements will be enhanced to ensure that the target is reached.					
Reason(s) for Variance	To ensure that the repairs and maintenance budget is fully spent scheduling and implementing of planned maintenance will commence from the first quarter. For employee costs all vacant positions will be filled during the first quarter of the year.					
Reason(s) for Variance	Management will ensure that the controls around the review and monitoring of compliance with applicable laws and regulations are stricter in order to avoid / prevent irregular expenditure. In addition management now includes immediate termination clause in contracts should they be deemed as irregular by the AG					
Reason(s) for Variance	The repairs and maintenance budget will continuously be increased to ensure the ratio is maintained and reduce equipment breakdowns.					
Reason(s) for Variance	Management will continue to enhance its internal controls					

Annual Actual Expenditure	OPEX
Annual Planned Budget	OPEX
Remedial Action	The target for the 2023/2024 financial year has been adjusted and aligned to ERWAT's operations and its net surplus projections.
Reason(s) for Variance	Management was unable to achieve the targeted net surplus for the year due to its original net surplus projections being very high and not aligned to the total expenditure target set.
Progress on Targets	Target not achieved
Overall Performance Rating	Target not achieved
Variance	32.94%
Annual Actual Performance	16.06%
Q4 Actual Performance	0%
Q4 Planned Target	0%
Q3 Actual Performance	16.06%
Q3 Planned Target	49%
Q2 Actual Performance	0%
Q2 Planned Target	0%
Q1 Actual Performance	0%
Q1 Planned Target	0%
Annual Planned Output as per SDBIP	49%
Annual Target for 2022/2023	49%
Baseline (Annual Performance of 2021/2022)	New Indicator
Description of Portfolio of Evidence Verified	The Audited Annual Financial Statements for the previous financial year as finalised in January of the following financial period for the previous financial period.
Performance Indicator (Output level only)	Net Surplus / Deficit Margin for Wastewater
Ref No.	FM7.33
Outcome	Improved revenue and debtors management
Entity	ERWAT



# Chapter 4

# Organisational Development Performance

## (Performance Report Part II)

### INTRODUCTION TO ORGANISATIONAL DEVELOPMENT PERFORMANCE

ERWAT employed a total of 726 employees as at 30 June 2023. During the 2022/2023 financial year, a total of 61 (sixty-one) new employees were appointed, 19 (nineteen) permanent employees and 42 (forty-two) non-permanent employees.

A total of 64 (sixty-four) employees left the service of the company of which 15 (fifteen) employees resigned, 34 (thirty-four) contracts ended, 9 (nine) retired, 3 (three) employees were dismissed and 4 (four) 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 organization 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 organizational strategy.

The HR department is responsible for the following:

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

# Introduction to the Company's Personnel

## 4.1 EMPLOYEE TOTALS, TURNOVER AND VACANCIES

Table 4.1: Employees

Job level	2021/2022		2022/2023		
	Employees	Approved Posts	Employees	Vacancies (fulltime equivalents)	Vacancies (as a % of total posts)
	No.	No.	No.	No.	%
Commercial Business	10	12	10	2	17%
Company Secretariat	1	4	1	3	75%
Top Structure	3	10	4	6	60%
Infrastructure Planning and Projects	18	26	16	10	38%
Maintenance	88	127	96	31	24%
Scientific Services	61	64	59	5	8%
Finance and SCM	36	40	34	6	15%
Operation	414	445	402	43	10%
Office of the MD	8	10	8	2	20%
Human Resources	13	17	11	6	35%
Strategy, Monitoring and Evaluation	7	11	7	4	36%
<b>Totals</b>	<b>659</b>	<b>766</b>	<b>648</b>	<b>118</b>	<b>15%</b>

Employees and approved posts numbers are as at 30 June 2023, as per the approved organogram.

Table 4.2: Vacancy Rate 2021/2022

Department	Position	Date Vacant
Scientific Services	Laboratory Scientist (Grade 1) (x 2)	New Position
	Laboratory Scientist (Grade 2) (x 2)	New Position
	Administrator Laboratory	New Position
IPAP	Executive Manager: IPAP	30/04/2016
	Executive Secretary: IPAP	30/09/2021
	Engineer: Process (Grade 2)	New Position
	Senior Engineer: Planning and Design (Grade 4)	06/02/2021
Finance and SCM	Manager: Budgeting and Expenditure	New Position
	Payroll Supervisor	30/10/2021
	Junior Accountant	31/01/2021
	Administrator: SCM	New Position
	Chief Financial Officer	10/06/2023
Operations	Administration Officer	01/09/2017
	Executive Manager: Operations	31/01/2021
	Senior Process Controllers (x 8)	New Position
	Process Controllers (x 11)	New Position
	Administrator	New Position
	Administrator	01 May 2023
Operations	Process Operator (x 4)	New Position
	Heavy Equipment Operator	New Position
	Assistant Operator (x 10)	New Position

Department	Position	Date Vacant
Operations	Tractor Driver (x 2)	New Position
	Driver (x 2)	New Position
Maintenance	Executive Manager: Maintenance	01/07/2018
	Executive Secretary: Maintenance	18/11/2016
	Fitter (x 8)	New Position
	General Worker (x 11)	New Position
	Heavy Equipment Operator	New Position
	Electrician (x 5)	New Position
	Boilermaker (x 2)	New Position
	Mechanician (x 2)	New Position
Commercial Business	Executive Secretary: Commercial Business	12/04/2021
	Executive Manager: Commercial Business	23/09/2020
Security	Security Coordinator	New Position
Risk	Risk Officer	02 August 2022
ICT	System Analyst	01/04/2022
	Systems Administrator	01/07/2021
Company Secretary	Executive Secretary	New Position
	Manager: Legal	New Position
	Board and Committee Secretariat Officer	New Position
Strategy, Monitoring and Evaluation	Executive Manager: Strategy, Monitoring and Evaluation	New Position
	Specialist Communications and Media	New Position
	Administrator: Communications	New Position
	Occupational Health Nurse Practitioner	01 July 2022
	Safety Officer	New Position
Human Resources	Manager: HR Administration	New Position
	Specialist: Training and Development	01 November 2022
	Receptionist	01 September 2022
	Tea Lady	01 December 2022
	Tea Lady	01 April 2022
	General Worker	New Position

Table 4.3: Turn-Over Rate

Details	Total no of appointments as at the beginning of financial year	No of terminations during the financial Year	Turn-over Rate*
	No.	No.	%
2020/2021	13	27	4.3%
2021/2022	111	46	6.1%
2022/2023	61	65	8.7%

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

## COMMENT ON VACANCIES AND TURNOVER

The 2022/2023 recruitment plan was in line with the structures as well as budget for the 2022/2023 financial year.

Vacancy turnover rate for 2022/2023 has increased in comparison with the previous financial year.

# Managing the Company's Workforce

## INTRODUCTION TO COMPANY'S WORKFORCE MANAGEMENT

The total number of employees as at 30 June 2023 is 726 (includes permanent and non-permanent) which is a decrease compared to the previous year of 747 (permanent and non-permanent).

## 4.2 POLICIES

Table 4.4: HR Policies and Plans

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%	05/12/2022
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 Director 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 No.	Proportion of Employees using Sick Leave %	Average Injury Leave per Employee Days	Estimated Cost (Basic) R
<b>Injury on duty</b>	46	12	72%	2.8	35 664,87
<b>Permanent disability</b>	N/A	0	N/A	N/A	N/A
<b>Temporary disability</b>	N/A	0	N/A	N/A	N/A
<b>Total</b>	<b>16</b>	<b>12</b>	<b>72%</b>	<b>2.8</b>	<b>35 664,87</b>

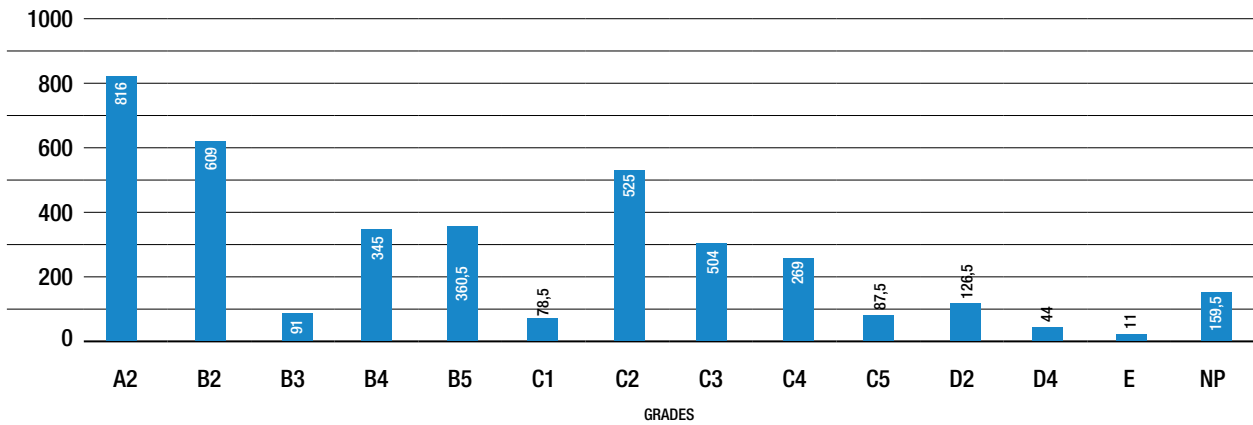
Table 4.6: Number of Days and Cost of Sick Leave (Excluding Injuries on Duty)

Patterson Profile Level	Total Sick Leave Days	Employees using Sick Leave No.	Total Employees in Post No.	*Average Sick Leave per Employee Days	Estimated Cost (Basic) R
<b>Non-permanent</b>	159.5	56	79	2.02	190 955,74
<b>A</b>	816	217	121	6.7	393 172,51
<b>B</b>	1405.5	371	243	5.7	1 204 617,60
<b>C</b>	1488	418	233	6.4	2 297 970,17
<b>D</b>	202.5	59	47	4.3	734 962,63
<b>Executives</b>	11	7	3	3.7	74 085,91
<b>Total</b>	<b>4082.5</b>	<b>302</b>	<b>726</b>	<b>28.82</b>	<b>4 895 764,57</b>

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



#### SICK LEAVE DAYS



#### 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 is currently no employees under suspension.

### 4.4 PERFORMANCE REWARDS

#### COMMENT ON PERFORMANCE REWARDS

No performance rewards were awarded during the 2022/2023 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 (2022/2023) submitted to the Energy and Water Sectoral Education and Training Authority (EWSETA).

### 4.5 SKILLS DEVELOPMENT AND TRAINING

Table 4.9: Skills Matrix

		Number of skills employees required and actual as at 30 June 2023												
Management Level	Gender	Employees in post as at 30 June 2023 No.	Learnerships			Skills Programme and other short courses			Other forms of training			Total		
			Actual: End of Year 21/22	Actual: End of Year 22/23	Year 22/23 Target	Actual: End of Year 21/22	Actual: End of Year 22/23	Year 22/23 Target	Actual: End of Year 21/22	Actual: End of Year 22/23	Year 21/23 Target	Actual: End of Year 21/22	Actual: End of Year 22/23	Year 22/23 Target
Senior Officials and Managers	Female	28	0	0	0	6	15	15	3	2	2	9	17	17
	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	276	40	0	0	168	125	132	3	30	37	211	140	147
Professionals and un-skilled	Female	47	0	12	22	26	56	63	6	9	16	32	77	84
	Male	112	0	24	35	84	49	56	5	16	23	89	89	96
Subtotal	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>726</b>	<b>747</b>	<b>70</b>	<b>57</b>	<b>36</b>	<b>420</b>	<b>406</b>	<b>385</b>	<b>92</b>	<b>86</b>	<b>65</b>	<b>582</b>	<b>507</b>



Table 4.10: Skills Development Expenditure

Gender	No of employees in post as at 30 June 2023	Number of skills employees required and actual as at 30 June 2023					
		Learnerships			Skills Programme and other short courses		
		Actual: End 2020/2021	Actual: End 2021/2022	2022/2023 Target	Actual: End 2020/2021	Actual: End 2021/2022	2022/2023 Target
<b>Female</b>	274	R 850 000	R 900 000	R 969 834	R 967 792	R 1 031 780	R 1 050 000
<b>Male</b>	520	R1 698 000	R 950 000	R 1 867 829	R 1 564 000	R 1 958 123	R 2 010 000
<b>Total</b>	<b>794</b>	<b>R 2 548 000</b>	<b>R 1 850 000</b>	<b>R 2 837 663</b>	<b>R 2 535 792</b>	<b>R 2 989 903</b>	<b>R 3 060 000</b>

Table 4.11: Skills Development Expenditure

Original Budget and Actual Expenditure on skills development		
2022/2023	Original Budget	Actual
<b>Totals</b>	<b>R 6 005 406.00</b>	<b>R4 719 921.19</b>

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

During the last financial year, ERWAT realigned its Training Plan to ensure that the enhancement of skills of all employees and thus ensuring that there is a development process in the workplace. The 2022/2023 Workplace Skills Plan was successfully submitted to Energy and Water Sectoral Education and Training Authority (EWSETA) and waits for Approval. Training is centred on Organisational, Departmental, and lastly Personal Development Plans.

ERWAT has commenced Wastewater Process Control & Operations Learnership Programs for 44 employees and awarded 2 bursaries to university students during Quarter 3 of the 2022/2023 financial year. The learnerships are aligned to Training Plans and Personal Development Plans of the above-mentioned employees.

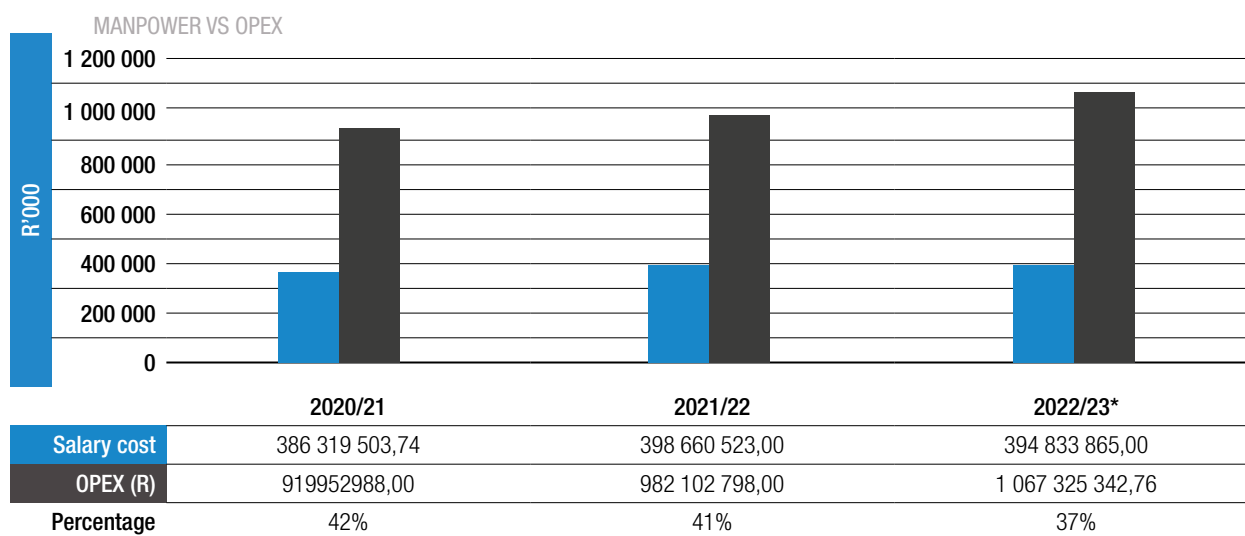
ERWAT conducted Work Capacity Programme and Skills Audit Analysis Projects to determine the organisational and individual requirements needed to create a learning organisation. The audit was completed, and the recommendations will be implemented in a three-year plan, commencing from the 2023/24 financial year.

# Managing the Company's Expenditure

## INTRODUCTION TO WORKFORCE EXPENDITURE

The effective management of workforce expenditure is critical to the success of the organization. It enables the organization to ensure the optimal utilization of its current workforce and contribute in managing the overall manpower expenditure.

### 4.6 EMPLOYEE EXPENDITURE



### COMMENT ON WORKFORCE EXPENDITURE

\*2022/2023 Salary Cost and Opex are preliminary figures, pending finalisation of the financial year.

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 disability 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	Mr. Tumelo Gopane	Partnership: Farming Business
Head of Department: Finance and SCM	Mr. Wim Louw	Nil
Company Secretary	Ms. Zimasa Socikwa	Nil
Head of Department: Scientific Services	Ms. Alison Chapman	Nil
Head of Department: Operations	Ms. Fortune Mabunda	Nil
Head of Department: Human Resources	Mr. Rodney Barnes	Nil
Interim Head of Department: Commercial Business	Ms. Lelentle Motaung	Nil
Interim Head of Department: Infrastructure Planning and Projects	Mr. Karabo Nthethe	Nil
Interim Head of Department: Maintenance	Ms. Nganamakabane Mutyaba	Nil
Interim Head of Department: Finance and SCM	Ms. Dzunani Makgopa	Director: Mansah Consulting Director: Dzunare Trading
Interim Managing Director	Mr. Kennedy Chihota	Nil

## Chapter 5

# Financial Performance

### INTRODUCTION

Chapter 5 contains information regarding financial performance and highlights specific accomplishments. The chapter comprises of 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 R1,371 billion in 2021/2022 to R1,476 billion in 2022/2023 year. Operating expenditure increased from R988,9 million in 2021/2022 to R1,212 billion in 2022/2023.

Table 5.1: Financial Summary

Description	Ref	2020/2021	2021/2022	Current year 2022/2023			Year 2022/2023 Variance	
		Actual R'000	Actual R'000	Original Budget R'000	Adjusted Budget R'000	Actual R'000	Original Budget %	Adjustment Budget %
<b>REVENUE BY SOURCE</b>								
Service charges - sanitation revenue		929 381	1 142 878	1 277 926	1 336 988	1 336 988	105%	100%
Interest earned - external investments	1	3 951	10 573	3 722	14 700	28 852	775%	196%
Dividends received		60	60	0	0	112	0%	0%
Other revenue		59 395	39 954	34 000	34 000	40 906	120%	120%
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>992 787</b>	<b>1 193 465</b>	<b>1 315 648</b>	<b>1 385 688</b>	<b>1 406 858</b>	<b>107%</b>	<b>102%</b>
<b>EXPENDITURE BY TYPE</b>								
Employee related costs		391 598	394 208	488 802	513 442	407 018	83%	79%
Debt impairment		2470	2 177	1 743	1 743	-1 803	-103%	-103%
Impairment loss						48 371	0%	0%
Depreciation & asset impairment		101 272	105 468	103 000	103 000	117 289	114%	114%
Finance charges		30 780	29 694	41 252	26 188	35 321	86%	135%
Bulk purchases	2	249 139	251 872	349 742	332 025	283 500	81%	85%
Other expenditure		94 486	98 551	195 792	203 988	155 845	80%	76%
Repairs and Maintenance		79 451	106 974	135 317	205 304	166 578	123%	81%
<b>Total Expenditure</b>	<b>3</b>	<b>949 196</b>	<b>988 944</b>	<b>1 315 648</b>	<b>1 385 688</b>	<b>1 212 120</b>	<b>92%</b>	<b>87%</b>
<b>Surplus/(Deficit)</b>		<b>43 591</b>	<b>204 521</b>	<b>-</b>	<b>-</b>	<b>194 739</b>		
Surplus/(Deficit) – Including Grants and Contributions		49 830	155 016	80 000	70 000	70 000	87.50%	100.00%
Transfers recognized - capital		-49 830	-155 016	-80 000	-70 000	-70 000	87.50%	100.00%
Surplus/(Deficit) before taxation		0	0	0	0	0		
Taxation								
<b>Surplus/(Deficit) for the year</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>		
<b>CAPITAL EXPENDITURE &amp; FUNDS SOURCES</b>								
CAPITAL EXPENDITURE	4, 6							
Funded by:		55 976	155 016	80 000	70 000	70 000	87.50%	100.00%
National Government		49 830	155 016	80 000	70 000	70 000	87.50%	100.00%
<b>Transfers recognized - capital</b>		<b>49 830</b>	<b>155 016</b>	<b>80 000</b>	<b>70 000</b>	<b>70 000</b>		

Description	Ref	2020/2021	2021/2022	Current year 2022/2023			Year 2022/2023 Variance	
		Actual	Actual	Original Budget	Adjusted Budget	Actual	Original Budget	Adjustment Budget
		R'000	R'000	R'000	R'000	R'000	%	%
<b>TO BE DETERMINED</b>								
Borrowing	1	-						
Internally generated funds		6146	0	0	0	0		
<b>Total Capital Funding</b>		<b>55 976</b>	<b>155 016</b>	<b>80 000</b>	<b>70 000</b>	<b>70 000</b>	<b>87.50%</b>	<b>100.00%</b>
<b>FINANCIAL POSITION</b>								
Total current assets		289 640	553 888	853 805	853 805	853 805	100%	100%
Total non-current assets		2 191 220	2 200 669	2 131 172	2 161 877	2 161 877	100%	100%
Total current liabilities		200 768	194 210	210 500	210 500	210 500	100%	100%
Total non-current liabilities		384 181	332 599	294 986	294 986	294 986	100%	100%
Equity		1 895 911	2 227 748	2 479 490	2 479 490	2 479 490	100%	100%
<b>CASH FLOWS</b>								
Net cash from (used) operating		256 134	335 997	374 184	374 184	374 184	100%	100%
Net cash from (used) investing		-53 815	-153 950	-96 885	-96 885	-96 885	100%	100%
Net cash from (used) financing		-53 473	-52 727	-52 849	-52 849	-52 849	100%	100%
Cash/cash equivalents at the year end		150 914	280 235	504 685	504 685	504 685	100%	100%

## COMMENT ON FINANCIAL PERFORMANCE:

### MATERIAL DIFFERENCES BETWEEN BUDGET AND ACTUAL AMOUNTS

Total operating Expense - 87% achieved due to the following reasons:

### ERWAT HAS 13% UNDER-EXPENDITURE ON ITS TOTAL OPEX DUE TO THE FOLLOWING REASONS:

1. A 20% under-expenditure on employee costs due to a reduction in overtime spent, a moratorium placed on recruitment by the COE resulted in delayed recruitment of vacant positions. The planned salary notches implementation could not be completed in the 22/23 financial year.
2. A 62% under-expenditure in directors' remuneration as the budget provided for 8 Directors however only 5 Directors are employed during the financial year.
3. A 19% under-expenditure in Repairs and Maintenance due to receiving the adjustment budget close to year end.
4. Interest expense, over-expenditure due to the prime interest rate increases during the year that were not anticipated.
5. A 15% under-expenditure in bulk purchases due to issues with the supply of Ferric and Chlorine for a few months (problems with NCP, which could not produce). Load shedding significantly impacted the electricity charges, which are included in Bulk purchases however fuel costs increased.
6. A 24% under-expenditure in general expenditure due to the following reasons:  
Sludge transport quantities declined due to delays in tender for polymer for Filter belt presses at Waterval, Welgedacht and Olifantsfontein plants; the PPE and Laundry contract being cancelled; the budgeted expenditure relating to consulting and professional fees not being realized and the timing differences relating to the invoicing of insurance costs.

## 5.2 GRANTS

Table 5.2: Grant Performance

Description	2021/2022		2022/2023			
	Actual R'000	Budget R'000	Adjustment budget R'000	Actual R'000	Original Budget %	Adjustment Budget %
Other grant providers – the CoE capital grant	155 016	80 000	70 000	70 000	87.50%	100.00%
<b>TOTAL</b>	<b>155 016</b>	<b>80 000</b>	<b>70 000</b>	<b>70 000</b>	<b>87.50%</b>	<b>100.00%</b>

### COMMENT ON OPERATING TRANSFERS AND GRANTS

The parent municipality, CoE, allocates a portion of the USDG (Urban Settlements Development Grant) that they receive from the National Treasury toward bulk sanitation services. This amounted to R70m in the 2022/2023 financial year. It is the only grant that ERWAT received from the CoE.

The original budgeted USDG amount that was allocated to ERWAT for the 2022/2023 financial year was R80m however there was R10 million reduction in the budget during the year which resulted in an adjusted budget of R70 million.

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 Generally Recognized Accounting Practice (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.

## 5.3 ASSET MANAGEMENT

### INTRODUCTION TO ASSET MANAGEMENT

#### SUPPLY CHAIN 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, and
5. Encouraging the involvement of communities and community organizations 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 utilize and

Effective management of capital assets is central to the entity providing an acceptable standard of services. Capital assets impacts on 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 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, and
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 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 of 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 costs, 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 is 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 optimize 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 2022/2023

ASSET 1	
<b>NAME</b>	Supply, Deliver & Install Analytical instrumentation and associated equipment on as and when required basis in all ERWAT Water Care Works
<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>	2022/2023
<b>ASSET VALUE</b>	R33 384 525.74
<b>CAPITAL IMPLICATIONS</b>	None
<b>FUTURE PURPOSE OF ASSET</b>	Asset built to meet plant capacity needs
<b>DESCRIBE KEY ISSUES</b>	Getting the best measurements of efficiency from the plant and processes calls for reliable, accurate instrumentation. The objective of the project is to enhance plant performance, efficiency and reliability to ensure compliance of wastewater works effluent to the requirements as per the water use license granted by the Regulator.
<b>POLICIES IN PLACE TO MANAGE ASSET</b>	Asset management policy
ASSET 2	
<b>NAME</b>	Supply, Deliver & Install Gearboxes on as and when required basis in all ERWAT Water Care Works.
<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>	2022/2023
<b>ASSET VALUE</b>	R20 074 288.00
<b>CAPITAL IMPLICATIONS</b>	None
<b>FUTURE PURPOSE OF ASSET</b>	Asset built to meet plant the required compliance levels
<b>DESCRIBE KEY ISSUES</b>	The equipment's mentioned are critical in the operation of ERWAT, the Gearboxes are essential for the supply of oxygen for the aerobic basin and to assist with mixing in the Anoxic and Anaerobic basins. The success of this project meant that the plant would be certified as compliant, ensuring that public's health is maintained.
<b>POLICIES IN PLACE TO MANAGE ASSET</b>	Asset management policy
ASSET 3	
<b>NAME</b>	The upgrade and replacement of aerators at CARL GRUNDLING Water Care Works plant
<b>DESCRIPTION</b>	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>	2022/2023
<b>ASSET VALUE</b>	R12 039 750.00
<b>CAPITAL IMPLICATIONS</b>	None
<b>FUTURE PURPOSE OF ASSET</b>	To replace the old unreliable Aeration system in order to ensure a sustainable service delivery to the community. Brush aerators are primarily used to supply oxygen for biological treatment in the aerobic basin of the Pasveer ditch.
<b>DESCRIBE KEY ISSUES</b>	In municipal wastewater treatment, Aeration is part of the secondary treatment process. It is an integral part of biological wastewater treatment systems as it promotes the microbial growth in the wastewater.
<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 were ascertained during the year. The need was identified to formalize the asset policy, strategy and plans. These issues will be addressed in the 2023/24 financial year.

On the positive side, a 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.

**IMPLEMENTATION OF THE ASSET MANAGEMENT POLICY AND PLAN**

*Table 5.4: Repairs and Maintenance Expenditure 2022/2023*

Detail	Original budget	Adjustment budget	Actual	Budget variance
<b>Repairs and maintenance expenditure</b>	135 317 019	205 303 526	166 578 174	81.14%

**COMMENT ON REPAIR AND MAINTENANCE EXPENDITURE**

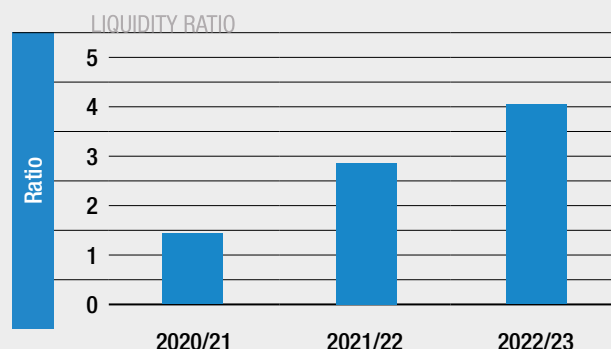
The Maintenance Department, led by an acting Head of Department is responsible for all repairs and maintenance work in the entity. Expenditure on maintenance, both planned and ad hoc maintenance is extremely important, as it not only improve efficiencies on the WCWs but extend the useful lives of the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

## 5.4 FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS

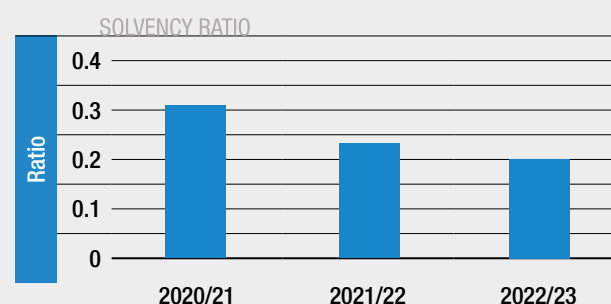
### LIQUIDITY

ERWAT's current ratio improved from 2.85:1 in 2021/22 to 4.06:1 in the 2022/23 financial year. This is due to improved working capital management within the entity.



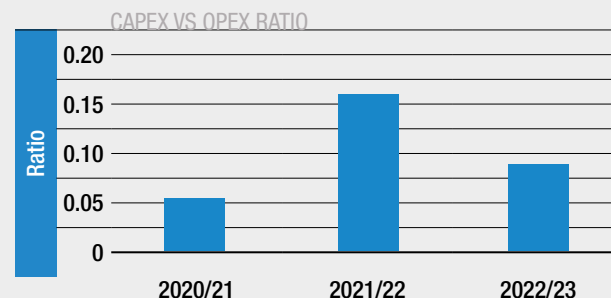
### SOLVENCY

ERWAT's debt equity ratio improved from 0.23 in 2021/22 to 0.20 in 2022/23 financial year. This is due to the reduction in borrowings as a result of repayments. ERWAT has de-emphasized on the use of debt as a form of CAPEX funding.



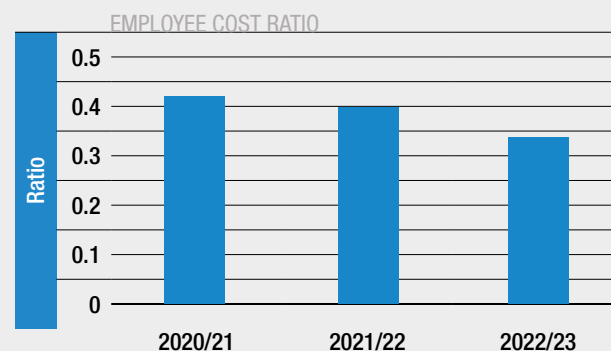
### CAPITAL EXPENDITURE TO OPERATING EXPENDITURE RATIO

This ratio has decreased from 0.16:1 in 2021/22 to 0.08:1 in 2022/23 due to a reduction in the capex budget in the 2022/23 year of R102m as compared to the 2021/22 year of R156m as well as increase in operating expenditure from R988,9 million in 2021/2022 to R1,211 billion in 2022/2023.



### EMPLOYEE COST RATIO

Employee cost as a percentage of operating expenditure has decreased slightly from 40% in 2021/22 to 34% in 2022/23.



### COMMENT ON FINANCIAL RATIOS

The financial health of ERWAT has shown improvement during the year, with both its solvency and liquidity positions having improved at 30 June 2023.

# Spending Against Capital Budget

## INTRODUCTION TO SPENDING AGAINST CAPITAL BUDGET

Capital expenditure for the year amounted to R99 004 million which is 108.13% of the original 2022/2023 capital budget of R91 558 million.

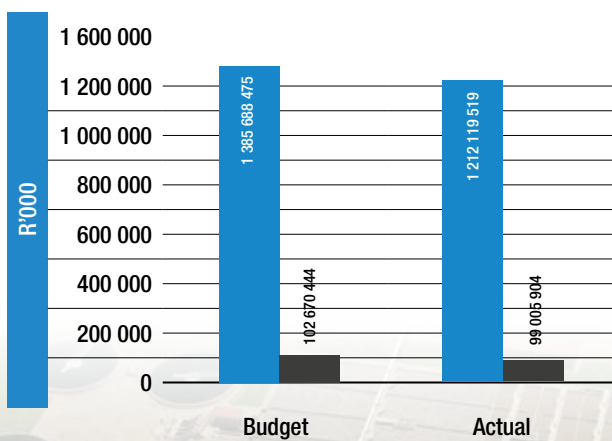
Capital expenditure for the year amounted to R 99 004 million which is 96.43% of the adjusted 2022/2023 capital budget of R102 670 million.

Capital expenditure relates mainly to asset replacement and plant optimizing projects used in a business's operations. 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 can 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

CAPITAL EXPENDITURE: 2022/23



## 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.

## 5.7 CAPITAL SPENDING ON 5 LARGEST PROJECTS

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.

Table 5.5: Source of Capital Funding

Source of finance	2021/2022		2022/2023		
	Actual R'000	Original budget R'000	Adjustment budget R'000	Actual R'000	Variance %
Grant	155 016	80 000	70 000	70 000	100%
Internally generated funding	0	11 559	32 670	29 006	89%
External loan	-	0	0	0	0
<b>TOTAL</b>	<b>155 016</b>	<b>91 559</b>	<b>102 670</b>	<b>99 004</b>	<b>96%</b>
Grant	100%	87%	68%	71%	104%
Internally generated funding	0	13%	32%	29%	92%
External loan	0	0	0	0	0

Table 5.6: Capital Expenditure of 5 Largest Projects\*

Name of Project	Current: 2022/23				
	Original Budget	Adjustment Budget	Actual Expenditure	Original Variance (%)	Adjustment variance (%)
Supply, Deliver & Install All Analytical Instrumentation	R23 537 026	R33 384 526	R33 384 526	-42%	-42%
Supply, Deliver & Install Gearboxes	R20 074 288	R20 074 288	R20 074 288	0%	0%
Replacement And Upgrade Of Aerators	R12 039 750	R12 039 750	R10 686 100	11%	0%
Upgrade Of Hvac System At ERWAT Scientific Laboratory	R8 516 522	8 516 522	R8 516 522	0%	0%
Supply, Deliver & Install High Mast Lights	R6 371 791	R6 371 791	R6 371 791	0%	0%

\* Projects with the highest capital expenditure in 2022/23

<b>NAME OF PROJECT - A</b>	<b>APPOINTMENT OF SERVICE PROVIDER/S TO SUPPLY, DELIVER &amp; INSTALL ALL ANALYTICAL INSTRUMENTATION AND ASSOCIATED EQUIPMENT ON AS AND WHEN REQUIRED BASIS IN ALL ERWAT WATER CARE WORKS FOR A PERIOD OF 36 MONTHS</b>
<b>OBJECTIVE OF PROJECT</b>	The objective is to enable Plant compliance, currently most of ERWAT water care Plant does not have measuring instruments such as level meters, flow meters, meters to measure solids, oxygen meters and gas meters, even though there are existing meters in some plants, but they are not efficient, as a result, the Plants are not Green drop compliant
<b>DELAYS</b>	National Electricity Grid Constraints
<b>FUTURE CHALLENGES</b>	The newly installed measuring instruments will need to be properly maintained in order to always get accurate measurements.
<b>ANTICIPATED CITIZEN BENEFITS</b>	The plant will be getting the accurate measurements, it will become easily to have the accurate plant data.
<b>NAME OF PROJECT - B</b>	<b>APPOINTMENT OF SERVICE PROVIDER/S TO SUPPLY, DELIVER &amp; INSTALL GEARBOXES ON AS AND WHEN REQUIRED BASIS IN ALL ERWAT WATER CARE WORKS FOR A PERIOD OF 36 MONTHS</b>
<b>OBJECTIVE OF PROJECT</b>	To assist the plants to meet the required compliance levels
<b>DELAYS</b>	None
<b>FUTURE CHALLENGES</b>	Adequate maintenance of the equipment to ensure equipment will last the designed lifespan
<b>ANTICIPATED CITIZEN BENEFITS</b>	The success of this project meant that the plant would be certified as compliant, ensuring that public's health is maintained.
<b>NAME OF PROJECT - C</b>	<b>THE UPGRADE AND REPLACEMENT OF AERATORS AT CARL GRUNDLING WASTEWATER CARE WORKS PLANT</b>
<b>OBJECTIVE OF PROJECT</b>	To assist the plants to meet the required compliance levels by supplying oxygen for biological treatment in the aerobic basin
<b>DELAYS</b>	Delays in shipping of Aerators from the factory based in the USA
<b>FUTURE CHALLENGES</b>	Operators understanding how to operate and maintain the newly installed system
<b>ANTICIPATED CITIZEN BENEFITS</b>	The success of this project meant that the plant would be certified as compliant, ensuring that public's health is maintained.
<b>NAME OF PROJECT - D</b>	<b>APPOINTMENT OF A CONTRACTOR FOR THE DECOMMISSIONING OF THE EXISTING HVAC SYSTEM, SUPPLY, INSTALLATION AND COMMISSIONING OF A NEW HVAC SYSTEM AT THE ERWAT HEAD OFFICE LABORATORY</b>
<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/Shipping of critical equipment
<b>FUTURE CHALLENGES</b>	Staff understanding how to operate the newly installed system
<b>ANTICIPATED CITIZEN BENEFITS</b>	The effectiveness of this system has a direct impact on the health and safety of the employees.
<b>NAME OF PROJECT - E</b>	<b>APPOINTMENT OF SERVICE PROVIDER/S TO SUPPLY, DELIVER &amp; INSTALL HIGH MAST LIGHTS ON AS AND WHEN REQUIRED BASIS IN ALL ERWAT WATER CARE WORKS FOR A PERIOD OF 36 MONTHS</b>
<b>OBJECTIVE OF PROJECT</b>	Lighting system provides optimized visibility and helps promote a safe work environment and increase productivity
<b>DELAYS</b>	None
<b>FUTURE CHALLENGES</b>	Adequate maintenance of the equipment to ensure equipment will last the designed lifespan
<b>ANTICIPATED CITIZEN BENEFITS</b>	The effectiveness of this system has a direct impact on the health and safety of the employees

#### COMMENTS ON CAPITAL PROJECTS

The five largest capital projects are; Analytical Instrumentation; Gearboxes; Replacement and upgrade of Aerators, Upgrade of HVAC system at ERWAT Scientific Laboratory and High Mast Lights.

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 Regionalization 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.

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				

### 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.

# Cash Flow Management and Investments

## INTRODUCTION TO CASH FLOW MANAGEMENT AND INVESTMENTS

Cash flow is the lifeblood of ERWAT's business. Cash is derived from sales and collections of account 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 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.

## 5.9 CASH FLOW

CASH FLOW STATEMENT	NOTES	2023 R	2022 R
Service charges		1 200 404 434	1 091 422 692
Development contribution		(2 803 897)	22 165 228
Grants received		153 311 646	73 247 707
Interest income		28 852 388	10 573 287
Dividends received		111 753	59 925
Other income		4 253 499	31 071 672
		<b>1 384 129 823</b>	<b>1 228 540 511</b>
<b>PAYMENTS</b>			
Employee costs		(386 605 613)	(395 738 668)
Suppliers		(588 018 684)	(467 110 860)
Finance costs		(35 321 072)	(29 693 534)
		<b>(1 009 945 369)</b>	<b>(892 543 062)</b>
<b>Net cash flows from operating activities</b>		<b>374 184 454</b>	<b>335 997 449</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment*		(98 086 253)	(154 856 553)
Proceeds from insurance payout and other recoveries		1 200 884	907 038
<b>Net cash flows used in investing activities</b>		<b>(96 885 369)</b>	<b>(153 949 515)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of long-term borrowings		(52 537 157)	(51 466 376)
Net finance lease payments		(312 315)	(1 260 512)
<b>Net cash flows used in financing activities</b>		<b>(52 849 472)</b>	<b>(52 726 888)</b>
<b>Net increase in cash and cash equivalents</b>		<b>224 449 613</b>	<b>129 321 046</b>
Cash and cash equivalents at the beginning of the year		280 234 987	150 913 937
Rounding difference		-	4
<b>Cash and cash equivalents at the end of the year</b>		<b>504 684 600</b>	<b>280 234 987</b>

## COMMENT ON CASH FLOW OUTCOMES

ERWAT's cash reserves increased from R280 million in 2021/2022 to R504 million in 2022/2023, demonstrating an improvement in the cashflow management of the entity.

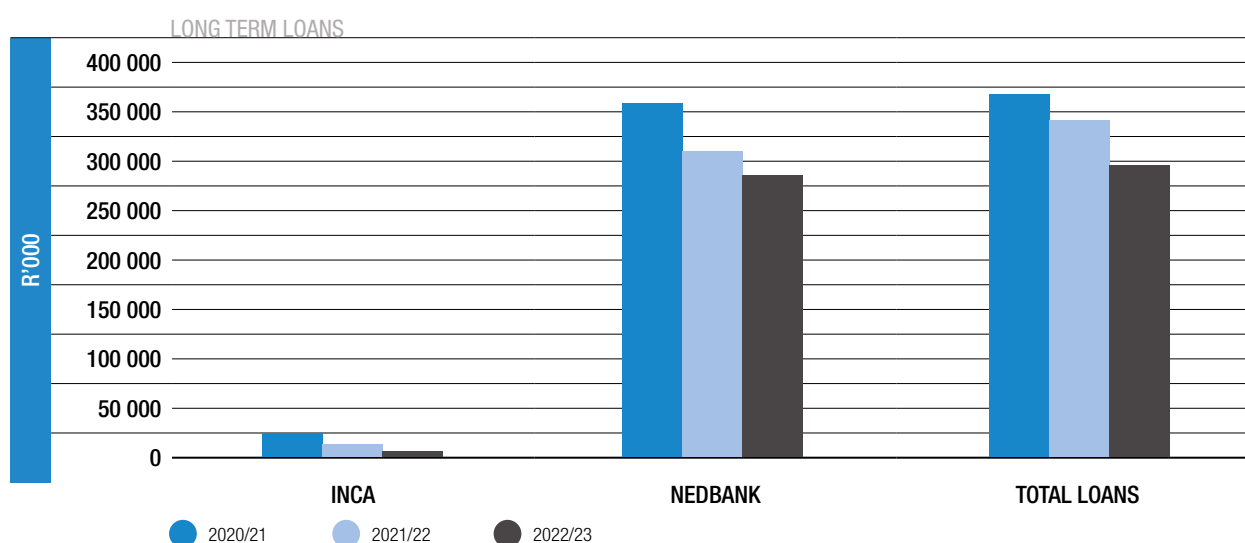
## 5.10 BORROWING AND INVESTMENTS

### 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 2020/2021 to 2022/2023

OUTSTANDING BALANCES AS OF 30 JUNE 2023			
Loan provider	2020/2021	2021/2022	2022/2023
INCA	32 109 153	22 721 758	12 074 343
NEDBANK	361 583 860	319 504 879	277 615 137
<b>TOTAL LOANS</b>	<b>393 693 013</b>	<b>342 226 637</b>	<b>289 689 480</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 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 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 Findings

### INTRODUCTION

The Constitution S188 (1) (b) states that the function of the AGSA 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 AGSA.

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

The outcome of the audit was unqualified opinion with material findings on compliance with laws and regulations. Component A covers the AGSA's opinion for 2021/2022; Component B covers the same for 2022/2023

# AG Opinion of the Financial Statements 2020/21

## 6.1 AUDITOR-GENERAL REPORTS 2021/2022 FINANCIAL YEAR

Table 6.1: Auditor-General Report on Financial Performance 2021/2022

<b>AUDIT REPORT STATUS:</b> Unqualified audit opinion	
<b>Non-compliance issues</b>	<b>Remedial Action Taken</b>
<b>Reasonable steps not taken to prevent irregular expenditure</b>	<ol style="list-style-type: none"> <li>1. Management will ensure that internal controls are effective by developing procedures to ensure that all SCM compliance requirements are met before transactions are approved and enforce adherence to all SCM prescripts.</li> <li>2. Management will ensure that the controls around the review and monitoring of compliance with applicable laws and regulations are stricter in order to avoid / prevent irregular expenditure.</li> <li>3. Management will implement controls to ensure there is effective contract management in place and avoid incurring expenditure on expired contracts.</li> </ol>
<b>B-BBEE points allocated to a bidder who did not submit a valid certificate</b>	<ol style="list-style-type: none"> <li>1. Management will ensure that the adequate controls are implemented to ensure that there is effective monitoring of compliance and adherence with applicable laws and regulations in order to avoid / prevent the entity from incurring the irregular expenditure.</li> <li>2. Management will consider developing and effectively implement a compliance checklist to ensure that all the applicable laws and regulations are complied with when evaluating the tender.</li> </ol>
<b>Amount of the contract awarded is not in line with the CIDB grading requirements</b>	<p>Management will ensure:</p> <ol style="list-style-type: none"> <li>1. that all contracts/tenders that require suppliers to meet certain CIDB requirements are awarded to suppliers who qualify or meet such requirements,</li> <li>2. where the contract is awarded to an emerging contractor who is registered on a grade which is one level lower than the required, management will ensure that risk assessment is done before the award to ensure that the contract is not awarded to a services provider who will pose undue risk to the municipal entity,</li> <li>3. that they notify the CIDB on the nature of financial or management support that is provided/ will be provided to the contractor,</li> <li>4. Management will quantify the expenditure incurred on the contract and disclose the expenditure under the irregular expenditure note;</li> </ol>
<b>CIDB Grading requirements advertised in the newspaper is not the same as the requirement per the approved specifications</b>	<p>Management will ensure:</p> <ol style="list-style-type: none"> <li>1. that they review and monitor compliance with all SCM regulations applicable to the entity.</li> <li>2. that the requirements advertised in all platforms are accurate and in line with the approved specifications. Where there is changes to the specifications or the requirements the tender should be re-advertised to allow all potential bidders a fair opportunity to bid for the tender.</li> <li>3. that expenditure incurred on the contract is quantified and disclosed under the irregular expenditure note</li> </ol>
<b>Reasonable steps not taken to prevent fruitless and wasteful</b>	<ol style="list-style-type: none"> <li>1. Management will ensure that the controls around the review and monitoring of compliance with applicable laws and regulations are stricter in order to avoid / prevent the fruitless and wasteful expenditure.</li> <li>2. Management will ensure that all payments are made within 30 days to avoid/prevent incurring fruitless and wasteful expenditure arising from interest charged on late payments or overdue invoices.</li> </ol>
<b>Tender awarded to a supplier who submitted a partially completed bid document</b>	<p>Management will:-</p> <ol style="list-style-type: none"> <li>1. Review and assess the recommendations of awards to ensure that they comply with all applicable laws and regulations.</li> <li>2. Design and implement formal controls over procurement and contract management process to ensure the reliability and the availability, accuracy and protection of information submitted by the bidders.</li> <li>3. Strengthen internal controls to ensure that all tenders assessed for the bidding process were received on time, Stamped and stored at an area where there is adequate access controls.</li> <li>4. Ensure that tenders that fails to meet any pre-qualifying criteria stipulated in the tender documents is regarded as an unacceptable tender.</li> <li>5. Management will include the fraud risk identified in their strategic risk register to ensure that measures are established and implemented to prevent any fraudulent activities.</li> </ol>

Non-compliance issues	Remedial Action Taken
<b>The tender was awarded to a different service provider than the one who was initially recommended by BAC</b>	Management will ensure: <ol style="list-style-type: none"> <li>that they review and monitor compliance with all SCM regulations applicable to the entity.</li> <li>that all documentation that support the tender process followed to procure goods and services are included in the process file.</li> <li>reasons for changes that resulted in management not awarding to the initially recorded and included in the process file.</li> </ol>
<b>Feasibility for sub-contracting not considered for tenders above R30 million</b>	<ol style="list-style-type: none"> <li>Management will ensure that internal controls are effective by developing procedures to ensure that all SCM compliance requirements are met before bid specifications are approved and the tender is advertised.</li> <li>Management will ensure that the controls around the review and monitoring of compliance with applicable laws and regulations are stricter in order to avoid / prevent irregular expenditure.</li> <li>Where the tender budget or value is above R30 million, management will ensure that feasibility assessment is conducted before the specifications are approved to confirm if Preferential Procurement Regulation 9 is applicable. If it is determined that sub-contracting will be feasible, the advert should be approved with sub-contracting as a mandatory requirement.</li> </ol>
<b>Tender award to the service provider is not economical</b>	Management will ensure: <ol style="list-style-type: none"> <li>that they review and monitor compliance with all laws and regulations applicable to the entity.</li> <li>that all documentation that support the tender process followed to procure goods and services are included in the process file.</li> <li>the reasons are documented and included in the tender process files in instances where the accounting officer approves to award a tender that is not recommended by BAC.</li> </ol>
<b>The winning bidder not disqualified for failing pre-qualifying condition</b>	<ol style="list-style-type: none"> <li>Management will ensure that internal controls are effective by developing procedures to ensure that all pre-qualification criteria's are met by the bidder before the tender is awarded.</li> <li>Evolution of the bids should be consistent with the approved specifications and all advertised requirements</li> <li>Management will ensure that the controls around the review and monitoring of compliance with applicable laws and regulations are stricter in order to avoid / prevent irregular expenditure.</li> </ol>

Table 6.2: Auditor-General Report on Service Delivery Performance 2021/2022

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

# AG Opinion of the Financial Statements 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 AGSA. The AGSA will audit the 2022/23 annual report and issue an audit opinion after audit process. The section will be updated upon receipt of the Audit Report by AGSA.

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

Not Applicable

Table 6.3: AGSA Report on Financial Performance 2022/2023

AUDIT REPORT STATUS:	
Non-compliance issues	Remedial Action Taken
<b>Not Applicable</b>	

Table 6.4: Agsa Report On Service Delivery Performance 2022/2023

AUDIT REPORT STATUS:	
Non-compliance issues	Remedial Action Taken
<b>Not Applicable</b>	

### COMMENTS ON AGSA'S OPINION 2021/2022

N/A

### 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.

**Mr Shaheed Dinath**

Acting Chief Financial Officer

Chapter 7

# Annual Financial Statements

# Contents

General <b>Information</b> .....	85
Board's <b>Responsibilities and Approval</b> .....	86
Board's <b>Report</b> .....	87
Statement of <b>Financial Position</b> .....	88
Statement of <b>Financial Performance</b> .....	89
Statement of <b>Changes in Net Assets</b> .....	90
Cash Flow <b>Statement</b> .....	91
Statement of Comparison of <b>Budget and Actual Amounts</b> .....	92
Accounting <b>Policies</b> .....	93
Notes to the <b>Annual Financial Statements</b> .....	114

# Acronyms

**AGSA** Auditor-General of South Africa

**CEO** Chief Executive Officer

**CoE** City of Ekurhuleni Metropolitan Municipality

**CRR** Capital Replacement Reserve

**DWS** Department of Water and Sanitation

**ERWAT** Ekurhuleni Water Care Company

**GRAP** Generally Recognised Accounting Practice

**HOD** Head of Department

**INCA** Infrastructure Finance Corporate Limited

**JIBAR** Johannesburg Interbank Average Rate

**MD** Managing Director

**MFMA** Municipal Finance Management Act No 56 of 2003

**mSCOA** Municipal Standard Chart of Accounts

**NPC** Non-Profit Company

**PPE** Property, plant and Equipment

# General Information

<b>Legislation governing the municipal entity's operations</b>	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.
<b>Accounting Officer</b>	K Chihota
<b>Interim Head of Department - Financial Services</b>	S Dinath AGA (SA)
<b>Directors</b>	NC Skeepers (Chairperson of Board of Directors) Y Haffejee (Non-executive) N Ngwenya (Non-executive) RI Kikine (Non-executive) U Exner (Non-executive)
<b>Registered office</b>	Hartebeestfontein Office Park R25 (Bapsfontein/Bronkhorstspuit) Kempton Park 1619
<b>Business address</b>	Hartebeestfontein Office Park R25 (Bapsfontein/Bronkhorstspuit) Kempton Park 1619
<b>Postal address</b>	P O Box 13106 Norkem Park 1631
<b>Controlling entity</b>	City of Ekurhuleni Metropolitan Municipality incorporated in South Africa
<b>Bankers</b>	ABSA Bank
<b>Auditors</b>	Auditor-General South Africa Chartered Accountants (S.A.)
<b>Company secretary</b>	Z Socikwa
<b>Company registration number</b>	1992/005753/08
<b>Preparer</b>	The annual financial statements were prepared under the supervision of: S Dinath AGA (SA) Interim Head of Department - Financial Services
<b>Legal form of entity</b>	Municipal entity
<b>Nature of business and principal activities</b>	Bulk Waste Water Treatment

# 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 present 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 was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (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 2024 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 88 to 151, which have been prepared on a going concern basis, were approved by the board on 30 November 2023 and were signed on its behalf by:

*NC Skeepers*

**Dr. NC Skeepers**

Chairperson of Board of Directors

Non-Executive Director



**K Chihota**

Accounting Officer

Managing Director

# Board's Report

The directors submit their report for the year ended 30 June 2023.

## 1. REVIEW OF ACTIVITIES

### MAIN BUSINESS AND OPERATIONS

ERWAT is a municipal entity. The principal activity of the entity is conveyance and treatment of waste water 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 251 742 775, (2022: surplus R 379 275 083).

## 2. GOING CONCERN

We draw attention to the fact that at 30 June 2023, the entity had an accumulated surplus of R 2 479 490 933 and that the entity's total assets exceed its liabilities by R 2 479 490 933.

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 Non-Profit Company.

## 5. COMPANY SECRETARY

The Company Secretary of the entity is Z Socikwa.

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

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

# Statement of Financial Position

AS AT 30 JUNE 2023

		<b>2023</b>	<b>2022</b>
	Note(s)	R	Restated* R
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Trade receivables from exchange transactions*	3	296 907 599	138 979 617
Receivables from non-exchange transactions	4	25 489 723	105 997 472
Other receivables from exchange transactions*	5	17 599 624	20 469 241
VAT receivable	6	230 947	-
Other financial assets	7	8 892 781	8 206 355
Cash and cash equivalents	8	504 684 600	280 234 987
		<b>853 805 274</b>	<b>553 887 672</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment*	9	2 125 715 124	2 194 203 094
Intangible assets	10	5 457 052	6 465 543
		<b>2 131 172 176</b>	<b>2 200 668 637</b>
<b>Total Assets</b>		<b>2 984 977 450</b>	<b>2 754 556 309</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Payables from exchange transactions	11	122 577 738	104 385 854
Provisions	12	30 356 299	27 231 928
VAT payable*	13	-	6 774 277
Current portion of long-term borrowings	14	54 382 035	53 025 985
Current portion of finance lease obligation	15	-	305 462
Current portion of employee benefit obligation	16	3 184 000	2 486 000
		<b>210 500 072</b>	<b>194 209 506</b>
<b>NON-CURRENT LIABILITIES</b>			
Non-current portion of long-term borrowings	14	235 307 445	289 200 652
Non-current portion of employee benefit obligation	16	59 679 000	43 398 000
		<b>294 986 445</b>	<b>332 598 652</b>
<b>Total Liabilities</b>		<b>505 486 517</b>	<b>526 808 158</b>
<b>Net Assets</b>		<b>2 479 490 933</b>	<b>2 227 748 151</b>
Accumulated surplus		2 479 490 933	2 227 748 151

\* See Note 35 & 36

# Statement of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2023

		<b>2023</b>	<b>2022</b>
		R	Restated*
	Note(s)	R	R
<b>REVENUE</b>			
<b>REVENUE FROM EXCHANGE TRANSACTIONS</b>			
Service charges	18	1 336 988 476	1 142 878 261
Intervention income*	49	60 461	1 162 202
Other income*	19	40 845 440	38 791 706
Interest income*	20	28 852 388	10 573 287
Dividends received	20	111 753	59 925
<b>Total revenue from exchange transactions</b>		<b>1 406 858 518</b>	<b>1 193 465 381</b>
<b>REVENUE FROM NON-EXCHANGE TRANSACTIONS</b>			
<b>TRANSFER REVENUE</b>			
Government grants & subsidies	21	70 000 000	146 797 610
Development contribution	22	-	30 819 051
<b>Total revenue from non-exchange transactions</b>		<b>70 000 000</b>	<b>177 616 661</b>
<b>Total revenue</b>	17	<b>1 476 858 518</b>	<b>1 371 082 042</b>
<b>EXPENDITURE</b>			
Employee related costs	23	(407 018 007)	(394 207 775)
Depreciation and amortisation*	24	(117 289 424)	(105 467 803)
Impairment loss	50	(48 371 107)	-
Finance costs	25	(35 321 072)	(29 693 534)
Debt Impairment	26	1 803 323	(2 177 382)
Bulk purchases and materials	27	(283 499 993)	(251 872 470)
Repairs and maintenance - Contracted services	9&47	(166 578 174)	(106 973 920)
General Expenses*	28	(155 845 065)	(98 550 750)
<b>Total expenditure</b>		<b>(1 212 119 519)</b>	<b>(988 943 634)</b>
<b>Operating surplus</b>		<b>264 738 999</b>	<b>382 138 408</b>
Loss on disposal of assets		(721 120)	(4 925 453)
Fair value adjustments - Investments		686 426	253 128
Actuarial (losses) gains	16	(12 961 350)	1 809 000
Assets written off		(180)	-
		<b>(12 996 224)</b>	<b>(2 863 325)</b>
<b>Surplus for the year</b>		<b>251 742 775</b>	<b>379 275 083</b>

An amount of R 70 000 000 (2022 : R 146 797 610) included in Total revenue (Note 17) is ring-fenced for capital expenditure and has been utilised as such.

Loss on disposal of assets includes both loss on sale of assets to the value of (R 1 922 004) (2022: (R 5 832 491)) as well as the insurance payouts deemed to be proceeds from investment activities amounting to R 1 200 884 (2022: R 907 038).

\* See Note 35 & 36

# Statement of Changes in Net Assets

FOR THE YEAR ENDED 30 JUNE 2023

	<b>Accumulated surplus R</b>	<b>Total net assets R</b>
<b>Balance at 01 July 2021 as restated*</b>	<b>1 848 473 068</b>	<b>1 848 473 068</b>
<b>Changes in net assets</b>		
Surplus for the year as previously reported	377 197 303	377 197 303
Prior-year adjustments (Note 35 & 36)	2 077 780	2 077 780
<b>Balance at 01 July 2022 as restated*</b>	<b>2 227 748 158</b>	<b>2 227 748 158</b>
<b>Changes in net assets</b>		
Surplus for the year	251 742 775	251 742 775
<b>Balance at 30 June 2023</b>	<b>2 479 490 933</b>	<b>2 479 490 933</b>

\* See Note 35 & 36

# Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2023

		<b>2023</b>	<b>2022</b>
	Note(s)	R	R Restated*
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>RECEIPTS</b>			
Service charges		1 200 404 434	1 091 422 692
Development contribution		(2 803 897)	22 165 228
Grants received		153 311 646	73 247 707
Interest income		28 852 388	10 573 287
Dividends received		111 753	59 925
Other income		4 253 499	31 071 672
		<b>1 384 129 823</b>	<b>1 228 540 511</b>
<b>PAYMENTS</b>			
Employee costs		(386 605 613)	(395 738 668)
Suppliers		(588 018 684)	(467 110 860)
Finance costs		(35 321 072)	(29 693 534)
		<b>(1 009 945 369)</b>	<b>(892 543 062)</b>
<b>Net cash flows from operating activities</b>	29	<b>374 184 454</b>	<b>335 997 449</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment*	9	(98 086 253)	(154 856 553)
Proceeds from insurance payout and other recoveries		1 200 884	907 038
<b>Net cash flows used in financing activities</b>		<b>(96 885 369)</b>	<b>(153 949 515)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of long-term borrowings		(52 537 157)	(51 466 376)
Net finance lease payments		(312 315)	(1 260 512)
<b>Net cash flows used in financing activities</b>		<b>(52 849 472)</b>	<b>(52 726 888)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>224 449 613</b>	<b>129 321 046</b>
Cash and cash equivalents at the beginning of the year		280 234 987	150 913 937
Rounding difference		-	4
<b>Cash and cash equivalents at the end of the year</b>	8	<b>504 684 600</b>	<b>280 234 987</b>

\* See Note 35 &amp; 36

# Statement of Comparison of Budget and Actual Amounts

FOR THE YEAR ENDED 30 JUNE 2023

30 JUNE 2023	Original Budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget (Approved)	Final budget (Approved)	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>FINANCIAL PERFORMANCE</b>								
Service charges	1 277 925 684	59 062 791	1 336 988 475	1 336 988 475	1 336 988 475	-	100 %	105 %
Interest income	3 722 160	10 977 840	14 700 000	14 700 000	28 852 388	14 152 388	196 %	775 %
Intervention income	-	-	-	-	60 461	60 461		
Other own revenue	34 000 000	-	34 000 000	34 000 000	42 844 503	8 844 503	126 %	126 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>1 315 647 844</b>	<b>70 040 631</b>	<b>1 385 688 475</b>	<b>1 385 688 475</b>	<b>1 408 745 827</b>	<b>23 057 352</b>	<b>102 %</b>	<b>107 %</b>
Employee costs	(488 802 354)	(24 639 510)	(513 441 864)	(513 441 864)	(407 018 007)	106 423 857	79 %	83 %
Repair and maintenance - Contracted services	(135 317 019)	(69 986 507)	(205 303 526)	(205 303 526)	(166 578 174)	38 725 352	81 %	123 %
Debt impairment	(1 742 850)	-	(1 742 850)	(1 742 850)	1 803 323	3 546 173	(103)%	(103)%
Depreciation, amortisation and asset impairment	(102 999 602)	-	(102 999 602)	(102 999 602)	(165 660 531)	(62 660 929)	161 %	161 %
Finance costs	(41 252 448)	15 064 394	(26 188 054)	(26 188 054)	(35 321 072)	(9 133 018)	135 %	86 %
Bulk purchases and materials	(349 741 557)	17 716 913	(332 024 644)	(332 024 644)	(283 499 993)	48 524 651	85 %	81 %
Other expenditure	(195 792 014)	(8 195 921)	(203 987 935)	(203 987 935)	(170 728 598)	33 259 337	84 %	87 %
<b>Total expenditure</b>	<b>(1 315 647 844)</b>	<b>(70 040 631)</b>	<b>(1 385 688 475)</b>	<b>(1 385 688 475)</b>	<b>(1 227 003 052)</b>	<b>158 685 423</b>	<b>89 %</b>	<b>93 %</b>
<b>Surplus</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>181 742 775</b>	<b>181 742 775</b>		
USDG funding	80 000 000	(10 000 000)	70 000 000	70 000 000	70 000 000	-	100 %	88 %
<b>Surplus after USDG funding recognised</b>	<b>80 000 000</b>	<b>(10 000 000)</b>	<b>70 000 000</b>	<b>70 000 000</b>	<b>251 742 775</b>	<b>181 742 775</b>	<b>360 %</b>	<b>315 %</b>
<b>Surplus for the year</b>	<b>80 000 000</b>	<b>(10 000 000)</b>	<b>70 000 000</b>	<b>70 000 000</b>	<b>251 742 775</b>	<b>181 742 775</b>	<b>360 %</b>	<b>315 %</b>
<b>CAPITAL EXPENDITURE AND FUNDS SOURCES</b>								
Total capital expenditure	91 558 800	11 111 644	102 670 444	102 670 444	99 004 230	(3 666 214)	96 %	108 %
Retentions	-	-	-	-	(917 977)	(917 977)		
<b>SOURCES OF CAPITAL FUNDS</b>								
USDG funded	80 000 000	(10 000 000)	70 000 000	70 000 000	70 000 000	-	100 %	88 %
Internally generated funds	11 558 800	21 111 644	32 670 444	32 670 444	28 086 253	(4 584 191)	86 %	243 %
<b>Total sources of capital funds</b>	<b>91 558 800</b>	<b>11 111 644</b>	<b>102 670 444</b>	<b>102 670 444</b>	<b>98 086 253</b>	<b>(4 584 191)</b>	<b>96 %</b>	<b>107 %</b>
<b>CASH FLOWS</b>								
Net cash generated from operating activities	374 184 454	-	374 184 454	374 184 454	374 184 454	-	100 %	100 %
Net cash (used) in investing activities	(96 885 369)	-	(96 885 369)	(96 885 369)	(96 885 369)	-	100 %	100 %
Net cash (used) in financing activities	(52 849 472)	-	(52 849 472)	(52 849 472)	(52 849 472)	-	100 %	100 %
<b>Net increase in cash and cash equivalents</b>	<b>224 449 613</b>	<b>-</b>	<b>224 449 613</b>	<b>224 449 613</b>	<b>224 449 613</b>	<b>-</b>	<b>100 %</b>	<b>100 %</b>
Cash and cash equivalents at the beginning of the year	280 234 987	-	280 234 987	280 234 987	280 234 987	-	100 %	100 %
<b>Cash and cash equivalents at year end</b>	<b>504 684 600</b>	<b>-</b>	<b>504 684 600</b>	<b>504 684 600</b>	<b>504 684 600</b>	<b>-</b>	<b>100 %</b>	<b>100 %</b>

The budget is approved on an accrual basis by nature of classification. The approved budget covers the period from 01 July 2022 to 30 June 2023.

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 45 for a detailed analysis and reasons for significant variances.

Differences between the Original approved budget and the Final approved budget is a consequence of reallocations within the budget and disclosed as the adjustment budget in terms of section 28 and 31 of the MFMA.

# 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 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.

#### **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 plant, property 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 across all classes of plant, property and equipment.

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 PLANT, PROPERTY 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 are 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 tangible assets are inherently uncertain and could materially change over time.

## SEGMENT REPORTING (GRAP 18)

Management has assessed whether segment reporting is required and have concluded that management only operates one segment namely Waste Water Management. GRAP 18 was considered and management determined that segment reporting is not required.

## 1.2 PRESENTATION AND FUNCTIONAL CURRENCY

These annual financial statements are presented in South African Rand (R), 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 estimate 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 were 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, expected condition at the end of the period of use, and it's 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 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.

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

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

<b>AFS CLASS</b>	<b>RANGE IN YEARS</b>
Land	Indefinite
Leased assets	3 - 11
Furniture & Fixtures, office and computer equipment	5 - 51
Buildings	15 - 82
Motor vehicles	8 - 35
Plant and Machinery	5 - 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 it 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. An intangible asset acquired through a non-exchange transaction, the cost 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 underlined 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 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

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 uncollectability.

- 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.

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 UNCOLLECTABILITY 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 part of a financial assets) when the contractual rights to the cash flows from the financial asset 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 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 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 assess 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 only occur when there is clear evidence that such a redesignation is appropriate.

### 1.7 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.

## 1.8 EMPLOYEE BENEFITS

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees. A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the

Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

## OTHER POST RETIREMENT OBLIGATIONS

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The entity also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

## 1.9 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 the value of which approximates the consideration received or receivable

Revenue is the gross inflows 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 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 proportion basis.

Intervention revenue:

Intervention revenue relates to the appointment of ERWAT as an Implementation Agent for the phase 1 upgrade and urgent refurbishment at the Rooiwal 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 Tswane (CoT) which commenced during the first quarter of the 2022 financial year. Intervention revenue is recognised as it accrues.

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 inflows 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.

### 1.10 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 meets the definition of an asset and satisfies 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 recognise 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.

### 1.11 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.

### 1.12 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 that 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.

### 1.13 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.

### 1.14 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.

## 1.15 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 2022/07/01 to 2023/06/30. 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..

## 1.16 RELATED PARTIES

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

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.

## 1.17 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.

### 1.18 GOING CONCERN

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

### 1.19 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.

### 1.20 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 - 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.

### 1.21 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 object-
  - conducts scientific, technical or industrial research;
  - provides necessary or useful commodities, amenities or services to the State ( includes any provincial administration) 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

### 1.22 COMMITMENTS

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

The entity discloses commitments for each class of capital assets (PPE and Intangible assets) recognized 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 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.

### 1.24 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 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.

### 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.

## 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 2023 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 2023	Not expected to impact results but may result in additional disclosure
IGRAP 7 (as revised): The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	01 April 2023	Impact is currently being assessed
GRAP 1 (as revised): Presentation of Financial Statements	01 April 2023	Impact is currently being assessed
Improvements to the Standards of GRAP, 2020	01 April 2023	Impact is currently being assessed
GRAP 104 (as revised): Financial Instruments	01 April 2023	Impact is currently being assessed
Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2023	Unlikely there will be a material impact
GRAP 104 (as revised): Financial Instruments	01 April 2023	Unlikely there will be a material impact
GRAP 2020: Improvements to the standards of GRAP 2020	01 April 2023	Unlikely there will be a material impact

# Notes to the Annual Financial Statements

	<b>2023</b>	<b>2022</b>
	<b>R</b>	<b>R</b>
<b>3. TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
<b>GROSS BALANCES</b>		
Commercial business receivables	51 328 545	25 291 805
Related party debtors	253 545 213	123 457 294
	<b>304 873 758</b>	<b>148 749 099</b>
<b>LESS: ALLOWANCE FOR IMPAIRMENT</b>		
Commercial business - Provision for bad debts	(7 966 159)	(9 769 482)
<b>NET BALANCE</b>		
Commercial business receivables	43 362 386	15 522 323
Related party debtors	253 545 213	123 457 294
	<b>296 907 599</b>	<b>138 979 617</b>
<b>AGEING OF COMMERCIAL BUSINESS - TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
Current (0 -30 days)	15 359 077	7 523 854
31 - 60 days	11 700 899	3 621 616
61 - 90 days	11 179 614	369 478
91 - 120+ days	13 088 955	13 776 857
Less: Allowance for impairment	(7 966 159)	(9 769 482)
	<b>43 362 386</b>	<b>15 522 323</b>
<b>AGEING OF RELATED PARTY - TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
Current (0 -30 days)	121 115 601	110 421 775
31 - 60 days	119 174 275	1 053 748
61 - 90 days	785 024	1 016 752
91 - 120+ days	12 470 313	10 965 019
	<b>253 545 213</b>	<b>123 457 294</b>
<b>TOTAL</b>		
Current (0 -30 days)	136 474 678	117 945 629
31 - 60 days	130 875 174	4 675 364
61 - 90 days	11 964 638	1 386 230
91 - 120+ days	25 559 268	24 741 876
	<b>304 873 758</b>	<b>148 749 099</b>
Less: Allowance for impairment	(7 966 159)	(9 769 482)
	<b>296 907 599</b>	<b>138 979 617</b>
<b>LESS: ALLOWANCE FOR IMPAIRMENT</b>		
91 - 120+ days	(7 966 159)	(9 769 482)

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

**2023**  
 R

**2022**  
 R

#### RECONCILIATION OF ALLOWANCE FOR IMPAIRMENT

Balance at beginning of the year	(9 769 482)	(7 592 101)
Reversal of allowance	1 803 323	(2 177 381)
	<b>(7 966 159)</b>	<b>(9 769 482)</b>

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

Commercial business debtors from exchange transactions increased with 103 percent, This was as a result of the last three (3) invoices from Johannesburg Water which remained unpaid as at 30 June 2023, but was subsequently settled in July 2023.

Related party debtors from exchange transactions increased with 105 percent. This is mainly due to the Service Charges invoice to the value of R 117 739 235 (incl VAT) for both the months of May and June 2023 which was still outstanding at 30 June 2023. For the prior year ended 30 June 2022, only the June 2022 invoice was outstanding as per the norm.

#### 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 2023, R 160 756 498 (30/06/2022: R 22 203 520) were past due but not impaired.

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

1 month past due	130 872 742	4 675 364
2 months past due	11 962 208	1 386 230
3 months past due	17 921 508	16 141 926

#### RECEIVABLES FROM EXCHANGE TRANSACTIONS ENCUMBERED

Receivables with a carry value of R 296 907 599 (30/06/2022: R 138 979 617) are encumbered in respect of a long-term borrowing, as disclosed in the long-term borrowing note 14. ERWAT has agreed to cede to its controlling entity claims against it book debtors, in event of ERWAT defaulting on it's 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.

### 4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Development contribution	28 862 812	26 058 915
Government grants & subsidies	(3 373 089)	79 938 557
	<b>25 489 723</b>	<b>105 997 472</b>

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

Current (0 - 30 days)	(569 192)	46 646 651
31 - 60 days	-	35 277 920
91 - 120+ days	26 058 915	24 072 901
	<b>25 489 723</b>	<b>105 997 472</b>

#### 4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS (CONT.)

2023  
R

2022  
R

##### RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS ENCUMBERED

Receivables with a carry value of R 25 489 723 (2022: R 105 997 472) are encumbered in respect of a long-term borrowing, as disclosed in the long-term borrowing note 14. 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 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 that are not considered to be impaired. At 30 June 2023, R 26 058 915 (2022: R 59 350 011) 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	26 058 915	24 072 091

#### 5. OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS\*

Deposits	15 052 221	14 590 667
Medical aid	52 206	37 415
Prepaid expenses	2 495 197	5 841 159
	<b>17 599 624</b>	<b>20 469 241</b>

#### 6. VAT RECEIVABLE

VAT	230 947	-
-----	---------	---

#### 7. OTHER FINANCIAL ASSETS

NAME OF ENTITY	Carrying Amount June 2023	Carrying Amount June 2022	Fair Value June 2023	Fair Value June 2022
Sanlam demutualisation shares	910 844	825 302	910 844	825 302
Old Mutual demutualisation shares	471 916	429 864	471 916	429 864
Old Mutual unit trust	7 510 021	6 951 189	7 510 021	6 951 189
	<b>8 892 781</b>	<b>8 206 355</b>	<b>8 892 781</b>	<b>8 206 355</b>

##### FAIR VALUE

The fair values of listed or quoted investments are determined at least annually and are based on the quoted market price. A quoted market price is a Level 1 input in terms of GRAP 104.120.

## 8. CASH AND CASH EQUIVALENTS

**2023**
**2022**
**R**
**R**

Cash and cash equivalents consist of:

Bank balances

	504 684 600	280 234 987
--	-------------	-------------

The entity has the following bank accounts:

ACCOUNT NUMBER / DESCRIPTION	Bank statement balances		Cash book balances	
	30 June 2023	30 June 2022	30 June 2023	30 June 2022
ABSA BANK - Current account	410 930 844	214 828 335	410 930 844	214 828 335
ABSA BANK - Salary account	93 753 756	65 406 652	93 753 756	65 406 652
<b>Total</b>	<b>504 684 600</b>	<b>280 234 987</b>	<b>504 684 600</b>	<b>280 234 987</b>

## 9. PROPERTY, PLANT AND EQUIPMENT\*

	30 June 2023			30 June 2022		
	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	41 355 181	(11 363 250)	29 991 931	42 552 379	(10 633 974)	31 918 405
Plant and machinery	80 234 632	(40 589 943)	39 644 689	53 960 574	(27 518 460)	26 442 114
Furniture and fixtures, office and computer equipment	32 386 925	(18 281 374)	14 105 551	35 952 594	(18 519 631)	17 432 963
Motor vehicles	62 243 908	(33 543 306)	28 700 602	63 825 703	(30 302 849)	33 522 854
Buildings - Assets under construction	9 943 679	-	9 943 679	7 406 262	-	7 406 262
Infrastructure, Waste water purification works - Assets under construction	190 117 692	-	190 117 692	248 297 638	-	248 297 638
Infrastructure, Waste water purification works	2 659 414 118	(859 220 421)	1 800 193 697	2 519 842 614	(710 628 840)	1 809 213 774
Plant and machinery - Assets under construction	-	-	-	6 951 801	-	6 951 801
<b>Total</b>	<b>3 088 713 418</b>	<b>(962 998 294)</b>	<b>2 125 715 124</b>	<b>2 991 806 848</b>	<b>(797 603 754)</b>	<b>2 194 203 094</b>

## RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 30 JUNE 2023

	Opening balance	Additions	Disposals	Transfers	Other changes	Depreciation	Impairment loss	Total
Land	13 017 283	-	-	-	-	-	-	13 017 283
Buildings	31 918 405	-	(891 258)	-	-	(1 035 216)	-	29 991 931
Plant and machinery	26 442 114	525 934	(40 184)	16 224 738	-	(2 787 611)	(720 302)	39 644 689
Furniture and fixtures, office and computer equipment	17 432 963	727 896	(168 077)	-	(180)	(3 530 456)	(356 595)	14 105 551
Motor vehicles	33 522 854	-	(660 530)	-	-	(3 841 615)	(320 107)	28 700 602
Buildings - Assets under construction	7 406 262	2 537 417	-	-	-	-	-	9 943 679
Infrastructure, Waste water purification works	1 809 213 774	154 080	(161 955)	143 047 935	-	(105 086 035)	(46 974 102)	1 800 193 697
Infrastructure, Waste water purification works - Assets under construction	248 297 638	84 867 989	-	(143 047 935)	-	-	-	190 117 692
Plant and machinery - Assets under construction	6 951 801	9 272 937	-	(16 224 738)	-	-	-	-
<b>Total</b>	<b>2 194 203 094</b>	<b>98 086 253</b>	<b>(1 922 004)</b>	<b>-</b>	<b>(180)</b>	<b>(116 280 933)</b>	<b>(48 371 106)</b>	<b>2 125 715 124</b>

## 9. PROPERTY, PLANT AND EQUIPMENT\*

### RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 30 JUNE 2022

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	13 017 283	-	-	-	-	13 017 283
Buildings	32 672 751	322 645	(12 156)	-	(1 064 835)	31 918 405
Plant and machinery	26 256 783	3 920 862	(1 002 901)	-	(2 732 630)	26 442 114
Furniture and fixtures, office and computer equipment	16 121 626	5 069 575	(268 431)	-	(3 489 807)	17 432 963
Motor vehicles	34 809 581	3 144 236	(615 052)	-	(3 815 911)	33 522 854
Buildings - Assets under construction	7 406 262	-	-	-	-	7 406 262
Infrastructure, Waste water purification works	1 652 262 233	12 562 259	(3 678 033)	241 317 325	(93 250 010)	1 809 213 774
Infrastructure, Waste water purification works - Assets under construction	366 729 788	122 885 175	-	(241 317 325)	-	248 297 638
Plant and machinery - Assets under construction	-	6 951 801	-	-	-	6 951 801
<b>Total</b>	<b>2 149 276 307</b>	<b>154 856 553</b>	<b>(5 576 573)</b>	<b>-</b>	<b>(104 353 193)</b>	<b>2 194 203 094</b>

The total opening balance reported in the 2021/2022 year was previously stated at R 2 183 376 489 but has been restated to R 2 149 276 307 due to prior period errors of R 34 100 182 as detailed in note 35 & 36. As a result of the correction of these prior period errors, opening balances in all the asset classes were restated with exception of the "Land" asset class.

Additions reported in the 2021/2022 year was previously stated at R 155 016 066 but has been restated to R 154 856 553 due to prior period errors of R 159 513 as detailed in note 35 & 36. The amounts stated were reclassified to the correct classes to agree with the 2021/2022 asset register

Depreciation per note 24 reported in the 2021/2022 year was previously stated at R 104 495 528 but has been restated to R 104 353 193 due to prior period errors of R 142 335 as detailed in note 35 & 36.

Transfers of Infrastructure, Waste water purification works for the 2021/2022 year was previously stated at R 247 433 362 but has been restated to R 241 317 325 due to prior period classification errors of R 6 116 037.

There are no restrictions on title, or any property, plant and equipment that is pledged as securities for liabilities.

### RECONCILIATION OF WORK IN PROGRESS - 30 JUNE 2023

	Included within Infrastructure	Included within Buildings	Included within Other PPE	Total
Opening balance	248 297 638	7 406 262	6 951 801	262 655 701
Additions/capital expenditure	84 867 989	2 537 417	9 272 937	96 678 343
Transferred to completed items	(143 047 935)	-	(16 224 738)	(159 272 673)
	<b>190 117 692</b>	<b>9 943 679</b>	<b>-</b>	<b>200 061 371</b>

### RECONCILIATION OF WORK IN PROGRESS - 30 JUNE 2022

	Included within Infrastructure	Included within Buildings	Included within Other PPE	Total
Opening balance	366 729 788	7 406 262	-	374 136 050
Additions/capital expenditure	122 885 175	-	6 951 801	129 836 976
Transferred to completed items	(241 317 325)	-	-	(241 317 325)
	<b>248 297 638</b>	<b>7 406 262</b>	<b>6 951 801</b>	<b>262 655 701</b>

## 9. PROPERTY, PLANT AND EQUIPMENT\* (CONT.)

LEASED ASSETS:	Cost	Accumulated Depreciation	Net book value
Furniture and fixtures, office and computer equipment	4 393 229	(4 360 613)	32 616
Infrastructure, Waste water purification works	3 348 631	(2 217 408)	1 131 223
	<b>7 741 860</b>	<b>(6 578 021)</b>	<b>1 163 839</b>

EXPENDITURE INCURRED TO REPAIR AND MAINTAIN PROPERTY, PLANT AND EQUIPMENT INCLUDED IN STATEMENT OF FINANCIAL PERFORMANCE	2023 R	2022 R
Employee related costs	55 284 981	57 031 668
Contracted services	166 578 174	106 973 920
General expenses	30 596 760	2 524 289
	<b>252 459 915</b>	<b>166 529 877</b>

The total carrying value of projects taking significantly longer to complete at 30 June 2023 is R 63 352 144..

1. Old lab building (R6 692 910,64): The project was terminated due to poor performance by the contractor.
2. Split tender office,& Old building (R6 637 725,81): The project was stopped due to budget constraints.
3. Tertiary filtration system (R6 270 880,84): The project is incomplete and was stopped due to the unavailability of funds, it will be resumed upon the appointment of panel of contractors.
4. Vlakplaats emergency dam (R43 750 626.46): The project was cancelled because it was not complying with section 33 and section 116 of the MFMA. The termination of the project was based on the observation that the contracts have been active for more than 36 months, which is in contravention with the MFMA.

## 10. INTANGIBLE ASSETS\*

	30 June 2023			30 June 2022		
	Cost	Accumulated amortisation and accumulated impairment	Carrying value	Cost	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	14 935 412	(9 478 360)	5 457 052	14 295 539	(7 829 996)	6 465 543

RECONCILIATION OF INTANGIBLE ASSETS - 30 JUNE 2023	Opening balance	Amortisation	Total
Computer software	6 465 543	(1 008 491)	5 457 052

RECONCILIATION OF INTANGIBLE ASSETS - 30 JUNE 2022	Opening balance	Disposals	Amortisation	Total
Computer software	7 836 068	(255 918)	(1 114 607)	6 465 543

There are no restrictions on title, or any intangible assets that are pledged as securities for liabilities.

<b>11. PAYABLES FROM EXCHANGE TRANSACTIONS</b>	<b>2023</b>	<b>2022</b>
	<b>R</b>	<b>R</b>
Trade payables	90 764 571	74 721 385
Deposits	11 780	11 780
Accrued overtime	3 112 580	4 086 841
Payroll creditors	7 136 554	5 751 239
Related party payables	6 920 551	6 090 685
Retention	1 944 069	2 836 651
Debtors with credit balances	1 165 112	1 775 411
Accrued shift standby & transport allowance	1 536 736	1 399 543
Accrued bonus	9 985 785	7 712 319
	<b>122 577 738</b>	<b>104 385 854</b>

## 12. PROVISIONS

<b>RECONCILIATION OF PROVISIONS - 30 JUNE 2023</b>	<b>Opening Balance</b>	<b>Additions</b>	<b>Utilised during the year</b>	<b>Reversed during the year</b>	<b>Total</b>
Long service awards provision	470 968	793 038	(420 812)	(50 156)	793 038
Leave pay provision	26 760 960	29 563 260	(13 116 300)	(13 644 659)	29 563 261
	<b>27 231 928</b>	<b>30 356 298</b>	<b>(13 537 112)</b>	<b>(13 694 815)</b>	<b>30 356 299</b>

<b>RECONCILIATION OF PROVISIONS - 30 JUNE 2022</b>	<b>Opening Balance</b>	<b>Additions</b>	<b>Utilised during the year</b>	<b>Reversed during the year</b>	<b>Total</b>
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>

### 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 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 2023. 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 encash the leave days accumulated.

	<b>2023</b>	<b>2022</b>
	<b>R</b>	<b>R</b>
<b>13. VAT PAYABLE</b>		
VAT	-	6 774 277

#### **14. LONG TERM BORROWINGS**

##### **AT AMORTISED COST**

Bank loan - Nedbank (Secured) Six monthly JIBAR plus 2.32% currently @ 30/06/2023: 11.570% (30/06/2022: 8.153%) Redeemable 30/11/2029. The loan is repayable in bi-annual installments, the last repayment amount for the 2022/2023 financial year was R 36 164 906 (31/05/2023) and the next repayment amount due is R 37 106 182 (30/11/2023).	277 615 137	319 504 879
Bank loan - INCA (Unsecured) INCA @ 30/06/2023: 9.50% (30/06/2022: 6.00%) Redeemable 28/06/2024 The loan is repayable in bi-annual installments, the last repayment amount for the 2022/2023 financial year was R 6 286 109 (30/06/2023) and the next repayment amount due is R 6 426 843 (31/12/2023).	12 074 343	22 721 758
	<b>289 689 480</b>	<b>342 226 637</b>
<b>Total long term borrowings</b>	<b>289 689 480</b>	<b>342 226 637</b>

Refer to note 3 and 4 for information relating to debtors ceded against the Nedbank loan. Refer to note 42 for the utilisation of long-term liabilities reconciliation.

##### **NON-CURRENT LIABILITIES**

At amortised cost	235 307 445	289 200 652
-------------------	-------------	-------------

##### **CURRENT LIABILITIES**

At amortised cost	54 382 035	53 025 985
-------------------	------------	------------

#### **15. FINANCIAL LEASE OBLIGATION**

##### **MINIMUM LEASE PAYMENTS DUE**

- within one year	-	305 462
-------------------	---	---------

##### **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 an compulsory extension of 24 months at zero rental cost to ERWAT.

## 16. EMPLOYEE BENEFIT OBLIGATIONS

The amounts recognised in the statement of financial position are as follows:

CARRYING VALUE	June 2022/23	June 2021/22
Opening balance	45 884 000	44 173 000
Benefit paid	(2 575 350)	(2 336 000)
Net expense recognised in the statement of financial performance	19 554 350	4 047 000
	<b>62 863 000</b>	<b>45 884 000</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.

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

Non-current liabilities	(59 679 000)	(43 398 000)
Current liabilities	(3 184 000)	(2 486 000)
	<b>(62 863 000)</b>	<b>(45 884 000)</b>

### NET EXPENSE RECOGNISED IN THE STATEMENT OF FINANCIAL PERFORMANCE

CARRYING VALUE		
Current service cost	(1 266 000)	(1 189 000)
Interest cost	(5 327 000)	(4 667 000)
Actuarial gain/(losses)	(12 961 350)	1 809 000
	<b>(19 554 350)</b>	<b>(4 047 000)</b>

### KEY ASSUMPTIONS USED

Actuarial valuations are performed annually as at 30 June each year.

The actuarial valuation for 30 June 2023 as well as the prior two years have been performed by ZAQ Consultants and Actuaries.

The key financial assumptions are as follows:

Discount rates used	12.91 %	11.77 %
Medical cost inflation rates	9.48 %	9.21 %
Proportion of retiring members who are married	90,00 %	90,00 %
Average retirement age	63 years	63 years

The above table 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.

## 16. EMPLOYEE BENEFIT OBLIGATIONS (CONT.)

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, 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.

### 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 2023)	(55 905 000)	(71 411 000)
Service costs	(1 609 000)	(2 441 000)
Interest costs	(7 121 000)	(9 176 000)

	June 2022/23	June 2021/22
Defined benefit obligation	62 863 000	45 884 000
(Deficit) surplus	(12 961 350)	1 809 000
Experience adjustments on plan liabilities	(6 526 350)	1 222 000

	2023	2022	2021	2021
Defined benefit obligation	62 863 000	45 884 000	44 173 000	39 839 000
Surplus/ (Deficit)	(12 961 350)	1 809 000	(2 403 661)	127 905
Experience adjustments on plan liabilities	(6 526 350)	1 222 000	(4 201 339)	(5 421 000)
	<b>43 375 300</b>	<b>48 915 000</b>	<b>37 568 000</b>	<b>34 545 905</b>

## 17. REVENUE

	2023 R	2022 R
Service charges	1 336 988 476	1 142 878 261
Other income	40 845 440	38 791 706
Interest income	28 852 388	10 573 287
Intervention income	60 461	1 162 202
Dividends received	111 753	59 925
Government grants & subsidies	70 000 000	146 797 610
Development contribution	-	30 819 051
	<b>1 476 858 518</b>	<b>1 371 082 042</b>

## 17. REVENUE (CONTINUED)

2023  
R

2022  
R

### THE AMOUNT INCLUDED IN REVENUE ARISING FROM EXCHANGES OF GOODS OR SERVICES ARE AS FOLLOWS:

Service charges	1 336 988 476	1 142 878 261
Other income	40 845 440	38 791 706
Interest income	28 852 388	10 573 287
Intervention income	60 461	1 162 202
Dividends received	111 753	59 925
	<b>1 406 858 518</b>	<b>1 193 465 381</b>

### THE AMOUNT INCLUDED IN REVENUE ARISING FROM NON-EXCHANGE TRANSACTIONS IS AS FOLLOWS:

Government grants & subsidies	70 000 000	146 797 610
Development contribution	-	30 819 051
	<b>70 000 000</b>	<b>177 616 661</b>

## 18. SERVICE CHARGES

Sewerage and sanitation charges	1 336 988 476	1 142 878 261
---------------------------------	---------------	---------------

Service charges includes a significant increase in the sewerage and sanitation charges for Johannesburg Water. This is due to a revision of the tariff increases for the current financial period.

## 19. OTHER INCOME

Discount received	400 739	114 427
Other income from commercial business	39 776 918	37 720 585
Learnership income*	667 783	926 664
Tender income	-	30 030
	<b>40 845 440</b>	<b>38 791 706</b>

Included in the income from commercial business is income received from rental of property, commercial business, laboratory, operations and technical work performed by ERWAT.

## 20. INTEREST INCOME & DIVIDENDS RECEIVED

### DIVIDEND RECEIVED

Unit trusts - Local	111 753	59 925
---------------------	---------	--------

### INTEREST INCOME

Interest received: Bank	22 796 480	6 021 680
Interest received: Deposits / Exchange & Non-exchange receivables*	6 055 908	4 551 607
	<b>28 852 388</b>	<b>10 573 287</b>
	<b>28 964 141</b>	<b>10 633 212</b>

	<b>2023</b>	<b>2022</b>
	<b>R</b>	<b>R</b>

### 21. GOVERNMENT GRANTS AND SUBSIDIES

#### CAPITAL GRANTS

Government grants & subsidies	70 000 000	146 797 610
-------------------------------	------------	-------------

### 22. DEVELOPMENT CONTRIBUTION

#### DEVELOPMENT CONTRIBUTION

Development contribution	-	30 819 051
--------------------------	---	------------

### 23. EMPLOYEE RELATED COSTS

Basic	240 047 055	236 382 888
Bonus	19 213 163	15 622 840
Bursary schemes	47 235	78 628
Car allowance	11 008 865	10 932 724
Cell phone and data card allowances	4 959 477	4 945 004
Company contributions	74 420 312	68 381 853
Housing benefits and allowances	3 896 361	3 709 181
Leave pay provision charge	15 918 601	12 463 556
Long service awards	742 882	839 050
Overtime payments	30 927 382	35 206 302
Other short term costs	365 637	369 200
Post-retirement - medical loss	1 266 000	1 189 000
Remuneration of non-executive directors	1 273 880	991 278
Sanlam disability fund	753 189	687 004
Workmen's compensation	2 177 968	2 409 267
	<b>407 018 007</b>	<b>394 207 775</b>

#### REMUNERATION OF THE CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR

Annual Remuneration	1 283 980	309 406
Contributions to Medical and Pension Funds	322 266	51 211
Cell phone and data card allowance	39 600	9 434
Bonus and performance related payments	45 000	503 048
	<b>1 690 846</b>	<b>873 099</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 44 for the details of remuneration of the managers and directors.

## 23. EMPLOYEE RELATED COSTS (CONT.)

2023  
R

2022  
R

### REMUNERATION OF HEAD OF DEPARTMENT - FINANCIAL SERVICES

Annual Remuneration	1 296 341	1 006 112
Travel Allowance	-	76 500
Contributions to Medical and Pension Funds	101 743	307 043
Cell phone and data card allowance	27 200	30 600
Bonus and performance related payments	-	504 737
<b>Total</b>	<b>1 425 284</b>	<b>1 924 992</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 comprise of the remuneration paid to two (2) employees as disclosed in note 44 and the prior year, that of two (2) employees as well.

Please refer to note 44 for the details of remuneration of directors and executive managers.

### REMUNERATION OF EXECUTIVE MANAGERS EXCLUDING HEAD OF DEPARTMENT - FINANCIAL SERVICES

Annual Remuneration	4 367 942	4 546 978
Travel Allowance	264 000	341 760
Contributions to Medical and Pension Funds	915 741	1 055 674
Cell phone and data card allowance	122 400	144 432
Bonus and performance related payments	315 347	884 993
	<b>5 985 430</b>	<b>6 973 837</b>

### REMUNERATION OF NON-EXECUTIVE DIRECTORS

Annual Remuneration	1 168 909	924 833
Travel Allowance/Claims	8 971	2 445
Cell phone and data card allowance	96 000	64 000
	<b>1 273 880</b>	<b>991 278</b>

Please refer to note 36 - Prior Period Errors for more details on prior year Disclosure.

### 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.

The Acting Managing Director was paid by the City of Ekurhuleni from the 1<sup>st</sup> of December 2021 up to the 30<sup>th</sup> of September 2022 and therefore not included in remuneration of Directors prior to the 1st of October 2022 when he was officially appointed.

During the prior financial period Mr. T Maseko (Acting Managing Director) acted for the period 6<sup>th</sup> of September 2021 up until the 30<sup>th</sup> of November 2021 when Mr. Chihota took over from him.

Remuneration received by them from the CoE for the periods as indicated above were as follows:

Mr. T Maseko: For the financial year ended 30 June 2023, R Nil (30 June 2022: R 667 568 (3 months))

Mr. K Chihota: For the financial year ended 30 June 2023, R 597 151 (3 months) (30 June 2022: R 1 077 217 (7 months)).

## 24. DEPRECIATION AND AMORTISATION

	2023 R	2022 R
Property, plant and equipment*	116 280 933	104 353 196
Intangible assets	1 008 491	1 114 607
	<b>117 289 424</b>	<b>105 467 803</b>

Refer to note 9 and 10.

\* The amount of R104 353 196 reported in the 2021/2022 year is a restated amount and was previously reported as R104 495 530. The difference of R 142 334 is due to a prior period error as disclosed in note 35 & 36.

## 25. FINANCE COSTS

Interest on long-term borrowings	29 989 969	24 904 996
Finance leases	6 853	112 627
Unwinding of discount - Employee benefit obligation	5 327 000	4 667 000
Interest on overdue accounts (recovered)/incurred***	(2 750)	8 911
	<b>35 321 072</b>	<b>29 693 534</b>

\*\*\* The amount of R 2 750 relates to fruitless and wasteful expenditure from the prior year (R 8 911) partially recovered during the current financial year. The remaining balance will be recovered in full by 30 November 2023.

Refer to note 39 for details on Fruitless and wasteful expenditure.

Reason for significant movement in Finance cost was mainly due to the continued increases in the interest rate during the current year.

## 26. DEBT IMPAIRMENT

Debt impairment	(1 803 323)	2 177 382
-----------------	-------------	-----------

Refer to note 3.

## 27. BULK PURCHASES AND MATERIALS

Electricity	155 456 188	157 366 140
Water	11 910 766	10 281 532
Sewer purification	116 133 039	84 224 798
	<b>283 499 993</b>	<b>251 872 470</b>

## 28. GENERAL EXPENSES

	<b>2023</b>	<b>2022</b>
	<b>R</b>	<b>R</b>
Advertising	487 669	719 426
Assessment rates & municipal charges	2 640 606	2 700 043
Auditors remuneration	2 882 502	2 491 118
Bank charges	278 972	257 321
Cleaning	302 409	246 084
Computer expenses	2 267 989	2 482 525
Conferences and seminars	327 343	104 796
Consulting and professional fees*	12 042 174	6 467 032
Donations	-	10 000
Refreshments	1 269 912	853 097
Flowers	700	1 343
Health, safety and protective clothing	2 321 020	2 620 522
Fuel and other fleet costs	15 596 415	13 615 761
Insurance	5 657 426	6 400 798
Laboratory charges	5 204 831	4 260 518
Lease rental	36	150
Marketing and public relations	687 375	518 979
Staff recruitment fees	286 368	526 364
Printing and stationery	848 815	1 138 478
Rental of equipment**	143 839	356 700
Research and development costs	99 600	869 550
Security	31 632 043	28 417 100
Sewerage and waste disposal	49 213	83 199
Subscriptions and membership fees	331 570	259 332
Telephone and fax	2 886 993	2 860 745
Training	4 567 352	2 995 485
Transport and freight - sludge management***	62 686 770	16 928 454
Travel	345 123	365 830
	<b>155 845 065</b>	<b>98 550 750</b>

\* During the 2021/2022 financial period, ERWAT incurred consulting and professional fees to the value of R 17 269 328 (excl vat.) however this amount was reduced by R 10 802 296 in favour of ERWAT on settlement of a dispute with a supplier. The final amount reported in 2021/2022 is therefore R6,467,032.

\*\* During the 2022/2023 financial year, plant equipment was rented as part of a project to minimise the occurrences of sewer line blockages and environmental pollution. This resulted in a significant increase in the Rental of equipment expenditure.

\*\*\* Transport and freight - Sludge management include those costs and services which relate to the management and disposal of biosolids. During the 2022/2023 financial year, ERWAT embarked on a project at the Olifantsfontein Plant, to clean and recommission it's biofilters, digestors and ponds. This exercise is performed as and when the need arises, therefore the expenditure on this line item may vary significantly from year to year.

## 29. CASH GENERATED FROM OPERATIONS

	2023 R	2022 R
Surplus	251 742 775	379 275 083
<b>Adjustments for:</b>		
Depreciation and amortisation	117 289 424	105 467 803
Loss on sale of assets	1 922 004	5 832 491
Insurance payout	(1 200 884)	(907 038)
Assets written off	180	-
Fair value adjustments	(686 426)	(253 128)
Finance costs - Finance leases	6 853	112 627
Impairment deficit	48 371 107	-
Debt impairment	(1 803 323)	2 177 382
Movements in retirement benefit liability	16 979 000	1 711 000
Movements in provisions	3 124 371	(4 389 778)
<b>Changes in working capital:</b>		
Other receivables from exchange transactions*	2 869 617	(3 959 374)
Trade receivables from exchange transactions	(157 927 982)	(64 101 620)
Other receivables from non-exchange transactions	80 507 749	(82 203 726)
Debt impairment	1 803 323	(2 177 382)
Payables from exchange transactions	18 191 890	(8 678 462)
VAT	(7 005 224)	8 091 571
	<b>374 184 454</b>	<b>335 997 449</b>

## 30. AUDITORS' REMUNERATION

Fees	2 882 502	2 491 118
------	-----------	-----------

## 31. FINANCIAL INSTRUMENTS DISCLOSURE

### CATEGORIES OF FINANCIAL INSTRUMENTS

30 JUNE 2023

FINANCIAL ASSETS	At fair value	At amortised cost	Total
Other financial assets	8 892 781	-	8 892 781
Trade receivables from exchange & receivables from non-exchange transactions	-	322 397 322	322 397 322
Other receivables from exchange transactions*	-	15 104 427	15 104 427
Cash and cash equivalents	-	504 684 600	504 684 600
	<b>8 892 781</b>	<b>842 186 349</b>	<b>851 079 130</b>
FINANCIAL LIABILITIES		At amortised cost	Total
Payables from exchange transactions **		122 577 737	122 577 737
Long-term borrowings - Current portion		54 382 035	54 382 035
Long-term borrowings - Non-current portion		235 307 445	235 307 445
		<b>412 267 217</b>	<b>412 267 217</b>

\* excluding prepayments

\*\* excluding payments received in advance

Refer to note 3 and 4 for disclosure in line with GRAP 104 requirements.

### 31. FINANCIAL INSTRUMENTS DISCLOSURE (CONT.)

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	-	244 977 089	244 977 089
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>539 840 158</b>	<b>548 046 513</b>

FINANCIAL LIABILITIES

	At amortised cost	Total
Payables from exchange transactions **	104 385 853	104 385 853
Long-term borrowings - Current portion	53 025 985	53 025 985
Long-term borrowings - Non-current portion	289 200 652	289 200 652
	<b>446 612 490</b>	<b>446 612 490</b>

\* excluding prepayments

\*\* excluding payments received in advance

Refer to note 3 and 4 for disclosure in line with GRAP 104 requirements.

### FINANCIAL INSTRUMENTS IN STATEMENT OF FINANCIAL PERFORMANCE

30 JUNE 2023

	At amortised cost	Total
Interest income (calculated using the effective interest method) for financial instruments at amortised cost	28 852 388	28 852 388
Interest expense (calculated using the effective interest method) for financial instruments	(29 994 072)	(29 994 072)
Debt impairment	1 803 323	1 803 323
Fair value adjustments - Investments	686 426	686 426
	<b>1 348 065</b>	<b>1 348 065</b>

30 JUNE 2022

	At amortised cost	Total
Interest income (calculated using the effective interest method) for financial instruments at amortised cost	10 573 287	10 573 287
Interest expense (calculated using effective interest method) for financial instruments at amortised cost*	(25 026 534)	(25 026 534)
Debt impairment	(2 177 382)	(2 177 382)
Fair value adjustments - Investments	253 128	253 128
	<b>(16 377 501)</b>	<b>(16 377 501)</b>

\* Excludes Unwinding of discount - Employee benefit obligation

## 32. CAPITAL COMMITMENTS

**2023**  
 R

**2022**  
 R

### AUTHORISED CAPITAL EXPENDITURE

#### ALREADY CONTRACTED FOR BUT NOT PROVIDED FOR

• Land and Buildings	1 738 049	5 653 563
• Furniture and fittings	-	4 565 252
• Motor vehicles	-	985 112
• Wastewater works	60 142 100	141 040 812
• Plant and machinery	95 102	14 303 997
	<b>61 975 251</b>	<b>166 548 736</b>

#### TOTAL CAPITAL COMMITMENTS

Approved and contracted	61 975 251	166 548 736
-------------------------	------------	-------------

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.

## 33. 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 stipulate 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
Randwaterraad	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>

### 33. CONTINGENCIES (CONT.)

2023  
R

2022  
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

Namston General Construction CC	4 923 359	4 923 359
Maziya General Services CC	8 653 384	12 827 019
	<b>13 576 743</b>	<b>17 750 378</b>
<b>Total Contingencies</b>	<b>16 516 943</b>	<b>20 690 578</b>

- \* The contingency relates to an agreement between ERWAT and Namston regarding the maintenance of EMM pump stations. The initial contract was for 24 months with the possible extension of 12 months. ERWAT did not extend the contract and the service provider is claiming that they were reasonably expecting an extension and as a result planned accordingly which resulted in losses for which they are holding ERWAT accountable. Legal proceedings are under way.
- \*\* The contingent liability raised in respect of Maziya General Services CC resulted after a legal opinion was sought from the CoE Corporate legal services who advised that the contract was in contravention of MFMA Section 33 & 116 and that the contract should be cancelled accordingly. The Board rescinded the resolution to reinstate the contract as per the legal opinion from CoE which deduced that the extension of the contract was irregular. BAC did therefore not approve the extension of the contract.

Communication was sent to Maziya's attorneys regarding the rescindment of reinstatement of this contract by the Board. Maziya then referred the matter to the Engineering Council South Africa (ECSA). ERWAT received the outcome of the adjudication process which ruled in favour of Maziya. ERWAT was ordered to pay R 3 068 260 (exclusive of VAT) for loss of profit and release the retention of R 4 456 421 (exclusive of VAT).

Management has initiated the legal process to challenge this order and the final outcome will be determined by the Court.

#### CONTINGENT ASSETS

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 result of the loss. Due to the uncertainty that exists a contingent asset will be disclosed.

Subsequent to the disciplinary hearing in respect of the fruitless and wasteful expenditure referred to in Note 39, civil proceedings were instated against the employee concerned to recover an amount of R 400 000, being the initial R 527 663 reduced by R 127 663 in order to bring the claim within the jurisdiction of the Regional Court, subject to approval by the Board and Council.

The Defendant made an offer of R 200 000 as full and final settlement which was subsequently rejected by ERWAT.

As per correspondence on 06 June 2023 from the Legal advisors, instruction to be given by ERWAT after further consideration by the Board.

### 34. RELATED PARTIES

**2023**  
 R

**2022**  
 R

#### 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.

#### RELATED PARTY BALANCES

##### AMOUNT INCLUDED IN PAYABLES FROM EXCHANGE TRANSACTIONS REGARDING RELATED PARTIES

City of Ekurhuleni Metropolitan Municipality	6 920 551	6 090 685
--	-----------	-----------

##### AMOUNTS INCLUDED IN TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS

City of Ekurhuleni Metropolitan Municipality	253 545 213	123 457 541
--	-------------	-------------

##### AMOUNTS INCLUDED IN RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

City of Ekurhuleni Metropolitan Municipality	25 489 723	105 997 472
--	------------	-------------

##### AMOUNTS INCLUDED IN OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

City of Ekurhuleni Metropolitan Municipality	2 700 932	2 700 932
--	-----------	-----------

#### RELATED PARTY TRANSACTIONS

##### PURCHASES FROM RELATED PARTIES

City of Ekurhuleni Metropolitan Municipality	90 532 442	94 511 526
--	------------	------------

##### SALES TO RELATED PARTIES

City of Ekurhuleni Metropolitan Municipality	1 239 241 011	1 115 638 499
--	---------------	---------------

##### GRANTS AND DEVELOPMENT CONTRIBUTIONS

Grants - City of Ekurhuleni Metropolitan Municipality	70 000 000	146 797 610
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 277 615 137 (30/06/2022: R 319 504 879) as disclosed in the long-term borrowing note 14. 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 note 3 and 4.

### 34. RELATED PARTIES (CONT.)

#### REMUNERATION - NON-EXECUTIVE DIRECTORS AND EXECUTIVE MANAGERS

The remuneration of the non-executive directors, the executive directors and executive managers are included in note 44. Refer to note 36 for prior period errors on Disclosure.

#### 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	(2 217 408)	1 131 223

### 35. 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:

#### STATEMENT OF FINANCIAL POSITION

30 JUNE 2022	Note	As previously reported	Correction of error 2020/2021	Correction of error 2021/2022	Restated
Trade receivables from exchange transactions (Decrease)	3	156 046 960	(15 591 205)	(1 476 138)	138 979 617
VAT Payable (Decrease)	13	(8 746 086)	1 935 810	35 999	(6 774 277)
Accumulated surplus (Decrease)		(2 273 109 057)	47 438 679	(2 077 780)	(2 227 748 158)
Property, plant and equipment (Decrease)	12	2 228 320 454	(33 783 229)	(334 131)	2 194 203 094
Intangible assets (Decrease)	13	6 473 534	-	(7 991)	6 465 543
Other receivables from exchange transactions (Increase)		17 093 719	-	3 375 522	20 469 241
Rounding		-	(55)	62	6
Payables from exchange transactions (Decrease)	11	(104 870 311)	-	484 457	(104 385 854)
		<b>21 209 213</b>	<b>-</b>	<b>-</b>	<b>21 209 212</b>

#### STATEMENT OF FINANCIAL PERFORMANCE

30 JUNE 2022	Note	As previously reported	Correction of error 2021/2022	Restated
Intervention income (Decrease)	49&50	(1 402 202)	240 000	(1 162 202)
Interest income (Decrease)	20	(11 868 233)	1 294 946	(10 573 287)
Other income (Increase)	23	(38 696 836)	(94 870)	(38 791 706)
Depreciation and amortisation (Decrease)	24	105 610 137	(142 334)	105 467 803
General expenditure - Insurance (Decrease)	28	101 926 271	(3 375 522)	98 550 749
		<b>155 569 137</b>	<b>(2 077 780)</b>	<b>153 491 357</b>

### 36. PRIOR PERIOD ERRORS

The following errors were identified during the current financial period:

#### TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS:

- 1) During the current financial period an amount of R 16 903 359 (decrease) was identified for Pump Station invoices, inclusive of Value added tax (VAT) of R 1 935 810 and interest to the amount R 190 484 recognised in the 2020/2021 and an amount of R 1 288 247 recognised in 2021/2022 financial period, which were subsequently regarded as invalid due to the fact that the related expenditure incurred for which these invoices were raised, did not fall within the terms and conditions of the agreement and was therefore derecognised.
- 2) During the 2021/2022 financial period an amount of R 282 699 (decrease), inclusive of Value added tax (VAT) of R 36 000 and interest of R 6 699, relating to intervention income recognised from the City of Tshwane (Rooiwal Intervention Project) was determined to be invalid as the conditions for raising the 5% management fee were not met. Refer to intervention income note 49.
- 3) An amount R 118 715 (increase) was identified to be learnership income receipts which was incorrectly credited to the Trade receivables account. The receipts related to the following periods and has been re-allocated as such:
  - R 94 870 (2021/2022)
  - R 17 290 (2019/2020)
  - R 6 555 (2018/2019).

#### VAT PAYABLE:

- 4) VAT Payable amount for 2020/2021 was incorrectly stated as R 8 746 086 as the effect of the errors identified in Trade receivables from exchange transactions above, had not been taken into account. VAT Payable was therefore restated as R 6 774 277, ie a decrease of R 1 971 809 (R 1 935 810 + R 36 000)

#### ACCUMULATED SURPLUS - OPENING BALANCE (1 JULY 2021):

- 5) Due to the error noted in point 1.) to 3.) above, the Accumulated surplus opening balance was restated to include the effect of the change in surplus for the year ended 30 June 2021 amounting to R 13 655 457 (decrease).
- 6) Some assets were depreciated by the Solar accounting system incorrectly in the 2020/2021 financial period. Due to the correction of this error the Accumulated surplus opening balance was restated to include the effect of the change in surplus for the year ended 30 June 2021 amounting to R 36 677 (Increase).
  - 6.1) An asset to the value of R27 000 was recorded in the 2020/2021 financial period as Plant and machinery - Assets under construction in error. Due to the correction of this error the Accumulated surplus opening balance was restated to include the effect of the change in surplus for the year ended 30 June 2021 amounting to R 27 000 (decrease).
  - 6.2) Assets to the value of R33 792 906 were recorded in a prior financial period (prior to 2020/2021) as Infrastructure, Waste water purification works - Assets under construction in error. Due to the correction of this error the Accumulated surplus opening balance for 2020/2021 was restated by an amount of R 33 792 906 (decrease).

#### PREPAYMENTS:

- 7) During the 2021/2022 financial year an amount of R 3 375 522 (increase) was incorrectly recognised as General expenditure (Insurance) relating to the prepayment of insurance for the 2022/2023 financial year and was subsequently corrected and allocated to prepayments.

## 36. PRIOR PERIOD ERRORS (CONT.)

---

### PROPERTY, PLANT AND EQUIPMENT:

- 8) a) During the 2021/2022 financial year, retentions on projects were erroneously not accounted for as part of the additions for year, the correction resulted in a additions for year being adjusted by R159 513 (decrease). b) Some assets were depreciated by the Solar accounting system incorrectly in the 2021/2022 financial period. Due to the correction of this error, accumulated depreciation for that period was adjusted by a net amount of R142 334 (increase). c) Prior to the 2021/2022 financial year, retentions payable on projects were capitalised at an incorrect value to PPE, the correction of this error resulted in a (decrease) to the carrying value of PPE of R324 944. d) An amount of R 7 991 was incorrectly classified as Intangible assets instead of PPE, the correction resulted in a (decrease) of intangible assets by this amount.

### PAYABLES FROM EXCHANGE TRANSACTIONS:

- 9) The corrections to PPE mentioned above resulted in a correction to retentions payable of R 484 457 (decrease).  
Intervention income:
- 10) As per the description in point 2.) above, Intervention income to the amount of R 240 000 (decrease) (exclusive of VAT) was derecognised and accounted for as a prior year error which occurred during the 2021/2022 financial period.

### INTEREST INCOME:

- 11) Interest income to the amount of R 6 699 (decrease) raised on the City of Tshwane (Rooiwal Intervention) had to be derecognised as the related invoices were not considered to be valid as stated in point 2.) above.
- 12) An amount of R 1 288 247 (decrease) relating to interest raised during the 2021/2022 financial year was de-recognised as part of the reversal of the Pump station invoice(s) referred to in point 1.).

### OTHER INCOME:

- 13) The learnership income referred to in point 3.) above, included an amount of R 94 870 (increase) relating to receipts during the 2021/2022 financial year and was re-allocated from Trade receivables from exchange to Other income (Learnership income).

### DEPRECIATION EXPENSE:

- 14) Some assets were depreciated by the Solar accounting system incorrectly in the 2021/2022 financial period. Due to the correction of this error, depreciation for that period was adjusted by an amount of R142 334 (decrease).

### GENERAL EXPENSES:

- 15) Included in General expenses is an amount of R 3 375 522 (decrease) which was de-recognised and re-allocated to pre-payments. Refer to point 6.).

### 36. PRIOR PERIOD ERRORS (CONT.)

#### DISCLOSURE ERRORS IDENTIFIED:

##### RELATED PARTIES:

Purchases from related parties (Note 34) for the 2021/2022 financial year was incorrectly stated as R 145 057 654. This figure incorrectly included unrelated party payments to the value of R 50 546 128. The restated value is R 94 511 526.

##### EMPLOYEE RELATED COSTS:

The financial statements of 30 June 2022 included within the disclosure of Employee related costs details regarding the remuneration of HOD - Financial Services and remuneration of Executive Managers. The full remuneration of Acting Managers and Executives was incorrectly included in the disclosure instead of the acting allowances only. Refer to note(s) 34 and 44 respectively.

##### CONTINGENCIES:

The contingent liabilities under Legal matters relating to Namston General Construction CC was incorrectly disclosed at a value of R 5 000 000 as at 30 June 2022. This has been corrected to R 4 923 359.

##### DEVIATIONS:

An error was identified in the schedule(s) used to report on deviation resulting in overstatement. The details of the deviation error is as follows:

	Amount as previously reported	Adjustment	Amount restated	Total
Sole supplier	2 462 153	(948 901)	-	1 513 252
Impracticability	2 552 443	(135 264)	-	2 417 179
	<b>5 014 596</b>	<b>(1 084 165)</b>	-	<b>3 930 431</b>

STATEMENT OF FINANCIAL POSITION	2023 R	2022 R
Trade receivables from exchange transactions (Decrease) - Note 3	-	(1 476 138)
VAT Payable (Decrease) - Note 13	-	35 999
Accumulated surplus (Decrease) - Page 8	-	2 077 780
Property, plant and equipment (Decrease) - Note 9	-	(334 131)
Other receivables from exchange transactions (Increase) - Note 5	-	3 375 522
Intangible assets (Decrease) - Note 10	-	(7 991)
Rounding	-	62
Payables from exchange transactions (Decrease) - Note 11	-	484 457

#### STATEMENT OF FINANCIAL PERFORMANCE

Intervention income (Decrease) - Note 49	-	240 000
Interest income (Decrease) - Note 20	-	1 294 946
Other income (Increase) - Note 19	-	(94 870)
Depreciation and amortisation (Decrease) - Note 24	-	(142 334)
General expenses - Insurance (Decrease) - Note 28	-	(3 375 522)

## 37. 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 2023	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	54 382 035	42 037 692	126 923 077	66 076 676
Trade and other payables	122 577 737	-	-	-

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	104 385 854	-	-	-

### 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 14 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.

The entity is dependant on the City of Ekurhuleni Metropolitan Municipality as it's major customer that make up the majority of it's Trade receivables. The remaining portion of the Trade receivables comprises a vast number of other customers.

#### 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.

The capital structure of the entity consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in note 14 cash and cash equivalents disclosed in note 8.

Consistent with others in the industry, the entity monitors capital on 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.

## 37. RISK MANAGEMENT (CONT.)

### 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 2023 were as follows:

	<b>2023</b>	<b>2022</b>
	<b>R</b>	<b>R</b>
<b>FINANCIAL ASSETS EXPOSED TO CREDIT RISK AT YEAR END WERE AS FOLLOWS:</b>		
Trade receivables from exchange and receivables from non-exchange transactions	322 397 322	244 977 089
Deposits	15 052 221	14 590 667
Cash and cash equivalents	504 684 600	280 234 987
Listed shares	8 892 781	8 206 355
	<b>851 026 924</b>	<b>548 009 098</b>
<b>TOTAL BORROWINGS</b>		
	<b>30 June 2023</b>	<b>30 June 2022</b>
Other financial liabilities	(289 689 480)	(342 226 637)
Less: Cash and cash equivalents	504 684 600	280 234 987
Net debt	214 995 120	(61 991 650)
Total Net assets	2 518 803 648	2 261 568 058
<b>Total capital</b>	<b>2 733 798 768</b>	<b>2 199 576 408</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.

## 38. GOING CONCERN

We draw attention to the fact that at 30 June 2023, the entity had an accumulated surplus of R 2 479 490 933 and that the entity's total assets exceed its liabilities by R 2 479 490 933.

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.

### 39. FRUITLESS AND WASTEFUL EXPENDITURE

	<b>2023</b>	<b>2022</b>
	<b>R</b>	<b>R</b>
Opening balance	1 364 408	1 355 497
Fruitless and wasteful expenditure incurred	-	8 911
Less: Amounts recoverable	(8 911)	-
	<b>1 355 497</b>	<b>1 364 408</b>

#### CONSEQUENCE MANAGEMENT

##### 2021/2022: R 8 911

###### INTEREST INCURRED ON A TELKOM ACCOUNT PAID LATE R 8 911

The amount is being deducted from the responsible employee's salary until fully recovered. Effected 01 August 2022 and will be fully recovered by 30 November 2023.

##### 2020/2021: R 106 101

###### PENALTIES CHARGED BY SARS R 28 265

These penalties were raised as a result of the two (2) suppliers who provided incorrect VAT numbers on their invoices which was subsequently rectified and re-submitted and accepted by the South African Revenue Services (SARS) as valid tax invoices.

###### SALARY PAYMENT MADE TO FICTITIOUS ACCOUNT R 77 836

Item currently under investigation, a docket has been opened with the SAPS and under way in collaboration with the affected bank. Investigation still in progress.

##### 2019/2020: R 45 939

###### INTEREST INCURRED ON COE ACCOUNT PAID LATE R 33 478

###### INTEREST INCURRED ON ESKOM ACCOUNT PAID LATE R 12 462

##### 2018/2019: R 641 280

###### FUEL THEFT R 527 663

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 pending.

###### INTEREST CHARGED BY JHB WATER R 15 247

Item was processed by MPAC, disciplinary action against those implicated is pending.

###### IN RESPECT OF ABANDONED INFRASTRUCTURE - DIESEL TANK R 72 100

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.

Interest charged by SARS R 26 270

### 39. FRUITLESS AND WASTEFUL EXPENDITURE (CONT.)

2015/2016: R 562 178

SARS PENALTIES AND INTEREST ON LATE PAYMENT OF PAYE, SDL AND UIF R 39 860 (PENALTIES) AND R 174 142 (INTEREST)

Due to a system error on ERWAT's payroll package, SDL and UIF was under paid to SARS, which resulted in penalties and interest due to late payment to SARS. PAYE was not paid over on two project contractors as they invoiced ERWAT and was not included on the payroll. The PAYE was claimed back from the contractors. However, one contractor's portion had to be written off as we cannot get hold of him. ERWAT has since rectified the payroll system and verified calculations to ensure this error is not repeated. All contractors are loaded on the payroll in order for ERWAT to pay PAYE on their salaries.

No disciplinary action needs to be taken.

INCENTIVE BONUS EXCEEDS THE APPROVED PAYOUT R 209 800

The Board approved a lump sum bonus pay out, however the employee list used to apportion the amount did not include all employees entitled to an incentive bonus which resulted in a higher pay out. ERWAT will ensure that the list submitted for bonus are correct. No disciplinary action needs to be taken.

EXCESS SICK LEAVE PAID R 138 376

ERWAT has implemented an income protection benefit which will assist employees on long term ill health to continue receiving an income. ERWAT would not be able to recover the excess sick leave pay from the employee's leave days as well as the income protection benefit as the employee deceased. Management has decided that no disciplinary action needs to be taken.

### 40. IRREGULAR EXPENDITURE

	<b>2023</b>	<b>2022</b>
	<b>R</b>	<b>R</b>
Opening balance	686 327 680	605 359 103
Add: Irregular Expenditure - relating to prior year	101 079 477	21 303 946
Add: Irregular Expenditure - relating to current year	21 664 736	59 664 631
Less: Prior year amounts condoned	-	-
Less: Current year amounts condoned	-	-
Less: Prior year amounts not condoned and removed	-	-
Less: Current year amounts not condoned and removed	-	-
Less: Amounts recoverable (Current- and Prior year)	-	-
<b>Closing balance</b>	<b>809 071 893</b>	<b>686 327 680</b>

### ANALYSIS OF CLOSING BALANCE

Current year	122 744 213	80 968 577
Amount condoned by Council	-	-
Prior years	686 327 680	605 359 103
<b>Total</b>	<b>809 071 893</b>	<b>686 327 680</b>

## 40. IRREGULAR EXPENDITURE (CONT.)

INCIDENTS CURRENTLY UNDER INVESTIGATION	2022 R
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.	2 086 872
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)	2 622 112
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.	79 553 202
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.	7 131 227
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.	1 747 770
Irregular expenditure incurred in the 2022/2023 financial period identified in the 2021/2022 financial period. This expenditure relates to the winning bidder's municipal account being in arrears more than 3 months.	7 938 295
Irregular expenditure incurred in the 2022/2023 financial period. The irregular expenditure relates to the Request For Quotation and formal price quotation processes resulting in splitting.	20 797 706
Irregular expenditure incurred in the 2022/2023 financial period. This irregular expenditure related to pre-qualifying stage where bidders tax matters where in arrears, rates and taxes accounts not linked to the bidder. Awarder bidder mandatory documents not submitted and incorrectly awarded.	677 275
Irregular expenditure incurred in the 2022/2023 financial period. This irregular expenditure related to RFQs not evaluated according to the PPPFA Regulations of 2022.	189 754
	<b>122 744 213</b>

### 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 under investigation.

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 under investigation.

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 under investigation.

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 under investigation.

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 under investigation.

#### 40. IRREGULAR EXPENDITURE (CONT.)

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 under investigation.

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 under investigation.

Awards made on RFQ'S without inviting at least the minimum prescribed number of written quotations: Item under investigation.

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

#### 41. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

	2023 R	2022 R
<b>AUDIT FEES</b>		
Current year subscription / fee	2 882 502	2 491 118
Amount paid - current year	(2 882 502)	(2 491 118)
	<b>-</b>	<b>-</b>
<b>PAYE, UIF AND SDL</b>		
Opening balance	5 637 330	5 725 461
Current year subscription / fee	72 682 001	74 349 253
Amount paid - current year	(72 461 612)	(74 437 384)
	<b>5 857 719</b>	<b>5 637 330</b>
<b>PENSION AND MEDICAL AID DEDUCTIONS</b>		
Opening balance	37 414	58 549
Current year subscription / fee	101 206 759	92 188 668
Amount paid - current year	(101 191 475)	(92 209 803)
	<b>52 698</b>	<b>37 414</b>
<b>VAT</b>		
VAT receivable	230 947	-
VAT payable	-	6 774 277
	<b>230 947</b>	<b>6 774 277</b>

All VAT returns have been submitted by the due date throughout the year.

	<b>2023</b>	<b>2022</b>
	<b>R</b>	<b>R</b>
<b>42. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION</b>		
Outstanding long-term liabilities at the beginning of the year	342 226 637	393 693 013
Redemption of loans	(52 955 108)	(51 695 087)
Net accrual of interest	417 951	228 711
	289 689 480	342 226 637
Used to finance property, plant and equipment	(287 074 343)	(340 029 451)
<b>Interest Accrued</b>	<b>2 615 137</b>	<b>2 197 186</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	342 226 637	393 693 013
Redemption of loans	(52 955 108)	(51 695 087)
Net accrual of interest	417 951	228 711
	<b>289 689 480</b>	<b>342 226 637</b>

#### 43. 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(2) 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.

<b>THE DETAILS OF THE DEVIATIONS APPROVED ARE AS FOLLOWS</b>	<b>June 2022/23</b>	<b>June 2021/22</b>
Sole suppliers	4 292 936	1 513 252
Impracticability	-	2 417 179
	<b>4 292 936</b>	<b>3 930 431</b>

Deviations approved relate to the appointment of service providers to provide computer software licences, equipment repairs for specialised laboratory equipment and urgent legal cases.

#### 44. 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 2023	Total package 30 June 2022
GM Mahlangu (Resign date: 31 October 2021)	-	-	-	-	-	-	-	35 406
NC Skeepers (Resign date: 31 October 2021)	-	-	-	-	-	-	-	126 483
K Wall (Resign date: 31 October 2021)	-	-	-	-	-	-	-	126 483
D Coovadia (Resign date: 31 October 2021)	-	-	-	-	-	-	-	126 483
CJ Cornish (Chairperson from 1 June 2017 - Resign date: 31 October 2021)	-	-	-	-	-	-	-	170 542
NC Skeepers (Chairperson from 1 March 2022)	478 947	-	-	-	-	19 200	<b>498 147</b>	158 592
Y Haffejee (Appointed: 1 March 2022)*	-	-	-	-	2 624	19 200	<b>21 824</b>	7 745
N Gwenya (Appointed: 1 March 2022)*	-	-	-	-	6 347	19 200	<b>25 547</b>	7 500
RI Kikine (Appointed: 1 March 2022)	344 981	-	-	-	-	19 200	<b>364 181</b>	116 022
U Exner (Appointed: 1 March 2022)	344 981	-	-	-	-	19 200	<b>364 181</b>	116 022
<b>Subtotal</b>	<b>1 168 909</b>	-	-	-	<b>8 971</b>	<b>96 000</b>	<b>1 273 880</b>	<b>991 278</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.

CHIEF EXECUTIVE OFFICER	Salary or Fee	Bonuses and performance related payments	Retirement Fund contributions	Medical contributions	Travel allowance/claim	Telephone and data allowance	Total package 30 June 2023	Total package 30 June 2022
T Gopane (Managing Director from 01 September 2016 - Resigned 05 September 2021)	-	-	-	-	-	-	-	873 099
K Chihota (Managing Director from 01 October 2022)	1 283 980	-	91 149	45 000	39 600	231 116	<b>1 690 846</b>	-
<b>Subtotal</b>	<b>1 283 980</b>	-	<b>91 149</b>	<b>45 000</b>	<b>39 600</b>	<b>231 116</b>	<b>1 690 846</b>	-

#### 44. DIRECTORS AND EXECUTIVE MANAGERS EMOLUMENTS (CONT.)

EXECUTIVE MANAGERS	Salary or Fee	Bonuses and performance related payments	Retirement Fund contributions	Medical contributions	Travel allowance/claim	Telephone and data allowance	Total package 30 June 2023	Total package 30 June 2022
WI Louw - Head of Department - Financial Services (Retired: 31 March 2022)								1 855 328
FM Mabunda - Head of Department - Operations (Resigned: 31 January 2022)								1 227 806
S Dinath - Interim Head of Department - Financial Services	23 364	-	-	-	-	-	<b>23 364</b>	-
KS Mashaakgomo - Head of Department - Financial Services (Appointed 1 October 2022)	1 272 977	-	36 603	-	27 200	65 141	<b>1 401 920</b>	-
RW Barnes - Head of Department - Human Resources	1 469 004	111 196	106 690	78 000	40 800	293 559	<b>2 099 249</b>	1 987 278
A Chapman - Head of Department - Laboratory	1 137 667	94 806	117 624	30 000	40 800	250 288	<b>1 671 185</b>	1 676 232
ZZ Socikwa - Company Secretary	1 351 937	109 345	49 170	156 000	40 800	98 410	<b>1 805 662</b>	1 763 549
L Chueu - Interim Head of Department - Maintenance	104 090	-	-	-	-	-	<b>104 090</b>	57 782
KB Malaka - Interim Executive Manager: Commercial Business	-	-	-	-	-	-	-	10 589
LMM Motaung - Interim Head of Department - Commercial Business	-	-	-	-	-	-	-	15 035
K Nthethe - Interim Head of Department - Development	-	-	-	-	-	-	-	25 062
S Mateza - Interim Head of Department - Development	95 638	-	-	-	-	-	<b>95 638</b>	68 204
DM Makgopa - Interim Head of Department - Financial Services (Resigned: 30 June 2022)	-	-	-	-	-	-	-	69 664
NE Mutyaba - Head of Department - Maintenance	7 810	-	-	-	-	-	<b>7 810</b>	87 398
DM Hlabioa - Interim Head of Department - Commercial Business	98 585	-	-	-	-	-	<b>98 585</b>	54 903
LT Roode - Interim Head of Department - Operations	103 210	-	-	-	-	-	<b>103 210</b>	-
<b>Subtotal</b>	<b>5 664 282</b>	<b>315 347</b>	<b>310 087</b>	<b>264 000</b>	<b>149 600</b>	<b>707 398</b>	<b>7 410 714</b>	<b>8 898 830</b>
<b>Total</b>	<b>8 117 171</b>	<b>315 347</b>	<b>401 236</b>	<b>317 971</b>	<b>285 200</b>	<b>938 514</b>	<b>10 375 440</b>	<b>10 763 206</b>

## 45. BUDGET DIFFERENCES

---

### MATERIAL DIFFERENCES BETWEEN BUDGET AND ACTUAL AMOUNTS

**TOTAL REVENUE (EXCLUDING CAPITAL TRANSFERS AND CONTRIBUTIONS): - 102% OF ANNUAL BUDGET ACHIEVED (2% OVER BUDGET).**

INTEREST INCOME: - 196% OF ANNUAL BUDGET ACHIEVED (96% OVER BUDGET).

Due to a significant underspent on overall operational expenditure the average bank balance throughout the financial year was higher than anticipated and resulted in a higher than budgeted interest income earned.

OTHER OWN REVENUE: - 126% OF ANNUAL BUDGET ACHIEVED (26% OVER BUDGET).

A large portion of other own revenue consists of other income from commercial business.

EMPLOYEE COSTS: - 79% OF ANNUAL BUDGET ACHIEVED (21% UNDER BUDGET).

The budget for the period included planned appointments which did not realise in this period. In addition a variation order was not yet implemented as it was still being assessed. This has been subsequently finalised and effected.

FINANCE COSTS: - 135% OF ANNUAL BUDGET ACHIEVED (35% OVER BUDGET).

ERWAT budgeted for a significant increase in interest rates in 2020/2021. Although the interest rate have been steadily increasing over the past financial year, this was only effected after a number in interest rate cuts during 2021/2022.

BULK PURCHASES AND MATERIALS: - 85% OF ANNUAL BUDGET ACHIEVED (15% UNDER BUDGET).

As a result of the war between Russia and the Ukraine the entire country experienced difficulties in procuring chemicals and other materials which adversely impacted the spending. Load shedding has a significant impact on the operations of ERWAT which resulted in electricity costs being lower than budgeted.

OTHER EXPENDITURE: - 84% OF ANNUAL BUDGET ACHIEVED (16% UNDER BUDGET).

Significant under expenditure due to cost containment regulations being implemented.

REPAIRS AND MAINTENANCE - CONTRACTED SERVICES: - 81% OF ANNUAL BUDGET ACHIEVED (19% UNDER BUDGET).

The repairs and maintenance budget was increases significantly during the adjustment budget. A spent of 123% was achieved if compared to the original budget before adjustments.

TOTAL OPERATING EXPENSES: - 85% OF ANNUAL BUDGET ACHIEVED (15% UNDER BUDGET).

## 46. 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
Supply and delivery of bottled water	Siyakha-Isizwe Trading Enterprise 84	Sister to GK Mulaudzi	NR Mulaudzi	Dr, at Pholosong	124 200
		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	2 545 203
		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 supply and delivery of various laboratory consumables	TLM Engineering Services	Spouse	LJ Phophi	Department of Education	1 747 770
	Bashumi Instruments and Construction Services	Husband of RE Senoamadi	C Senoamadi	Chief Director Finance Officer: Gauteng Department of Health	561 085
Trade test training	The SAJ Competency Training Institute	Spouse of Mr. ME Nhlapo	Mrs. MG Nhlapo	Social Worker at the Department of Social Development, Mpumalanga	171 466
					<b>5 149 724</b>

**2023**  
R

**2022**  
R

## 47. REPAIRS AND MAINTENANCE

Repairs and maintenance

166 578 174

106 973 920

The repairs and maintenance expenditure disclosed above relates to contracted services only i.e. classification by nature and does not include other Maintenance departmental functional costs.

## 48. 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 includes 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 licences, 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.

## 49. INTERVENTION INCOME

**2023**  
 R

**2022**  
 R

### ROOIWAAL INTERVENTION

Intervention income - 5% Management fee

60 461

1 162 202

**60 461**
**1 162 202**

Ekurhuleni water care company (ERWAT) was appointment 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 is 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 capitalization
- 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 exists which confers enforceable rights and obligations on the parties to the arrangement.

In this arrangement COT is considered the Principal and ERWAT the Agent.

## 49. INTERVENTION INCOME (CONT.)

---

### 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 in 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.) are solicited from PSPs prior to concluding contracts 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 capitilisation 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 Implemenation Agent shall undertake any other functions relating to the project scope of work to give effect to the objectives of this agreement.

## 49. 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.

## 50. IMPAIRMENT OF ASSETS

### IMPAIRMENTS

	<b>2023</b>	<b>2022</b>
	<b>R</b>	<b>R</b>
Property, plant and equipment*	48 371 107	-
Infrastructure: Wastewater Works	46 974 101	-
Furniture and Fixtures	356 595	-
Plant and Machinery	720 303	-
Motor Vehicles	320 108	-
	<b>48 371 107</b>	<b>-</b>

Impairment of assets were as a result of assets no longer functioning in the manner as intended by management due to either their condition or performance.



# Glossary

# 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 AGSA.
<b>Approved Budget</b>	The annual financial statements of a municipality as audited by the AGSA 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”.

<b>Outputs</b>	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.
<b>Performance Indicator</b>	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)
<b>Performance Information</b>	Generic term for non-financial information about municipal services and activities. Can also be used interchangeably with performance measure.
<b>Performance Standards:</b>	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.
<b>Performance Targets:</b>	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.
<b>Service Delivery Budget Implementation Plan</b>	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.
<b>Vote</b>	<p>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.</p> <p>Section 1 of the MFMA defines a "vote" as:</p> <ol style="list-style-type: none"> <li>a) <i>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</i></li> <li>b) <i>which specifies the total amount that is appropriated for the purposes of the department or functional area concerned</i></li> </ol>



# 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 responsible as the disclosure of director remuneration 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 optimization 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 Entity

ENTITY FUNCTIONS	Function Applicable to Municipality (Yes / No) *	Function Applicable to Entity (Yes / No)
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

# Recommendations of the Municipal Committee

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

# Long-term Contracts and Public Private Partnership

ERWAT did not have Public Private Partnerships during the 2022/2023 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.

## Functions of Entity

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	2021/2022		2022/2023	
		Target	Actual	Target	Actual
<b>Ekurhuleni Water Care Company (ERWAT):</b>	Percentage of wastewater treatment capacity unused	N/A	N/A	-50%	-44%
	Total revenue generated from external business	R 32 200 000	R40 547 891	R34 000 000	R 39 837 379
	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	82.5%	84.75%	77.5%	80%
	Percentage of Capital expenditure on planned projects	95%	99.59%	95%	96.43%
	Percentage of repairs and maintenance budget spent	95%	89.22%	95%	84.73%
	Percentage of procurement spend allocated to SMME's	45%	91.4%	45%	95%
	Number repeat audit findings	0 audit findings cleared	4 audit findings cleared in full by the end of Q4 2021/2022	0 audit findings cleared	5 audit findings cleared in full by the end of Q4 2022/2023

Entity	(a) Service Indicators	2021/2022		2022/2023	
		Target	Actual	Target	Actual
<b>Ekurhuleni Water Care Company (ERWAT):</b>	Total rand value of surplus realized from revenue generated from external business	R6 500 000	R23 672 900	R10 000 000	R21 966 863
	Percentage of total municipal operating expenditure spent on contracted services physically residing within the municipal area	N/A	N/A	8%	7%
	Total Operating Expenditure as a percentage of Total Operating Expenditure Budget	N/A	N/A	95%	87.00%
	Irregular, Fruitless and Wasteful, Unauthorised Expenditure as a percentage of Total Operating Expenditure	N/A	N/A	0%	69.29%
	Repairs and Maintenance as a percentage of property, plant, equipment and investment property	N/A	N/A	4%	7.47%
	Percentage of tender cancellations	N/A	N/A	5%	4.16%
	Net Surplus / Deficit Margin for Wastewater	N/A	N/A	49%	16.06%

# Disclosure of Financial Interest

Period 1 July 2022 to 30 June 2023		
Position	Name	Description of Financial Interests (Nil / or Details)
Managing Director	Mr. Kennedy Chihota	Nil
Chief Financial Officer (Resigned)	Mr. Kedibone Mashaakgomo	Nil
Company Secretary	Ms. Zimasa Socikwa	Nil
Head of Department: Scientific Services	Ms. Alison Chapman	Nil
Interim Head of Department: Operations	Ms. Loura Roode	Nil
Head of Department: Human Resources	Mr. Rodney Barnes	Nil
Interim Head of Department: Commercial Business	Ms. Debbie Hlabioa	Nil
Interim Head of Department: Infrastructure Planning and Projects	Mr. Siphon Mateza	Nil
Interim Head of Department: Maintenance	Mr. Leonard Chueu	Nil
Interim Chief Financial Officer	Mr. Shaheed Dinath	Nil

# Revenue Collection Performance

APPENDIX K (I): REVENUE COLLECTION PERFORMANCE BY VOTE						
Vote Description	2021/22		Current: 2022/23		2022/23 Variance	
	Actual	Original Budget	Adjusted Budget	Actual	Original Budget	Adjustments Budget
73121341150FAZZZZER	6 021 680	3 722 160	14 700 000	22 796 480	612%	155%
73481423300FAZZZZER	26 959 993	34 000 000	34 000 000	29 225 108	86%	86%
73501423300FAZZZZER	1 142 878 261	1 277 925 684	1 336 988 475	1 336 988 476	105%	100%
73331423300FAZZZZER		-	-		0%	0%
73171420910FAZZZZER		-	-	-	0%	0%
73311423300FAZZZZER	1 162 201	-	-	60 461	0%	0%
73121252810FAZZZZER	146 797 610	80 000 000	70 000 000	70 000 000	88%	0%
73171420910FAZZZZER	30 819 051	-	-	-	0%	0%
73251144470FAZZZZER	926 664	-	-	667 783	0%	0%
73122300501ZMRCZZER		-	-	-	0%	0%
73301425510FAZZZZER	250	-	-	-	0%	0%

Vote Description	2021/22		Current: 2022/23		2022/23 Variance	
	Actual	Original Budget	Adjusted Budget	Actual	Original Budget	Adjustments Budget
73481420911FAZZZZER	10 760 592	-	-	10 551 809	0%	0%
73121380900FAZZZZER	114 427	-	-	400 739	0%	0%
73121342020FAZZZZER	59 925	-	-	111 753	0%	0%
73121341000FAZZZZER	4 551 608			6 055 909	0%	0%
73122300501FAMRCZZER	29 780			-	0%	0%
<b>Total Revenue by Vote</b>	<b>1 371 082 042</b>	<b>1 395 647 844</b>	<b>1 455 688 475</b>	<b>1 476 858 518</b>	<b>106%</b>	<b>101%</b>

APPENDIX K (II): REVENUE COLLECTION PERFORMANCE BY SOURCE						
Description	2021/22		Current: 2022/23		2022/23 Variance	
	Actual	Original Budget	Adjusted Budget	Actual	Original Budget	Adjustments Budget
Service charges	1 142 878	1 277 926	1 336 988	1 336 988	105%	100%
Development contribution	30819	0	0	0	0%	0%
Intervention Income	1162	0	0	60	0%	0%
Other income	38 792	34 000	34 000	40 845	120%	120%
Interest received – investment	10 573	3 722	14 700	28 852	775%	196%
Dividends received	60	0	0	112	0%	0%
Government grants and subsidies	146 798	80 000	70 000	70 000	88%	100%
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>1 371 082</b>	<b>1 395 648</b>	<b>1 455 688</b>	<b>1 476 859</b>	<b>106%</b>	<b>101%</b>

Variances 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						
Vote Description	2021/22		Current: 2022/23		2022/23 Variance	
	Actual	Original Budget	Adjusted Budget	Actual	Original Budget	Adjustments Budget
Other grant providers – the CoE capital grant	155 016	80 000	70 000	70 000	88%	100%
<b>TOTAL</b>	<b>155 016</b>	<b>80 000</b>	<b>70 000</b>	<b>70 000</b>	<b>88%</b>	<b>100%</b>

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

APPENDIX M(I): CAPITAL EXPENDITURE – NEW ASSETS PROGRAMME							
Vote Description	2021/22		2022/23		Planned Capital expenditure		
	Actual	Original Budget	Adjusted Budget	Actual Expenditure	2023/24	2024/25	2025/26
<b>CAPITAL EXPENDITURE BY ASSET CLASS</b>							
<b>Infrastructure - Total</b>		<b>78 491</b>	<b>89 602</b>	<b>85 938</b>	<b>98 156</b>	<b>100 203</b>	<b>124 050</b>
Sewerage purification				85 938	98 156	100 203	124 050
<b>Other assets - Total</b>	<b>24 254</b>	<b>13 068</b>	<b>13 068</b>	<b>13 068</b>	<b>29 490</b>	<b>11 797</b>	
General vehicles	3 144						
Plant & Equipment	16 115	9 863	9 863	9 863	29 490	11 797	
Furniture and other equipment	4 995	668	668	668			
Buildings		2 537	2 537	2 537			
<b>Intangibles</b>							
Computers - software & programming							
<b>TOTAL</b>	<b>24 254</b>	<b>91 558</b>	<b>102 670</b>	<b>99 006</b>	<b>127 646</b>	<b>112 000</b>	<b>124 050</b>

APPENDIX M(II): CAPITAL EXPENDITURE – UPGRADE/RENEWAL PROGRAMME							
Vote Description	2021/22		2022/23		Planned Capital expenditure		
	Actual	Original Budget	Adjusted Budget	Actual Expenditure	2023/24	2024/25	2025/26
<b>CAPITAL EXPENDITURE BY ASSET CLASS</b>							
<b>Infrastructure - Total</b>	<b>130 725</b>						
Sewerage purification	130 725						
<b>Other assets - Total</b>							
General vehicles							
Plant & Equipment							
Furniture and other equipment							
Buildings							
<b>Intangibles</b>							
Computers - software & programming							
<b>TOTAL</b>	<b>130 725</b>						

# Capital Programme by Project - Current Year

Capital Programme by Project: 2022/23							
NO	Section	Description	Original Budget	Adjustment Budget	Actual	Variance (Act - Adj) %	Variance (Act - OB) %
1	ERWAT	Scientific Services	6 000 000.00	13 795 429.00	13 582 699.09	98%	226%
2	ERWAT	Olifantsfontein	35 312 152.00	19 737 366.00	19 537 060.50	99%	55%
3	ERWAT	Hartebeestfontein	8 490 288.00	11 403 473.00	10 790 004.15	95%	127%
4	ERWAT	Ancor	3 649 929.00	1 476 226.00	1 476 230.37	100%	40%
5	ERWAT	Benoni	1 300 000.00	3 241 519.00	2 405 257.23	74%	185%
6	ERWAT	C Grundling	7 667 353.00	12 740 973.00	11 625 574.00	91%	152%
7	ERWAT	Heidelberg	1 903 968.00	1 903 968.00	1 902 306.39	100%	100%
8	ERWAT	H Bickley	1 992 409.00	1 776 122.00	1 776 121.91	100%	89%
9	ERWAT	Jan Smuts	348 193.00	1 294 195.00	1 261 982.20	98%	362%
10	ERWAT	JP Marais	1 991 510.00	3 806 364.00	3 603 030.49	95%	181%
12	ERWAT	Daveyton	703 652.00	922 216.00	917 345.26	99%	130%
13	ERWAT	Rynfield	1 458 276.00	1 377 953.00	1 350 520.44	98%	93%
14	ERWAT	Ratanda	1 194 389.00	1 194 389.00	1 193 191.91	100%	100%
15	ERWAT	Tsakane	1 795 545.00	1 827 846.00	1 827 843.40	100%	102%
16	ERWAT	Welgedacht	7 042 079.00	10 652 254.00	10 579 792.35	99%	150%
17	ERWAT	Dekema	2 864 932.00	5 015 052.00	4 872 832.03	97%	170%
18	ERWAT	Rondebult	1 230 408.00	1 180 585.00	1 180 584.60	100%	96%
19	ERWAT	Vlakplaats	3 122 956.00	4 717 913.00	4 517 861.27	96%	145%
20	ERWAT	Waterval	3 490 761.00	4 606 601.00	4 605 666.88	100%	132%
<b>TOTAL CAPITAL REQUIREMENT</b>			<b>91 558 800.00</b>	<b>102 670 444.00</b>	<b>99 005 904.47</b>	<b>96%</b>	<b>108%</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: 2022/23				
All Organisation or Person in receipt of Loans */Grants* provided by the municipality	Nature of project	Conditions attached to funding	Value	Total Amount committed over previous and future year
<b>INCA</b>	LONG TERM INFRASTRUCTURE PROJECTS		12 074 342	22 721 757
<b>NEDBANK</b>	LONG TERM INFRASTRUCTURE PROJECTS		277 615 137	84 615 385

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

APPENDIX S

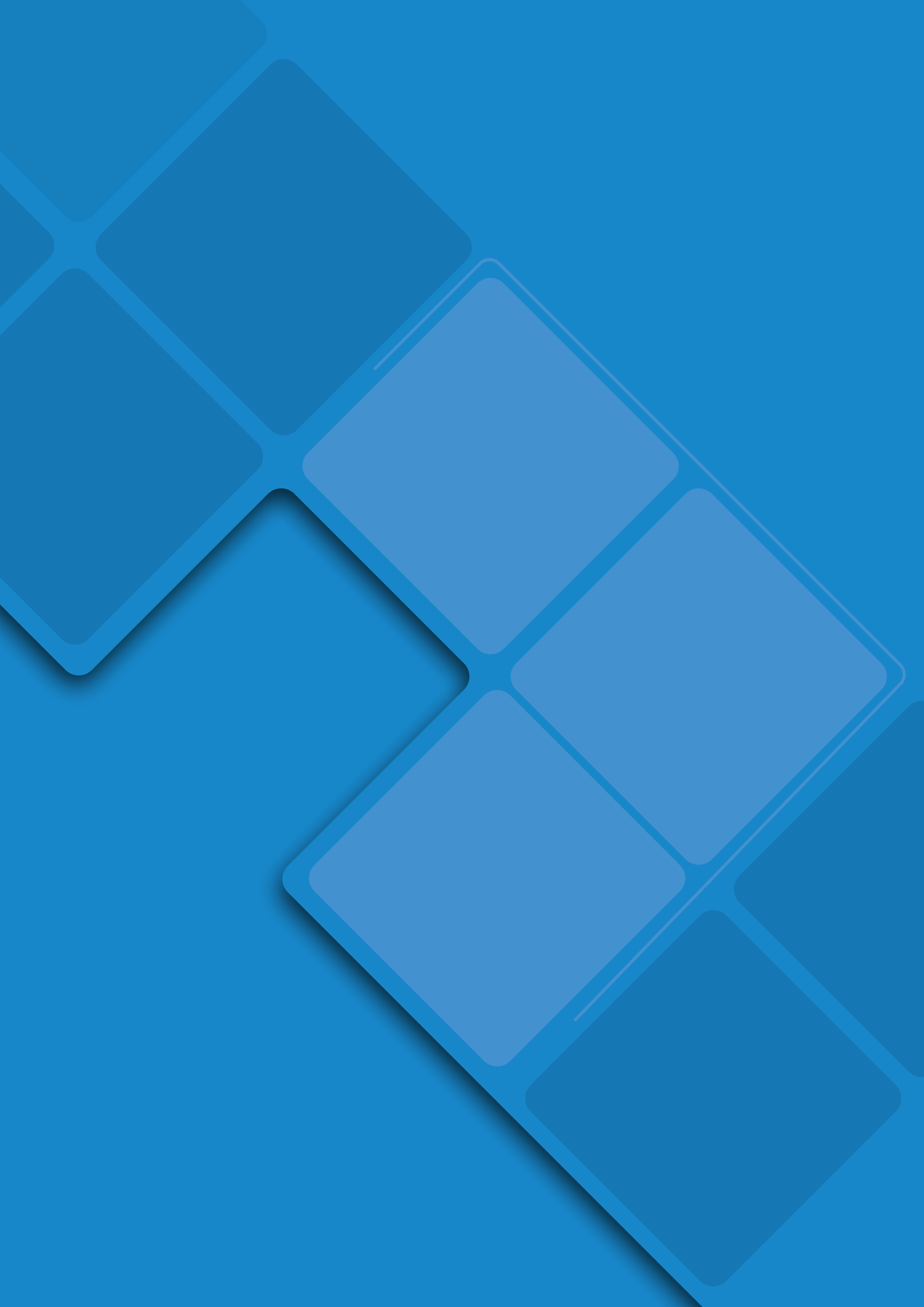
# Declaration of Returns not Made in Due Time under MFMA S71

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

APPENDIX T

# National and Provincial Outcome for Local Government

Not applicable





## **ERWAT HEAD OFFICE**

Hartebeestfontein Office Park  
R25 (Bronkhorstspruit/Bapsfontein Road)  
Kempton Park

P.O Box 13106  
Norkem Park  
1631

Tel: +27 11 929 7000  
Email: [mail@erwat.co.za](mailto:mail@erwat.co.za)  
Web: [www.erwat.co.za](http://www.erwat.co.za)

Tel: +27 11 929 7000  
Email: [sales@erwat.co.za](mailto:sales@erwat.co.za)

**[www.erwat.co.za](http://www.erwat.co.za)**