



ANNUAL REPORT  
**2018/19**





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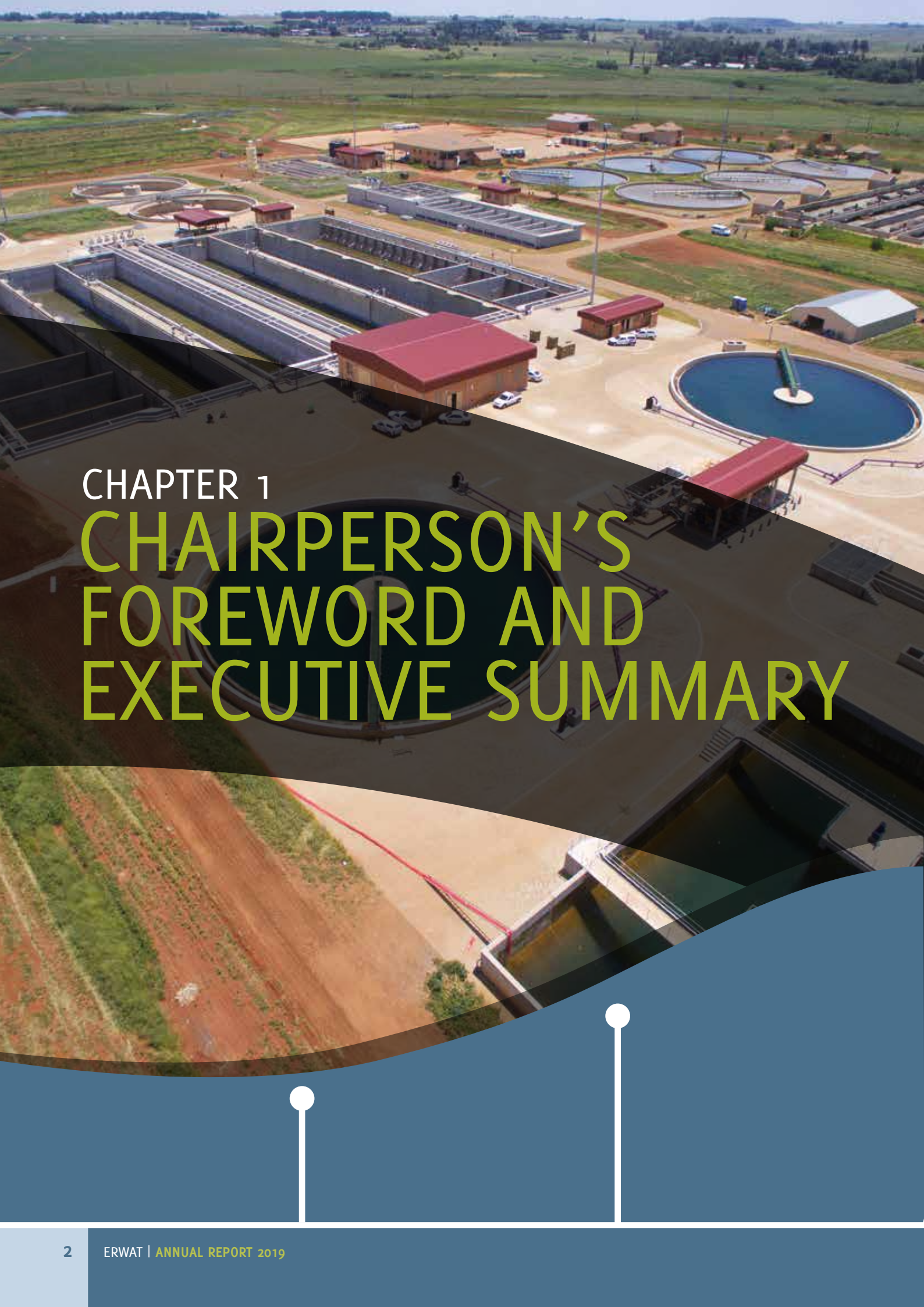
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# TERMS AND ABBREVIATIONS

TERM / ABBREVIATION	DESCRIPTION
<b>AG</b>	Auditor-General
<b>B-BBEE</b>	Broad-Based Black Economic Empowerment
<b>BNR</b>	Bio-Nutrient Removal
<b>CSR</b>	Corporate Social Responsibility
<b>CoE</b>	City of Ekurhuleni
<b>CSIR</b>	Council for Scientific and Industrial Research
<b>DWS</b>	Department of Water and Sanitation
<b>ERP</b>	Enterprise Resource Planning
<b>ERWAT</b>	Ekurhuleni Water Care Company (Non Profit Company)
<b>EWSETA</b>	Energy and Water Sector Training Authority
<b>GCRO</b>	Gauteng City Region Observatory
<b>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>	Megalitres
<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>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

*“With most African states experiencing declining revenues, utilities get less and less share of the national fiscus. That means utilities need to look at new innovative ways of increasing revenue, in order to sustain their operations.”*

### VISION

ERWAT was established in 1992 as a Section 21 company. Its members are the City of Ekurhuleni (CoE) (majority member), Johannesburg Metropolitan Municipality and Lesedi Local Municipality. ERWAT operates 19 Water Care Works and each works is issued with a water use license and/or exemption by the Department of Water and Sanitation (DWS). Each water use license and/or exemption contains the final effluent water quality standards the works must comply with.

ERWAT's vision is to be a global leader in water care and resource recovery. Its mission is to provide sustainable, affordable, quality water care and resource recovery services through partnerships and collaborative initiatives with external role players, utilising smart organisational practices.

ERWAT is taking the strategic direction of our major member, the CoE, into consideration. ERWAT redefined its Facilities Development Plan, 2028 model, in alignment with the CoE's planning for the future of the region. It is pivotal for the entity to achieve green drop status for all the Water Care Works.

ERWAT identified two main strategic objectives:

- Achieve green drop status for all our wastewater treatment plants;
- Increase external business to a turnover of R160 million per annum by 2019

These objectives will enable ERWAT to keep increases in wastewater purification costs to acceptable levels.

No major changes were experienced in the past reporting period, nor are any foreseen in the next reporting period.

### KEY POLICY DEVELOPMENTS

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

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

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

## KEY SERVICE DELIVERY IMPROVEMENTS

It is worth highlighting that the overall water quality green drop compliance achieved 91%. This represents an increase of 4% compared to the previous financial year.

Revenue generated from external businesses was slightly lower than the budgeted revenue of R160 million with an actual achieved revenue of R107 million. Long-term capital expenditure and the funding thereof is very important for the long-term success of ERWAT. Our ability to finance and execute capital projects is paramount.

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 shares the CoE's department of water and sanitation's public participation process. All the comments and views of the community received during this process are channelled through to ERWAT. ERWAT has been appointed by the Department of Water and Sanitation to be an implementing agent on the Vaal Intervention Programme. The board is envisaging that this programme bodes well with the new strategy that has been developed by the board. This intervention is further seen as a boosting revenue generation mechanism.

## FUTURE ACTIONS

The board developed a new strategy for the entity whereby there was a paradigm shift into water resource recovery company. The focus will be mainly on embarking on programmes that were earmarked for revenue generation and other research initiatives. The focus will be on energy renewal programmes through sludge beneficiation, energy neutrality and water reclamation.

In the spirit of good governance, the board and executive management is in the process of adopting King IV. This will strengthen the governance processes and improve reporting.

## AGREEMENTS / PARTNERSHIPS

The following partnerships were initiated and signed off during the year:

- National Department of Public Works (NDPW)
- Energy and water sector education and training authority (EWSETA)
- Lepelle Northern Water (LNW)

The entity has strengthened its collaboration through the ERWAT Chair in Water Research hosted by the Stellenbosch University Water Institute and, as industrial partner, ERWAT currently collaborates on the following projects through the research chair:

- SafeWater Africa
- ReNEW
- Blesbokspruit Wetlands Research and
- WADER

## 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, executive management and staff. The strategic direction and unwavering support of the CoE made it possible for ERWAT to achieve its strategic and operational objectives.

**CJ CORNISH**  
Chairperson of the Board



## COMPONENT B EXECUTIVE SUMMARY BY THE MANAGING DIRECTOR

*“ERWAT, a leading South African Water Care Company, which is state owned, is geared to collaborate with colleagues in the water sector to look at ways and means of ensuring that the water discharged into receiving natural bodies, meets the desired qualities.”*

### 1.1. MANAGING DIRECTOR'S OVERVIEW

#### BACKGROUND

During the period under review, the entity has been able to strengthen its position with the key stakeholder being the CoE and various other stakeholders in the industry. Our ability to meet the expectations of a broad and multicultural customer base often required innovative and continuous inventive approaches when interacting and executing our activities. We cemented our performance by ensuring that all the objectives in our corporate scorecard were met and exceeded expectations.

The entity always factored its mandate and the aspirations of the members into the strategic plans. Operations were very effective in implementing the key deliverables defined in the strategic plan and compliance of the works to the licence conditions, albeit a challenge in capacity which ensures that certain works will not meet all licence conditions one hundred percent. The momentum set in the previous financial year increased during this period and resulted in the entity, once again, delivering on those programmes that served as the mayoral priorities, such as the commissioning of the 50 megalitres per day expansion at the Welgedacht works.

The favourable financial position we have achieved when it comes to increased capital expenditure and prudent management of finances on the operational expenditure side will strengthen our position going forward. Despite the portfolio growth and disproportionate funding in

relation to the portfolio of services, we have been able to cement our position through increased productivity and efficiencies. All departments comprising Operations, Scientific Services, Maintenance, Infrastructure Planning and Projects, Commercial Business, Finance, Human Resources and Secretariat continued to perform at a high standard collectively.

With constant guidance and vigilance, the board of directors, representing the CoE, dedicated itself to ensuring that substantially all the issues that were raised by the Auditor-General in the previous financial year's audit were addressed. Processes were put in place to ensure that the entity's internal controls became more effective.

The annual financial statements were prepared on the basis of accounting policies applicable to a going concern. At 30 June 2019, ERWAT had an accumulated surplus from the inception of ERWAT to date of R1 632 697 299. The total assets exceeded its liabilities by the same amount.

ERWAT's existence is largely dependent on the continued support from the CoE by way of service charges for treatment of wastewater and the provision of related engineering services paid each year in terms of a Service Delivery Agreement and various other agreements, entered into between ERWAT and the CoE.

ERWAT has embarked on a more aggressive drive to increase its share in the market, when it comes to

assessing, designing, constructing and operating Water Care Works on behalf of industrial, municipal and other clients. With potable water fast becoming a scarce commodity, the management and recycling of wastewater is fast becoming a necessity for humanity's sustained survival.

ERWAT has embarked on an ambitious program of setting up a training centre, which will be linked to universities in order to provide practical training for students, as well as to provide further training for staff.

ERWAT will continue to focus on research as well as the training and development of its staff. To this effect ERWAT will develop a five-year Training Master Plan, which will look at the training and development of each individual.

ERWAT is looking at ultimately becoming energy neutral in future. This will be achieved through the investigation of harvesting methane gas for energy generation, incinerating and pulverising sludge for energy generation as well as installing in-line turbines at sewer outfalls and effluent discharge points in order to harness the energy generated.

ERWAT no longer sees itself only as the wastewater treatment company of choice, but as a strategic partner of choice in the wastewater industry, that can collaborate with other players in both the private and public sector in order to take Ekurhuleni, Gauteng, South Africa and the African continent forward.

## 1.2. 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 approximately 8 000 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 671.3 megalitres (Ml) of wastewater, both domestic and industrial, per day. The smallest works treats approximately 1 Ml per day, while the largest works treats up to 170 Ml of wastewater per day. ERWAT also operates and manages industrial effluent treatment works on behalf of industries on their premises, including the provision of scientific services. Most of ERWAT's operations are located in the eastern parts of Gauteng.

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

### COMMENT ON BACKGROUND DATA

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

TABLE 1.1: SANITATION

Number of households by type of toilet			
TYPE OF TOILET	2016/2017	2017/2018	2018/ 2019
Flush toilet	902 129	934 959	971 046
Ventilation improved pit (VIP)	7 498	7 849	8 605
Pit toilet	63 065	63 682	63 136
Bucket system	10 294	11 583	13 588
No toilet	37 180	32 752	27 989
<b>TOTAL</b>	<b>1 020 166</b>	<b>1 050 825</b>	<b>1 084 363</b>

### 1.3. 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 715 Mℓ wastewater per day during the dry season and up to 1 000 Mℓ during the wet season.

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

#### COMMENT ON ACCESS TO BASIC SERVICES

Approximately 10% of households in the municipal area do not have access to basic sanitation services as 6% of households have pit toilets, 1% use the bucket system and 3% do not have toilets.

### 1.4. FINANCIAL HEALTH OVERVIEW

The entity's financial review is premised on the approved 2018/2019 business plan and budget. The entity continued to perform well in most of its financial indicators. Total operating revenue increased from R836.5 million to R905.6 million (8,3%) which includes service charges of R791.9 million in 2018/2019 (2017/2018: R719,9 million).

The entity ended the year with a net surplus of R25.7 million in 2018/2019 (2017/2018: R138,8 million). The

decrease in the net surplus is mainly attributable to a significant write off in developer's contribution received due to two developments that have been stopped by the City coupled with a decrease in other income received from commercial business. Operating expenditure for the year was recorded at R978.7 million against a budgeted expenditure of R974.5 million. The over expenditure is mainly due to an increase in depreciation.

#### 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 R1.63 billion with total assets exceeding total liability by the same amount.

#### SOLVENCY

The decrease in long-term liabilities impacted positively on ERWAT's solvency ratio. It decreased from 0.46 in 2017/2018 to 0.42 in 2018/2019. The solvency ratio might come under pressure in future if alternative funding sources, other than loan funding, cannot be accessed.

#### LIQUIDITY

ERWAT's current ratio declined from 1.14:1 in 2017/2018 to 0.65:1 in 2018/2019.

#### COMMENT ON OPERATING RATIOS

The main cost driver is the employee costs that are reported at 34.28%. Repairs and maintenance are recorded at 16,23 % with finance charges recorded at 5.63%. Apart from employee costs, these are within the expected norms of 30% for employee costs, 20% for repairs and maintenance and 10% for finance charges and impairment.

TABLE 1.2: FINANCIAL OVERVIEW: 2018/2019

DETAILS	ACTUAL 2017/2018 R'000	ORIGINAL BUDGET 2018/2019 R'000	ADJUSTMENT BUDGET R'000	ACTUAL 2018/2019 R'000
<b>INCOME</b>				
Grants	50 000	50 000	92 400	68 164
Development Contribution	79 914	0	0	36 446
User Charges (Service )	719 935	791 928	791 928	791 929
Other	116 258	182 653	182 653	113 637
<b>Sub Total</b>	<b>966 387</b>	<b>1 024 581</b>	<b>1 066 981</b>	<b>1 010 176</b>
Expenses	(833 006)	(974 581)	(974 581)	(978 720)
<b>Operating Surplus</b>	<b>133 381</b>	<b>0</b>	<b>0</b>	<b>31 456</b>
Loss on disposal of assets	(1 078)	0	0	(2 407)
Fair value adjustments – Investment	301	0	0	(206)
Actuarial gains (losses)	6 242	0	0	(3 183)
<b>Surplus (Excluding Grants)</b>	<b>138 846</b>	<b>0</b>	<b>0</b>	<b>25 660</b>

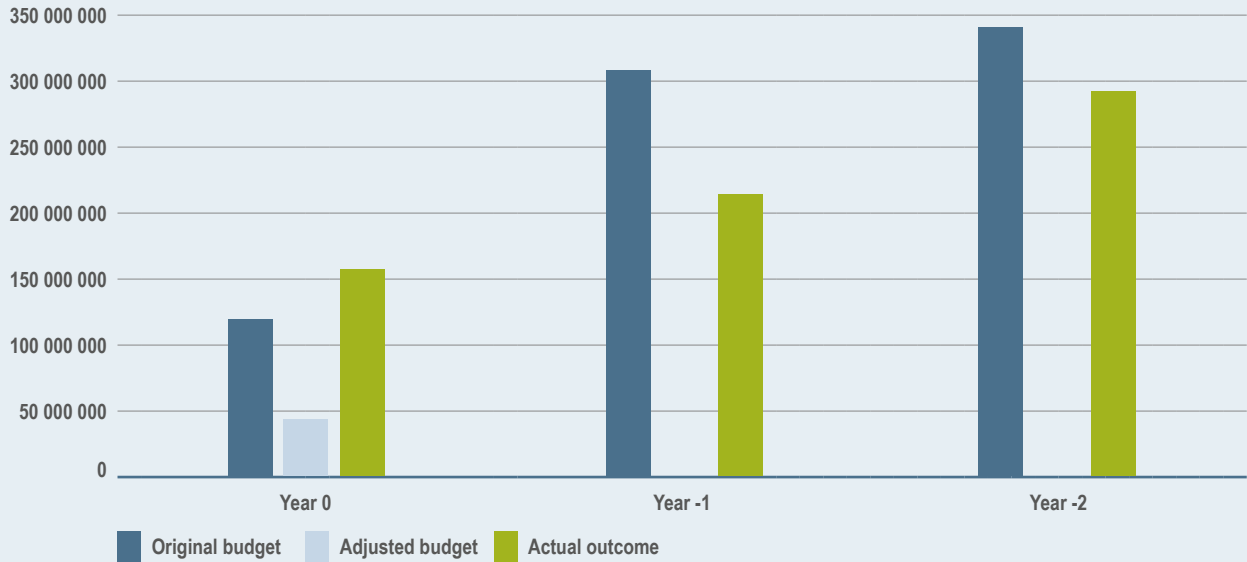
TABLE 1.3: OPERATING RATIOS 2018/19

DETAIL	%
Employee costs	34.28%
Repairs and maintenance	16.23%
Finance Charges	5.63%

TABLE 1.4: TOTAL CAPITAL EXPENDITURE

YEARS 2016/2017 TO 2018/2019	YEAR 2016/2017 R'000	YEAR 2017/ 2018 R'000	YEAR 2018/2019 R'000
<b>DETAIL</b>			
Original Budget	336	309	121
Adjustment Budget	-	-	43
Actual	336	309	164

FIGURE 1.1: TOTAL CAPITAL EXPENDITURE



**COMMENT ON CAPITAL EXPENDITURE**

The approved ERWAT capital expenditure amount was adjusted from R121 804 889 for the 2018/19 financial year to R 160 008 803.00.

The CoE Department of Water & Sanitation allocated an estimated budget amount of R42 million to restore the functionality of the Olifantsfontein WCW.

The approved Capex Budget of R164 mMillion for the 2018/2019 financial year (FY) is allocated to support economic development and service delivery.

**1.5. 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.

**1.6. AUDITOR-GENERAL REPORT**

**AUDITOR-GENERAL REPORT: 2017 / 2018**

The Auditor-General (AG) issued an unqualified audit opinion for 2017/2018 with emphasis of matter issues. The findings contained in both the audit report and final management report were addressed by way of an operation clean audit (OPCA) plan. This was developed to address these findings in order to improve the entity's systems and prevent any recurrence going forward. The majority of findings were dealt with successfully and progress has been made in addressing the rest.

The emphasis of matter issue relates to the restatement of the corresponding figures for June 2018. These figures were restated as a result of errors discovered in the comparative figures (2017/2018) during the preparation phase of the 2018/2019 financial statements.

## 1.7. STATUTORY ANNUAL REPORT PROCESS

TABLE 1.5: 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	July
2	Implementation and monitoring of approved budget and strategic plan commences (In-year financial reporting).	
3	Finalise the 4th quarter report for previous financial year	
4	Submit draft 2018/19 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	August
8	Chairperson tables the unaudited annual report	
9	Company submits draft annual report including consolidated annual financial statements and performance report to AG	
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 starts to address the AG's comments	November
13	Chairperson tables annual report and audited financial statements to members complete with the AG's Report	
14	Audited annual report is made public and representation is invited	
15	Oversight committee assesses annual report	
16	Board adopts oversight report	December
17	Oversight report is made public	
18	Oversight report is submitted to relevant provincial councils	
19	Commencement of draft budget/ strategic plan finalisation for next financial year. Annual report and oversight reports to be used as input	January

### COMMENT ON THE ANNUAL REPORT PROCESS

The company has improved on compliance with MFMA Circular No 63 on an incremental basis. The annual report will therefore be tabled to the relevant CoE department with apposite authority to review the report on whether it succinctly follows the broad guidelines of the template provided by National Treasury whilst properly taking into account 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.

A photograph of a water treatment facility featuring several cascading waterfalls. The water is clear and flows over concrete structures. The scene is captured from a slightly elevated angle, showing the texture of the falling water and the surrounding concrete. The image is partially obscured by a dark, curved graphic overlay.

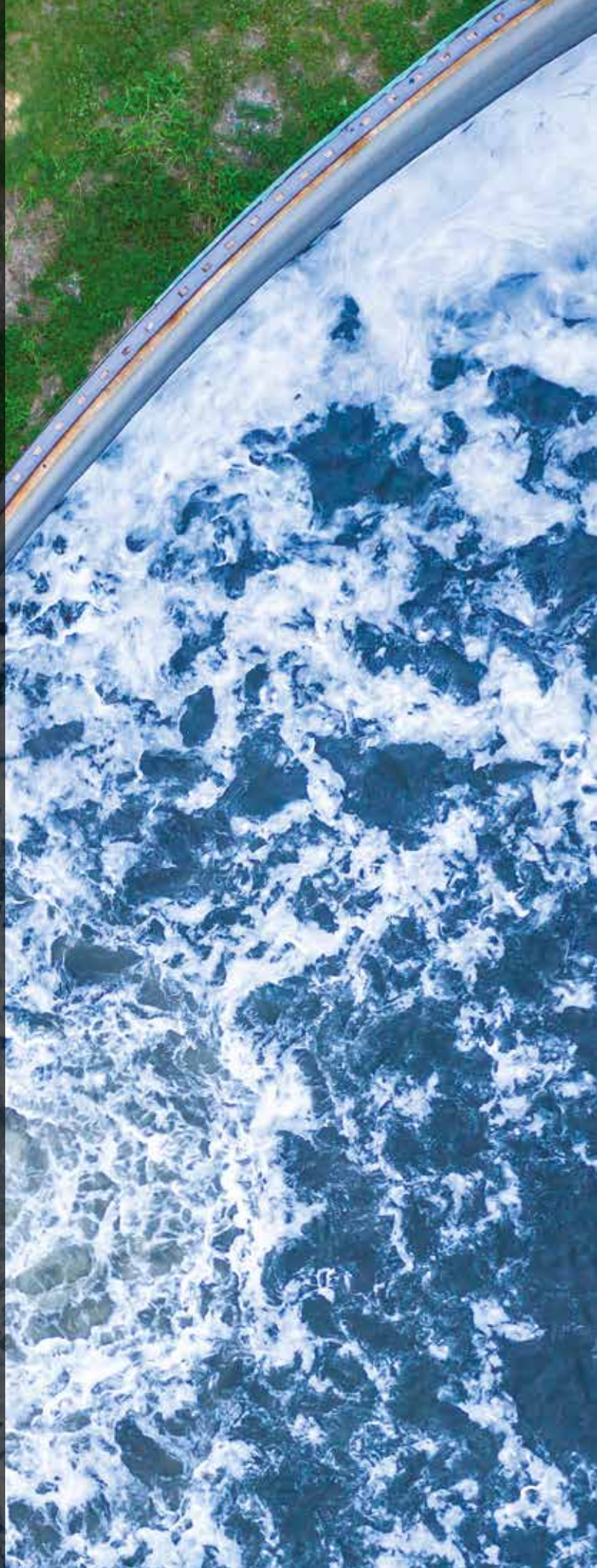
## CHAPTER 2 GOVERNANCE

## 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, has been defining characteristics of the entity since the company's establishment in 1992.

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

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



# POLITICAL AND ADMINISTRATIVE GOVERNANCE

## INTRODUCTION TO POLITICAL AND ADMINISTRATIVE GOVERNANCE

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

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

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

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

The protocol is premised on the principles enunciated in the King IV. The company steadfastly consolidated its position in respect of adherence to the King IV. The entity practices are, in most material instances, in line with the principles set out in the King IV Report. Ongoing steps are however taken to align practices with King IV's

recommendations and the board continually reviews our progress to ensure that we improve our corporate governance.

During the year under review, the company entrenched its risk management reviews and reporting and compliance assessments were conducted in terms of the Companies Act and the Municipal Finance Management Act (MFMA). An annual report for the previous year was effectively completed in accordance with the terms of section 121 of the MFMA.

## 2.1 POLITICAL GOVERNANCE

### INTRODUCTION TO POLITICAL GOVERNANCE

#### BOARD OF DIRECTORS

ERWAT's board of directors consisted of one executive and eight non-executive directors from 1 July 2018 to 31 October 2018. Five of the eight non-executive directors later retired as board members and two more members were appointed to serve as on the board from 1 November 2018. 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 a 97% stake 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:

- (a) Setting strategic direction and goals of ERWAT and monitoring management's implementation of that strategy;
- (b) Appointing such committees of ERWAT as may be appropriate to assist in the discharge of its responsibilities and to determine their responsibilities;

- (c) Ensuring that procedures and practices are in place that protect ERWAT's assets and reputation;
- (d) Monitoring financial outcomes and the integrity of reporting, in particular approving annual budgets and longer-term strategic and business plans;
- (e) Ensuring that effective audit, and compliance systems are in place to protect the ERWAT's assets and to minimise the possibility of ERWAT operating beyond legal requirements or beyond acceptable risk parameters;
- (f) Monitoring compliance with regulatory requirements and ethical standards.

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

Key committees are functional for Governance Risk and Compliance (GRC), Operations, Remuneration and Ethics, Research Development & Commercial Business. The company does not have an audit committee as the oversight function is incorporated under Governance Risk and Compliance Committee. The CoE Audit Committee performs the role of the audit function for the municipal entities.

Appendix A sets out committees and committee purposes.

**TABLE 2.1: ERWAT BOARD OF DIRECTORS**

BOARD MEMBER CAPACITY	EXECUTIVE / NON-EXECUTIVE DIRECTOR	RACE	GENDER	DESIGNATION
Mr CJ Cornish	Non-Executive	Coloured	Male	• Chairperson: Board of Directors
Dr KC Wall	Non-Executive	White	Male	• Chairperson: Operations Committee • Member: Research, Development & Commercial Business
**Dr N Skeepers	Non-Executive	Coloured	Female	• Chairperson: Research, Development & Commercial Business • Member: Operations
Mr D Coovadia	Non-Executive	Indian	Male	• Member: Governance Risk & Compliance • Member : Remuneration & Ethics
**Ms G Mahlangu	Non-Executive	Black	Female	• Chairperson: Remuneration & Ethics • Member: Governance Risk & Compliance
*Ms S Themba	Non- Executive	Black	Female	• Member: Governance Risk & Compliance • Member: Remunerations & Ethics
*Ms N Sidondi	Non-Executive	Black	Female	• Member: Governance Risk & Compliance • Member: Operations
*Adv M Mochatsi	Non-Executive	Black	Male	• Chairperson: Remuneration & Ethics • Member: Operations
*Mr M Mdingi	Non-Executive	Black	Male	• Member: Governance, Risk & Compliance
Mr T Gopane	Executive	Black	Male	• Managing Director

\*\* Appointed 01 November 2018

\* Retired 31 October 2018

## BOARD MEMBERS



### MR CRAIG CORNISH

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

He has vast experience in auditing and financial accounting including forensic audits. He has served on a number of boards in the public and private sectors.



### ADV MOFEREFERE MOCHATSI

Advocate Mochatsi has the following qualifications:

- BA Honours: Geography;
- PGD: Tertiary Education (D.T.E);
- B.Ed, Masters Diploma in Human Resources;
- Master of Education;
- D.Ed;
- LLB; and
- PGD: Drafting & Interpretation of Contracts, Curriculum Management, Financial Management, Masters of Law.

He has extensive experience in law and education.

He is registered with the following professional bodies and associations: IoDSA, CIGFARO, ASTD, SACE.



### DR KEVIN WALL

#### NON-EXECUTIVE DIRECTOR

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

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

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

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



### MS NOMPILO SIDONDI

#### NON-EXECUTIVE DIRECTOR

Ms Nompilo Sidondi has the following qualifications: B. Proc, Postgraduate Dip: Income Tax Law, Certificate Banking and Financial Markets.

She is an experienced legal advisor with over 18 years of experience.

She has vast experience in advisory of public private partnership project structuring at National Treasury level.

Her term as an ERWAT Board Member came to an end on the 31st October 2018



### MS ESTHER THEMBA

#### NON-EXECUTIVE DIRECTOR

Ms Esther Themba has the following qualifications: BA (Hons) Social Work, Bachelor of Arts in Social Work, Master of Management (Public & Development Management) – research outstanding.

She has vast experience in advisory of public private partnership project structuring as well as contract management.

She has held positions of deputy director and director in government institutions.

Her term as ERWAT Board Member came to an end on the 31st October 2018.



### MR DAWOOD COOVADIA

#### NON-EXECUTIVE DIRECTOR

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

He has vast experience in Auditing, Finance, Risk and Corporative Governance and has served on a number of Boards within the public sector sphere and is a Justice of the Peace (Jhb).

He is a qualified Chartered Accountant and also a member of the following professional institutions:

FSAIM, FIAC, FCIS, CMC, FIMC, MIBA, PIA(SA), FIIASA, CAT(UK) and IOD (SA).



### MR MAZENGELONKE MDINGI

#### NON-EXECUTIVE DIRECTOR

Mr Mazengelonke Mdingi has the following qualifications: BTech in Education Management, Certificate in Advanced project management and Advanced Diploma in Management. Mr Mdingi served as a director of independent schools and as chief specialist in Human Resource Management.

His terms as an ERWAT Board Member came to an end on the 31st October 2018.



### MR LUCKY BOKABA

#### NON-EXECUTIVE DIRECTOR

Mr Lucky Bokaba has the following qualifications: BSc Mechanical Engineering, Management Certificates in Business, Basics of Supply Chain, and Entrepreneurship Development. Diploma in Management. Credits in MBA courses (dissertation pending). Researched and developed a proof of concept electricity generator (incomplete).

Industrial experience: Business development, turnaround strategies yielding business operations improvements in cost savings, production, SHEQ, plant maintenance and pre-production product testing. Tech training-fit, elect, boiler, diesel and gas testing. International Corporate experience.

His term as an ERWAT Board Member came to an end on the 31st October 2018.



**MS GRACE MAHLANGU**

NON-EXECUTIVE DIRECTOR

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



**DR NATALIE SKEEPERS**

NON-EXECUTIVE DIRECTOR

Dr Natalie Skeepers has the following qualifications:

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

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

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



**MR TUMELO GOPANE**

MANAGING DIRECTOR

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

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

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

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



**MS ZIMASA SOCIKWA**

COMPANY SECRETARIAT

Ms Zimasa Socikwa is a Chartered Secretary and holds 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.

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.

**TABLE 2.2: BOARD AND BOARD COMMITTEE MEETING ATTENDANCE**

NAME	BOARD MEETING	GOVERNANCE RISK & COMPLIANCE COMMITTEE	REMUNERATION & ETHICS COMMITTEE	OPERATIONS COMMITTEE	RESEARCH, DEVELOPMENT AND COMMERCIAL BUSINESS	BOARD LEKGOTLA	TOTAL
*Mr Craig Cornish	8	-	-	-	-	1	9
**Mr Lucky Bokaba	3	-	2	1	-	0	6
Mr Dawood Coovadia	6	3	4	-	-	1	14
**Adv. Moferefere Mochatsi	3	1	2	1	-	0	7
**Ms Nompilo Sidondi	0	1	1	1	-	0	3
Dr Kevin Wall	8	1	1	3	2	1	16
**Ms Esther Themba	3	1	2	-	-	0	6
**Mr Mazengelonke Mdingi	3	-	-	-	-	0	3
***Dr Natalie Skeepers	4	-	-	2	2	1	9
***Ms Grace Mahlangu	5	2	2	1	-	1	11

\* Board Chairperson

\*\* Retired 31 October 2018

\*\*\* Appointed 1 November 2018

## BOARD SUB-COMMITTEES

The sub committees of the board have been established with each committee comprising at least three members. The first Research, Development and Commercial Business Committee meeting was convened on the 24th January 2019.

## DECISION-TAKING

Decisions are taken at board level. The member representative acts as an observer to the board meetings and decisions. It is the responsibility of executive management to implement the decisions.

## 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 executives recognise and are committed to the principles of openness, integrity, and accountability as are recommended by King IV. Through this process, the members and other stakeholders derive assurance that the entity is ethically managed.

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

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

These controls are monitored throughout in the form of the 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 role 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 executive management. The managing director reports to the board and is responsible for the implementation of company policy, the organisational 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>	
Tumelo Gopane	Managing Director
<b>SECOND TIER</b>	
Zimasa Socikwa	Company Secretary
Wim Louw	Chief Financial Officer
Rodney Barnes	Executive Manager: Human Resources
Alison Chapman	Executive Manager: Scientific Services
Fortune Mabunda	Executive Manager: Operations
Mikgane Tsotetsi	Executive Manager: Commercial Business
Leonard Chueu	Interim Executive Manager: Maintenance
Emmanuel Khomela	Interim Executive Manager: Infrastructure, Planning and Projects
<b>THIRD TIER</b>	
Johan Engelbrecht	Interim Finance Manager
Chantel Kearns	Interim Supply Chain Manager

## COMPONENT B

# INTERGOVERNMENTAL RELATIONS

### INTRODUCTION TO CO-OPERATIVE GOVERNANCE AND INTERGOVERNMENTAL RELATIONS

Intergovernmental relations are mainly carried out by the CoE at municipal level, particularly through the finance department and department of water and sanitation (DWS), which liaises directly with the entity as deemed appropriate.

At provincial level, a relationship is fostered with the DWS and other water entities and various stakeholders in the water and sanitation industry.

Other relations include Rand Water and other structures.

### 2.3 INTERGOVERNMENTAL RELATIONS

#### NATIONAL INTERGOVERNMENTAL STRUCTURES

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

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

#### PROVINCIAL INTERGOVERNMENTAL STRUCTURE

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

#### RELATIONSHIPS WITH MUNICIPAL ENTITIES

The CoE is the majority member and executive authority of the company. As such, the CoE's primary responsibility is oversight of the entity and to ensure accountability to the state and the communities. ERWAT performs municipal services on behalf of the CoE and forms part of the city's institutional arrangements. The CoE remains legislatively obliged to ensure that municipal services are delivered in accordance with its objectives and legislative mandate.

As a municipal entity, ERWAT is thus subject to the CoE's overall strategic and policy direction, while allowing for the company board and management to exercise relative autonomy in the execution of their fiduciary duties and operational responsibilities. The CoE's current municipal entities include - Ekurhuleni Housing Company SOC Ltd, Brakpan Bus 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 non-participating observer or observers on behalf of the municipality. The municipal representative or representatives exercise the parent municipality's rights and responsibilities at member's meetings.



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

- Monitoring enterprise governance, investment performance and business sustainability;
- Monitoring corporate policies and practices of the municipal entities;
- Playing a regulatory role;
- Monitoring compliance with legislation and the municipality's reporting requirements.
- Monitoring service delivery and strategic alignment
- Monitoring relationships and communication between the municipality and municipal entities

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:

- Establishment of effective municipal entities oversight/monitoring mechanisms
- Mandate and key performance areas/indicators
- Clear definition of roles and responsibilities
- Reporting channels
- Business plans
- 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.

# COMPONENT C

## 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 inputs from the communities are 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 as a whole.



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

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



### 2.5 BUSINESS PLAN PARTICIPATION AND ALIGNMENT

TABLE 2.4: BUSINESS PLAN PARTICIPTION 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 Executive Managers?	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?	Not applicable
Were the indicators communicated to the public?	Yes
Were the four quarter aligned reports submitted within stipulated time frames?	Yes

## COMPONENT D

# CORPORATE GOVERNANCE

### OVERVIEW OF CORPORATE GOVERNANCE

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

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

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

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

### ETHICAL LEADERSHIP

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

### CORPORATE CITIZENSHIP

ERWAT is guided by its social and ethics strategy in the performance of its duties which relate to matters

of social and economic development, good corporate citizenship, environment, and health and public safety as well as consumer relationships. As the 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 the 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

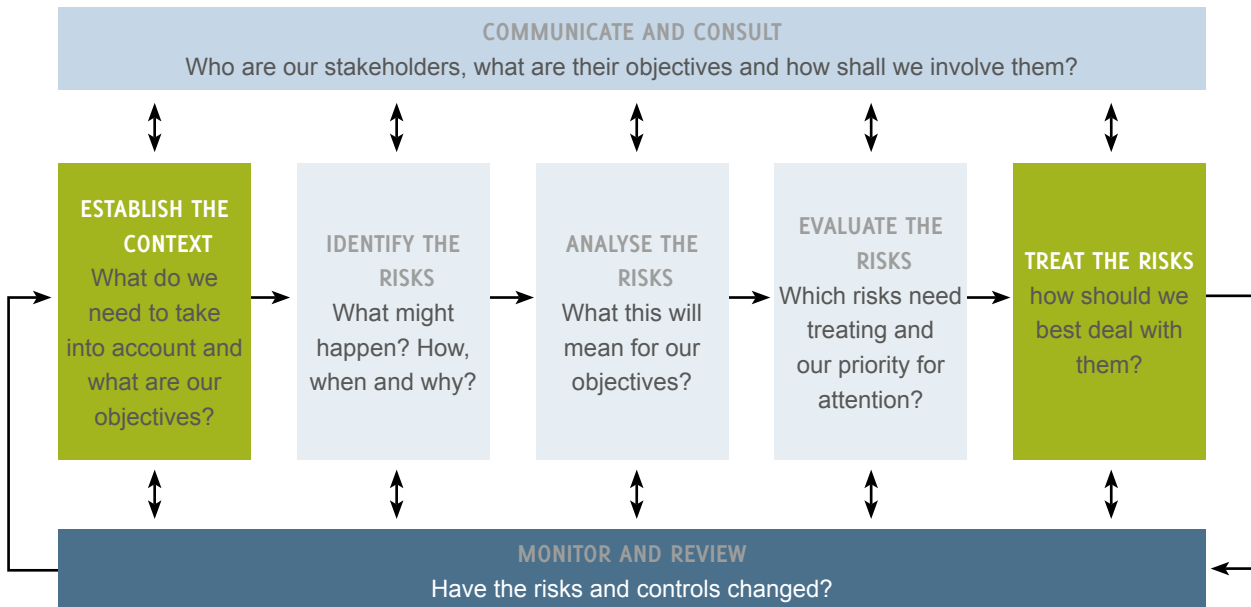
## 2.6 RISK MANAGEMENT

### 2.6.1 ERWAT RISK MANAGEMENT STRATEGY

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

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

FIGURE 2.1: RISK MANAGEMENT PROCESS



The directors subscribe to the principles of good corporate governance and risk management in order to ensure that the Entity fully complies with section 95 of the MFMA. ERWAT considers risk management as a key process that assists top management and the board to achieve its strategic objectives.

The board charter commits the directors to appreciate that strategy, risk, performance and sustainability are inseparable and give effect to this by satisfying itself that all material risks that might impact on strategy and the business plan have been duly considered and addressed by management. There is a continuous monitoring by the board risk committee to ensure the entity maintains an effective, efficient and transparent system of financial, risk management and internal controls.

ERWAT has developed an enterprise risk management (ERM) policy and the risk management framework to formalise risk management within the entity. These documents are reviewed regularly to ensure that current best practices are incorporated. Top management strives to create an enabling environment for the implementation of risk management. There is a common understanding that risk management should benefit the full value chain of the entity.

### 2.6.2 ERWAT CORPORATE RISK PROFILE 2018 /2019

ERWAT has adopted the following best practices public sector risk management framework from National Treasury and ISO 31000 Standard. ERWAT is in the process of adopting the principles of King IV Report on Corporate Governance. These best practices are to ensure that risk management processes within the company are current and relevant.

A formal strategic risk assessment is conducted annually to ensure ERWAT achieves its strategic objectives as set by management and approved by the board. This process strives to achieve the identification of the critical risks the entity may face to enable it to formulate appropriate risk treatment plans to address all material risks. Top management has the responsibility to ensure that risk management strategy and policy is implemented. They do this by taking active responsibility in the risk management process.

The entity has made significant progress to implement the treatment plans that are identified by ensuring that the necessary resources are available.

## 2.6.3 CORPORATE RISK PROFILE

TABLE 2.5: CORPORATE RISK PROFILE

REFERENCE	RISK TITLE	STRATEGIC OBJECTIVE
ERW1 Financial risk	Inability to spend capital budget.	<ul style="list-style-type: none"> <li>Undertake a project to review internal business process mapping to ensure a systematic and seamless running of processes. This will decrease the Supply Chain Management lead time.</li> <li>Formulate a strategy to reduce Supply Chain deviations by implementing Service Master Contracts for emergencies and critical services by extending the use of National Treasury existing Transversal Contracts</li> <li>Streamlining of company-wide reporting to ensure all the relevant stakeholders' reporting needs are met timeously and in the correct format</li> </ul>
ERW2 Financial risk	Inability to raise capital for projects and urbanisation requirements.	<ul style="list-style-type: none"> <li>Embark on an exercise to determine the following               <ul style="list-style-type: none"> <li>Grant Ratio (ERWAT infrastructure asset register value vs CoE infrastructure asset register value)</li> <li>Dividing CoE's revenue between IDP requirements and background infrastructure (60/40% or 70/30%)</li> <li>Establish the total income from sanitation vs ERWAT allocation</li> </ul> </li> <li>Establishment of a formal Internal/External Audit Steering Committee that convenes fortnightly to ensure all critical audit matters are addressed within a reasonable timeframe. The committee members comprise the executive team and senior managers.</li> </ul>
ERW3	Not realising full benefits from sludge beneficiation.	<ul style="list-style-type: none"> <li>Embark on various research projects, prioritise a project to conduct a feasibility study to determine the benefits of sludge beneficiation for internal use and possible generation of revenue.</li> <li>Strengthen existing relationships, establish new ones within the agricultural sector and register ERWAT with institutions like Agri-SA; South African Fertiliser Association in order to advance the interests of all parties involved.</li> <li>Complete heating and mixing infrastructure project as part of the future Integrated Sludge Beneficiation Plant</li> </ul>

TABLE 2.5: CORPORATE RISK PROFILE (CONTINUED)

REFERENCE	RISK TITLE	STRATEGIC OBJECTIVE
ERW4 Infrastructure risk	Inadequate infrastructure capacity to treat wastewater.	<ul style="list-style-type: none"> <li>• Development of a Regionalisation Master Plan, to increase the infrastructure capacity in order to treat wastewater in a growing economy.</li> <li>• Monitoring of the implementation of the recommendations of civil structural audits to improve the integrity of the civil structures</li> <li>• Collaborations being formed on a continuous basis with organisations that are in the forefront of research and development to keep abreast with the latest technology, regular engagements with the ERWAT Research Chair and internal Continuous Improvement Program through employees.</li> <li>• Implementation of the HYBACS Technology at Tsakane Water Care Works</li> <li>• Construction work at Vlakplaats Water Care Works for the modification to flow diversion, final effluent collection, maturation and retention pond</li> </ul>
ERW5 People risk	Ability to attract and retain key skills	<ul style="list-style-type: none"> <li>• Human Resources is critical to the achievement of ERWAT's strategy, with high competition in the water sector. The organisation is in the process of rolling out the career planning framework to all departments. Undertake a benchmarking exercise of similar industries (water boards and other Metros) and to review the Human Resources processes and align with current best practices.</li> </ul>
ERW6 Compliance risk	Changes in legislation with regards to National Water Act and Occupational Health & Safety	<ul style="list-style-type: none"> <li>• Review the Compliance Risk Management Plans and further increase the scope of compliance to ERWAT in the National Water Act and the Occupational Health and Safety Act in order to meet the Green Drop requirements and ensure the highest levels of employee safety.</li> </ul>
Business process risk	Inadequate Business Continuity Management processes	<ul style="list-style-type: none"> <li>• Implement a formal Business Continuity Management System in line with the recognised Business Continuity Management best practice.</li> </ul>
Infrastructure Risk	Possible collapse of infrastructure	<ul style="list-style-type: none"> <li>• Geotechnical Investigation studies were conducted on Olifantsfontein and Hartebeestfontein during Quarter 3. As a Primary Settling Tank (PST) is currently sinking due to dolomite, it was recommended that a new PST be constructed in a non-dolomitic land.</li> </ul>
Financial risk	Inadequate insurance coverage for ERWAT	<ul style="list-style-type: none"> <li>• Regular Gap analysis audits conducted to ensure adequate coverage.</li> </ul>

## 2.7 ANTI-CORRUPTION AND FRAUD

### FRAUD AND ANTI-CORRUPTION STRATEGY

Fraud Risk Management is an aspect of the broader Enterprise Risk Management within ERWAT. There is an approved Fraud Prevention Policy and Fraud Prevention Strategy in place. The strategy seeks to articulate the commitment by management and the Board in implementing Fraud Risk Management as an integral part of the wider scope of Enterprise Risk Management. The policy further outlines the roles and responsibilities of all key role players in this process and ensures ERWAT has strong systems on internal control in place to mitigate the risks.

Outline sound fraud risk management principles that enable ERWAT to better anticipate and respond to any fraudulent activity committed against the organisation. Rapid changes in our economy and lifestyle pressure may present an opportunity for fraud.

### 2.7.2 ANTI-FRAUD STRATEGIES

Management ensures that effective anti-fraud strategies are in place to prevent, deter, reduce and respond appropriately once there are cases of fraud detected. The list is not exhaustive.

- Fraud risk assessment is conducted with an understanding that fraud is a major risk that threatens any business.
- Fraud Risk Training and Awareness through induction programme
- Anti-Fraud Hotline
- Declaration of Interest
- Declaration of Gifts
- Internal Audit Reviews

TABLE 2.6: FRAUD RISK PROFILE

REFERENCE	RISK TITLE	STRATEGIC OBJECTIVE
FR1	Possible abuse of ERWAT fleet	<ul style="list-style-type: none"> <li>• Defensive Driving Plan and a continuous programme to assess individual drivers</li> <li>• Vehicles fitted with a Speed Limiter device and the monitoring of vehicle tracking device reports</li> <li>• Develop a Fleet Safety Programme (31 March 2017)</li> </ul>
FR2	Potential abuse of Supply Chain Management processes	<ul style="list-style-type: none"> <li>• Consequence management for the violation of Supply Chain Management processes</li> </ul>
FR3	Leaking sensitive company (ERWAT) / (ERWAT client) information for personal gain (Intellectual Property)	<ul style="list-style-type: none"> <li>• Awareness on the Protection of Personal Information Act</li> <li>• Management to review internal processes to identify gaps in the current systems</li> <li>• A document management process identified as critical and to be rolled out in the future</li> <li>• Controlled access control to systems</li> </ul>

### EFFECTIVENESS OF RISK MANAGEMENT SYSTEM AND REPORTING

The Board of Directors regularly reports to the parent municipality Risk Committee on the performance and effectiveness of the Risk Management System. The Internal Audit function tests the effectiveness and adequacy of the general internal controls and financial controls. The reports further provide the Audit Committee with an assurance that the control environment is strong and adequate. The system of risk management has improved significantly over the last three years. The parent municipality conducts Board evaluations of the system. The ERM function collaborated with risk champions to co-ordinate risk management activities.



## 2.8 SUPPLY CHAIN MANAGEMENT

### OVERVIEW 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, 2005.

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

- The evaluation of bids is based firstly on functionality, then price and B-BBEE in accordance with National Treasury circulars.
- The adjudication process is applied as per the MFMA and as per the SCM Policy.
- Declaration of interest certificates are required for all parties registering on the supplier database.
- B-BBEE is calculated and based on information received from the suppliers, and verified by certificates confirming their B-BBEE status where possible.

- 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.
- 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 modernise 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.

For the 2017/18 audit ERWAT did not have any material non-compliance with the laws and regulations applicable to SCM.



## 2.9 BY-LAWS

### COMMENT ON BY-LAWS

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

## 2.10 WEBSITES

### COMMENT ON COMPANY WEBSITE CONTENT AND ACCESS

The company strives to display all annual and adjustments budgets and all budget-related documents on the website. This will also include quarterly and annual reports on its website going forward, however, it should be noted that all reports consolidated with the parent municipality are displayed on the CoE's website. Supply management contracts are displayed on the website.

The website was redesigned and launched on 1 March 2019. All relevant information regarding ERWAT as well as access to tenders are available on the website. It is also linked to websites of associated organisations, e.g. CoE, the DWS, the Water Research Commission, WISA and IWA.

TABLE 2.7: COMPANY WEBSITE: CONTENT AND CURRENCY OF MATERIAL

DOCUMENTS PUBLISHED ON THE COMPANY'S WEBSITE	YES/NO	PUBLISHING DATE
Current annual and adjustment and all budget-related documents	NO	N/A
All current budget-related policies	NO	N/A
The previous annual report (2017/2018)	YES	February 2019
The annual report (2018/2019) published/to be published	YES	February 2020
All current performance agreements required in terms of section 57 (1)(b) of the Municipal Systems Act (2018/2019) and resulting scorecards	NO	N/A
All service delivery agreements 2018/2019	YES	N/A
All long-term borrowing contracts 2018/2019	NO	N/A
All SCM contracts above - prescribed values (above R30 000) for 2018/19	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 2018/2019 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 2018/2019	NO	N/A
All quarterly reports tabled in the council in terms of section 52 (d) during 2018/2019	YES	N/A

## 2.11 PUBLIC SATISFACTION ON COMPANY SERVICES

### PUBLIC SATISFACTION LEVELS

According to the 2015 Gauteng City Region Observatory's (GCRO) Quality of Life Survey released in November 2016, the city recorded high satisfaction levels by its residents. The survey revealed that more than 70% of residents have recorded satisfaction with sanitation services. The results of the 2018 survey have not been published yet.

ERWAT conducts customer satisfaction surveys to ascertain the level of customer satisfaction. By retaining

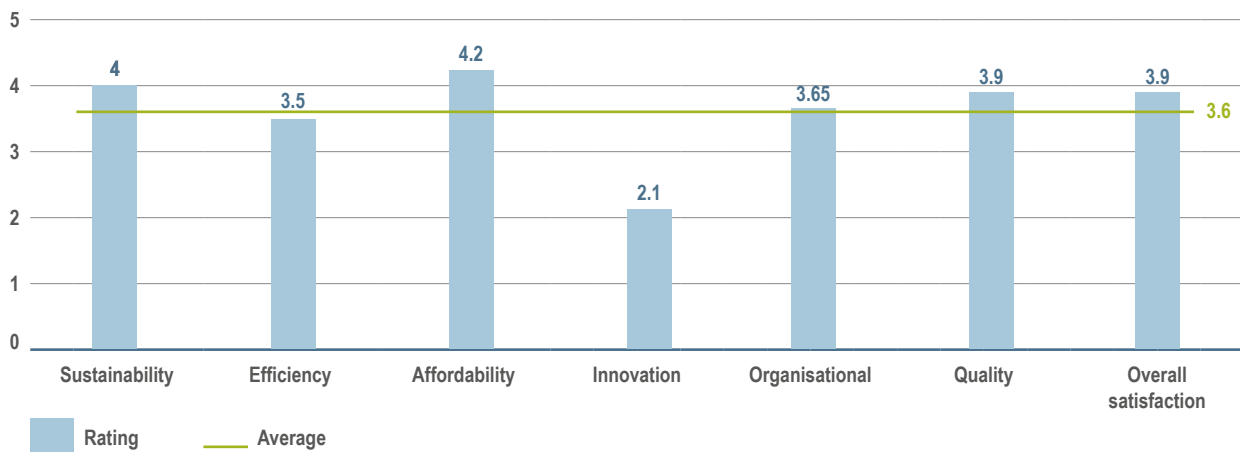
existing customers, it provides for revenue growth by continuous improvement projects and price increases. The outcome of our latest customer satisfaction survey in comparison to the industry average industry is illustrated in the graph below.

### COMMENT ON SATISFACTION LEVELS

ERWAT strives to improve satisfaction levels through its service delivery and strategic direction. ERWAT eagerly awaits the publication of the 2018 Quality of Life survey.

The company strives to improve customer satisfaction levels above the current level of 3.6.

FIGURE 2.2: CUSTOMER SATISFACTION INDEX SCORE ACROSS DIMENSIONS





CHAPTER 3  
**SERVICE DELIVERY  
PERFORMANCE**  
(PERFORMANCE REPORT PART I)

## INTRODUCTION

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.



## COMPONENT A: 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. The number of households with access to flush toilets is increasing. In the 2018/2019 financial year, 971 046 households had access to flush toilets. It is encouraging to note that the number of households without access to toilets has decreased from 37 180 in 2017/2018 to 27 989 in 2018 /2019.

It is a priority to increase the wastewater treatment capacity to cope with the increase in demand.

FIGURE 3.1: HOUSEHOLDS WITH ACCESS TO SANITATION

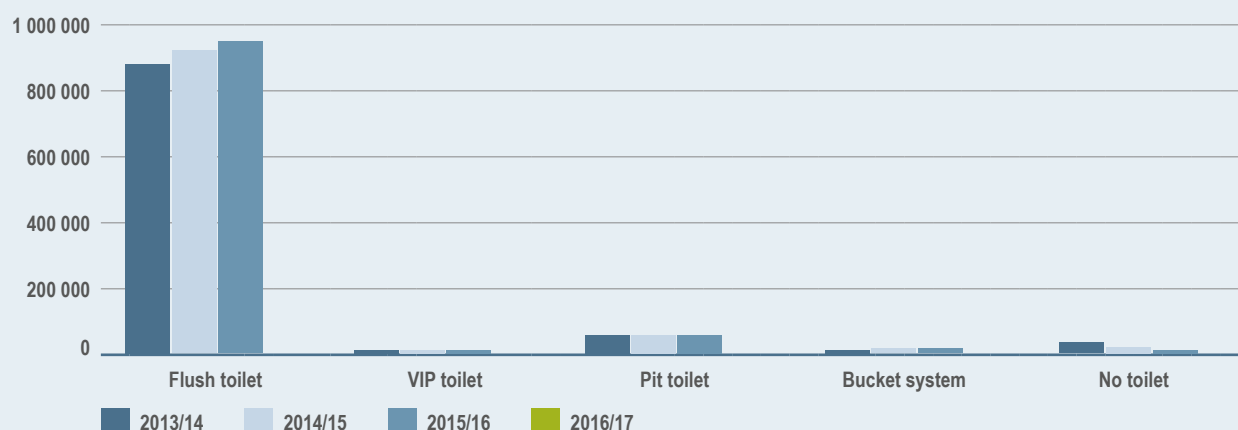


TABLE 3.1: EMPLOYEES: OPERATIONS

JOB LEVEL	2017/2018		2018/19		
	NO OF EMPLOYEES	NO OF POSTS	NO OF EMPLOYEES	NO OF VACANCIES (FULLTIME EQUIVALENTS)	VACANCIES (AS A % OF TOTAL POSTS)
A2	168	175	171	4	2%
B1	66	61	61	0	0%
B2	73	87	83	4	5%
B4	39	42	41	1	2%
B5	3	19	1	18	95%
C1	22	41	38	3	7%
C3	14	27	25	2	7%
C4	8	0	0	0	0%
C5	7	16	16	0	0%
D1	8	7	7	0	0%
D3	3	4	3	1	25%
E1	1	1	1	0	0%

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

To this end the main objective is to comply with the WUL effluent water quality standards at a pre-determined objective per quarter and annually as depicted in Table 1 below.

TABLE 3.2: PRE-DETERMINED CITY-WIDE OBJECTIVES

ENTITY	OUTCOME	REF NO.	PERFORMANCE INDICATOR (OUTPUT LEVEL ONLY)	DESCRIPTION OF PORTFOLIO OF EVIDENCE VERIFIED	BASELINE (ANNUAL PERFORMANCE OF 2017/18)	ANNUAL TARGET FOR 2018/19	ANNUAL PLANNED OUTPUT AS PER SDBIP	ANNUAL ACTUAL OUTPUT
<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 PROMOTE INTEGRATED HUMAN SETTLEMENTS THROUGH MASSIVE INFRASTRUCTURE AND SERVICES ROLLOUT</b>								
<b>IDP STRATEGIC OBJECTIVE 2: TO BUILD A CLEAN, CAPABLE AND MODERNISED LOCAL STATE</b>								
ERWAT	Improved Quality of water (including wastewater).	WS4 36	Total revenue generated from external business	Invoices	R125 million (target 2017/18)	R160 million	R160 million	R107 million
	To build a clean, Capable and Modernised Local State	GG3 37	Audit Opinion received from the external audit (AGSA)	Audit report from AGSA	Unqualified Audit Opinion	Unqualified Audit Opinion	Unqualified Audit Opinion	Unqualified Audit Opinion
<b>IDP STRATEGIC OBJECTIVE 1: TO PROMOTE INTEGRATED HUMAN SETTLEMENTS THROUGH MASSIVE INFRASTRUCTURE AND SERVICES ROLLOUT</b>								
ERWAT	Improved Quality of water (including wastewater)	63	% Compliance with water care works license conditions and/or exemptions standards	Water Quality Data of each Water care works (from the Lab). Spreadsheet used to calculate over all compliance. Applicable Water use authorization of each Water care works.	86%	88%	88%	90%

VARIATION	ACTUAL OUTPUT RATING	PROGRESS ON TARGETS	REASON(S) FOR VARIATION	REMEDIAL ACTION	ANNUAL PLANNED BUDGET	ANNUAL ACTUAL EXPENDITURE
R53 million	Not achieved	R107 million was achieved out of the R160 million target for Q4	The structure was not sales focused to ensure market penetration and sales targets are achieved in order to increase quarterly revenue targets, hence the need to appoint sales engineers.	Implementation of the revised structure that includes sales engineers to focus on all the identified potential market sectors as clearly outlined on our recent ERWAT Commercial Opportunities Business Case.8	R120 million	R 98 716 831
None	Achieved	Target Achieved	N/A	No Remedial Action Required	R1 626 183	R2 358 642
2%	Performance Achieved	Target Exceeded	<ul style="list-style-type: none"> <li>ERWAT successfully negotiated an amendment of licence conditions with DWS, using scientific evidence, to industry norms.</li> <li>Installed HYBACS technology has contributed to an improved effluent compliance of the Tsakane Water care works.</li> <li>Adopting a risk based management process in identifying and mitigating risks.</li> </ul>	None required	R497 048 597	R127 731 834

TABLE 3.3: ENTITY'S SDBIP

ENTITY	OUTCOME	REF NO.	PERFORMANCE INDICATOR (OUTPUT LEVEL ONLY)	DESCRIPTION OF PORTFOLIO OF EVIDENCE VERIFIED	BASELINE (ANNUAL PERFORMANCE OF 2017/18)	ANNUAL TARGET FOR 2018/19	ANNUAL PLANNED OUTPUT AS PER SDBIP	ANNUAL ACTUAL OUTPUT
<b>IDP STRATEGIC OBJECTIVE 1: TO PROMOTE INTEGRATED HUMAN SETTLEMENTS THROUGH MASSIVE INFRASTRUCTURE AND SERVICES ROLLOUT</b>								
ERWAT	Improved Quality of Water including Wastewater	1.M	% Capital expenditure on planned projects	Project progress reports (weekly, quarterly and Annual reports) Payments certificates Invoices	95%	95%	95%	97.44%
	Improved Quality of Water including Wastewater	2.M	% of planned maintenance scheduled	Number of Job Cards received versus number of job cards completed.	New indicator	90%	90%	41%
	Improved Quality of Water including Wastewater	3.M	Rand value-support of SMME's through ensuring appropriate application of preferential procurement practices	Procurement Plan and Invoices Paid.	New indicator	R120 536 966.10	R120 536 966.10	R127 174 840.32
	Improved Quality of Water including Wastewater	4.M	Number of audit findings cleared per quarter.	Number of audit findings cleared per quarter.	29 audit findings cleared in full by the end of Q4 2019	29	29	29

VARIATION	ACTUAL OUTPUT RATING	PROGRESS ON TARGETS	REASON(S) FOR VARIATION	REMEDIAL ACTION	ANNUAL PLANNED BUDGET	ANNUAL ACTUAL EXPENDITURE
+2.44%	Target Exceeded	Target Exceeded	The work done exceeded the target of 95%.	No remedial action required	R164 204 889 Pre -adjustment R120 178 086	R160 008 803
49%	Not Achieved	Not Achieved	Lack of developed maintenance plan and asset care plans	ERWAT is in the process of implementing an asset management strategy, which will address all the maintenance shortfalls.	R103 367 000	R137 183 549
R6 637 874.22	Target Exceeded	Target Exceeded	Maintenance and support services higher due to season (pump stations)	None. Pending approval and reconciliations.	R120 536 966.10	R127 174 840
0	Achieved	29 Findings Cleared	None	No remedial action required	R1 626 183	R2 358 642

## KPI 1 – CITY-WIDE

% compliance with Water Care Works license conditions and/or exemptions standards

### METHOD OF MEASURE

Water Quality analysis of all 19 Water Care Works calculated as a percentage of parameters complying against the set standards as per Water Use Licences/exemptions. The percentage is then averaged to get the overall % compliance.

### EVIDENCE

- Water Quality analysis reports per Water Care Works and per month;
- Quarterly reports, showing the Water Use License standards and compliance calculations;

### ANNUAL TARGET

88%

### ANNUAL ACTUAL

90%

### COMMENT

Achieved.

### REASONS FOR OVERACHIEVING

- ERWAT successfully negotiated an amendment of license conditions with DWS, using scientific evidence, to industry norms.
- Installed HYBACS technology has contributed to an improved effluent compliance of the Tsakane Water Care Works.
- Adopting a risk based management process in identifying and mitigating risks.

- Continuous training and refresher courses of Operations personnel.
- Adopting a risk based management process in identifying and mitigating risks.
- Reduced turn-around times on critical equipment breakdowns

Even though the overall target was achieved, five (5) of the nineteen (19) plants did not achieve the required levels of compliance, for reasons stated under challenges below.

## CHALLENGES

### 1. INDUSTRIAL POLLUTION

Industrial effluent generated by industry and commercial business exceeded the organic design capacities of the Water Care Works therefore affecting the final effluent water quality discharged.

### ACTION TAKEN

A steering committee has been established with the CoE to investigate how the impact of industrial effluent discharged to Water Care Works can be managed and improved by developing an integrated model and review the CoE Schedule A tariff for industrial effluent. The scope of work was finalised and is ready for the appointment of a professional consultant by the CoE HOD: Water and Sanitation.

### 2. TECHNOLOGY LIMITATIONS AND LACK OF INFRASTRUCTURE

- Trickling filter technology: Ancor, Benoni, Jan Smuts, Dekema, Rondebult and Vlakplaats have older trickling filter technology, which is not suitable to treat high strength sewerage containing industrial pollutants.
- Chlorine contacts tanks and associated disinfection equipment: The lack of chlorine contact tanks, insufficient retention time in existing contact tanks and flooding of de-chlorination channels. Tsakane and Ancor have no chlorine contact tanks, affecting disinfection efficiency and impacts negatively on the

final effluent micro compliance. Both plants fail to produce final effluent complying 90% with the Micro standard as per WUL.

- Reduced treatment capacity due to the isolation of Module 4 (24 Ml/d) at Hartebeestfontein for the purpose of maintenance. The isolation was triggered by the defective bubble aeration diffuser pipe and this presented an opportunity to undertake maintenance on the related equipment and unit processes both up- and downstream of the Module 4 reactor.

**ACTION TAKEN**

- Chlorine contact tanks: The in-house disinfection capacity analysis was performed for all Water Care Works to determine the disinfection requirements. The feasibility study has been completed and the detailed design for Ancor was halted due to lack of funds.
- Hartebeestfontein Module 4 bubble aeration, PST, FST and Surface aeration basins were emptied and the repair and installation of the diffusers, scrappers and siphons was fully commissioned in December 2018.

**3. FAILURE AND REPLACEMENT OF CRITICAL EQUIPMENT**

- In 2018/2019 critical equipment failures mostly occurred at Ancor, Jan Smuts, Herbert Bickley, Olifantsfontein and Hartebeestfontein, which had an influence on the water quality discharged.

- Waterval experienced frequent breakdowns and power trips of aeration equipment at Modules 2, 3 and 4, which had an impact on final effluent compliance.

**ACTION TAKEN**

- Five (5) blowers have been replaced at Waterval with new technology aeration turbines during June 2019. Installation project has been 80% completed.
- ERWAT Maintenance department has developed, and is in the process of implementing an Asset Management Strategy (Asset care plans as well as Maintenance plans), and Policy.
- All these Asset management Processes are in line with ISO55000 (Asset Management world best practice).

**4. HYDRAULIC CAPACITY**

Figure 3 below depicts a very gloomy picture of the ERWAT Water Care Works with regards to treatment capacity. 11 out of the 19 plants are operating above their design capacity, 4 are operating between 80% and 100% (this is a trigger point for upgrade), with 4 operating below the 80% mark, which is the acceptable level.

Failure to upgrade the bulk sanitation infrastructure will result in:

- Backflows in the outfall sewers, which will lead to blockages and spillages in the CoE;

FIGURE 3.2: FLOW VS DESIGN CAPACITY ANNUAL 2018/2019

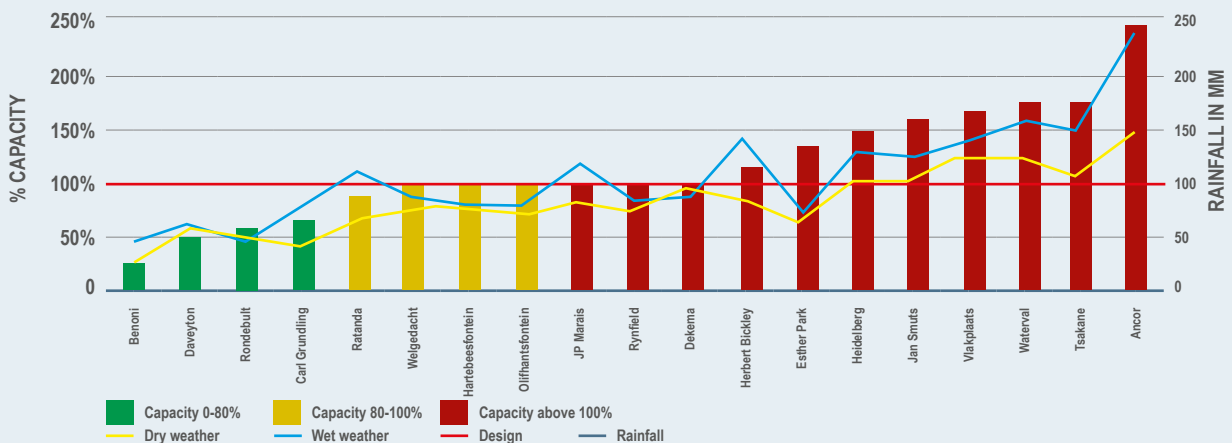


TABLE 3.4: POWER DISRUPTIONS

2018/2019	POWER OUTAGE	TOTAL DURATION	ESKOM # OF OUTAGES	ESKOM TOTAL DURATION	COE # OF OUTAGES	COE TOTAL DURATION	LESEDI # OF OUTAGES	LESEDI TOTAL DURATION
Q1	50	223	12	36	33	155	5	32
Q2	120	371	47	123	59	209	14	39
Q3	172	682	71	291	68	292	33	99
Q4	63	187	21	25	33	105	9	57
<b>Average</b>	<b>101</b>	<b>366</b>	<b>38</b>	<b>119</b>	<b>48</b>	<b>190</b>	<b>15</b>	<b>57</b>
<b>Total</b>	<b>405</b>	<b>1463</b>	<b>151</b>	<b>475</b>	<b>193</b>	<b>761</b>	<b>61</b>	<b>227</b>

- Delayed growth and development in the CoE due to slow approval of applications for development. This also means delays in potential job creation opportunities in the City;
- Delayed implementation of the 10 Point Plan, including Aerotropolis;
- Water reclamation strategy being costly to implement;
- Directives being issued by the Department of Water and Sanitation for issues of non-compliance;
- Delayed achievement of Green Drops.

#### 5. POWER DISRUPTIONS

A total of 405 hours of outages occurred during 2018/2019; of which 119 hours are attributed to ESKOM load shedding, as shown in table 3.4 above

#### ACTION TAKEN

The procurement of stand-by generators for the various Water Care Works that do not have sufficient standby capacity will continue once funding becomes available.

#### 6. UNSTABLE GROUND CONDITIONS

Olifantsfontein Water Care Works (WCW) discharges into the Kaalspruit and operates under the Water Use licence granted in terms of Section 52 of the National Water Act 36 of 1998.

There have been numerous concerns raised by the Department of Water & Sanitation (DWS) together with the complaints from the downstream users, the

neighbouring community and the environmentalists over the state of the Kaalspruit and Hennops Rivers. ERWAT has subsequently communicated the challenges and proposed solutions regarding the performance of the Olifantsfontein plant.

On 19 December 2018, CoE was issued with a letter by DWS for failure to take reasonable measures to prevent pollution from occurring, continuing or recurring at Olifantsfontein. This followed the Department's rejection of the plans for Olifantsfontein in as far as they relate to the restoration of capacity. Lack of capital funding commitment by CoE to address the challenges currently experienced by the plant was cited as the reason for the rejection.

An urgent meeting on the 21st December 2018 followed between CoE and ERWAT where it was resolved:

1. That a total amount of R233.8m is required over a period of five years to fully restore the capacity and the functionality of the plant. It was identified that an estimated budget amount of R80m is required in the 2018/2019 financial year to restore the functionality of the plant. The amount was further revised to R42m as informed by the revised detailed cash flow projection and procurement plan submitted to CoE. Both CoE and ERWAT were to contribute equally toward the required amount; however, it would not be possible for ERWAT to contribute as all the available funds were already committed to other urgent capital expenditure projects. A submission for the adjustment of the 2018/2019 budget was made to CoE in this regard.

The matter was further discussed at the Senior Management Team (SMT) meeting held on

22 January 2019 where it was resolved that the R42 million USDG fund surrendered by CoE Water & Sanitation should be ring fenced and made available to ERWAT.

2. That the CoE legal department draft an email to the Department of Water and Sanitation to seek some clarity on the issues raised in the letter of rejection. It was further resolved that both CoE Department of Water and Sanitation and ERWAT were to draft a combined response to DWS. Both the detailed procurement plan as well as the cash flow plan were submitted to CoE to form part of the response to DWS.

**ACTION TAKEN**

- The R42m requested was approved during budget adjustment from the USDG fund for the 2018/2019 financial year, to be spent by 30 June 2019. The total capital cost funding required over four (4) years which amounts to R233 800 000.00 was also approved. The amount is required to fully restore the functionality and complete restoration of the plant. This will also assist in curbing pollution of the water resource to a great extent.
- The progress to date on the two projects are as follows:
  - **Bio-filter refurbishment:** During inspection of the biofilters (Biofilter 1–3) it was discovered that the structural integrity of the supporting columns is compromised, thus the structure might not be able to support its structural loads as per the designs. Non-destructive testing has commenced and the results thereof will guide the methodology that will be adopted in order to repair all the structures. This finding has a potential of delaying the project and the exact duration of the delay in completing the project will be determined based on the severity of the structural damages.
  - **Design for resuscitation of Bio-filter module, new PST, and Ekurhuleni pump station:** The tender briefing was held on 15 March 2019, and the closing date was

on 27 March 2019. Designs for the following works commenced in order to address all issues pertaining to module 3:

- Phase 1 - Rehabilitation of the whole module 3 by rerouting flow to six old PST's as the existing module 3 main PST is decommissioned due to the dolomitic conditions of the area
- Phase 2 - Design and construction of a new PST to replace the PST which was decommissioned
- Phase 3 - Refurbishment of Module BNR including replacement of surface aerators and mixers
- Phase 4 - Design for the lining of emergency ponds

The designs are currently in inception stage.

**POOR CONDITION OF CIVIL STRUCTURES**

**Ancor:** Some of the critical civil structures of the plant are in a poor condition. These include a cracked humus tank, two distribution towers and two anaerobic digesters. Once these structures are taken out of operation, the plant's operating capacity will be further reduced and the plant's final effluent quality negatively affected. The plant is already under tremendous pressure due to the fact that it is operating far above its design capacity. **Herbert Bickley:** The one biofilter civil structure is cracked and in a poor condition, which may cause the wall to collapse. **Jan Smuts' digester and biofilter no.5** centre column foundation are in a poor condition. The centre column of biofilter no 5 collapsed during May 2019. Taking this biofilter out of operation has affected the final effluent compliance of the plant. The cracked digester is leaking badly and had to be taken out of operation in April 2019, which caused a constraint on the digestion capacity of the plant.

**ACTION TAKEN**

- Funding is required for the rehabilitation of all the above civil structures, which were unfortunately not available during Q4. As soon as funds become available, this work will be prioritised.

#### VAAL RIVER POLLUTION - SOUTH AFRICAN HUMAN RIGHTS COMMISSION

The majority of ERWAT water care works discharge treated effluent into ecologically sensitive aquatic environments (16 out of 19).

All the water from the two largest drainage districts, DD5 and DD6, drains towards the Vaal River System where severe pollution is currently taking place.

The South African Human Rights Commission requested a visit to ERWAT Plants.

#### ACTION TAKEN

- A delegation of five (5) SAHRC officials visited Waterval and Heidelberg on Monday 3 December 2018.
- ERWAT was highly commended by the SAHRC officials after the visit for operational efficiency, effluent quality and generally well maintained appearance of the two plants.
- Emfuleni Local Municipality and ERWAT signed a Memorandum of Understanding to address some of the challenges faced by the municipality.
- An ERWAT delegation of all disciplines visited the Leeuwkuil, Rietspruit and Sebokeng WCW and several pump stations to perform assessments to assist the municipality with remedial action.

#### AFRIFORUM REQUEST/COMPLAINT

Welgedacht: The stockpiled sludge is treated with lime for odour control and the surrounding community is satisfied with the measures taken. Odours have been significantly reduced.

Ancor: A complaint was received from AfriForum dated 29 October 2018 regarding an overflowing manhole in Springs polluting Blesbokspruit. Upon investigations by City of Ekurhuleni and ERWAT it was found that the suspected overflow was in the vicinity of Ancor WCW on main CoE outfall sewer in Springs, upstream of the final effluent discharge point of the WCW. The exact date and location of overflow was not mentioned in the complaint.

#### ACTION TAKEN

- Welgedacht: Increase the dosing of lime to curb any odours at the sludge handling areas
- Prevent the accumulation of stockpiled dewatered sludge on the plant by regular legal disposal off site.
- Ancor: All information as requested by AfriForum and CoE was sent to CoE Water and Sanitation Department on 6 December 2018, who will formally respond to AfriForum.

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

TABLE 3.5: CAPITAL EXPENDITURE YEAR 2018/2019

CAPITAL PROJECTS	BUDGET	ADJUSTMENT BUDGET	ACTUAL EXPENDITURE	ORIGINAL BUDGET VARIANCE	TOTAL PROJECT VALUE
	R'000	R'000	R'000	%	R'000
<b>Total all</b>	<b>43</b>	<b>76</b>	<b>65</b>	<b>153%</b>	<b>602</b>
Hartebeestfontein 5 M/day upgrade	2	6	5	314%	26
Vlakplaats emergency dam and related works	30	26	10	34%	66
Welgedacht 50 M/day	8	32	37	468%	458
Tsakane capacity upgrade	3	12	13	431%	52

## CAPITAL PROJECTS

In terms of approved capital expenditure for the 2018/19 financial year, ERWAT has planned to implement the following projects which are aligned to the strategic objective of the CoE and DWS:

### WELGEDACHT 50ML/DAY UPGRADE

The project entails the construction of a new module at Welgedacht Water Care Works to increase capacity of the plant by 50 M/day. The project was commissioned in December 2016. The defect liability period ended in November 2018.



NEW 50 ML/DAY MODULE 2 AT WELGEDACHT WATER CARE WORKS

### HARTEBEESTFONTEIN CAPACITY UPGRADE (5 ML/DAY)

The project entails increasing the capacity of Hartebeestfontein Water Care Works by 5 M/day through the use of existing infrastructure and retrofitting new technology called Nerada®. The project is at the commissioning stage.



THE NERADA PLANT IN HARTEBEESTFONTEIN WATER CARE WORKS

### TSAKANE CAPACITY UPGRADE (10 ML/DAY)

The project entails the increase of capacity of Tsakane Water Care Works by 10 M/day through retrofitting of new technology that combines the existing Biological Nutrient Removal (BNR) plant and smart unit technology. The project was commissioned in September 2017.



TSAKANE CAPACITY UPGRADE (10 ML/DAY)



## COMMENT ON ERWAT BULK WASTEWATER TREATMENT SERVICES OVERALL PERFORMANCE

Although ERWAT had improved its water quality performance target, the company had developed strategies to mitigate the challenges that were encountered to improve performance of the various Water Care Works. ERWAT and the CoE water quality section are working closely together to minimize the risk at source by identifying the polluters, enforcing the by-laws or even assisting in the management of their wastewater treatment facilities via the ERWAT commercial department.

The maintenance department has put together 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 regionalisation and 50-year masterplan; emergency/

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

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

The continuous monitoring of the Green Drop compliance has resulted in 13 plants achieving Green Drop excellent status (internal Green Drop assessment was performed using the Green Drop scorecards, with external monitoring from DWS during Q4 / Annual assessment).

The plants achieving a score of 90% or more are Benoni, Heidelberg, Jan Smuts, Daveyton, JP Marais, Hartebeestfontein, Olifantsfontein, Dekema, Ratanda, Rondebult, Rynfield, Vlakplaats and Waterval. The company received an overall performance average of 92.7% for the year.

## COMPONENT B: CORPORATE AND OTHER SERVICES

This component includes: corporate policy offices, financial services, human resource services, ICT services, 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:

- Finance (including information and communication technology (ICT))
- Human Resources
- Governance, Legal and Compliance

Corporate and other services are provided to:

- Operations
- Maintenance
- Commercial business
- Scientific services
- 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 executive management. Some of the strategic responsibilities are reserved for the board. Meetings are regularly attended.

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

## 3.3 FINANCIAL SERVICES

### INTRODUCTION TO FINANCIAL SERVICES

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

The 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.

TABLE 3.6: REVENUE PER SOURCE

REVENUE SOURCE	2017/ 2018	2018/2019
	R'000	R'000
Service charges	719 935	791 929
Development contribution	79 914	36 446
Other income	109 478	110 571
Interest received – investment	6 994	2 884
Dividends received	66	182
Government grants and subsidies	50 000	68 164
<b>TOTAL</b>	<b>966 388</b>	<b>1 010 176</b>

### TOTAL REVENUE

ERWAT's revenue for the period under review consists mainly of rendering wastewater treatment services to the members of the company. This amounted to R791.9m of a total income of R1 010.2m.

The percentage debt collection for the financial year 2018/2019 was 104% by taking the total value of the year's revenue collected against the bills raised in the year. The reason for this was the recovery of long outstanding debtors in the 2018/2019 financial period.

### COMMENT ON THE PERFORMANCE OF FINANCIAL SERVICES OVERALL

Overall financial services have shown an improvement, especially in monitoring the spending on capital projects. The number of matters raised by the Auditor-General has, however, increased.

The company embarked on mSCOA implementation. This project is challenging as the financial system must be customised to meet the functionality needs of the company. The integration with other systems needs additional attention. The SCM unit has been restructured to meet compliance requirements with SCM regulations.

TABLE 3.7: FINANCIAL PERFORMANCE 2018/2019

DETAILS	2017/2018	2018/2019			
	ACTUAL	ORIGINAL BUDGET	ADJUSTMENT BUDGET	ACTUAL	VARIANCE TO BUDGET
	R'000	R'000	R'000	R'000	%
Total operating revenue (Excluding Non-exchange Revenue)	836 473	974 581	974 581	905 566	-7.08%
<b>Expenditure</b>					
- Employee costs	277 277	349 739	349 739	335 523	-4.06%
- Repairs and maintenance	124 674	124 311	124 311	158 207	27,28%
- Other	431 057	500 531	500 531	484 990	-3.10%
<b>Total operating expenditure</b>	<b>831 795</b>	<b>974 581</b>	<b>974 581</b>	<b>978 720</b>	<b>0.42%</b>
<b>Net operating surplus/(deficit)</b>	<b>4 398</b>	<b>0</b>	<b>0</b>	<b>(73 154)</b>	



### 3.4 HUMAN RESOURCE SERVICES

#### INTRODUCTION TO HUMAN RESOURCE SERVICES

The department provides quality driven human capital strategies and support for ERWAT. The entity has a stable human resources (HR) department that consists of various components of the HR requirement and continues to provide support to the entity on all HR related matters.

In strengthening performance management in the company, a performance management system was developed and implemented by the human resources department. Key performance indicators were developed for executive management. These indicators were cascaded down to lower levels.

The human resources department oversaw the implementation of learnerships and training for artisans funded by EWSETA.

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

The HR department serves as a support to the seven 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

The ICT Services were able to support the ERWAT in implementing a new financial system (Solar) that is compliant with the municipal standard chart of accounts (mSCOA) issued by National Treasury. This fully integrated system will streamline the company and eliminate manual entering of values improving the accuracy and the availability of information.

To allow for the company's mSCOA requirements, the following systems were implemented as priorities:

- Solar
- Resource link
- Success factors employee central
- Performance management

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

- Improved service availability through upgrade of the internet infrastructure
- Improved collaboration / communication platform through the implementation of Outlook Anywhere, enabling the company to access e-mail anywhere in the world
- Improved information security through implementation of a state of the art firewall

TABLE 3.8: EMPLOYEES: ERWAT ICT SERVICES

JOB LEVEL	2017/2018	2018/2019			
	NO OF EMPLOYEES	NO OF POSTS	NO OF EMPLOYEES	NO OF VACANCIES	VACANCIES AS A % OF TOTAL POSTS) %
C5	1	1	1	0	0%
C4	1	1	1	0	0%
C3	1	1	1	0	0%
C1	1	1	1	0	0%

### SERVICE STATISTICS FOR ICT SERVICES

The ICT department comprises four employees. The ERWAT ICT supports head office, laboratory services, 19 Water Care Works and is currently servicing 35 servers and 456 laptops.

ERWAT currently has a number of systems in place such as PABX, financial system, payroll, HR, helpdesk, preventative maintenance system and laboratory information system.

The financial performance of the ICT department for the 2018/2019 financial year is included with the finance department.

### COMMENT ON THE OVERALL PERFORMANCE OF ICT SERVICES

Some of the ICT capital budget for the 2018/2019 financial year could not be spent due to a number of delays on the additional project implementation and will be brought forward into the 2019/2020 financial year.

The Solar system for Finance and other projects like HR Central needed customisation to allow the system to cater for ERWAT's needs. These changes delayed the project, as some of the customisation was unplanned. The operational budget was utilised in full.

## 3.6 GOVERNANCE, LEGAL AND COMPLIANCE

This component includes: governance, legal and compliance services.

### INTRODUCTION TO GOVERNANCE, LEGAL AND COMPLIANCE

The Governance, Legal and Compliance unit has a staff complement of three. It is headed by the company secretary. Risk management is a division of Governance, Legal and Compliance. The priorities for the division are to ensure that ERWAT prioritises risk in its decision making process and highlights any non-

TABLE 3.9: CAPITAL EXPENDITURE: ICT SERVICES IN RAND

CAPITAL PROJECTS	2018/2019				
	BUDGET	ADJUSTMENT BUDGET	ACTUAL EXPENDITURE	VARIANCES FROM ORIGINAL BUDGET	TOTAL PROJECT VALUE
Computers	531 344		535 890	0.86%	535 890
Software	4 554 896		4 570 332	0.34%	4 570 332
Server and firewall	128 113		138 044	7.75%	138 044
Projects: Solar related customisation	128 500		273 152	112.57%	273 152
<b>Total all projects</b>	<b>5 330 752</b>		<b>5 517 418</b>	<b>3.5%</b>	<b>5 517 418</b>

TABLE 3.10: EMPLOYEES: GOVERNANCE, LEGAL AND COMPLIANCE

JOB LEVEL	2017/2018		2018/2019		
	NO OF EMPLOYEES	NO OF POSTS	NO OF EMPLOYEES	NO OF VACANCIES	VACANCIES AS A % OF TOTAL POSTS) %
B	1	2	3	1	0
D	1	0	1	0	0
E	1	0	1	0	0

compliance matters that may have a negative impact on the organisation and/or the board of directors.

The main priorities in the 2018/19 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;

**COMMENT ON THE OVERALL PERFORMANCE OF GOVERNANCE, LEGAL AND COMPLIANCE SERVICES**

A panel of legal attorneys was 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.



## COMPONENT C: ORGANISATIONAL PERFORMANCE SCORECARD

TABLE 3.11: CITY-WIDE INDICATORS

ENTITY	OUTCOME	PERFORMANCE INDICATOR (OUTPUT LEVEL ONLY)	ANNUAL TARGET FOR 2018/19	ANNUAL PLANNED OUTPUT AS PER SDBIP	ANNUAL ACTUAL OUTPUT	REASON(S) FOR VARIATION
<b>National Prescribed Indicators</b>						
N/A						
<b>Provincial Indicators</b>						
N/A						
<b>City of Ekurhuleni Indicators</b>						
<b>IDP Strategic Objective 2: To build a clean, capable and modernised local state</b>						
ERWAT	Improved Quality of water (including wastewater).	Total revenue generated from external business	R160 million	R160 million	R107 million	The structure was not sales focussed to ensure market penetration and sales targets are achieved in order to increase quarterly revenue targets, hence the need to appoint sales engineers.
	To build a clean, Capable and Modernised Local State	Audit Opinion received from the external audit (AGSA)	Unqualified Audit Opinion	Unqualified Audit Opinion	Unqualified Audit Opinion	N/A
<b>IDP Strategic Objective 1: To promote integrated human settlements through massive infrastructure and services rollout</b>						
ERWAT	Improved Quality of water (including wastewater)	% Compliance with water care works license conditions and/ or exemptions standards	88%	88%	90%	<ul style="list-style-type: none"> <li>ERWAT successfully negotiated an amendment of licence conditions with DWS, using scientific evidence, to industry norms.</li> <li>Installed HYBACS technology has contributed to an improved effluent compliance of the Tsakane Water care works.</li> <li>Adopting a risk based management process in identifying and mitigating risks.</li> </ul>



TABLE 3.12 ENTITY'S SDBIP

ENTITY	OUTCOME	PERFORMANCE INDICATOR (OUTPUT LEVEL ONLY)	ANNUAL TARGET FOR 2018/19	ANNUAL PLANNED OUTPUT AS PER SDBIP	ANNUAL ACTUAL OUTPUT	REASON(S) FOR VARIATION
<b>IDP Strategic Objective 1: To promote integrated human settlements through massive infrastructure and services rollout</b>						
ERWAT	Improved Quality of Water including Wastewater	% Capital expenditure on planned projects	95%	95%	99.44%	The work done exceeded the target of 95%.
	Improved Quality of Water including Wastewater	% of planned maintenance scheduled	90%	90%	41%	Lack of developed maintenance plan and asset care plans
	Improved Quality of Water including Wastewater	Rand value- support of SMME's through ensuring appropriate application of preferential procurement practices	R120 536 966.10	R120 536 966.10	R127 174 840.32	Maintenance and support services higher due to season (pump stations)
	Improved Quality of Water including Wastewater	Number of audit findings cleared per quarter.	29	29	29	



CHAPTER 4  
**ORGANISATIONAL  
DEVELOPMENT  
PERFORMANCE**  
(PERFORMANCE REPORT PART II)

**INTRODUCTION TO ORGANISATIONAL DEVELOPMENT PERFORMANCE**

ERWAT employed a total of 626 employees as at 30 June 2019. During the financial year 2018/ 2019 a total of 143 new employees, two permanent employees and 141 non-permanent employees were appointed.

A total of forty-one (41) employees left the service of the company of which 27 employees resigned including 9 employees that opted for apprenticeship. Five (5) contracts expired, six (6) retired, two (2) passed away and one (1) employee absconded during the financial year 2018/ 2019.

**STRATEGIC OBJECTIVES OF THE HUMAN RESOURCES DEPARTMENT**

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

The HR department is responsible for the following:

- Recruitment
- Performance management
- Training
- Movement/promotion of staff
- Terminations, resignations, retirement



## COMPONENT A: INTRODUCTION TO THE COMPANY'S PERSONNEL

### 4.1 EMPLOYEE TOTALS, TURNOVER AND VACANCIES

#### EMPLOYEE TOTALS, TURNOVER AND VACANCIES

TABLE 4.1: EMPLOYEES

DEPARTMENT	2018/2019	2017/2018			
	NO OF EMPLOYEES	NO OF APPROVED POSTS	NO OF EMPLOYEES	NO OF VACANCIES	VACANCIES %
Legal & Compliance	6	5	2	3	50%
Commercial Business	10	15	11	4	40%
Office of MD	1	4	1	3	300%
Top Structure	6	7	6	1	17%
Infrastructure Planning and Projects	13	20	18	2	15%
Maintenance	101	128	99	29	29%
Scientific Services	56	60	58	2	4%
Finance and Admin	22	31	17	14	64%
Operations	427	464	388	76	18%
Corporate Services	8	32	26	6	75%
<b>Totals</b>	<b>650</b>	<b>766</b>	<b>626</b>	<b>140</b>	<b>22%</b>

Employee and approved posts numbers are as at 30 June 2019, as per the approved organogram.

TABLE 4.2: VACANCY RATE 2016/2017

DEPARTMENT	POSITION	DATE VACANT	COMMENTS
Scientific Services	Executive Secretary: Scientific Services	30/04/2014	Currently filled by temporary personnel.
IPAP	Executive Manager: IPAP	30/04/2016	Mr Khomela currently acting
Admin & Finance	Fixed Asset Accountant	22/01/2017	Currently filled by temporary personnel
	Fixed Asset Manager	04/11/2016	Still vacant – currently being advertised
	Creditors Clerk	30/09/2016	Currently filled by temporary personnel
	Creditors Clerk	30/12/2016	Currently filled by temporary personnel
Operations	Regional Works Manager	30/03/2019	Livhuwani Mathomu currently acting
	Works Manager	31/01/2017	New employee started 01/08/2017
	Works Manager	31/03/2017	Recruitment process in progress
Maintenance	Executive Manager: Maintenance	01/07/2018	Leonard Chueu currently acting
	Executive Secretary: Maintenance	18/11/2016	Currently filled by temporary personnel
	Maintenance Manager	01/04/2019	Nelisiwe Mutloane
	Maintenance Manager	01/04/2019	Sandile Masango
Commercial Business	Project Manager: New Business	01/02/2019	Currently vacant

Positions are vacant or have temporary personnel, due to the structures that are currently being reviewed.



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	TURNOVER RATE %
2016/2017	91	59	9.85%
2017/2018	107	23	3.72%
2018/2019	115	63	8%

#### COMMENT ON VACANCIES AND TURNOVER

Total overall organisational structure is currently being reviewed, hence the vacancies for engineers and senior managers have not been filled. The recruitment of these positions will commence as soon as the new organisational structure has been approved by the board.

The company is currently developing a succession plan for all positions.

## COMPONENT B: MANAGING THE COMPANY'S WORKFORCE

### INTRODUCTION TO COMPANY'S WORKFORCE MANAGEMENT

The total number of employees for the year is 650 which is a slight decrease as compared to the previous year. The organisation has undergone a complete restructuring of the organisational structure and manpower requirements, to ensure that it can perform in accordance with its political, social and environmental mandate.

### 4.2 POLICIES

TABLE 4.4: HR POLICIES AND PLANS

	NAME OF POLICY	COMPLETED %	REVIEWED%	LAST REVIEWED
1	Acting Policy	100%	100%	12/02/2015
2	Affirmative Action Policy	100%	100%	12/02/2015
3	Career Planning and Succession Planning Policy	100%	100%	12/02/2015
4	Cellular Phone Allowance Policy	100%	100%	12/02/2015
5	Conflict of Interest Policy	100%	100%	09/04/2015
6	Employment Equity Policy	100%	100%	12/02/2015
7	Flexi Time Policy	100%	100%	12/02/2015
8	Gifts Policy	100%	100%	12/02/2015
9	HIV/AIDS Policy	100%	100%	12/02/2015
10	Induction Policy	100%	100%	12/02/2015
11	Job Evaluation Policy	100%	100%	12/02/2015
12	Leave Policy	100%	100%	01/08/2016
13	Long Service Awards Policy	100%	100%	12/02/2015
14	Long Service Leave Policy	100%	100%	12/02/2015
15	Medical Aid Subsidy Policy	100%	100%	12/02/2015
16	Performance Management Policy	100%	100%	12/02/2015
17	Personal Code of Conduct Policy	100%	100%	12/02/2015
18	Recruitment of Temporary Employees Policy	100%	100%	12/02/2015
19	Recruitment, Selection and Placement Policy	100%	100%	12/02/2015
20	Recruitment, Selection and Placement of Executives Policy	100%	100%	02/04/2015
21	Remuneration Policy	100%	100%	12/02/2015
22	Policy Guidelines on Retrenchment/Redundancy	100%	100%	12/02/2015
23	Sexual Harassment Policy	100%	100%	12/02/2015
24	Small Tools Scheme Policy	100%	100%	12/02/2015
25	Smoking Policy	100%	100%	12/02/2015
26	Stand By Service Policy	100%	100%	12/02/2015

TABLE 4.4: HR POLICIES AND PLANS (CONTINUED)

	NAME OF POLICY	COMPLETED %	REVIEWED%	LAST REVIEWED
27	Substance Abuse Policy	100%	100%	12/02/2015
28	Tool of Trade Vehicle Scheme and Travel Allowance Policy	100%	100%	12/02/2015
29	Uniform Provision Policy	100%	100%	12/02/2015
30	Death and Funeral Claim Benefit Policy	100%	100%	09/04/2015
31	Home Ownership Scheme Policy	100%	100%	12/02/2015
32	Bursary Scheme Policy	100%	100%	12/02/2015
33	Capacity Building for Directors Policy	100%	100%	12/02/2015
34	In-Service Training Policy	100%	100%	12/02/2015
35	Study Scheme Policy	100%	100%	12/02/2015
36	Travel and Subsistence Policy	100%	100%	11/05/2017
37	Medical Surveillance Policy	100%	100%	08/02/2018

#### COMMENT ON WORKFORCE POLICY DEVELOPMENT

All policies are reviewed by Executive Management, the Employment Equity committee as well as the ERWAT Board on an ad hoc basis.

### 4.3 INJURIES, SICKNESS AND SUSPENSIONS

TABLE 4.5: INJURIES, SICKNESS AND SUSPENSIONS

TYPE OF INJURY	INJURY LEAVE TAKEN	NO OF EMPLOYEES USING INJURY LEAVE	PROPORTION OF EMPLOYEES USING SICK LEAVE	AVERAGE NO OF DAYS INJURY LEAVE PER EMPLOYEE
Injury on duty	104.75	24	4.12%	4.37
Permanent disability		1		
Temporary disability	N/A	0	N/A	N/A
<b>Total</b>		<b>25</b>		

TABLE 4.6: NUMBER OF DAYS AND COST OF SICK LEAVE (EXCLUDING INJURIES ON DUTY)

PATTERSON PROFILE LEVEL	TOTAL NO OF SICK LEAVE DAYS	TOTAL NO OF EMPLOYEES IN POST	AVERAGE NO OF SICK LEAVE DAYS PER EMPLOYEE
Non-permanent	129	120	1.07
A	992	209	4.75
B	842	232	3.63
C	611	155	3.94
D	172	40	4.3
Executives	4	7	0.57
<b>Total</b>	<b>2 750</b>	<b>583</b>	<b>4.72</b>

## SICK LEAVE TAKEN (01/07/2018 TO 30/06/2019)

### COMMENT ON INJURY AND SICK LEAVE

ERWAT has implemented a new Human Resources Management (HRM) system that will enable the organisation to track all types of leave and develop mechanisms. This will enable the organisation to monitor and report on such, on a quarterly basis.

FIGURE 4.1: SICK LEAVE TAKEN FROM 1 JULY 2018 - 30 JUNE 2019

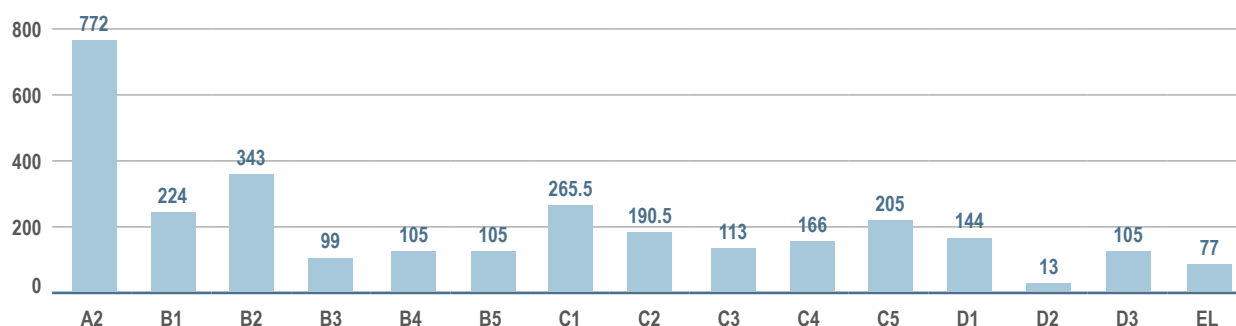


TABLE 4.7: DISCIPLINARY ACTION TAKEN ON CASES OF FINANCIAL MISCONDUCT

POSITION	NATURE OF ALLEGED MISCONDUCT AND RAND VALUE OF ANY LOSS TO THE MUNICIPALITY	DISCIPLINARY ACTION TAKEN	DATE FINALISED
Safety Officer	Attempting to bring, or causing the name of ERWAT to be brought into disrepute	Employee has appeared at the disciplinary hearing	15 April 2019
Operator	Assault	Employee has appeared at the disciplinary hearing	12 April 2019
Artisan	Misuse of ERWAT's property for private purposes	Employee has appeared at the disciplinary hearing	12 April 2019
General Worker	Intimidating co-workers	Employee has appeared at the disciplinary hearing	11 April 2019
General Worker	Unauthorised and uncommunicated absenteeism	Employee has appeared at the disciplinary hearing	15 February 2019
Project Manager	Adopting an insolent attitude towards your superior	Employee has appeared at the disciplinary hearing	31 August 2019
Manager: Commercial	Adopting an insolent attitude towards your superior	Employee has appeared at the disciplinary hearing	31 August 2019

### COMMENT ON SUSPENSIONS AND CASES OF FINANCIAL MISCONDUCT

No financial misconduct was reported during the period under review.

## 4.4 PERFORMANCE REWARDS

### COMMENT ON PERFORMANCE REWARDS

No performance rewards were awarded during the 2018/19 financial year.

## COMPONENT C: CAPACITATING THE COMPANY'S WORKFORCE

### INTRODUCTION TO WORKFORCE CAPACITY DEVELOPMENT

ERWAT has developed a five-year skills development plan, with information received from all departments, compiled from the individual personal development plans (PDP's), to ensure the advancement of skills and skills development throughout the organisation. The training and development budgets have been linked to all the training needs received and are in line with the workplace skills plan submitted to the EWSETA.

### 4.5 SKILLS DEVELOPMENT AND TRAINING

TABLE 4.8: SKILLS MATRIX

MANAGEMENT LEVEL	GENDER	EMPLOYEES IN POST AS PER 30 JUNE	NUMBER OF SKILLED EMPLOYEES REQUIRED AND ACTUAL AS AT 30 JUNE											
			LEARNERSHIPS			SKILLS PROGRAMMES AND OTHER SHORT COURSES			OTHER FORMS OF TRAINING			TOTAL		
			ACTUAL: END OF YEAR -1	ACTUAL: END OF YEAR -0	YEAR 0 TARGET	ACTUAL: END OF YEAR -1	ACTUAL: END OF YEAR -0	YEAR 0 TARGET	ACTUAL: END OF YEAR -1	ACTUAL: END OF YEAR -0	YEAR 0 TARGET	ACTUAL: END OF YEAR -1	ACTUAL: END OF YEAR -0	YEAR 0 TARGET
MM and s57	Female	0	0	0	0	0	0	0	0	0	0	0	0	0
	Male	0	0	0	0	0	0	0	0	0	0	0	0	0
Councillors, Senior Officials and Managers	Female	2	0	0	0	2	0	0	0	0	0	2	0	0
	Male	5	0	0	0	5	1	0	0	0	0	5	1	0
Technicians and associate professionals*	Female	14	0	0	0	63	36	0	0	0	0	63	36	0
	Male	26	0	0	0	162	72	0	0	0	0	162	72	0
Professionals	Female	53	0	0	0	19	20	0	0	0	0	19	20	0
	Male	100	0	0	0	53	25	0	0	0	0	53	25	0
Sub-total	Female	69	0	0	0	84	56	0	0	0	0	84	56	0
	Male	131	0	0	0	220	98	0	0	0	0	220	98	0
<b>Total</b>		<b>200</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>304</b>	<b>154</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>304</b>	<b>154</b>	<b>0</b>

\*Registered with professional Associate Bodies, e.g. CA(SA)

TABLE 4.9: SKILLS MATRIX (GENDER)

GENDER	NO OF EMPLOYEES IN POST AS AT 30 JUNE 2018	ORIGINAL BUDGET AND ACTUAL EXPENDITURE ON SKILLS DEVELOPMENT					
		LEARNERSHIPS			SKILLS PROGRAMMES & OTHER SHORT COURSES		
		ACTUAL: END 2016/17	ACTUAL: END OF 2017/18	2017/18 TARGET	ACTUAL: END 2016/17	ACTUAL: END OF 2017/18	2017/18 TARGET
Female	175	R398 869	R1 062 000	R1 062 000	R345 896	R467 000	R940 000
Male	460	R1 259 587	R398 000	R398 000	R716 408	R1 132 000	R2 275 000
<b>Total</b>	<b>635</b>	<b>R1 658 456</b>	<b>R1 460 000</b>	<b>R1 460 000</b>	<b>R1 062 305</b>	<b>R1 599 000</b>	<b>R3 215 000</b>



TABLE 4.10: SKILLS DEVELOPMENT EXPENDITURE

ORIGINAL BUDGET AND ACTUAL EXPENDITURE ON SKILLS DEVELOPMENT		
2018/2019	ORIGINAL BUDGET	ACTUAL
Totals	R 4 675 281,00	R 3 059 646,92

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

During the last financial year, ERWAT has begun implementing the Five Year Rolling Training Plan to ensure that the enhancement of skills of all employees takes place, thus ensuring that there is a development process in the workplace. All employees also have Personal Development Plans which aim to identify skills gaps and growth, where necessary, of all employees individually.

ERWAT has completed Wastewater Learnership Programmes for a total of 77 Operations employees during Quarter 3 of the 2018-2019 Financial Year. These learnerships are aligned to the Training Plans

and Personal Development Plans of employees. The first month of Quarter 4 also saw the beginning of new Wastewater learnerships as per the ERWAT 5 year Training Plan, where 70 employees were inducted into the new 12-month learnerships that consist of both NQF3 and NQF4 learnerships.

Variances between budgeted and actual expenditure could be due to the delay in procurement of service providers to conduct certain training programmes. In the near future ERWAT will be expected to increase its training budget to be ultimately aligned to the BBBEE Scorecard. No MFMA Training was conducted during the financial year in review, however training is planned for the 2019-2020 financial year.

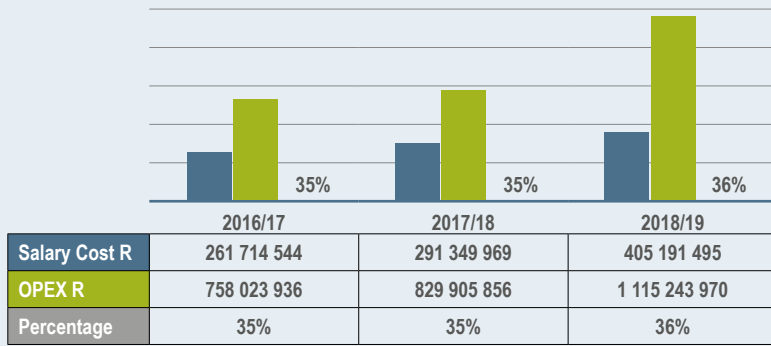
## COMPONENT D: MANAGING THE WORKFORCE EXPENDITURE

### INTRODUCTION TO WORKFORCE EXPENDITURE

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

### 4.6 EMPLOYEE EXPENDITURE

FIGURE 4.2: MANPOWER VS OPEX



### COMMENT ON WORKFORCE EXPENDITURE

Increases in expenditure on manpower are due to annual increases and compliance with Regulation 17 of the Water Act, which deals with the number and competencies of the required staff at the various plants.

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

During the period under review no posts were upgraded, but ERWAT has embarked on a process to review its total Remuneration Strategy, which includes the following; reviewing the current remuneration structure and practices, job analysis, job evaluation and benchmarking of the current grades and remuneration of all positions. This will allow ERWAT to review the current Remuneration Policy and new Remuneration Strategy.



## COMPONENT E: INTRODUCTION TO THE COMPANY'S PERSONNEL

### DISCLOSURES OF FINANCIAL INTERESTS

Below is the declaration of interest from the Executive Managers provided in the table as required by the PM Regulations 805 of 2006.

TABLE 4.11: DISCLOSURES OF FINANCIAL INTEREST

PERIOD 1 JULY TO 30 JUNE OF 2018/19		
POSITION	NAME	DESCRIPTION OF FINANCIAL INTERESTS (NIL / OR DETAILS)
Managing Director	Tumelo Gopane	Partnership : Farming Business
Chief Financial Officer	Wim Louw	Nil
Company Secretary	Zimasa Socikwa	Nil
Executive Manager: Scientific Services	Alison Chapman	Nil
Executive Manager: Operations	Fortune Mabunda	16 % Shareholding in a private investment company.
Executive Manager: Human Resources	Rodney Barnes	Nil
Executive Manager: Commercial Business	Mikgane Tsetetsi	Nil
Interim Executive Manager: Infrastructure Planning and Projects	Emmanuel Khomela	Nil
Interim Executive Manager: Maintenance	Leonard Chueu	Nil



CHAPTER 5  
**FINANCIAL  
PERFORMANCE**

## INTRODUCTION

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

- Component A: Statement of Financial Performance
- Component B: Spending Against Capital Budget
- Component C: Other Financial Matters

## COMPONENT A: STATEMENTS OF FINANCIAL PERFORMANCE

### INTRODUCTION TO FINANCIAL STATEMENTS

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

ERWAT performed reasonably well in the year under review. Operating income increased from R836.5m in 2017/2018 to R905.6m in 2018/2019 year. However, operating expenditure increased from R833.0m in 2017/2018 to R978.7m in 2018/2019 due to increased spending on repairs and maintenance as well as an increase in depreciation.

TABLE 5.1: FINANCIAL SUMMARY

DESCRIPTION	REF	2016/17	2017/18	CURRENT YEAR 2018/19			YEAR 2018/19 VARIANCE	
		ACTUAL	ACTUAL	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	ORIGINAL BUDGET	ADJUSTMENT BUDGET
		R'000	R'000	R'000	R'000	R'000	%	%
<b>Revenue by Source</b>	1							
Service charges - sanitation revenue		645 216	719 935	791 928	791 928	791 929	0	0
Interest earned - external investments		16 312	6 994	3 579	3 579	2 884	-19.42	-19.42
Dividends received		555	66	0	0	182	inf	Inf
Other revenue		114 955	109 478	179 074	179 074	110 571	-38.25	-38.25
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>777 038</b>	<b>836 474</b>	<b>974 581</b>	<b>974 581</b>	<b>905 566</b>	<b>7.08</b>	<b>7.08</b>
<b>Expenditure by Type</b>								
Employee related costs		(257 302)	(274 564)	(346 451)	(346 451)	(333 232)	-3.28	-3.28
Remuneration of Directors		(2 710)	(2 713)	(3 288)	(3 288)	(2 291)	-30.32	-30.32
Debt impairment		(1 274)	(348)	(1 024)	(1 024)	(696)	-32.03	-32.03
Depreciation & asset impairment		(64 681)	(65 944)	(71 805)	(71 805)	(82 016)	14.22	14.22
Finance charges		(66 605)	(61 249)	(61 504)	(61 504)	(55 074)	-10.45	-10.45
Bulk purchases	2	(194 282)	(203 753)	(202 296)	(202 296)	(234 664)	16.00	16.00
Other expenditure		(176 091)	(218 970)	(288 213)	(288 213)	(276 543)	-4.05	-4.05
<b>Total Expenditure</b>	3	<b>(762 945)</b>	<b>(827 541)</b>	<b>(974 581)</b>	<b>(974 581)</b>	<b>(984 516)</b>	<b>+1.02</b>	<b>+1.02</b>
<b>Surplus/(Deficit)</b>		<b>14 093</b>	<b>8 933</b>	<b>0</b>	<b>0</b>	<b>(78 950)</b>	<b>-100.00</b>	<b>-100.00</b>

TABLE 5.1: FINANCIAL SUMMARY (CONTINUED)

DESCRIPTION	REF	2016/17	2017/18	CURRENT YEAR 2018/19			YEAR 2018/19 VARIANCE	
		ACTUAL	ACTUAL	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL	ORIGINAL BUDGET	ADJUSTMENT BUDGET
		R'000	R'000	R'000	R'000	R'000	%	%
<b>Surplus/(Deficit) – Including Grants and Contributions</b>		<b>149 501</b>	<b>138 847</b>	<b>50 000</b>	<b>92400</b>	<b>25 660</b>	<b>-72.23</b>	<b>-100.00</b>
Transfers recognised – capital		(50 000)	(50 000)	(50 000)	(92 400)	(68 164)	-26.23	-26.23
Development contribution		(85 408)	(79 914)	0	0	(36 446)	Inf	Inf
<b>Surplus/(Deficit) before taxation</b>		<b>14 093</b>	<b>8 933</b>	<b>0</b>	<b>0</b>	<b>(78 950)</b>	<b>Inf</b>	<b>Inf</b>
<b>Capital Expenditure &amp; funds sources</b>	4, 6							
Capital Expenditure		288 427	219 914	121 810	164 210	160 009	+31%	-2.58%
<i>Funded by:</i>								
National Government		50 000	50 000	50 000	92 400	68 164	+36%	-26.23%
Transfers recognised - capital		50 000	50 000	50 000	92 400	68 164	+36%	-26.23%
<i>To be determined</i>								
Borrowing	1	2 094	-	-	-			
Internally generated funds		236 333	169 914	71 810	71 810	91 845	+27.90%	+27.90%
<b>Total Capital Funding</b>		<b>288 427</b>	<b>219 914</b>	<b>121 810</b>	<b>164 210</b>	<b>160 009</b>	<b>+34.80%</b>	<b>-2.56%</b>
<b>Financial Position</b>								
Total current assets		308 291	235 344	186 151	186 151	132 202	-28.98%	-28.98%
Total non-current assets		1 956 641	2 106 971	2 244 143	2 244 143	2 185 513	-2.6%	-2.6%
Total current liabilities		181 631	206 598	107 896	107 896	204 582	89.61%	89.61%
Total non-current liabilities		584 282	528 680	643 103	643 103	480 436	-25.29%	-25.29%
Equity		1 499 019	1 607 037	1 306 993	1 306 993	1 632 697	24.92%	24.92%
<b>Cash flows</b>								
Net cash from (used) operating		169 021	198 785	121 999	121 999	183 347	50.29%	50.29%
Net cash from (used) investing		(288 327)	(218 224)	(121 805)	(121 805)	(162 965)	33.79%	33.79%
Net cash from (used) financing		(28 266)	(51 398)	(53 050)	(53 050)	(52 842)	-0.39%	-0.39%
<b>Cash/cash equivalents at the year end</b>		<b>157 781</b>	<b>86 945</b>	<b>34 089</b>	<b>34 089</b>	<b>54 485</b>	<b>59.83%</b>	<b>59.83%</b>

## COMMENT ON FINANCIAL PERFORMANCE

### MATERIAL DIFFERENCES BETWEEN BUDGET AND ACTUAL AMOUNTS

TOTAL REVENUE - 97% ACHIEVED DUE TO THE FOLLOWING REASONS:

Commercial revenue that failed to achieve expected results mainly due to economic conditions as well as over-optimistic budgeting.

OTHER OWN REVENUE - 83% ACHIEVED:

Development contribution - An amount of R36 446 254 relating to development contribution was received to which ERWAT could not budget as there is no information to calculate a budget.

TOTAL OPERATING EXPENSE - 101% ACHIEVED DUE TO THE FOLLOWING REASONS:

Depreciation and amortisation - 114% achieved due to the capitalisation of the extensions to our Welgedacht plant. This resulted in depreciation increasing significantly.

Finance costs - 90% achieved due to the budgeted amount that was based on prime interest at the date of the preparation of the budget. Due to an increase in the interest rate the finance cost increase is higher than budgeted for. In addition, the drawdown of the loan differed from the planned drawn down which also increased the finance cost.

Other expenditure - 96% achieved. ERWAT has reprioritised spending on other expenditure, which resulted in a saving on expenditure

## 5.2 GRANTS

TABLE 5.2: GRANT PERFORMANCE

DESCRIPTION	2017/18		2018/19			
	ACTUAL	BUDGET	ADJUSTMENT BUDGET	ACTUAL	ORIGINAL BUDGET	ADJUSTMENT BUDGET
	R'000	R'000	R'000	R'000	%	%
Other grant providers – the CoE capital grant	50 000	50 000	92 400	68 164	136.33%	73.77%
<b>TOTAL</b>	<b>50 000</b>	<b>50 000</b>	<b>50 000</b>	<b>50 000</b>	<b>136.33%</b>	<b>73.77%</b>

## COMMENT ON OPERATING TRANSFERS AND GRANTS

The parent municipality, CoE, allocates a portion of the infrastructure grants that they receive toward bulk sanitation services. This amounted to R68,2m in the 2018/2019 financial year. This is the only grant that ERWAT received from the CoE. Development contributions of R36.4m were received in 2018/2019 (R79.9m in 2017/18). No other transfers were made by the CoE to ERWAT.

## 5.3 ASSET MANAGEMENT

### INTRODUCTION TO ASSET MANAGEMENT

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

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

The manner in which 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, and the MFMA requires municipalities and municipal entities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of capital assets with the accounting officer.

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

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

Effective management of capital assets is central to the entity providing an acceptable standard of services. Capital assets impacts on the quality of the living environment and opportunities to prosper. Not only is there a requirement to be effective, but the manner in which 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:

- Taking the entity's strategy, converting that into an asset management strategy and producing plans based upon an analysis of service delivery options;
- 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;
- Informing the annual budget, using the detailed plans;
- Funding each approved asset management plan appropriately through the budget;
- Including in the SDBIP the measurable objectives and targets of each asset management plan;

- 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:

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

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

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

## ASSET LIFECYCLE

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

- a) 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.
- b) The acquisition phase deals with the purchase, construction or manufacture of new assets.
- c) 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.
- d) 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.

### I. 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:

- 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.
- 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).
- 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.
  - Maintenance - spare parts and repair labour.
  - Administration (asset specific) - insurance, rates and taxes, management fees, etc.
  - Rehabilitation and renewal - upgrade costs, modification costs if this improves asset life etc. (capital), re-training costs (current), etc.
  - Asset-related receipts – tariffs, etc.
- Disposal-phase costs - disposal costs (like auctioneer fees, etc.), storage costs, environmental rehabilitation costs, decommissioning costs, demolition costs, etc.

### II. 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:

- What existing assets does the entity have and where are they? (Asset registers)
- What are the existing assets worth? (Valuation)
- What are their condition and their expected remaining useful life? (Condition assessments)
- What is the expected or required level of service?
- How can that level of service be achieved? (Asset Management and Operational Plans)
- What additional assets does the entity require? (Gap analysis)
- How much will that level of service cost and when

or how can we fund it? (Multi-year capital and operating budgets)

- How can we ensure that level of service is “financially sustainable”? (Fiscal policy, short to long-term financial plans)
- How will we manage and monitor the delivery of that level of service? (Performance management system and performance agreements).
- 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
- 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 TWO LARGEST ASSETS ACQUIRED IN 2018/2019

ASSET 1				
Name	Waterval Mechanical and Electrical			
Description	Capacity upgrade			
Asset type	Fixed (Infrastructure)			
Key staff involved	Development, Supply Chain and Finance			
Staff responsibilities	Engineering manager manages the project and ensures that quality work is performed			
Year	2015/2016	2016/2017	2017/2018	2018 /2019
Asset value	-	12 492 231	45 677 577	2 768
Capital implications				
Future purpose of asset	Asset built to meet plant capacity needs			
Describe key issues				
Policies in place to manage asset	Asset management policy			

ASSET 2				
Name	Waterval Civil works			
Description	Capacity upgrade			
Asset type	Fixed (Infrastructure)			
Key staff involved	Development, Supply Chain and Finance			
Staff responsibilities	Engineering manager manages the project and ensures that quality work is performed			
Year	2015/2016	2016/2017	2017/2018	2018 /2019
Asset value	4 723 656	12 626 089	8 999 938	39 228 296
Capital implications				
Future purpose of asset	Asset built to meet plant capacity needs			
Describe key issues				
Policies in place to manage asset	Asset management policy			

## COMMENT ON ASSET MANAGEMENT

The status of all the assets including assets at the plants were ascertained during the year. The need was identified to formalise the asset policy, strategy and plans. These issues will be addressed in the 2018/2019 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.

TABLE 5.4: REPAIRS AND MAINTENANCE EXPENDITURE 2018/2019

DETAIL	ORIGINAL BUDGET	ADJUSTMENT BUDGET	ACTUAL	BUDGET VARIANCE
Repairs and maintenance expenditure	124 211	124 211	157 208	26.57%

## COMMENT ON REPAIR AND MAINTENANCE EXPENDITURE

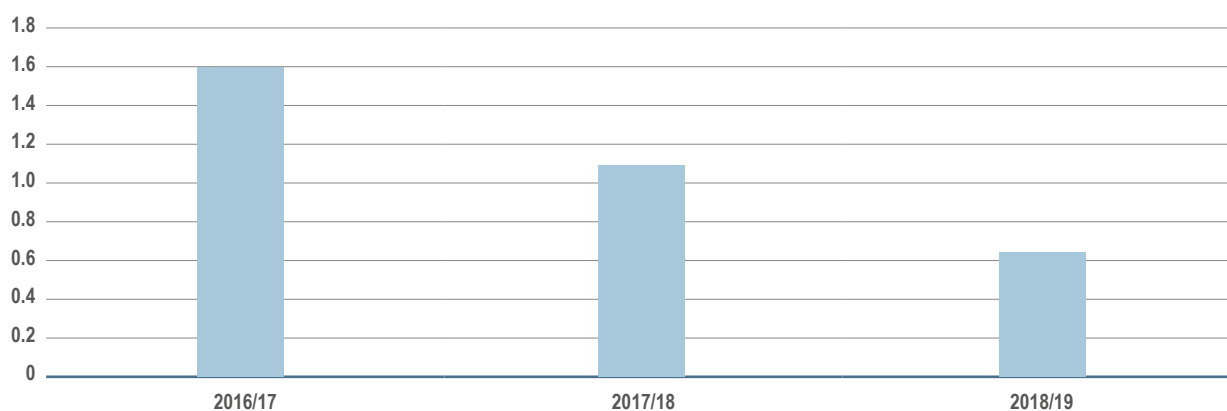
The technical department, led by an acting executive manager is responsible for all repairs and maintenance work in the company. Expenditure on maintenance, both planned and ad hoc maintenance is extremely important as it not only improves efficiencies on the plants but extends the useful lives of the infrastructure.

Repair and maintenance cost as a percentage of operating expenditure has increased from 14.99% in 2017/2018 to 16.23% in 2018/2019.

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

## 5.4 FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS

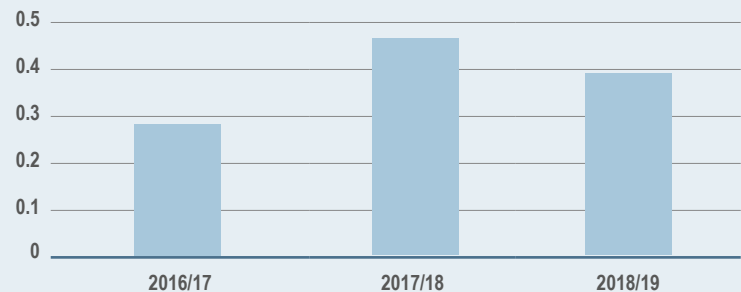
FIGURE 5.1: LIQUIDITY RATIO



**SOLVENCY RATIO**

The company’s solvency position was reduced from a solvency ratio of 0.46 in 2017/18 to 0.39 in 2018/19. The solvency of ERWAT will continue to be problematic unless alternative funding sources to loan funding can be accessed.

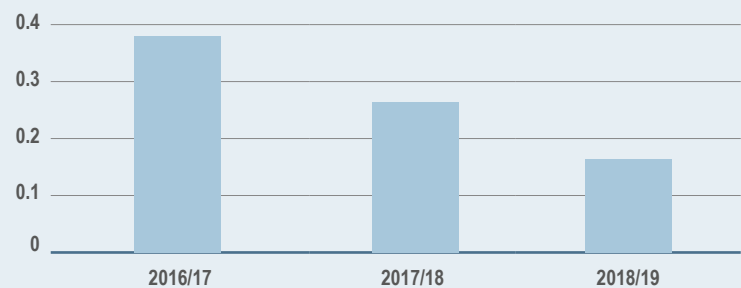
FIGURE 5.2: SOLVENCY RATIO



**CAPITAL EXPENDITURE TO OPERATING EXPENDITURE**

This ratio has improved from 0.26:1 in 2017/18 to 0.17:1 in 2018/19. Significant steps have been taken by the board of directors and management to improve the situation and address the issues of capacity and project management skills as well as improved planning.

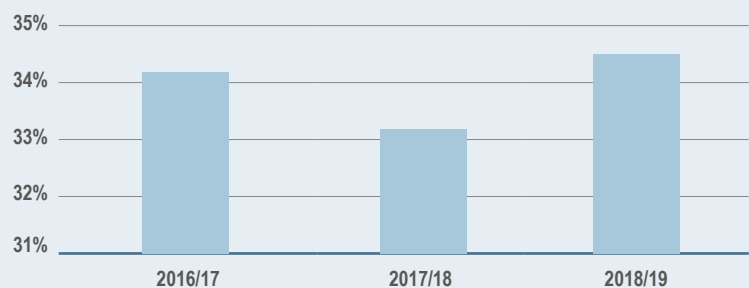
FIGURE 5.3: CAPITAL EXPENDITURE TO OPERATING EXPENDITURE



**EMPLOYEE COST RATIO**

Employee cost as a percentage of operating expenditure has increased from 33.19% in 2017/18 to 34.48% in 2018/19.

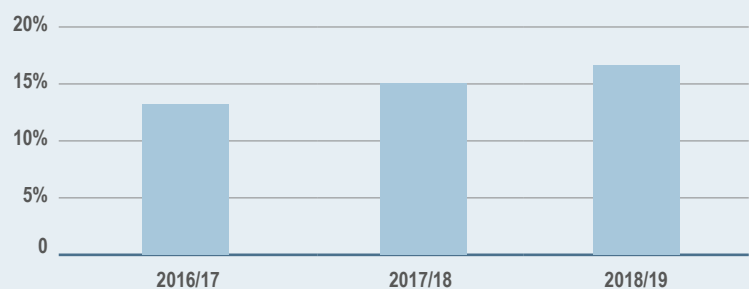
FIGURE 5.4: EMPLOYEE COST RATIO



**REPAIR AND MAINTENANCE RATIO**

Repair and maintenance cost as a percentage of operating expenditure has increased from 14.99% in 2017/18 to 16.67% in 2018/19. Expenditure on maintenance, both planned and ad hoc maintenance are extremely important, as it not only improves efficiencies on the plants but extends the useful lives of the infrastructure.

FIGURE 5.5: REPAIRS & MAINTENANCE RATIO



**COMMENT ON FINANCIAL RATIOS**

The financial health of the company is improving.

## COMPONENT B: SPENDING AGAINST CAPITAL BUDGET

### INTRODUCTION TO SPENDING AGAINST CAPITAL BUDGET

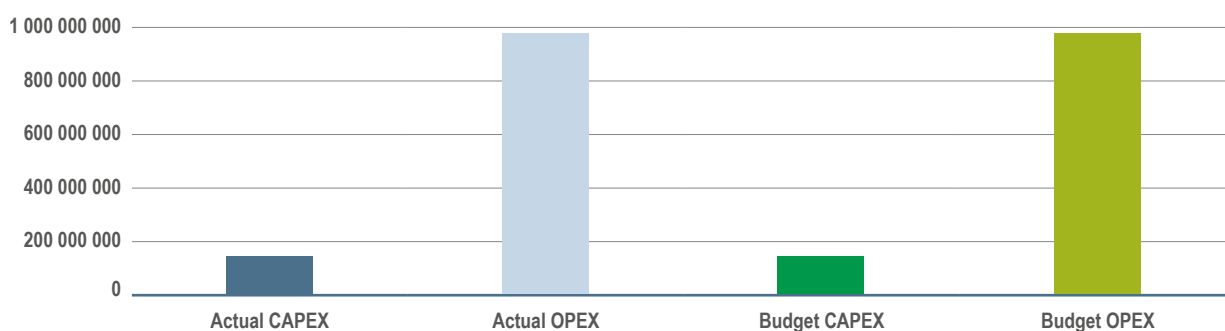
Capital expenditure for the year amounted to R160m which is 97% of the budget of R164m. This represents a significant decrease on the 2018/2019 year.

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

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

### 5.5 CAPITAL EXPENDITURE: 2018/19

FIGURE 5.6: LIQUIDITY RATIO



### 5.6 SOURCES OF FINANCE

TABLE 5.5: SOURCE OF CAPITAL FUNDING

SOURCE OF FINANCE	2017/18	2018/19			
	ACTUAL	ORIGINAL BUDGET	ADJUSTMENT BUDGET	ACTUAL	VARIANCE
	R'000	R'000	R'000	R'000	%
Grant	50 000	50 000	92 400	68 164	-26.23%
Internally generated funding	259 259	71 810	71 810	91 907	27.97%
External loan	-	-	-	-	0%
<b>TOTAL</b>	<b>309 259</b>	<b>121 810</b>	<b>164 210</b>	<b>160 071</b>	<b>-2.52%</b>
<b>PERCENTAGE OF FINANCE</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Grant	16.16%	41.05%	56.23%	42.58%	-13.65%
Internally generated funding	83.84%	58.95%	43.73%	57.42%	13.69%
External loan	0%	0%	0%	0%	0%

**COMMENT ON SOURCES OF FUNDING:**

ERWAT had long-term loans from DBSA, 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 and depreciation as well as R50m grant funding received from the parent municipality on an annual basis.

**5.7 CAPITAL SPENDING ON FIVE LARGEST PROJECTS**

TABLE 5.6: CAPITAL EXPENDITURE ON FIVE LARGEST PROJECTS\*

NAME OF PROJECT	CURRENT: YEAR 0			VARIANCE: CURRENT YEAR 0	
	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL EXPENDITURE	ORIGINAL VARIANCE (%)	ADJUSTED VARIANCE (%)
A- Blowers at Waterval	R58,000,000.00	R74,000,000.00	R49,521,532.95	15%	-28%
B - Olifantsfontein Programme	R74,495,600.00	-	R18,164,478.86	76%	100%
C- Backup Generators	R17,134,081.68	R19,902,228.68	R19,902,229.00	-16%	-16%
D - Vlakplaats Flow Diversion	R65,202,957.00	-	R25,275,772.66	61%	100%
E - Combination Trucks	R8,525,000.00	-	R8,525,000.00	0%	100%
<b>NAME OF PROJECT - A</b>	<b>BLOWERS AT WATERVAL</b>				
<b>Objective of project</b>	The five aeration blowers for Module 2 and 3 at Waterval Wastewater Care Works had reached the end of the service life span, as a result the plant under performs and fail to achieve the desired compliance. Thus, it has become high imperative to replace the aeration blowers and its auxiliaries including the renovations of the building. The successful completion of this project will lead capacity enhancement, plant optimisation and technology advancement.				
<b>Delays</b>	Community unrest due to local business forum and community members embarking on a strike requesting employment and 30% subcontracting to local SMME. The supplier ran into cash flow problems leading to not fulfilling commitments with subcontractors and suppliers, who in return delayed in delivery of equipment and paused installations.				
<b>Future Challenges</b>	Turnaround time for spares procurement and delivery may take longer since these can only be sourced overseas whereby they can only start manufacturing once a certain deposit is paid, furthermore the full amount shall be paid before shipping can be effected.				
<b>Anticipated citizen benefits</b>	These aeration blowers will provide better and sufficient dissolved oxygen in the biological reactor leading to clean water or effluent being discharged to the encatchment streams.				
<b>NAME OF PROJECT - B</b>	<b>OLIFANTSFONTEIN PROGRAMME</b>				
<b>Objective of project</b>	To resuscitate the biological filtration module at the Olifantsfontein Water Care Works in order to help mitigate the overcapacity that considerably contributes to the non-compliance of the plant.				
<b>Delays</b>	Unforeseen poor structural condition of the Biofilter tanks which has implications on the type of media that can be safely installed and contained by the walls throughout the remaining lifetime of the structure.				
<b>Future Challenges</b>	Unavailability of Asbuilt information, emptying of BNR reactor and Digestors for structural assessment.				
<b>Anticipated citizen benefits</b>	The additional treatment capacity will improve the quality of the effluent.				
<b>NAME OF PROJECT - C</b>	<b>BACKUP GENERATORS</b>				
<b>Objective of project</b>	ERWAT plants are designed to operate continuously (24 hours/day). This makes the need for continuous power a necessity, hence the need to install back-up power in case of power failure.				
<b>Delays</b>	Due to the fact that ERWAT plants are designed to operate continuously, it is extremely challenging to obtain plant shut downs in order to install the generators, as a result the plants could only authorise shut downs when the inflow to the plants was reasonably low.				

TABLE 5.6: CAPITAL EXPENDITURE ON FIVE LARGEST PROJECTS\* (CONTINUED)

<b>Future Challenges</b>	Failure to conduct proper maintenance on generators can result in equipment not operating at maximum.
<b>Anticipated citizen benefits</b>	Due to the ongoing electricity constraints throughout the country, the need for continuous power availability will ensure continuous cleaning of water.
<b>NAME OF PROJECT - D</b>	<b>VLAKPLAATS FLOW DIVERSION</b>
<b>Objective of project</b>	Capacity enhancement.
<b>Delays</b>	Long process and time for approval of the Water Use Licence Amendments (WULA) by the Department of Water and Sanitation.
<b>Future Challenges</b>	Turnaround time spares procurement and delivery since there is a possible of change of material specification.
<b>Anticipated citizen benefits</b>	To improve the quality of effluent and increases the retention time of the biofilter effluent.
<b>NAME OF PROJECT - E</b>	<b>COMBINATION TRUCKS</b>
<b>Objective of project</b>	Provide the capability of jetting and sucking of waste in case of spillages or blockages in the treatment plant and pump stations.
<b>Delays</b>	Turnaround times for spares procurement and delivery may take longer since these can only be sourced overseas whereby they can only start manufacturing once a certain deposit is paid. Furthermore the full amount shall be paid before shipping can be affected.
<b>Future Challenges</b>	Turnaround times for spares procurement and delivery may take longer since these can only be sourced overseas whereby they can only start manufacturing once a certain deposit is paid. Furthermore the full amount shall be paid before shipping can be affected.
<b>Anticipated citizen benefits</b>	Blockages and spillages will be mitigated ensuring clean environment and continuous clean effluent being discharged into the river.

\*Projects with the highest capital expenditure in year 0

## 5.8 BASIC SERVICE AND INFRASTRUCTURE BACKLOGS – OVERVIEW

### INTRODUCTION TO BASIC SERVICE AND INFRASTRUCTURE BACKLOGS

The number of households with access to sanitation increases by approximately 30 000 per year. This increase is creating pressure on the existing infrastructure to cope with the additional volumes of wastewater.

### COMMENT ON BACKLOGS

ERWAT received a grant of R50 000 000 from the CoE for capital projects. The company does not access MIG grants.

TABLE 5.7: SERVICE BACKLOGS AS AT 30 JUNE 2017\*

DETAIL	SERVICE LEVEL ABOVE MINIMUM STANDARD		SERVICE LEVEL BELOW MINIMUM STANDARD	
	NO OF HOUSEHOLDS	% OF HOUSEHOLDS	NO OF HOUSEHOLDS	% OF HOUSEHOLDS
Sanitation	979 651	90.34%	104 713	9.66%

\* June 2019 data was not available at the time of compiling the annual report

## COMPONENT C: CASH FLOW MANAGEMENT AND INVESTMENTS

Cash flow is the lifeblood of our business. Cash comes from sales and collections of account receivables. Cash flows out to meet all expenses and debt obligations of the business. 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 whereas 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 30 May by the Board of Directors. The actual cash flow is monitored against the budget on a monthly basis and variances reported to the board of directors as well as the CoE monthly and quarterly.

### 5.9 CASH FLOW

TABLE 5.8: CASH FLOW OUTCOMES

DESCRIPTION	2016/17	2017/18	CURRENT YEAR 2018/19		
	AUDITED OUTCOME	AUDITED OUTCOME	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL
	R'000	R'000	R'000	R'000	R'000
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
<b>Receipts</b>					
Service charges	645 216	687 778	791 929	791 929	863 101
Grants received	50 000	50 000	50 000	92 400	68 164
Development contribution	85 408	79 914	0	0	36 446
Interest received	16 311	6 994	2 064	2 064	2 884
Dividends received	554	66	201	201	181
Other income	156 080	115 024	179 556	179 556	105 996
<b>Payments</b>					
Employee costs	(246 140)	(292 273)	(349 739)	(349 739)	(319 814)
Suppliers	(391 578)	(387 188)	(490 508)	(490 508)	(518 538)
Finance charges	(66 350)	(61 249)	(61 504)	(61 504)	(55 074)
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>169 021</b>	<b>198 785</b>	<b>121 999</b>	<b>164 399</b>	<b>183 348</b>

TABLE 5.8: CASH FLOW OUTCOMES (CONTINUED)

DESCRIPTION	2016/17	2017/18	CURRENT YEAR 2018/19		
	AUDITED OUTCOME	AUDITED OUTCOME	ORIGINAL BUDGET	ADJUSTED BUDGET	ACTUAL
	R'000	R'000	R'000	R'000	R'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
<b>Payments</b>					
Purchase of property, plant and equipment	(283 536)	(218 898)	(116 805)	(116 805)	(159 798)
Proceeds from sale of property, plant and equipment	100	1 691	0	0	1 644
Purchase of other intangible assets	(4 891)	(1 016)	(5 000)	(5 000)	(4 812)
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>(288 327)</b>	<b>(218 224)</b>	<b>(121 805)</b>	<b>(121 805)</b>	<b>(162 965)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
<b>Payments</b>					
Repayment of long-term borrowings	(29 801)	(51 159)	(52 506)	(52 506)	(52 506)
Net finance lease payments	(559)	(239)	(350)	(350)	(336)
<b>Receipt</b>					
Long-term borrowing raised	2 094	0	0	0	0
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>(28 266)</b>	<b>(51 398)</b>	<b>(52 856)</b>	<b>(52 856)</b>	<b>(52 842)</b>
<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>	<b>(147 572)</b>	<b>(70 837)</b>	<b>(52 856)</b>	<b>(52 856)</b>	<b>(32 460)</b>
Cash/cash equivalents at the year begin:	305 353	157 782	86 945	86 945	86 945
Cash/cash equivalents at the year-end:	157 781	86 945	34 089	34 089	54 485

### COMMENT ON CASH FLOW OUTCOMES

ERWAT's cash reserves declined from R157.8m in 2016/17 to R85.4m in 2017/18. This was mainly the result of improved capital spending in 2017/18 where ERWAT managed to spend 71% of the capital budget. (2016/17: 86%).

## 5.10 BORROWING AND INVESTMENTS

### INTRODUCTION TO BORROWING AND INVESTMENTS

ERWAT has long-term loans from DBSA, INCA and Nedbank. The loans are 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 2016/2017 TO 2018/2019

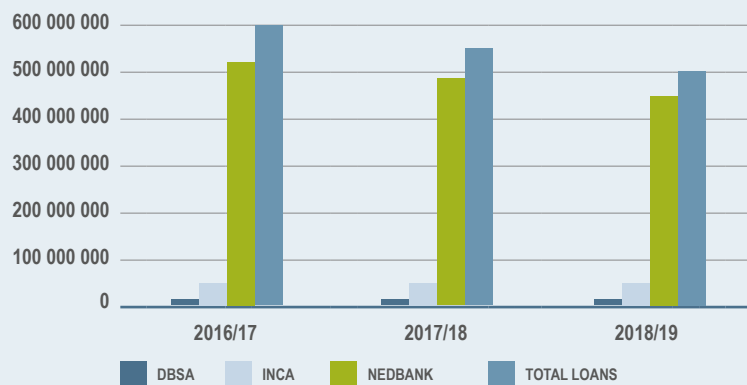
OUTSTANDING BALANCES AS AT 30 JUNE			
LOAN PROVIDER	2016/17	2017/2018	2018/2019
DBSA	11 946 072	9 371 722	5 700 202
INCA	59 777 571	54 103 962	47 668 814
NEDBANK	533 281 072	490 305 536	447 970 486
<b>TOTAL LOANS</b>	<b>605 004 715</b>	<b>553 781 220</b>	<b>501 339 502</b>

### COMMENT ON BORROWING AND INVESTMENTS

ERWAT has long-term loans from DBSA, INCA and Nedbank. The DBSA loan was repaid in the 2014/15 financial year. The loans are used specifically to fund long-term infrastructure projects such as the extension of existing plants and construction of new plants.

No loans were extended or grants made by ERWAT in 2018/2019.

FIGURE 5.7: ACTUAL BORROWINGS



## 5.11 PUBLIC PRIVATE PARTNERSHIPS

### PUBLIC PRIVATE PARTNERSHIPS

ERWAT did not undertake any contracts or projects during the year through 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.

## COMPONENT D: OTHER FINANCIAL MATTERS

### 5.12 SUPPLY CHAIN MANAGEMENT

#### SUPPLY CHAIN MANAGEMENT

ERWAT has an approved supply chain management policy which is derived from the supply chain regulations contained in the MFMA and is in line with the approved supply chain management policy of the parent municipality.

During the 2017/18 financial period ERWAT made significant progress in developing and implementing policies in accordance with SCM Regulations 2005. In order to aid with implementation of the updated policies and procedures drafted, capacitation of the department was prioritised and, as at the date of this report, all positions in the SCM department have been filled. ERWAT has implemented National Treasury's central supplier database as its register of prospective suppliers.

#### REMEDIAL ACTION TAKEN FOR AG FINDINGS

In order to resolve findings from the previous AG audit report the following actions were taken:

- Additional controls were implemented over Regulation 36(1)(v) deviations in order to provide an increased level of comfort that the deviations are valid
- A procedure manual for utilising Regulation 36(1)(v) was adopted and implemented
- New municipal bid documentation which is aligned with the laws and regulations governing the SCM process was implemented
- The OPCA sheets were regularly updated and submitted to the CoE in order to track progress of the remedial action plan
- Regulation 36 deviations are disclosed during the year that they are approved and not when incurred. The Auditor-General is in agreement with this position.

#### PRESCRIBED COMPETENCY LEVELS

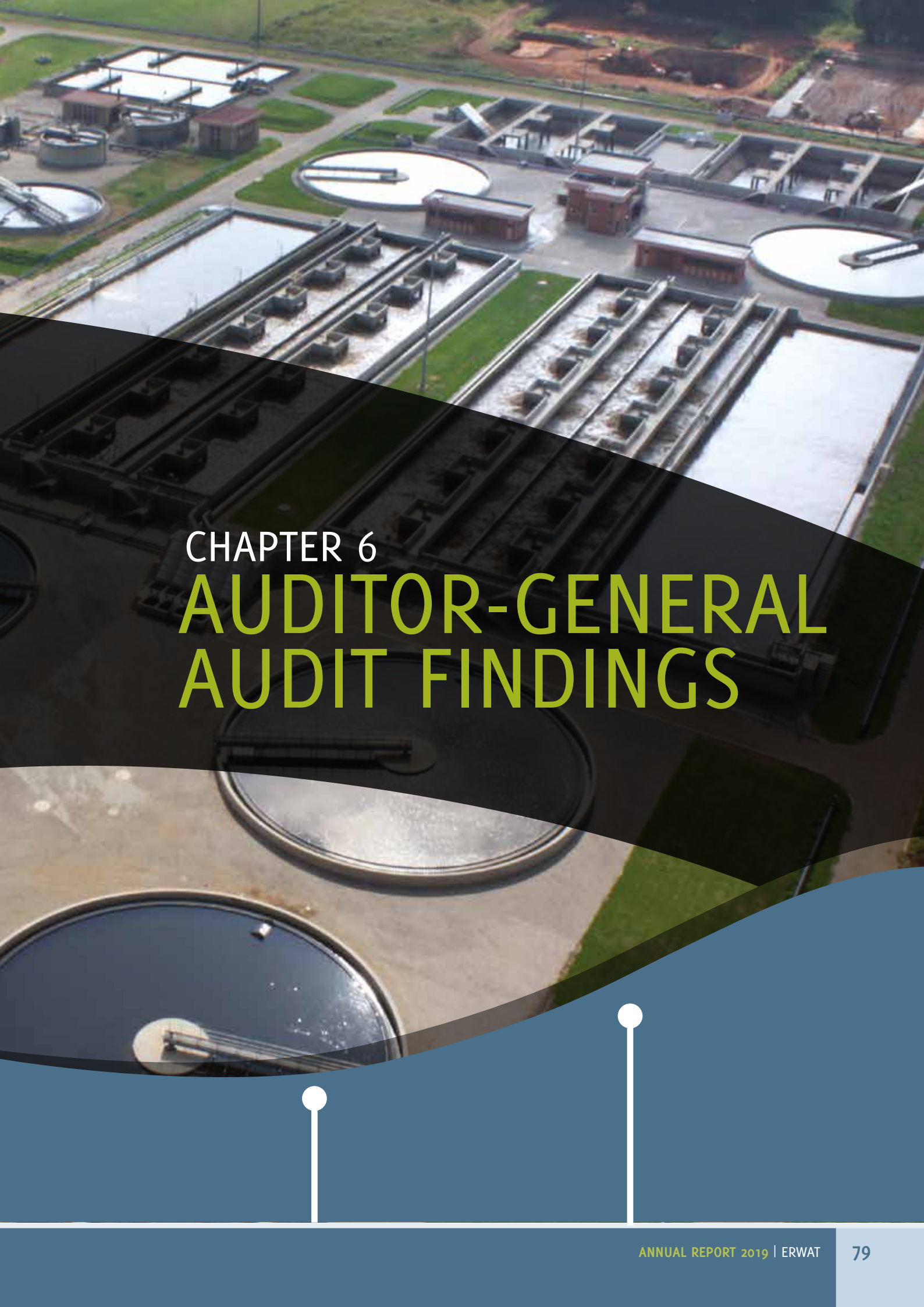
As at 30 June 2018 two supply chain officials have reached the prescribed levels required for their positions and one is currently in the process of completing the recognition of prior learning programme. An additional manager has been appointed, starting on 1 September 2016. This individual has reached the prescribed level required for the position.

### 5.13 GRAP COMPLIANCE

#### GRAP COMPLIANCE

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

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



CHAPTER 6  
**AUDITOR-GENERAL  
AUDIT FINDINGS**

## INTRODUCTION

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

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

The outcome of the audit was unqualified with matters of emphasis. Component A covers the AG's opinion for 2016/2017; Component B covers the same for 2017/2018

## COMPONENT A: AG OPINION OF FINANCIAL STATEMENTS 2017/2018

### 6.1 AUDITOR-GENERAL REPORTS 2017/2018 FINANCIAL YEAR

TABLE 6.1: AUDITOR-GENERAL REPORT ON FINANCIAL PERFORMANCE 2017/2018

Audit Report Status:	Unqualified with other matters specified
NON-COMPLIANCE ISSUES	REMEDIAL ACTION TAKEN
Inappropriate deviations- SCM Regulation 36	Corrections have been made to the Regulation 36 and Irregular expenditure disclosure notes. A procedure manual has been adopted for Regulation 36(1)(v) procurement which includes criteria for determining when the conditions for impracticality are met. Specific provisions were included for situations or conditions where comments must be obtained from National or Provincial Treasury prior to the approval of a Regulation 36(1)(v) deviation.
Some goods and services with a value below R200,000 were procured without obtaining three (3) quotations	Corrections have been made to Irregular expenditure disclosure notes. The process for the procurement of goods and services with a value below R200,000 was amended to include requesting additional quotations from suppliers registered on the CSD before commencement of evaluation.
Some construction contracts were awarded to contractors that did not qualify for the contract in terms of CIDB Regulation 17 & 25	Corrections have been made to Irregular expenditure disclosure notes. A standard operating procedure was adopted to address the issue and to prevent a recurrence of this finding in future. The standard operating procedure was approved by the members of the Executive Committee on 25/06/2019.
Contract performance and monitoring measures and methods were not sufficient to ensure effective contract management by MFMA Section 116(2)(c)	Corrections have been made to Irregular expenditure disclosure notes. A standard operating procedure was adopted to address the issue and to prevent a recurrence of this finding in future. The standard operating procedure was approved by the members of the Executive Committee on 25/06/2019.
Effective and efficient steps were not taken to prevent Irregular expenditure	Clarity was sought from various legislator bodies in relation to the irregular expenditure occurred and standard operating procedures were drafted and approved to ensure that such expenditure does not recur in future.  All instances of Irregular Expenditure were referred to the MPAC of the City of Ekurhuleni Metropolitan Municipality in order to ensure that appropriate consequence management takes place.
Money owed was not always paid within 30 days as required by MFMA Section 99(2)(b)	ERWAT endeavoured to pay monies owed within 30 days from the date of receipt of statement. Due to cash-flow issues experienced by ERWAT during the 2018/19 financial period this finding could not be fully resolved.

TABLE 6.2: AUDITOR-GENERAL REPORT ON SERVICE DELIVERY PERFORMANCE 2017/2018

Audit Report Status:	Unqualified with other matters specified
NON-COMPLIANCE ISSUES	REMEDIAL ACTION TAKEN
No material non-compliance affecting the audit report noted.	Not applicable

## COMPONENT B: AUDITOR-GENERAL OPINION OF FINANCIAL STATEMENTS 2018/2019

### 6.2 AUDITOR-GENERAL REPORT 2018/2019 FINANCIAL YEAR

TABLE 6.3: AUDITOR-GENERAL REPORT ON FINANCIAL PERFORMANCE

<b>Audit Report Status:</b>	Unqualified with other matters specified
<b>NON-COMPLIANCE ISSUES</b>	<b>REMEDIAL ACTION TAKEN</b>
Inappropriate deviations-SCM regulations 36	A procedure manual has been adopted which includes criteria for determining the conditions for impracticality. It should however be noted that no formal criteria exist from the side of National Treasury and the Auditor-General, leaving it open to interpretation in some cases.
Bid specifications for some tenders were drafted in a biased manner and did not allow all potential suppliers to offer their goods and services, in contravention of SCM regulation 27(2) (a) of the MFMA	A Standard Operating Procedure was drafted to ensure that the process of drafting specifications for procurement is such that a recurrence of this finding will be prevented.
Effective and appropriate steps were not taken to prevent irregular expenditure.	The Board of Directors have adopted a zero-tolerance policy in relation to irregular expenditure. All instances of irregular expenditure are investigated and the appropriate consequence management will be applied.

TABLE 6.4: AUDITOR-GENERAL REPORT ON SERVICE DELIVERY PERFORMANCE 2018/2019

<b>Audit Report Status:</b>	Unqualified with material misstatement specified
<b>NON-COMPLIANCE ISSUES</b>	<b>REMEDIAL ACTION TAKEN</b>
A material misstatement in the annual performance report was identified in that the source information and evidence for achieving the planned indicator was not clearly defined.	The relevant indicator has been addressed to comply with the expected SMART criteria to not only prevent a recurrence of the finding in future but increase the usefulness of management information.

### 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.

#### WI LOUW

Chief Financial Officer

# GLOSSARY

TABLE 6.5: GLOSSARY

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

TABLE 6.5: GLOSSARY (CONTINUED)

TERM	DESCRIPTION
<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 upon 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>	One of the main segments into which a budget of a municipality is divided for appropriation of money for the different departments or functional areas of the municipality. The vote specifies the total amount that is appropriated for the purpose of a specific department or functional area. Section 1 of the MFMA defines a "vote" as: <i>a) one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and</i> <i>b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned</i>

## APPENDIX A

COMMITTEES AND  
COMMITTEE PURPOSES

TABLE 6.6: 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 how the company remunerates directors and executives fairly and responsibly and the disclosure of director remuneration is 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 committee is responsible for identification and optimisation of the research and development conducted at ERWAT that could be translated into revenue generation mechanisms.

## APPENDIX B

# ANNUAL PERFORMANCE REPORT

TABLE 6.7: PRE-DETERMINED CITY-WIDE OBJECTIVES

ENTITY	OUTCOME	REF NO.	PERFORMANCE INDICATOR (OUTPUT LEVEL ONLY)	DESCRIPTION OF PORTFOLIO OF EVIDENCE VERIFIED	BASELINE (ANNUAL PERFORMANCE OF 2017/18 ESTIMATED)	ANNUAL TARGET FOR 2018/19	ANNUAL PLANNED OUTPUT AS PER SDBIP	ANNUAL ACTUAL OUTPUT
<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 PROMOTE INTEGRATED HUMAN SETTLEMENTS THROUGH MASSIVE INFRASTRUCTURE AND SERVICES ROLLOUT</b>								
<b>IDP STRATEGIC OBJECTIVE 2: TO BUILD A CLEAN, CAPABLE AND MODERNISED LOCAL STATE</b>								
ERWAT	Improved Quality of water (including wastewater).	WS4 36	Total revenue generated from external business	Invoices	R125 million (target 2017/18)	R160 million	R160 million	R107 million
	To build a clean, Capable and Modernised Local State	GG3 37	Audit Opinion received from the external audit (AGSA)	Audit report from AGSA	Unqualified Audit Opinion	Unqualified Audit Opinion	Unqualified Audit Opinion	Unqualified Audit Opinion
<b>IDP STRATEGIC OBJECTIVE 1: TO PROMOTE INTEGRATED HUMAN SETTLEMENTS THROUGH MASSIVE INFRASTRUCTURE AND SERVICES ROLLOUT</b>								
ERWAT	Improved Quality of water (including wastewater)	63	% Compliance with water care works license conditions and/ or exemptions standards	Water Quality Data of each Water care works (from the Lab) Spreadsheet used to calculate over all compliance. Applicable Water use authorization of each Water care works.	86%	88%	88%	90%

VARIATION	ACTUAL OUTPUT RATING	PROGRESS ON TARGETS	REASON(S) FOR VARIATION	REMEDIAL ACTION	ANNUAL PLANNED BUDGET	ANNUAL ACTUAL EXPENDITURE
R53 million	Not achieved	R107 million was achieved out of the R160 million target for Q4	The structure was not sales focused to ensure market penetration and sales targets are achieved in order to increase quarterly revenue targets, hence the need to appoints sales engineers.	Implementation of the revised structure that includes sales engineers to focus on all the identified potential market sectors as clearly outlined on our recent ERWAT Commercial Opportunities Business Case.8	R120 million	R 98 716 831
None	Achieved	Target Achieved	N/A	No Remedial Action Required	R1 626 183	R2 358 642
2%	Performance Achieved	Target Exceeded	<ul style="list-style-type: none"> <li>ERWAT successfully negotiated an amendment of licence conditions with DWS, using scientific evidence, to industry norms.</li> <li>Installed HYBACS technology has contributed to an improved effluent compliance of the Tsakane Water care works.</li> <li>Adopting a risk based management process in identifying and mitigating risks.</li> </ul>	None required	R497 048 597	R127 731 834


TABLE 6.8: ENTITY'S SDBIP

ENTITY	OUTCOME	REF NO.	PERFORMANCE INDICATOR (OUTPUT LEVEL ONLY)	DESCRIPTION OF PORTFOLIO OF EVIDENCE VERIFIED	BASELINE (ANNUAL PERFORMANCE OF 2017/18 ESTIMATED)	ANNUAL TARGET FOR 2018/19	ANNUAL PLANNED OUTPUT AS PER SDBIP	ANNUAL ACTUAL OUTPUT
<b>IDP STRATEGIC OBJECTIVE 1: TO PROMOTE INTEGRATED HUMAN SETTLEMENTS THROUGH MASSIVE INFRASTRUCTURE AND SERVICES ROLLOUT</b>								
ERWAT	Improved Quality of Water including Wastewater	1.M	% Capital expenditure on planned projects	Project progress reports (weekly, quarterly and Annual reports) Payments certificates Invoices	95%	95%	95%	97.44%
	Improved Quality of Water including Wastewater	2.M	% of planned maintenance scheduled	Number of Job Cards received versus number of job cards completed.	New indicator	90%	90%	41%
	Improved Quality of Water including Wastewater	3.M	Rand value-support of SMME's through ensuring appropriate application of preferential procurement practices	Procurement Plan and Invoices Paid.	New indicator	R120 536 966.10	R120 536 966.10	R127 174 840.32
	Improved Quality of Water including Wastewater	4.M	Number of audit findings cleared per quarter.	Number of audit findings cleared per quarter.	29 audit findings cleared in full by the end of Q4 2019	29	29	29

VARIATION	ACTUAL OUTPUT RATING	PROGRESS ON TARGETS	REASON(S) FOR VARIATION	REMEDIAL ACTION	ANNUAL PLANNED BUDGET	ANNUAL ACTUAL EXPENDITURE
+2.44%	Target Exceeded	Target Exceeded	The work done exceeded the target of 95%.	No remedial action required	R164 204 889 Pre -adjustment R120 178 086	R160 008 803
49%	Not Achieved	Not Achieved	Lack of developed maintenance plan and asset care plans	ERWAT is in the process of implementing an asset management strategy, which will address all the maintenance shortfalls.	R103 367 000	R137 183 549
R6 637 874.22	Target Exceeded	Target Exceeded	Maintenance and support services higher due to season (pump stations)	None. Pending approval and reconciliations.	R120 536 966.10	R127 174 840
0	Achieved	29 Findings Cleared	None	No remedial action required	R1 626 183	R2 358 642

A photograph of water cascading over a dam with several spillways. The image is partially covered by a dark, semi-transparent overlay that contains the chapter title. Two white vertical lines with circular endpoints are positioned below the title, extending towards the bottom of the page.

# CHAPTER 7 ANNUAL FINANCIAL STATEMENTS



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# GENERAL INFORMATION

<b>Legislation governing the municipal entity's operations</b>	Municipal Finance Management Act (Act 56 of 2003), Municipal Systems Act, Structures 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>	T Gopane
<b>Chief Finance Officer (CFO)</b>	WI Louw
<b>Directors</b>	CJ Cornish (Chairperson of Board of Directors) D Coovadia (Non-executive) T Gopane (Executive) K Wall (Non-executive) GM Mahlangu (Appointed: 1 November 2018) NC Skeepers(Appointed: 1 November 2018)
<b>Registered office</b>	Hartebeestfontein Office Park R25 (Bapsfontein/Bronkhorstspruit) Kempton Park 1619
<b>Business address</b>	Hartebeestfontein Office Park R25 (Bapsfontein/Bronkhorstspruit) 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 Corporate and Investment Banking 15 Alice Lane Sandton 2196
<b>Auditors</b>	Auditor-General South Africa 61 Central Street, Houghton
<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: WI Louw (B Compt Hons) Chief Financial Officer

# ACRONYMS

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**AGSA** Auditor-General South Africa

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**CEO** Chief Executive Officer

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**CFO** Chief Financial Officer

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**CoE** City of Ekurhuleni Metropolitan Municipality

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**DBSA** Development Bank of South Africa

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**ERWAT** East Rand Water Care Company

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**GRAP** Generally Recognised Accounting Practice

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**HOD** Head of Department

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**INCA** Infrastructure Finance Corporate Limited

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**IPSAS** International Public Sector Accounting Standards

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**JIBAR** Johannesburg Interbank Average Rate

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**MD** Managing Director

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**MFMA** Municipal Finance Management Act

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**mSCOA** Municipal Standard Chart of Accounts

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**NPC** Non Profit Company

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**PPE** Property, Plant and Equipment

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**SCM** Supply Chain Management

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# BOARD'S RESPONSIBILITIES AND APPROVAL

The directors are required by the Municipal Finance Management Act (Act 56 of 2003) to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the 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 financial statements and was given unrestricted access to all financial records and related data.

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

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements 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 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, 2020 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 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 are 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 financial statements. The annual financial statements have been examined by ERWAT's external auditors and their report is presented in the Annual Report.

The financial statements set out on pages 94 to 152, which have been prepared on a going concern basis, were approved by the board on 30 November 2019 and were signed on its behalf by:

**CJ Cornish (Chairperson of Board of Directors)**  
Non-Executive Director

**T Gopane (Accounting Officer)**  
Managing Director

# BOARD'S REPORT

The directors submit their report for the year ended 30 June, 2019.

## 1. REVIEW OF ACTIVITIES

### MAIN BUSINESS AND OPERATIONS

ERWAT is a municipal entity. The principal activity of the entity in 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 26,274,932, (2018: surplus R 138,846,535).

## 2. GOING CONCERN

We draw attention to the fact that at 30 June, 2019, the entity had accumulated surplus of R 1,633,312,061 and that the entity's total assets exceed its liabilities by R 1,633,312,061.

The financial statements has 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 2019

	NOTE(S)	2019 R	2018 RESTATED* R
<b>ASSETS</b>			
<b>Current Assets</b>			
Trade receivables from exchange transactions	3	33,392,695	70,447,511
Receivables from non-exchange transactions	4	17,201,426	23,491,624
Other receivables from exchange transactions	5	15,131,509	10,540,558
VAT receivable	6	4,391,482	35,498,785
Other financial assets	7	8,214,919	8,420,736
Cash and cash equivalents	8	54,485,033	86,945,000
		<b>132,817,064</b>	<b>235,344,214</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	9	2,175,377,123	2,100,438,135
Intangible assets	10	10,135,394	6,532,811
		<b>2,185,512,517</b>	<b>2,106,970,946</b>
<b>Total Assets</b>		<b>2,318,329,581</b>	<b>2,342,315,160</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	11	115,508,375	128,613,782
Provisions	12	31,060,177	21,340,234
Current portion of long-term borrowings	13	57,893,718	56,404,629
Current portion of finance lease obligation	14	119,466	238,932
		<b>204,581,736</b>	<b>206,597,577</b>
<b>Non-Current Liabilities</b>			
Non-current portion of long-term borrowings	13	443,445,784	497,440,987
Non-current portion of finance lease obligation	14	-	119,466
Employee benefit obligation	15	36,990,000	31,120,000
		<b>480,435,784</b>	<b>528,680,453</b>
<b>Total Liabilities</b>		<b>685,017,520</b>	<b>735,278,030</b>
<b>Net Assets</b>		<b>1,633,312,061</b>	<b>1,607,037,130</b>
Accumulated surplus		1,633,312,061	1,607,037,130

\* See Note 33 & 32

# STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2019

	NOTE(S)	2019 R	2018 RESTATED* R
<b>REVENUE</b>			
<b>Revenue from exchange transactions</b>			
Service charges	17	791,928,669	719,935,154
Other income	18	110,570,870	109,478,397
Interest received	19	2,884,425	6,994,219
Dividends received	19	181,971	65,985
<b>Total revenue from exchange transactions (note 16)</b>		<b>905,565,935</b>	<b>836,473,755</b>
<b>REVENUE FROM NON-EXCHANGE TRANSACTIONS</b>			
<b>Transfer revenue</b>			
Government grants & subsidies	16	68,164,479	50,000,000
Development Contribution	16	36,446,254	79,914,197
<b>Total revenue from non-exchange transactions</b>		<b>104,610,733</b>	<b>129,914,197</b>
<b>Total revenue</b>	16	<b>1,010,176,668</b>	<b>966,387,952</b>
<b>EXPENDITURE</b>			
Employee related costs	20	(333,801,871)	(277,276,548)
Depreciation and amortisation	21	(82,016,515)	(65,943,739)
Finance costs	22	(55,073,814)	(61,249,257)
Debt Impairment	23	(696,074)	(348,104)
Bulk purchases and materials	24	(234,049,208)	(203,753,482)
General Expenses	25	(272,468,372)	(224,435,235)
<b>Total expenditure</b>		<b>(978,105,854)</b>	<b>(833,006,365)</b>
<b>Operating surplus</b>		<b>32,070,814</b>	<b>133,381,587</b>
Loss on disposal of assets		(2,407,369)	(1,078,340)
Fair value adjustments - Investments		(205,818)	301,252
Actuarial gains (losses)	15	(3,182,695)	6,242,036
		<b>(5,795,882)</b>	<b>5,464,948</b>
<b>Surplus for the year</b>		<b>26,274,932</b>	<b>138,846,535</b>

\* See Note 33 & 32

# STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED 30 JUNE 2019

	Accumulated surplus R	Total net assets R
Opening balance as previously reported	1,463,072,697	1,463,072,697
Prior year adjustments (note 32)	5,117,898	5,117,898
<b>Balance at 01 July, 2017 as restated*</b>	<b>1,468,190,595</b>	<b>1,468,190,595</b>
Changes in net assets Surplus for the year	138,846,535	138,846,535
Total changes	138,846,535	138,846,535
<b>Balance at 01 July 2018 as restated*</b>	<b>1,607,037,129</b>	<b>1,607,037,129</b>
Changes in net assets	26,274,932	26,274,932
<b>Total changes</b>	<b>26,274,932</b>	<b>26,274,932</b>
<b>Balance at 30 June, 2019</b>	<b>1,633,312,061</b>	<b>1,633,312,061</b>

# CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2019

	NOTE(S)	2019 R	2018 RESTATED* R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Service charges		866,380,986	687,496,339
Development contribution		36,446,254	79,914,197
Grants received		68,164,479	50,000,000
Interest income		2,884,425	6,994,219
Dividends received		181,971	65,985
Other income		104,534,709	115,024,225
		<b>1,078,592,824</b>	<b>939,494,965</b>
<b>PAYMENTS</b>			
Employee costs		(318,112,748)	(292,272,706)
Suppliers		(523,387,928)	(387,187,744)
Finance costs		(55,073,814)	(61,249,257)
		<b>(896,574,490)</b>	<b>(740,709,707)</b>
<b>Net cash flows from operating activities</b>	26	<b>182,018,334</b>	<b>198,785,258</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	9	(159,797,727)	(218,898,385)
Proceeds from sale of property, plant and equipment	9	1,643,782	1,690,569
Proceeds from insurance payouts		1,329,269	-
Purchase of other intangible assets	10	(4,811,510)	(1,016,113)
<b>Net cash flows used in investing activities</b>		<b>(161,636,186)</b>	<b>(218,223,929)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of long-term borrowings		(52,506,114)	(51,159,098)
Net finance lease payments		(336,000)	(238,932)
<b>Net cash flows used in financing activities</b>		<b>(52,842,114)</b>	<b>(51,398,030)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(32,459,966)</b>	<b>(70,836,701)</b>
Cash and cash equivalents at the beginning of the year		86,945,000	157,781,702
<b>Cash and cash equivalents at the end of the year</b>	8	<b>54,485,034</b>	<b>86,945,001</b>

\* See Note 33 & 32

# STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (APPROPRIATION STATEMENT)

FOR THE YEAR ENDED 30 JUNE 2019

	Original budget R	Budget adjustments (i.t.o. s28 and s31 of the MFMA) R	Final adjustments budget R	Shifting of funds (i.t.o. s31 of the MFMA) R
<b>2019</b>				
<b>FINANCIAL PERFORMANCE</b>				
Service charges	791,928,000	-	791,928,000	-
Investment revenue	3,579,000	-	3,579,000	-
Other own revenue	179,074,000	-	179,074,000	-
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>974,581,000</b>	<b>-</b>	<b>974,581,000</b>	<b>-</b>
Employee costs	(349,739,000)	-	(349,739,000)	-
Debt impairment	(1,024,000)	-	(1,024,000)	-
Depreciation and asset impairment	(71,805,000)	-	(71,805,000)	-
Finance charges	(61,504,000)	-	(61,504,000)	-
Materials and bulk purchases	(202,296,499)	-	(202,296,499)	-
Other expenditure	(288,212,501)	-	(288,212,501)	-
<b>Total expenditure</b>	<b>(974,581,000)</b>	<b>-</b>	<b>(974,581,000)</b>	<b>-</b>
<b>Surplus</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Transfers recognised - capital	50,000,000	42,400,000	92,400,000	-
<b>Surplus after capital transfers and contributions</b>	<b>50,000,000</b>	<b>42,400,000</b>	<b>92,400,000</b>	<b>-</b>
<b>Surplus for the year</b>	<b>50,000,000</b>	<b>42,400,000</b>	<b>92,400,000</b>	<b>-</b>
<b>CAPITAL EXPENDITURE AND FUNDS SOURCES</b>				
Total capital expenditure	121,804,889	42,400,000	164,204,889	-
Retentions	-	-	-	-
<b>Sources of capital funds</b>				
Transfers recognised - capital	50,000,000	42,400,000	92,400,000	-
Internally generated funds	71,804,889	-	71,804,889	-
<b>Total sources of capital funds</b>	<b>121,804,889</b>	<b>42,400,000</b>	<b>164,204,889</b>	<b>-</b>
<b>CASH FLOWS</b>				
Net cash from operating activities	121,999,415	-	121,999,415	-
Net cash used in investing activities	(121,804,889)	-	(121,804,889)	-
Net cash used in financing activities	(53,050,389)	-	(53,050,389)	-
<b>Net decrease in cash and cash equivalents</b>	<b>(52,855,863)</b>	<b>-</b>	<b>(52,855,863)</b>	<b>-</b>
Cash and cash equivalents at the beginning of the year	86,945,000	-	86,945,000	-
<b>Cash and cash equivalents at year end</b>	<b>34,089,137</b>	<b>-</b>	<b>34,089,137</b>	<b>-</b>

The budget is approved on an accrual basis by nature of classification. The approved budget covers the period from 01 July 2018 to 30 June 2019.

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.

Virement (i.t.o. council approved policy) R	Final budget R	Actual outcome R	Unauthorised expenditure R	Variance R	Actual outcome as % of final budget %	Actual outcome as % of original budget %
	791,928,000	791,928,669		669	100 %	100 %
	3,579,000	3,066,396		(512,604)	86 %	86 %
	179,074,000	147,017,124		(32,056,876)	82 %	82 %
	<b>974,581,000</b>	<b>942,012,189</b>		<b>(32,568,811)</b>	<b>97 %</b>	<b>97 %</b>
	(349,739,000)	(333,801,871)	-	15,937,129	95 %	95 %
	(1,024,000)	(696,074)	-	327,926	68 %	68 %
	(71,805,000)	(82,016,515)	-	(10,211,515)	114 %	114 %
	(61,504,000)	(55,073,814)	-	6,430,186	90 %	90 %
	(202,296,499)	(234,049,208)	-	(31,752,709)	116 %	116 %
	(288,212,501)	(278,264,254)	-	9,948,247	97 %	97 %
	<b>(974,581,000)</b>	<b>(983,901,736)</b>	-	<b>(9,320,736)</b>	<b>101 %</b>	<b>101 %</b>
	-	<b>(41,889,547)</b>		<b>(41,889,547)</b>		
	92,400,000	68,164,479		(24,235,521)	74 %	136 %
	<b>92,400,000</b>	<b>26,274,932</b>		<b>(66,125,068)</b>	<b>28 %</b>	<b>53 %</b>
	<b>92,400,000</b>	<b>26,274,932</b>		<b>(66,125,068)</b>	<b>28 %</b>	<b>53 %</b>
	164,204,889	160,008,803		(4,196,086)	97 %	131 %
	-	4,600,433		4,600,433	0 %	0 %
	92,400,000	68,164,479		(24,235,521)	74 %	136 %
	71,804,889	96,444,757		24,639,868	134 %	134 %
	<b>164,204,889</b>	<b>164,609,236</b>		<b>404,347</b>	<b>100 %</b>	<b>135 %</b>
	121,999,415	182,018,334		60,018,919	149 %	149 %
	(121,804,889)	(161,636,186)		(39,831,297)	133 %	133 %
	(53,050,389)	(52,842,114)		208,275	100 %	100 %
	<b>(52,855,863)</b>	<b>(32,459,966)</b>		<b>20,395,897</b>	<b>61 %</b>	<b>61 %</b>
	86,945,000	86,945,000		-	100 %	100 %
	<b>34,089,137</b>	<b>54,485,034</b>		<b>(20,395,897)</b>	<b>160 %</b>	<b>160 %</b>

The R42.4 million adjustment is a capital expenditure amount requested and approved during the adjustment budget process in order to upgrade the Olifantsfontein water care works. The variances between actual amounts versus budgeted amounts are explained in note 42 Budget differences.

# 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.

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 judgement 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 judgements and sources of estimation uncertainty are applicable, they have been disclosed in the relevant notes and policies.

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

#### FINANCIAL ASSETS CARRIED AT COST, AMORTISED COST, AND FAIR VALUE

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

#### IMPAIRMENT OF RECEIVABLES

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

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

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

#### IMPAIRMENT OF OTHER FINANCIAL ASSETS

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

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

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

#### FINANCE LEASE COMMITMENTS - ENTITY AS A LESSEE

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

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

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

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

#### POST-EMPLOYMENT BENEFITS

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

#### IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The calculation in respect of impairment of 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 on an 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.

#### BUDGET INFORMATION

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.

#### 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 TESTING

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

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

## 1.2 PRESENTATION AND FUNCTIONAL CURRENCY

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

## 1.3 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity and
- the cost or the fair value of the item can be measured reliably.

Property, plant and equipment are initially measured at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. Cost also includes initial 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 its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating how the condition and use of the asset informs the useful life and residual value management considers the impact of technology and minimum service requirements of the assets.

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

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

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

<b>AFS CLASS</b>	<b>RANGE IN YEARS</b>
Land	Indefinite
Leased assets	5 - 9
Furniture & Fixtures, office and computer equipment	5 - 80
Buildings	13 - 80
Motor vehicles	8 - 35
Plant and Machinery	5 - 45
Wastewater Infrastructure	3 - 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	ESTIMATED USEFUL LIFE (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.

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

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

#### SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

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

#### FAIR VALUE MEASUREMENT CONSIDERATIONS

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

#### GAINS AND LOSSES

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

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

#### IMPAIRMENT AND UNCOLLECTIBILITY 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 EMPLOYMENT BENEFITS SHORT-TERM

### EMPLOYEE BENEFITS

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The bonus payments are recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

### RETIREMENT FUNDS

The entity contributes to defined contribution and defined benefit funds. These funds are multi-employer funds.

### DEFINED CONTRIBUTION PLANS

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

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

### DEFINED BENEFIT PLANS

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

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

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

The entity does not apply “defined benefit accounting” to the defined benefit funds to which it is a member, where these funds as classified in terms of GRAP 25 as multi-employer plans, as sufficient information is not available to apply the principles involved.

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

#### MEDICAL AID: CONTINUED MEMBERS

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

### 1.7 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.

## 1.8 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 its fair value less costs to sell and its value in use. Useful life is either:

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

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

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

### IDENTIFICATION

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

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

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

### VALUE IN USE

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

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

#### RECOGNITION AND MEASUREMENT (INDIVIDUAL ASSET)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### REVERSAL OF IMPAIRMENT LOSS

The entity 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.

### 1.9 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 assess 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.

### 1.10 PROVISIONS AND CONTINGENCIES

Provisions are recognised when:

- the entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of 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.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

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.

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.

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.

### 1.11 REVENUE FROM EXCHANGE TRANSACTIONS

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

Revenue from exchange transactions refers to revenue that accrued to the entity directly in return for services rendered / goods sold, 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 from the sale of goods is recognised when the risk is passed to the consumer. Income in respect of housing rental is accrued monthly

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 goods or 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.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends are recognised when the municipality's right to receive payment is established. 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. .
- Prepaid electricity sold is only recognised as income once the related units are consumed..

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.

## 1.12 REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue is recognised as follows:

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

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

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

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

### 1.13 LEASES

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes land and buildings elements, the entity assesses the classification of each element separately.

#### OPERATING LEASES – LESSOR

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

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

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

#### OPERATING LEASES - LESSEE

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

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

#### FINANCE LEASES - LESSEE

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

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

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

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

### 1.14 BORROWING COSTS

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

### 1.15 INCOME TAX

The Entity is exempt from tax due to it being a Non-Profit Company.

### 1.16 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, entity or organ of state and expenditure in the form of a grant 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.

### 1.17 FRUITLESS AND WASTEFUL EXPENDITURE

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

### 1.18 IRREGULAR EXPENDITURE

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

### 1.19 BUDGET INFORMATION

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

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30. 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.

### 1.20 RELATED PARTIES

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

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

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

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

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

### 1.21 EVENTS AFTER REPORTING DATE

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

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

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

### 1.22 COMMITMENTS

Items are classified as commitments when the entity has committed itself to future transactions that will normally result in 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 GOING CONCERN

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

### 1.24 COMPARATIVE FIGURES

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

### 1.26 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.

## 1.27 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 EFFECTIVE AND ADOPTED IN THE CURRENT YEAR

In the current year, the entity has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

<b>STANDARD/ INTERPRETATION:</b>	<b>EFFECTIVE DATE: YEARS BEGINNING ON OR AFTER</b>	<b>EXPECTED IMPACT:</b>
GRAP 17 (as amended 2016): Property, Plant and Equipment	01 April 2018	The impact of the is set out in note 2 Changes in accounting policy.
GRAP 21 (as amended 2016): Impairment of non-cash-generating assets	01 April 2018	The impact of the standard is not material.
GRAP 26 (as amended 2016): Impairment of cash-generating assets	01 April 2018	The impact of the standard is not material.
GRAP 27 (as amended 2016): Agriculture	01 April 2018	The impact of the standard is not material.
GRAP 31 (as amended 2016): Intangible Assets	01 April 2018	The impact of the standard is not material.
GRAP 103 (as amended 2016): Heritage Assets	01 April 2018	The impact of the standard is not material.
Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	01 April 2018	The impact of the standard is not material.

## 2.2 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 2019 or later periods:

<b>STANDARD/ INTERPRETATION:</b>	<b>EFFECTIVE DATE: YEARS BEGINNING ON OR AFTER</b>	<b>EXPECTED IMPACT:</b>
GRAP 104 (amended): Financial Instruments	Not yet set	Unlikely there will be a material impact
Guideline: Guideline on Accounting for Landfill Sites	Not yet set	Unlikely there will be a material impact
Guideline: Guideline on the Application of Materiality to Financial Statements	Not yet set	Unlikely there will be a material impact
GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
GRAP 34: Separate Financial Statements	01 April 2020	Unlikely there will be a material impact
GRAP 35: Consolidated Financial Statements	01 April 2020	Unlikely there will be a material impact
GRAP 37: Joint Arrangements	01 April 2020	Unlikely there will be a material impact
GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	Unlikely there will be a material impact
GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	Unlikely there will be a material impact
IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	Unlikely there will be a material impact
Directive 7 (revised): The Application of Deemed Cost	01 April 2019	Unlikely there will be a material impact
GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact
GRAP 20: Related parties	01 April 2019	Unlikely there will be a material impact
GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	Unlikely there will be a material impact
GRAP 108: Statutory Receivables	01 April 2019	Unlikely there will be a material impact
GRAP 109: Accounting by Principals and Agents	01 April 2019	Unlikely there will be a material impact
IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	Unlikely there will be a material impact
IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	Unlikely there will be a material impact
IGRAP 19: Liabilities to Pay Levies	01 April 2019	Unlikely there will be a material impact

# NOTES TO THE FINANCIAL STATEMENTS

3. TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS	2019 R	2018 R
<b>Gross trade receivables from exchange transactions</b>		
Commercial business receivables	20,353,778	20,563,085
Related party debtors	18,306,371	54,455,806
	<b>38,660,149</b>	<b>75,018,891</b>
<b>Less: Allowance for impairment</b>		
Commercial business - Provision for bad debts	(5,267,454)	(4,571,380)
<b>Net balance</b>		
Commercial business receivables	15,086,324	15,991,705
Related party debtors	18,306,371	54,455,806
	<b>33,392,695</b>	<b>70,447,511</b>
<b>Ageing of commercial business - Trade receivables from exchange transactions</b>		
Current (0 -30 days)	6,798,736	6,246,891
31 - 60 days	1,513,607	2,304,088
61 - 90 days	2,382,510	1,082,189
91 - 120+ days	9,658,925	10,929,917
Less: Allowance for impairment	(5,267,454)	(4,571,380)
	<b>15,086,324</b>	<b>15,991,705</b>
<b>Ageing of related party - Trade receivables from exchange transactions</b>		
Current (0 -30 days)	2,873,479	1,896,687
31 - 60 days	-	834,733
61 - 90 days	-	18,224,971
91 - 120+ days	15,432,892	33,499,415
	<b>18,306,371</b>	<b>54,455,806</b>
<b>Total</b>		
Current (0 -30 days)	9,672,215	8,143,578
31 - 60 days	1,513,607	3,138,821
61 - 90 days	2,382,510	19,307,160
91 - 120+ days	25,091,817	44,429,332
	38,660,149	75,018,891
Less: Allowance for impairment	(5,267,454)	(4,571,380)
	<b>33,392,695</b>	<b>70,447,511</b>
<b>Less: Allowance for impairment</b>		
91 - 120+ days	(5,267,454)	(4,571,380)
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(4,571,380)	(4,223,276)
Contributions to the Debt Impairment Allowance (Credit Losses)	(696,074)	(348,104)
	<b>(5,267,454)</b>	<b>(4,571,380)</b>

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

2019  
R2018  
R

## 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, 2019, R 23,728,158 (2018: R 61,815,983) were past due but not impaired.

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

1 month past due	1,521,286	3,138,821
2 months past due	2,382,510	19,307,160
3 months past due	19,824,362	39,370,002

## RECEIVABLES FROM EXCHANGE TRANSACTIONS ENCUMBERED

Receivables with a carry value of R 33 392 695 (2018: R 70 447 511) are encumbered in respect of a long-term borrowing, as disclosed in the long-term borrowing note 13. ERWAT has agreed to cede to its controlling entity claims against 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 550million 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	17,201,426	23,491,624
<b>Ageing of Receivables from non-exchange transactions</b>		
91 - 120+ days	17,201,426	23,491,624

## RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS ENCUMBERED

Receivables with a carry value of R 17 201 426 (2018: R 23 491 624) are encumbered in respect of a long-term borrowing, as disclosed in the long-term borrowing note 13. ERWAT has agreed to cede to its controlling entity claims against 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.

## 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. The disclosure below is included only in order to comply with the standards of GRAP.

Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June, 2019, R 17,201,426 (2018: R 23,491,624) were past due but not impaired.

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

3 months past due	17,201,426	23,491,624
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5. OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS	2019 R	2018 R
Deposits	10,282,615	8,839,729
Prepaid expenses	4,828,608	1,700,829
Medical aid	20,286	-
	<b>15,131,509</b>	<b>10,540,558</b>

## 6. VAT RECEIVABLE

VAT	4,391,482	35,498,785
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## 7. OTHER FINANCIAL ASSETS

NAME OF ENTITY	CARRYING AMOUNT 2019 R	CARRYING AMOUNT 2018 R	FAIR VALUE 2019 R	FAIR VALUE 2018 R
Sanlam demutualisation shares	1,220,077	1,244,898	1,220,077	1,244,898
Old Mutual demutualisation shares*	825,465	1,062,590	825,465	1,062,590
Old Mutual unit trust*	6,169,377	6,113,248	6,169,377	6,113,248
	<b>8,214,919</b>	<b>8,420,736</b>	<b>8,214,919</b>	<b>8,420,736</b>

### FAIR VALUE

The fair values of listed or quoted investments are determined 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	2019 R	2018 R
Cash and cash equivalents consist of:		
Cash on hand	18,400	23,400
Bank balances	54,466,633	85,354,252
Interest accrued not yet received from the bank	-	1,567,348
	<b>54,485,033</b>	<b>86,945,000</b>

### THE ENTITY HAS THE FOLLOWING BANK ACCOUNTS

Account number / description	BANK STATEMENT BALANCES			CASH BOOK BALANCES		
	30 JUNE 2019	30 JUNE 2018	30 JUNE 2017	30 JUNE 2019	30 JUNE 2018	30 JUNE 2017
ABSA BANK - Current account - 2-6107-0120	34,674,317	58,941,557	157,714,415	34,674,317	60,508,905	157,367,173
ABSA BANK - Salary account - 2-6017-0139	19,792,316	26,412,695	393,329	19,792,316	26,412,695	393,329
Petty cash and floats	-	-	-	18,400	23,400	21,200
<b>Total</b>	<b>54,466,633</b>	<b>85,354,252</b>	<b>158,107,744</b>	<b>54,485,033</b>	<b>86,945,000</b>	<b>157,781,702</b>

## 9. PROPERTY, PLANT AND EQUIPMENT

ACCOUNT NUMBER / DESCRIPTION	2019			2018		
	COST / VALUATION R	ACCUMULATED DEPRECIATION AND IMPAIRMENT R	CARRYING VALUE R	COST / VALUATION R	ACCUMULATED DEPRECIATION AND IMPAIRMENT R	CARRYING VALUE R
Land	13,017,283	-	13,017,283	13,017,283	-	13,017,283
Buildings	42,099,613	(7,458,646)	34,640,967	37,885,192	(6,315,394)	31,569,798
Buildings - Assets under construction	15,848,710	-	15,848,710	19,030,693	-	19,030,693
Plant and machinery	49,594,294	(18,914,097)	30,680,197	46,582,119	(16,631,871)	29,950,248
Furniture and fixtures, office and computer equipment	28,882,297	(11,265,937)	17,616,360	29,100,554	(10,063,670)	19,036,884
Motor vehicles	57,108,118	(18,613,083)	38,495,035	54,823,658	(16,010,423)	38,813,235
Infrastructure, Waste water purification works - Assets under construction	345,315,039	-	345,315,039	952,960,307	-	952,960,307
Infrastructure, Waste water purification works	2,144,816,840	(465,374,917)	1,679,441,923	1,395,898,200	(400,909,905)	994,988,295
Plant and machinery - Assets under construction	26,999	-	26,999	710,975	-	710,975
Leased assets	1,247,550	(952,940)	294,610	1,247,550	(887,133)	360,417
<b>Total</b>	<b>2,697,956,743</b>	<b>(522,579,620)</b>	<b>2,175,377,123</b>	<b>2,551,256,531</b>	<b>(450,818,396)</b>	<b>2,100,438,135</b>

## RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 2019

	OPENING BALANCE R	ADDITIONS R	DISPOSALS R	TRANSFERS R	DEPRECIATION R	TOTAL R
Land	13,017,283	-	-	-	-	13,017,283
Land and buildings	31,569,798	996,726	-	3,217,695	(1,143,253)	34,640,966
Land and buildings - Assets under construction	19,030,693	35,713	-	(3,217,695)	-	15,848,711
Plant and machinery	29,950,248	1,814,493	(18,754)	1,660,827	(2,726,624)	30,680,190
Furniture and fixtures, office and computer equipment	19,036,884	1,356,787	(366,777)	-	(2,410,534)	17,616,360
Motor vehicles	38,813,235	3,327,291	(35,464)	-	(3,610,027)	38,495,035
Infrastructure, Waste water purification works	994,988,295	6,451,141	(3,630,156)	752,483,991	(70,851,349)	1,679,441,922
Infrastructure, Waste water purification works - Assets under construction	952,960,307	144,838,724	-	(752,483,991)	-	345,315,040
Plant and machinery - Assets under construction	710,975	976,851	-	(1,660,827)	-	26,999
Leased assets	360,414	-	-	-	(65,800)	294,614
	<b>2,100,438,132</b>	<b>159,797,726</b>	<b>(4,051,151)</b>	<b>-</b>	<b>(80,807,587)</b>	<b>2,175,377,120</b>

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

### RECONCILIATION OF PROPERTY, PLANT AND EQUIPMENT - 2018

	OPENING BALANCE R	ADDITIONS R	DISPOSALS R	TRANSFERS R	DEPRECIATION R	TOTAL R
Land	13,017,283	-	-	-	-	13,017,283
Land and buildings	30,609,356	1,903,014	-	-	(942,572)	31,569,798
Land and buildings - Assets under construction	12,473,728	6,556,965	-	-	-	19,030,693
Plant and machinery	18,279,810	14,131,901	(73,442)	-	(2,388,021)	29,950,248
Furniture and fixtures, office and computer equipment	14,629,235	7,199,869	(269,658)	-	(2,522,562)	19,036,884
Motor vehicles	40,609,306	1,674,461	(2,563)	-	(3,467,969)	38,813,235
Infrastructure, Waste water purification works	1,002,279,810	15,308,973	(2,423,244)	35,106,276	(55,283,520)	994,988,295
Infrastructure, Waste water purification works - Assets under construction	816,654,356	171,412,227	-	(35,106,276)	-	952,960,307
Plant and machinery - Assets under construction	-	710,975	-	-	-	710,975
Leased assets	600,633	-	-	-	(240,219)	360,414
	<b>1,949,153,517</b>	<b>218,898,385</b>	<b>(2,768,907)</b>	<b>-</b>	<b>(64,844,863)</b>	<b>2,100,438,132</b>

### RECONCILIATION OF WORK IN PROGRESS 2019

	INCLUDED WITHIN INFRASTRUCTURE	INCLUDED WITHIN LAND AND BUILDING	INCLUDED WITHIN OTHER PPE	TOTAL
Opening balance	952,960,307	19,030,693	710,975	972,701,975
Additions/capital expenditure	144,838,724	35,713	976,851	145,851,288
Transferred to completed items	(752,483,991)	(3,217,695)	(1,660,827)	(757,362,513)
	<b>345,315,040</b>	<b>15,848,711</b>	<b>26,999</b>	<b>361,190,750</b>

### RECONCILIATION OF WORK IN PROGRESS 2018

	INCLUDED WITHIN INFRASTRUCTURE	INCLUDED WITHIN LAND AND BUILDING	INCLUDED WITHIN OTHER PPE	TOTAL
Opening balance	816,654,356	12,473,728	-	829,128,084
Additions/capital expenditure	171,412,227	6,556,965	710,975	178,680,167
Transferred to completed items	(35,106,276)	-	-	(35,106,276)
	<b>952,960,307</b>	<b>19,030,693</b>	<b>710,975</b>	<b>972,701,975</b>

### LEASED ASSETS

	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE
Benoni	437,677	(426,462)	11,215
Dekema	168,150	(64,978)	103,172
H. Bickley	87,719	(30,025)	57,694
Rondebult	2,000,530	(956,993)	1,043,537
Rynfield	654,554	(187,326)	467,228
	<b>3,348,630</b>	<b>(1,665,784)</b>	<b>1,682,846</b>

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

2019  
R2018  
R

## EXPENDITURE INCURRED TO REPAIR AND MAINTAIN PROPERTY, PLANT AND EQUIPMENT INCLUDED IN STATEMENT OF FINANCIAL PERFORMANCE

Employee related costs	37,419,061	34,050,297
Contracted services	158,839,042	124,674,221
General expenses	2,962,715	7,962,109
	<b>199,220,818</b>	<b>166,686,627</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the entity.

## 10. INTANGIBLE ASSETS

	2019			2018		
	COST / VALUATION R	ACCUMULATED AMORTISATION AND IMPAIRMENT R	CARRYING VALUE R	COST / VALUATION R	ACCUMULATED AMORTISATION AND IMPAIRMENT R	CARRYING VALUE R
Computer software	16,005,082	(5,869,688)	10,135,394	11,193,573	(4,660,762)	6,532,811

## RECONCILIATION OF INTANGIBLE ASSETS - 2019

	OPENING BALANCE R	ADDITIONS R	DISPOSALS R	TOTAL R
Computer software	6,532,811	4,811,510	(1,208,926)	10,135,395

## RECONCILIATION OF INTANGIBLE ASSETS - 2018

	OPENING BALANCE R	ADDITIONS R	DISPOSALS R	TOTAL R
Computer software	6,615,575	1,016,113	(1,098,877)	6,532,811

## 11. PAYABLES FROM EXCHANGE TRANSACTIONS

2019  
R2018  
R

Trade payables	83,210,792	109,612,645
Deposits	11,780	11,780
Accrued bonus	6,873,980	6,955,357
Accrued overtime	2,595,281	2,191,780
Payroll creditors	4,691,529	4,120,384
Related party payables	10,859,106	4,487,909
Retention	5,570,530	970,097
Debtors with credit balances	608,295	251,675
Other payables	1,084	3,655
Unidentified deposits	-	8,500
Accrued shift standby & travel allowance	1,085,998	-
	<b>115,508,375</b>	<b>128,613,782</b>

## 12. PROVISIONS

RECONCILIATION OF PROVISIONS - 2019	OPENING BALANCE R	ADDITIONS R	REVERSED DURING THE YEAR R	TOTAL R
Long service awards provision	1,212,752	1,668,846	(1,212,752)	1,668,846
Incentive bonus provision	-	7,948,975	-	7,948,975
Leave pay provision	20,127,482	11,680,597	(10,365,723)	21,442,356
	<b>21,340,234</b>	<b>21,298,418</b>	<b>(11,578,475)</b>	<b>31,060,177</b>

RECONCILIATION OF PROVISIONS - 2018	OPENING BALANCE R	ADDITIONS R	REVERSED DURING THE YEAR R	TOTAL R
Long service awards provision	-	1,212,752	-	1,212,752
Incentive bonus provision	17,201,507	-	(17,201,507)	-
Leave pay provision	16,323,816	11,764,446	(7,960,780)	20,127,482
	<b>33,525,323</b>	<b>12,977,198</b>	<b>(25,162,287)</b>	<b>21,340,234</b>

### LONG SERVICE AWARDS

The amount payable in relation to Long service awards in future years meets the definition of a provision.

ERWAT is required to determine the value of the award by determining the amount due to employees in the ensuing financial year.

The criteria for Long service recognition is as follows:

- All employees with 5 years of continued service will qualify an award of 10% of their monthly salary
- 10 years continued service: an award of 20% of the employee's monthly salary
- 15 years continued service: an award of 30% of the employee's monthly salary
- 20 years continued service: an award of 40% of the employee's monthly salary
- 25 years continued service: an award of 50% of the employee's monthly salary

### LEAVE PAY PROVISION

The liability is based on the total accrued leave days at year end. 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.

## 13. LONG TERM BORROWINGS

	2019 R	2018 R
<b>At amortised cost</b>		
Bank loan - Nedbank (Secured) Six monthly Jibar plus 2.32% currently @ 2018: 9.912% (2018: 10.028%) Redeemable 30/11/2029. The loan is repayable in bi-annual instalments, the last repayment amount for the 2018/2019 financial year was R 44 521 764 and the next repayment amount due is R 43 459 586.	447,970,486	490,435,435
Bank loan - INCA (Unsecured) INCA @ 2019: 8.00% (2018: 8.25%) Redeemable 28/06/2024 The loan is repayable in bi-annual instalments, the last repayment amount for the 2018 financial year was R 5 380 495 and the next repayment amount due is R5 487 440.	47,668,814	54,103,962
Bank loans - DBSA (Unsecured) DBSA - Loan 61001191 - R 1 158 801 Fixed rate of 15% @ 2019: (2018: 15%) Redeemable 30/09/2020 The loan is repayable in fixed bi-annual instalments, the last repayment amount for the 2018/2019 financial year was R 429 696 and the next repayment amount due is R 429 696.	5,700,202	9,306,219
DBSA - Loan 61001192 - R 4 541 401 DBSA - Loan 61001192 - R 4 541 401 Three monthly Jibar plus 2.22% currently @ 2019: 10.45% (2018: 10.54%) Redeemable 30/09/2020 The loan is repayable in quarterly instalments, the last repayment amount for the 2018/2019 financial year was R 871 962 and the next repayment amount is R 854 276		
	<b>501,339,502</b>	<b>553,845,616</b>
<b>Total long term borrowings</b>	<b>501,339,502</b>	<b>553,845,616</b>

Refer to note 3 and 4 for information relating to debtors ceded against the Nedbank loan. Refer to note 40 for the utilisation of long-term liabilities reconciliation.

## NON-CURRENT LIABILITIES

At amortised cost	443,445,784	497,440,987
<b>NON-CURRENT LIABILITIES</b>		
At amortised cost	57,893,718	56,404,629

#### 14. FINANCIAL LEASE OBLIGATION

	2019 R	2018 R
Non-current liabilities	-	119,466
Current liabilities	119,466	238,932
<b>MINIMUM LEASE PAYMENTS DUE</b>		
- within one year	119,466	238,932
- in second to fifth year inclusive	-	119,466
<b>Present value of minimum lease payments</b>	<b>119,466</b>	<b>358,398</b>
Non-current liabilities	-	119,466
Current liabilities	119,466	238,932
	<b>119,466</b>	<b>358,398</b>

#### FINANCE LEASES

The finance lease relates to the renting of the access control system, electric fencing and CCTV equipment.

#### 15. EMPLOYEE BENEFIT OBLIGATIONS

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

#### CARRYING VALUE

Opening balance	31,120,000	34,170,000
Benefit paid	(1,322,695)	(1,445,964)
Net (income)/expense recognised in the statement of financial performance	7,192,695	(1,604,036)
	<b>36,990,000</b>	<b>31,120,000</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% 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.

#### Net income (expense) recognised in the statement of financial performance

#### CARRYING VALUE

Current service cost	(1,110,000)	(1,238,000)
Interest cost	(2,900,000)	(3,400,000)
Actuarial gains/(losses)	(3,182,695)	6,242,036
	<b>(7,192,695)</b>	<b>1,604,036</b>

## 15. EMPLOYEE BENEFIT OBLIGATIONS (CONT.)

## KEY ASSUMPTIONS USED

An actuarial valuation has been performed by ARCH Actuarial Consulting CC as at 30 June 2019. The actuarial valuation as at 30 June 2018 was also performed by ARCH Actuarial Consulting CC.

The key financial assumptions are as follows:

	2019	2018
Discount rates used	9.33 %	9.52 %
Medical cost inflation rates	6.80 %	7.33 %
Proportion of retiring members who are married	90.00 %	90.00 %
Average retirement age	63 years	63 years

The discount rate of 9,33 % was set with reference to the market yield on government bonds, by using the weighted average duration of the liability i.e. 16,72 years and the corresponding interest yield rate of 9,33 %

## 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 start of period (ended 30 June 2019)	(32,538,000)	(42,553,000)
Service costs	(899,200)	(1,385,100)
Interest costs	(2,810,800)	(2,997,100)
Defined benefit obligation	36,990,000	32,120,000
Surplus (deficit)	(3,182,695)	6,242,036
Experience adjustments on plan liabilities	(2,960,000)	2,754,000

## 16. REVENUE

	2019 R	2018 R
Service charges	791,928,669	719,935,154
Other income	110,570,870	109,478,397
Interest received - investment	2,884,425	6,994,219
Dividends received	181,971	65,985
Government grants & subsidies	68,164,479	50,000,000
Development contribution	36,446,254	79,914,197
	<b>1,010,176,668</b>	<b>966,387,952</b>

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	791,928,669	719,935,154
Other income	110,570,870	109,478,397
Interest received - investment	2,884,425	6,994,219
Dividends received	181,971	65,985
	<b>905,565,935</b>	<b>836,473,755</b>

## 16. REVENUE (CONT.)

2019  
R

2018  
R

The amount included in revenue arising from non-exchange transactions is as follows:

Government grants & subsidies	68,164,479	50,000,000
Development contribution	36,446,254	79,914,197
	<b>104,610,733</b>	<b>129,914,197</b>

### DEVELOPMENT CONTRIBUTION

Development Contributions are recognised as revenue to the extent that ERWAT has complied with any of the criteria, conditions or obligations embodied in the agreement.

Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met.

Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the contribution will be considered unconditional and is recognised as revenue.

## 17. SERVICE CHARGES

Sewerage and sanitation charges	791,928,669	719,935,154
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## 18. OTHER INCOME

Discount received	23,820	21,520
Other income from commercial business	106,821,427	107,315,083
Learnership income	2,301,690	1,658,871
Tender income	94,664	482,923
Insurance payout	1,329,269	-
	<b>110,570,870</b>	<b>109,478,397</b>

Included in the income from commercial business is income received from housing and leasing, commercial business, laboratory, operations and technical.

## 19. INVESTMENT REVENUE

### Dividend revenue

Unit trusts - Local	181,971	65,985
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### Interest revenue

Interest received: Bank	2,505,482	6,519,417
Interest received: Deposits	378,943	474,802
	<b>2,884,425</b>	<b>6,994,219</b>
	<b>3,066,396</b>	<b>7,060,204</b>

20. EMPLOYEE RELATED COSTS	2019 R	2018 R
Basic	195,594,252	174,765,180
Bonus	12,936,390	13,648,634
Bursary schemes	49,300	94,326
Car allowance	9,405,449	5,495,058
Cell phone and data card allowances	4,540,677	3,682,139
Company contributions	54,861,845	49,116,330
Housing benefits and allowances	3,067,608	1,961,652
Leave pay provision charge	11,680,598	11,764,446
Long service awards	1,668,846	1,764,849
Long-term benefits - incentive scheme	7,948,975	(17,201,507)
Overtime payments	25,853,545	25,573,961
Other short term costs	404,611	353,270
Post-retirement - medical loss	1,110,000	1,238,000
Remuneration of non-executive directors	2,291,212	2,713,715
Sanlam disability fund	651,042	596,263
Workmen's compensation	1,737,521	1,710,232
	<b>333,801,871</b>	<b>277,276,548</b>

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

Annual Remuneration	1,602,720	1,505,440
Contributions to UIF, Medical and Pension Funds	281,571	262,340
Telephone and data card allowance	52,800	52,800
Bonus and performance related payments	133,560	125,008
	<b>2,070,651</b>	<b>1,945,588</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 43 for the details of remuneration of the managers and directors.

#### REMUNERATION OF CHIEF FINANCE OFFICER

Annual Remuneration	1,190,213	1,049,431
Travel Allowance	102,000	102,000
Contributions to UIF, Medical and Pension Funds	366,219	341,111
Cell phone and data card allowance	40,800	40,800
Bonuses and performance related payments	93,629	87,312
	<b>1,792,861</b>	<b>1,620,654</b>

The remuneration of the Chief Financial Officer is included in the employee related costs. Please refer to the note on Directors and executive managers emoluments for more detailed breakdown of the Chief Financial Officer.

Please refer to note 43 for the details of remuneration of directors and executive managers.

## 20. EMPLOYEE RELATED COSTS (CONT.)

2019  
R

2018  
R

### REMUNERATION OF EXECUTIVE MANAGERS EXCLUDING CHIEF FINANCIAL OFFICER

Annual Remuneration	8,032,479	6,732,745
Travel Allowance	594,000	550,000
Contributions to UIF, Medical and Pension Funds	1,778,916	1,667,278
Cell phone and data card allowance	277,200	292,400
Bonuses and performance related payments	582,591	542,371
	<b>11,265,186</b>	<b>9,784,794</b>

### REMUNERATION OF NON-EXECUTIVE DIRECTORS

Annual Remuneration	2,166,122	2,556,533
Travel Allowance	9,890	9,982
Cell phone and data card allowance	115,200	147,200
	<b>2,291,212</b>	<b>2,713,715</b>

### IN-KIND BENEFITS

All ERWAT directors have the use of a company owned laptop and 3G card. The directors salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution.

## 21. DEPRECIATION AND AMORTISATION

Property, plant and equipment	80,807,587	64,844,863
Intangible assets	1,208,928	1,098,876
	<b>82,016,515</b>	<b>65,943,739</b>

Refer to note 9 and 10.

## 22. FINANCE COSTS

Interest on long-term borrowings	52,050,476	57,752,189
Finance leases	97,068	97,068
Unwinding of discount - Employee benefit obligation	2,900,000	3,400,000
Other interest paid - SARS	26,270	-
	<b>55,073,814</b>	<b>61,249,257</b>

## 23. DEBT IMPAIRMENT

Reversal of impairment allowance	(4,571,380)	(4,223,276)
Contributions to the Debt Impairment Allowance (Credit Losses)	5,267,454	4,571,380
	<b>696,074</b>	<b>348,104</b>

Refer to note 3 on page 50.

## 24. BULK PURCHASES AND MATERIALS

	2019 R	2018 R
Electricity	134,484,059	119,046,048
Water	6,425,091	4,977,590
Sewer purification	93,140,058	79,729,844
	<b>234,049,208</b>	<b>203,753,482</b>

## 25. GENERAL EXPENSES

Advertising	423,939	655,286
Assessment rates & municipal charges	1,517,937	1,514,069
Auditors remuneration	2,358,642	1,579,678
Bank charges	451,149	426,560
Computer expenses	4,325,576	1,983,981
Conferences and seminars	2,897,865	2,225,145
Consulting and professional fees	26,732,157	16,765,878
Donations	10,000	81,400
Entertainment	4,159,107	2,788,909
Flowers	46,796	94,791
Health, safety and protective clothing	1,831,548	6,728,301
Fuel and other fleet costs	13,602,813	11,298,488
Insurance	3,628,527	4,194,112
Laboratory charges	5,211,212	3,757,017
Lease rental	1,316,534	1,126,316
Marketing and public relations	2,013,403	1,713,716
Staff recruitment fees	750,389	1,862,170
Printing and stationery	940,088	1,446,343
Rental of equipment	1,222,677	1,124,195
Research and development costs	742,124	652,728
Repair and maintenance	158,839,042	124,674,221
Security	19,254,776	20,189,529
Sewerage and waste disposal	16,812	20,772
Subscriptions and membership fees	562,346	735,766
Telephone and fax	2,529,375	2,170,581
Training	6,355,445	3,524,732
Transport and freight	6,128,767	5,339,729
Travel	4,599,326	5,760,822
	<b>272,468,372</b>	<b>224,435,235</b>

## 26. CASH GENERATED FROM OPERATIONS

	2019 R	2018 R
Surplus	26,274,932	138,846,535
<b>Adjustments for:</b>		
Depreciation and amortisation	82,016,515	65,943,739
Loss on sale of assets	2,407,369	1,078,340
Actuarial gains/(losses)	3,182,695	(6,242,036)
Fair value adjustments	205,818	(301,252)
Proceeds from insurance payout	(1,329,269)	-
Finance costs - Finance leases	97,068	-
Debt impairment	696,074	348,104
Movements in retirement benefit liability	2,687,305	3,192,036
Movements in provisions	9,719,943	(12,185,089)
<b>Changes in working capital:</b>		
Trade & Other receivables from exchange transactions	32,463,865	(32,560,697)
Other receivables from non-exchange transactions	6,290,198	11,216,053
Debt impairment	(696,074)	(348,104)
Payables from exchange transactions	(13,105,408)	41,239,904
VAT	31,107,303	(11,442,275)
	<b>182,018,334</b>	<b>198,785,258</b>

## 27. AUDITORS' REMUNERATION

Fees	2,358,642	1,579,678
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## 28. FINANCIAL INSTRUMENTS DISCLOSURE

### CATEGORIES OF FINANCIAL INSTRUMENTS

2019 FINANCIAL ASSETS	AT FAIR VALUE	AT AMORTISED COST	TOTAL
Other financial assets	8,214,919	-	8,214,919
Trade receivables from exchange & receivables from non-exchange transactions	-	50,594,121	50,594,121
Other receivables from exchange transactions*	-	10,302,901	10,302,901
Cash and cash equivalents	-	54,485,033	54,485,033
	<b>8,214,919</b>	<b>115,382,055</b>	<b>123,596,974</b>

FINANCIAL LIABILITIES	AT AMORTISED COST	TOTAL
Payables from exchange transactions**	115,508,374	115,508,374
Long-term borrowings - Current portion	57,893,718	57,893,718
Long-term borrowings - Non-current portion	443,445,784	443,445,784
Finance lease - Current portion	119,466	119,466
	<b>616,967,342</b>	<b>616,967,342</b>

\*excluding prepayments

\*\*excluding payments received in advance

## 28. FINANCIAL INSTRUMENTS DISCLOSURE (CONT.)

2018			
FINANCIAL ASSETS	AT FAIR VALUE	AT AMORTISED COST	TOTAL
Other financial assets	8,420,736	-	8,420,736
Trade receivables from exchange & receivables from non-exchange transactions	-	93,939,135	93,939,135
Other receivables from exchange transactions*	-	8,839,729	8,839,729
Cash and cash equivalents	-	86,945,000	86,945,000
	<b>8,420,736</b>	189,723,864	198,144,600
		AT AMORTISED COST	TOTAL
FINANCIAL LIABILITIES			
Payables from exchange transactions**		128,613,782	128,613,782
Long-term borrowings - Current portion		56,404,629	56,404,629
Long-term borrowings - Non-current portion		497,440,987	497,440,987
Finance lease - Current portion		238,932	238,932
Finance lease - Non-current portion		119,466	119,466
		<b>682,817,796</b>	<b>682,817,796</b>

\*excluding prepayments

\*\*excluding payments received in advance

## FINANCIAL INSTRUMENTS IN STATEMENT OF FINANCIAL PERFORMANCE

2019	AT AMORTISED COST	TOTAL
Interest Income (calculated using effective interest method) for financial instruments at amortised cost	2,884,425	2,884,425
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(55,073,814)	(55,073,814)
Debt impairment	(696,074)	(696,074)
Loss on fair value adjustment	(205,818)	(205,818)
	<b>(53,091,281)</b>	<b>(53,091,281)</b>
2018	AT AMORTISED COST	TOTAL
Interest Income (calculated using effective interest method) for financial instruments at amortised cost	6,994,219	6,994,219
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(61,249,257)	(61,249,257)
Debt impairment	(348,104)	(348,104)
Loss on fair value adjustment	301,252	301,252
	<b>(54,301,890)</b>	<b>(54,301,890)</b>

## 29. CAPITAL COMMITMENTS

2019  
R

2018  
R

### AUTHORISED CAPITAL EXPENDITURE

#### APPROVED AND CONTRACTED

Buildings	4,498,799	2,689,279
Furniture and fittings	264,708	537,979
Motor vehicles	-	3,321,389
Intangibles	-	130,655
Waste water works	248,838,937	231,222,038
Plant and machinery	550,362	9,131,683
	<b>254,152,806</b>	<b>247,033,023</b>

### TOTAL CAPITAL COMMITMENTS

Approved and contracted	254,152,806	247,033,023
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This committed expenditure relates to all classes of assets as mentioned above and will be financed by available bank facilities, retained surpluses, existing cash resources and funds internally generated, etc.

### OPERATING LEASES - AS LESSEE (EXPENSE)

#### MINIMUM LEASE PAYMENTS DUE

• within one year	99,422	298,266
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Operating lease payments represent rentals payable by the entity for certain of its office equipment. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

## 30. CONTINGENCIES

Contingencies are broken down into the following categories:

- Category A - Contingencies relating to ESKOM
- Category B - Bank Guarantees
- Category C - Guarantees
- Category D - Legal matters

### CATEGORY A - CONTINGENCIES RELATING TO ESKOM

ESKOM's contract stipulates that if ESKOM overspends 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.

## 30. CONTINGENCIES (CONT.)

	2019 R	2018 R
<b>CATEGORY B - BANK GUARANTEES</b>		
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>
<b>CATEGORY C - GUARANTEES</b>		
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>
<b>CATEGORY D - LEGAL MATTERS</b>		
HM Eyethu Construction and Plant Hire CC	2,300,000	2,300,000
MS Khudu	570,000	570,000
Namston General Construction CC	4,923,358	4,923,358
	<b>7,793,358</b>	<b>7,793,358</b>
<b>Total Contingencies</b>	<b>10,733,558</b>	<b>10,733,558</b>

**CONTINGENT ASSET**

At the date of the publication of the financial statements, the outcome of the investigation in the theft of fuel was uncertain. Due to the uncertainty of the investigation it is not appropriate to recognise a debtor for the recovery of the fruitless and wasteful expenditure that arose as result of the loss. Due to the uncertainty that exists a contingent asset will be disclosed.

## 31. RELATED PARTIES

2019  
R

2018  
R

### RELATIONSHIPS

<b>Accounting officer</b>	Mr. T Gopane
<b>Directors</b>	Refer to general information section as well as directors and executive managers emoluments note 42.
<b>Controlling entity</b>	City of Ekurhuleni Metropolitan Municipality.
<b>Fellow entities controlled by CoE</b>	Brakpan Bus Company, Ekurhuleni Development Company, Pharoeh Park Housing Company, Germiston Housing Company and Lethhabong Housing Institute.
<b>Members of key management</b>	Refer to general information section as well as directors and executive managers emoluments note 42.

### RELATED PARTY BALANCES

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

City of Ekurhuleni Metropolitan Municipality	10,859,106	4,487,909
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#### AMOUNTS INCLUDED IN TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS

City of Ekurhuleni Metropolitan Municipality	18,306,371	54,455,806
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#### AMOUNT INCLUDED IN RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

City of Ekurhuleni Metropolitan Municipality	17,201,426	23,491,624
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#### AMOUNT INCLUDED IN OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

City of Ekurhuleni Metropolitan Municipality	943,749	943,749
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### RELATED PARTY TRANSACTIONS

#### PURCHASES FROM RELATED PARTIES

City of Ekurhuleni Metropolitan Municipality	86,854,861	70,554,098
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#### SALES TO RELATED PARTIES

City of Ekurhuleni Metropolitan Municipality	841,585,503	771,360,910
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#### GRANTS AND DEVELOPMENT CONTRIBUTION

Grants - City of Ekurhuleni Metropolitan Municipality	68,164,478	50,000,000
Development contribution - City of Ekurhuleni Metropolitan Municipality	36,397,723	65,784,571

### GUARANTEE AND DEBTORS CEDED

The controlling entity guaranteed the Nedbank loan to ERWAT, with a carry value of R 447 970 486 (2018: R 490 435 435) as disclosed in the long-term borrowing note 13. The guarantee shall expire at 15h00, 10 calendar days after the full repayment or settlement of all amounts owed by ERWAT to Nedbank Ltd in terms of the contract. Refer to note 3 and 4.

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

The remuneration of the non-executive directors, the executive directors and executive managers are included in note 41.

### 31. RELATED PARTIES (CONT.)

#### 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
Benoni	437,677	(426,462)	11,215
Dekema	168,150	(64,978)	103,172
H. Bickley	87,719	(30,025)	57,694
Rondebult	2,000,530	(956,993)	1,043,537
Rynfield	654,554	(187,326)	467,228
	<b>3,348,630</b>	<b>(1,665,784)</b>	<b>1,682,846</b>

#### KEY MANAGEMENT INFORMATION

##### CLASS

Managing director  
 Chief financial officer  
 Executive manager: Operations  
 Executive manager: Infrastructure planning and projects  
 Executive manager: Scientific services  
 Executive manager: Commercial business  
 Executive manager: Human resources  
 Executive manager: Maintenance  
 Company secretary

### 32. PRIOR PERIOD ERRORS

#### PROPERTY, PLANT AND EQUIPMENT

During the 2017/18 financial period property, plant and equipment was under depreciated with R 63 600,67. This resulted in both accumulated depreciation and depreciation being understated.

#### LONG SERVICE AWARD

The amount payable in relation to Long service awards in future years meets the definition of a provision. This was identified in the 2018/19 financial reporting period and was not previously applied. An error therefore occurred in a previous financial period for Long Service Awards and it is appropriate to disclose a prior period error in terms of GRAP 103 in this regard.

ERWAT is required to determine the value of the award by determining the amount due to employees in the ensuing financial year. ERWAT therefore understated its provisions with R 1 212 751,92 during the 2017/2018 financial period. The result of this was that both provisions and employee costs were understated by this amount.

#### OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS - DEPOSITS

It was identified in the 2018/2019 financial period that certain security deposits held by Eskom, City of Ekurhuleni Municipality, Midvaal Local Municipality and Lesedi Local Municipality were not accounted for as a receivable but was expensed as bulk purchases in error. This resulted in the understatement of retained earnings and deposits. The error occurred at the time that the deposit was paid which all took place prior to the earliest comparative period presented. As such the error will be corrected retrospectively in terms of GRAP 103 as a prior period error.

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

In order to correct the error the Opening balances, the following was effected:

- Retained earnings for the 2017/2018 financial period was increased by R 5 117 898,00 (page 8),
- Receivables was increased by R 5 399 937,00,
- Interest income was increased by R 280 563,00, and
- Bulk purchases - electricity was decreased by R 1 476,00.

#### IRREGULAR EXPENDITURE

An error occurred in the disclosure note for irregular expenditure for the prior period. Please refer to note 37 for further details.

STATEMENT OF FINANCIAL POSITION	2019 R	2018 R
Property, plant and equipment	-	(63,601)
Provisions - Long service awards	-	(1,212,752)
Other receivables from exchange transaction - Deposits	-	5,399,937
Accumulated surplus - Opening Balance (page 8)	-	(5,117,898)

#### STATEMENT OF FINANCIAL PERFORMANCE

Depreciation and amortisation	-	63,601
Employee related costs	-	1,212,752
Interest received - Deposits	-	(280,563)
Bulk purchases and materials - Electricity	-	(1,476)

### 33. PRIOR-YEAR ADJUSTMENTS

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

2018		AS PREVIOUSLY REPORTED	CORRECTION OF ERROR	RESTATED
<b>STATEMENT OF FINANCIAL POSITION</b>	<b>NOTE</b>			
Property, plant and equipment	9	2,100,501,733	(63,601)	2,100,438,132
Other receivables from exchange transaction - Deposits	5	5,140,621	5,399,937	10,540,558
Provisions - Long service awards	12	(20,127,482)	(1,212,752)	(21,340,234)
Accumulated surplus - Opening Balance		(1,601,919,231)	(5,117,898)	(1,607,037,129)
		<b>483,595,641</b>	<b>(994,314)</b>	<b>482,601,327</b>

2018		AS PREVIOUSLY REPORTED	CORRECTION OF ERROR	RESTATED
<b>STATEMENT OF FINANCIAL PERFORMANCE</b>	<b>NOTE</b>			
Depreciation and amortisation	21	77,320,010	63,601	77,383,611
Interest received - Deposits	19	(6,714,179)	(280,563)	(6,994,219)
Employee related costs	20	276,063,797	1,212,752	277,276,549
Bulk purchases and materials - Electricity	24	234,665,447	(1,476)	234,663,971
		<b>581,335,075</b>	<b>994,314</b>	<b>582,329,912</b>

## 34. RISK MANAGEMENT

### CAPITAL

The entity's activities expose it to a variety of financial risks: market risk (including currency risk, fair value, interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

### LIQUIDITY RISK

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an on-going review of future commitments and credit facilities.

AT 30 JUNE 2019	LESS THAN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS
Borrowings	57,893,718	51,721,245	159,032,229	232,692,310
Trade and other payables*	115,508,371	-	-	-
AT 30 JUNE 2018	LESS THAN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS
Borrowings	56,404,629	53,995,207	156,371,439	287,074,342
Trade and other payables*	128,613,779	-	-	-

\*Excluded payments received in advance - contract in progress.

### INTEREST RATE RISK

The entity's interest rate risk arises from long term-borrowings. ERWAT manages interest rate risk so that fluctuations in variable rates do not have a material impact on surplus/deficit.

The entity manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

At year end, financial instruments exposed to interest rate risk are indicated in note 13 ERWAT's income and operating cash are substantially independent of changes in market rates.

### CAPITAL RISK MANAGEMENT

#### CREDIT RISK

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The entity only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluate credit risk relating to customers on an ongoing basis.

## 34. RISK MANAGEMENT (CONT.)

### 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 13 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.

### 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 2019 WERE AS FOLLOWS:	2019 R	2018 R
Trade receivables from exchange & receivables from non-exchange transactions	50,594,121	93,939,135
Deposits	3,439,791	3,439,791
Cash and cash equivalents	54,485,033	86,945,000
Listed shares	8,214,919	8,420,736
	116,733,864	192,744,662

### TOTAL BORROWINGS

Other financial liabilities	(501,339,502)	(553,845,616)
Less: cash and cash equivalents	54,485,033	86,945,000
Net debt	(446,854,469)	(466,900,616)
Total Net assets	1,668,832,927	1,602,850,260
<b>Total capital</b>	<b>1,221,978,458</b>	<b>1,135,949,644</b>

### MARKET RISK

#### CURRENCY RISK

ERWAT only transacts in its functional currency (South African Rand) and its only involvement with foreign currencies relates to the situation where imported goods and services are procured.. No material transactions denominated in foreign currencies occurred in the current financial year.

In order to manage ERWAT's exposure related to the procurement of goods or services denominated in a foreign currency, the Rand value will be determined at the time of procurement, or where this not possible the Rand value will be determined as close as possible to the time of procurement.

### 35. GOING CONCERN

We draw attention to the fact that at 30 June, 2019, the entity had an accumulated surplus of R 1,633,312,061 and that the entity's total assets exceed its liabilities by R 1,633,312,061.

The 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.

### 36. FRUITLESS AND WASTEFUL EXPENDITURE

	2019 R	2018 R
Opening balance	562,178	562,178
Fruitless and wasteful expenditure	615,010	-
	<b>1,177,188</b>	<b>562,178</b>

During the current financial period ERWAT incurred the following fruitless and wasteful expenditure:

- R 15 246,66 in respect of interest incurred on overdue account.
- R 72 100 in respect of abandoned infrastructure.
- R 527 663.34 in fuel losses.

### 37. IRREGULAR EXPENDITURE

Opening balance restated	288,385,998	239,334,422
Add: Irregular Expenditure - current year	12,703,873	19,421,404
Add: Expenditure incurred in the current year relating to prior year	159,691,415	16,636,099
Add: Expenditure incurred in the prior year and current year relating to prior year not stated in 17/18 FY	-	12,994,073
	<b>460,781,286</b>	<b>288,385,998</b>

Awards made on RFQ'S without inviting at least the minimum prescribed number of written quotations.	2,863,742	821,198
Incorrect application of SCM regulation 36 (deviations).	3,307,184	512,544
One construction contract was awarded to a contractor whose CIDB grading was below the required grading for the value of the particular contract.	71,889,712	2,410,570
Variation of two tenders in excess of 20%.	28,425,129	14,223,975
SCM regulation 12(3) on the aggregation of transactions for determination of the appropriate procurement process not fully adhered to.	-	1,453,117
Mandatory requirement not enforced at bid evaluation stage	7,080,631	-
	<b>113,566,398</b>	<b>19,421,404</b>

### 37. IRREGULAR EXPENDITURE (CONT.)

2019  
R

2018  
R

#### IRREGULAR EXPENDITURE ARISING FROM PREVIOUS FINANCIAL PERIODS

##### INCIDENTS CURRENTLY UNDER INVESTIGATION

Irregular expenditure arising from 2015/16 financial period, incurred in the current and comparative financial periods. The irregular expenditure relates to contracts extended by senior manager without the delegated authority to do so.	-	9,122,184
Irregular expenditure arising from 2015/16 financial period, incurred in the 2016/17 financial periods. The irregular expenditure relates to the incorrect use of SCM Regulation 26(1)(v).	4,385,304	3,104,606
Irregular expenditure arising from 2016/17 financial period, incurred in the 2017/18 financial periods. The irregular expenditure relates to the incorrect use of SCM Regulation 26(1)(v).	-	2,892,864
Irregular expenditure arising from 2016/17 financial period, incurred in the current and comparative financial periods. The irregular expenditure relates to expenditure incurred on an expired contract.	1,398,642	1,375,446
Irregular expenditure arising from the 2017/18 financial period, incurred in the current and comparative financial periods. This irregular expenditure relates to expenditure incurred over the allowable 15/20% variance amount	53,044,945	12,994,073
	<b>58,828,891</b>	<b>29,489,173</b>

As the error occurred in the comparative period presented (2017/2018), GRAP 3.44(a) requires restating the comparative amounts for the prior period(s) presented in which the error occurred. As the error relates to additional irregular expenditure identified in 2018/2019 but incurred in 2017/2018 the additional irregular expenditure figure for the 2017/2018 period will be adjusted.

#### CONSEQUENCE MANAGEMENT

All irregular expenditure identified is processed at the parent municipality level by MPAC. MPAC makes recommendations for actions to be taken against officials who are responsible. Investigations are also undertaken by the COE internal audit department to establish the nature and extent of the irregularity. There is a planned investigation into the irregular expenditure incurred in the 2017/2018 financial period. The results of these investigations will determine the actions to be taken against the responsible officials.

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

#### AUDIT FEES

Current year subscription / fee	2,358,642	1,579,678
Amount paid - current year	(2,358,642)	(1,579,678)
	-	-

#### PAYE, UIF AND SDL

Opening balance	4,120,384	2,980,618
Current year subscription / fee	55,351,856	47,041,118
Amount paid - current year	(54,772,711)	(45,901,352)
	<b>4,699,529</b>	<b>4,120,384</b>

## 38. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT (CONT.)

	2019 R	2018 R
<b>PENSION AND MEDICAL AID DEDUCTIONS</b>		
Opening balance	(40,008)	7,031
Current year subscription / fee	74,404,543	65,855,121
Amount paid - current year	(74,331,725)	(65,902,160)
	<b>32,810</b>	<b>(40,008)</b>

## 39. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

Outstanding long-term liabilities at the beginning of the year	553,845,617	605,004,715
Redemption of loans	(52,312,961)	(50,730,787)
Interest accrued	(193,153)	(428,311)
	501,339,503	553,845,617
Used to finance property, plant and equipment	(497,441,348)	(549,753,949)
Interest Accrued	<b>3,898,155</b>	<b>4,091,668</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	553,845,617	605,004,715
Capital	(52,312,961)	(50,730,787)
Interest accrual	(193,153)	(428,311)
	<b>501,339,503</b>	<b>553,845,617</b>

## 40. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the board and includes a note to the financial statements.

The details of the deviations disclosed were documented and reported to the board of directors.

## THE DEVIATIONS INCURRED, AS LISTED HEREUNDER, HAVE BEEN APPROVED

Minor breach	92,974	-
Emergencies	748,940	988,163
Sole suppliers	383,310	866,762
Impracticability	9,483,936	8,046,141
	<b>10,709,160</b>	<b>9,901,066</b>

## 41. DIRECTORS AND EXECUTIVE MANAGERS EMOLUMENTS

	BONUSES AND PERFORMANCE RELATED PAYMENTS						TOTAL PACKAGE 2019	TOTAL PACKAGE 2018
	SALARY OR FEE	RELATED PAYMENTS	MEDICAL CONTRIBUTIONS	TRAVEL ALLOWANCE/CLAIM	TELEPHONE AND DATA CARD	RETIREMENT FUND CONTRIBUTION		
<b>NON-EXECUTIVE DIRECTORS</b>								
GM Mahlangu (Start date: 1 November 2018)	227,005	-	-	-	12,800	-	239,805	-
MM Mochatsi (Contract ended: 31 October 2018)	113,502	-	-	-	6,400	-	119,902	337,431
N Koni (Contract ended: 31 October 2018)	113,502	-	-	-	6,400	-	119,902	337,431
NC Skeepers (Start date: 1 November 2018)	225,150	-	-	1,834	12,800	-	239,784	-
K Wall	340,507	-	-	-	19,200	-	359,707	338,820
L Bokaba (Contract ended: 31 October 2018)	113,502	-	-	-	6,400	-	119,902	337,431
D Coovadia	340,507	-	-	8,057	19,200	-	367,764	340,246
EE Themba (Contract ended: 31 October 2018)	113,502	-	-	-	6,400	-	119,902	340,783
CJ Cornish (Chairperson from 1 June 2017)	465,442	-	-	-	19,200	-	484,642	454,193
T Mdingi (Contract ended: 31 October 2018)	113,502	-	-	-	6,400	-	119,902	227,380
<b>Subtotal</b>	<b>2,166,121</b>	<b>-</b>	<b>-</b>	<b>9,891</b>	<b>115,200</b>	<b>-</b>	<b>2,291,212</b>	<b>2,713,715</b>
<b>CHIEF EXECUTIVE OFFICER</b>								
T Gopane (Managing Director from 01 September 2016)	1,602,720	133,560	49,176	-	52,800	232,395	2,070,651	1,945,588
<b>Subtotal</b>	<b>1,602,720</b>	<b>133,560</b>	<b>49,176</b>	<b>-</b>	<b>52,800</b>	<b>232,395</b>	<b>2,070,651</b>	<b>1,945,588</b>
<b>EXECUTIVE MANAGERS</b>								
WI Louw - Chief Financial Officer	1,190,213	93,629	119,039	102,000	40,800	247,180	1,792,861	1,620,654
FM Mabunda - Executive Manager Operations	1,212,709	87,579	104,787	144,000	40,800	231,291	1,821,166	1,558,649
M Tsotetsi - Executive Manager Commercial Business	1,212,100	85,541	104,787	48,000	40,800	225,828	1,717,056	1,470,656
RW Barnes - Executive Manager Human Resources	1,320,438	134,570	80,205	78,000	40,800	253,922	1,907,935	1,599,792
A Chapman - Executive Manager Laboratory	1,072,806	120,453	96,611	30,000	40,800	211,715	1,572,385	1,336,015
ZZ Socikwa - Company Secretary	1,300,482	97,957	39,416	156,000	40,800	83,988	1,718,643	1,494,105
L Chueu - Interim Executive Manager Maintenance	462,221	56,027	-	24,000	12,000	92,444	646,692	-
EM Khomela - Interim Executive Manager Development	930,228	76,584	38,033	78,000	40,800	122,555	1,286,200	1,203,161
E Mutyaba - Interim Executive Manager Maintenance (Up to 31 December 2018)	414,806	30,569	38,711	36,000	20,400	54,623	595,109	1,122,416
<b>Subtotal</b>	<b>9,116,003</b>	<b>782,909</b>	<b>621,589</b>	<b>696,000</b>	<b>318,000</b>	<b>1,523,546</b>	<b>13,058,047</b>	<b>11,405,448</b>
<b>Total</b>	<b>12,884,844</b>	<b>916,469</b>	<b>670,765</b>	<b>705,891</b>	<b>486,000</b>	<b>1,755,941</b>	<b>17,419,910</b>	<b>13,639,817</b>

## 42. BUDGET DIFFERENCES

### MATERIAL DIFFERENCES BETWEEN BUDGET AND ACTUAL AMOUNTS TOTAL REVENUE - 97% ACHIEVED DUE TO THE FOLLOWING REASONS

#### INVESTMENT REVENUE - 86% ACHIEVED

Interest received - Due to the timing of capital expenditure the average bank balance during the year was lower than anticipated and resulted an amount of interest income that was significantly lower than what was budgeted for.

#### OTHER OWN REVENUE - 82% ACHIEVED

Commercial business is 40% lower than budgeted. ERWAT Commercial business income is below the forecast target and the total accumulative revenue generated year-do-date was R 106 million.

### TOTAL OPERATING EXPENSE - 101% ACHIEVED DUE TO THE FOLLOWING REASONS

#### Employee Related Costs - Salaries & Wages - 96%

ERWAT has undergone a process of correcting historical anomalies in the salaries structure and consequently some vacant positions were not filled during the 2018/19 period

#### BULK PURCHASES - 116% ACHIEVED

The primary reason for the over expenditure on bulk purchases was that a metering error occurred and the City of Ekurhuleni issued ERWAT with a correction as well as a retrospective bill for the period affected by this error.

#### GENERAL EXPENSES - 96% ACHIEVED

The ERWAT strategy, business process management and business continuity management projects only commenced at the end of the 1st quarter of the 2018/19 financial period and it is only expected that it will be completed during the 1st quarter of 2019/20.

#### DEBT IMPAIRMENT - 68% ACHIEVED

During the financial period, some significant long outstanding debtors were recovered.

#### DEPRECIATION - 114% ACHIEVED

Depreciation for the current year includes depreciation from the capitalisation of the Welgedaght project.

## 43. TENDER AWARDED TO CLOSE FAMILY MEMBER IN SERVICE OF THE STATE

CONTRACT NUMBER	SUPPLIER NAME	RELATION	AMOUNT
ERW201902/TNDR-001	ROYAL HASKONING DHV	Spouse and Mother of two directors	1,936,243
			<b>1,936,243</b>

#### 44. CHANGE IN ESTIMATE

2019  
R

2018  
R

##### PROPERTY, PLANT AND EQUIPMENT

The useful lives of certain assets were reassessed during the 2018 financial year. Management have revised the estimated remaining useful lives of the assets and the effect of this revision has decreased depreciation by an amount of R 4,497,536.23

Depreciation prior to the change in useful lives

86,514,051

68,819,463

Effect of change in useful lives

(4,497,536)

(2,875,724)

**Depreciation after change in useful lives**

**82,016,515**

**65,943,739**









## ERWAT HEAD OFFICE

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