

# **ANNEXURE A**

# 2016/17

**EAST RAND WATER CARE COMPANY (ERWAT) NPC**



## **Annual report**

## **Volume I**

10 January 2018

# Contents

## CONTENTS

CONTENTS.....	2
TERMS AND ABBREVIATIONS .....	5
CHAPTER 1 – CHAIRPERSON'S FOREWORD AND EXECUTIVE SUMMARY .....	6
COMPONENT A: CHAIRPERSON'S FOREWORD.....	6
COMPONENT B: EXECUTIVE SUMMARY BY MANAGING DIRECTOR.....	9
1.1. MANAGING DIRECTOR'S OVERVIEW .....	9
1.2. COMPANY'S FUNCTIONS, POPULATION AND ENVIRONMENTAL OVERVIEW .....	10
1.3. SERVICE DELIVERY OVERVIEW .....	11
1.4. FINANCIAL HEALTH OVERVIEW.....	12
1.5. ORGANISATIONAL DEVELOPMENT OVERVIEW .....	15
1.6. AUDITOR-GENERAL REPORT .....	15
1.7. STATUTORY ANNUAL REPORT PROCESS.....	16
CHAPTER 2 – GOVERNANCE.....	18
COMPONENT A: POLITICAL AND ADMINISTRATIVE GOVERNANCE.....	18
2.1 POLITICAL GOVERNANCE .....	19
2.2 ADMINISTRATIVE GOVERNANCE .....	27
COMPONENT B: INTERGOVERNMENTAL RELATIONS .....	28
2.3 INTERGOVERNMENTAL RELATIONS .....	29
COMPONENT C: PUBLIC ACCOUNTABILITY AND PARTICIPATION.....	31
2.4 PUBLIC MEETINGS .....	31
2.5 BUSINESS PLAN PARTICIPATION AND ALIGNMENT.....	32
COMPONENT D: CORPORATE GOVERNANCE .....	32
2.6 RISK MANAGEMENT.....	33
2.7 ANTI-CORRUPTION AND FRAUD .....	36
2.8 SUPPLY CHAIN MANAGEMENT.....	37
2.9 BY-LAWS.....	38
2.10 WEBSITES.....	38
2.11 PUBLIC SATISFACTION ON COMPANY SERVICES.....	39
CHAPTER 3 – SERVICE DELIVERY PERFORMANCE .....	41

# Contents

(PERFORMANCE REPORT PART I) .....	41
COMPONENT A: BASIC SERVICES .....	42
3.1 WASTEWATER (SANITATION) PROVISION .....	43
COMPONENT B: CORPORATE AND OTHER SERVICES.....	52
3.2 BOARD OF DIRECTORS .....	52
3.3 FINANCIAL SERVICES .....	54
3.4 HUMAN RESOURCE SERVICES .....	55
3.5 INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) SERVICES .....	56
3.6 LEGAL; RISK MANAGEMENT AND PROCUREMENT SERVICES .....	58
COMPONENT C: ORGANISATIONAL PERFORMANCE SCORECARD .....	59
CHAPTER 4 – ORGANISATIONAL DEVELOPMENT PERFORMANCE.....	60
(PERFORMANCE REPORT PART II) .....	60
COMPONENT A: INTRODUCTION TO THE COMPANY’S PERSONNEL .....	60
4.1 EMPLOYEE TOTALS, TURNOVER AND VACANCIES .....	60
COMPONENT B: MANAGING THE COMPANY’S WORKFORCE.....	62
4.2 POLICIES.....	62
4.3 INJURIES, SICKNESS AND SUSPENSIONS.....	63
4.4 PERFORMANCE REWARDS.....	65
COMPONENT C: CAPACITATING THE COMPANY’S WORKFORCE .....	65
4.5 SKILLS DEVELOPMENT AND TRAINING.....	66
COMPONENT D: MANAGING THE WORKFORCE EXPENDITURE .....	67
4.6 EMPLOYEE EXPENDITURE.....	67
CHAPTER 5 – FINANCIAL PERFORMANCE .....	69
COMPONENT A: STATEMENTS OF FINANCIAL PERFORMANCE.....	69
5.1 STATEMENTS OF FINANCIAL PERFORMANCE .....	70
5.2 GRANTS .....	72
5.3 ASSET MANAGEMENT .....	73
5.4 FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS .....	78
COMPONENT B: SPENDING AGAINST CAPITAL BUDGET .....	81
5.5 CAPITAL EXPENDITURE .....	82
5.6 SOURCES OF FINANCE .....	82

# Contents

5.7 CAPITAL SPENDING ON 5 LARGEST PROJECTS.....	83
5.8 BASIC SERVICE AND INFRASTRUCTURE BACKLOGS – OVERVIEW .....	84
COMPONENT C: CASH FLOW MANAGEMENT AND INVESTMENTS .....	84
5.9 CASH FLOW .....	85
5.10 BORROWING AND INVESTMENTS.....	86
5.11 PUBLIC PRIVATE PARTNERSHIPS .....	87
COMPONENT D: OTHER FINANCIAL MATTERS .....	88
5.12 SUPPLY CHAIN MANAGEMENT .....	88
5.13 GRAP COMPLIANCE .....	89
CHAPTER 6 – AUDITOR-GENERAL AUDIT FINDINGS .....	90
COMPONENT A: AG OPINION OF FINANCIAL STATEMENTS 2015/16 .....	90
6.1 AUDITOR-GENERAL REPORTS 2015/16 FINANCIAL YEAR .....	90
COMPONENT B: AUDITOR-GENERAL OPINION 2016/17 .....	91
6.2 AUDITOR-GENERAL REPORT 2016/17 FINANCIAL YEAR.....	91
GLOSSARY .....	93
APPENDICES .....	95
APPENDIX A – COMMITTEES AND COMMITTEE PURPOSES.....	95
APPENDIX B – ANNUAL PERFORMANCE REPORT .....	96
VOLUME II: ANNUAL FINANCIAL STATEMENTS .....	99
VOLUME III: AUDIT REPORT 2016/17 .....	100

# Contents

## TERMS AND ABBREVIATIONS

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

# Chapter 1

## CHAPTER 1 – CHAIRPERSON’S FOREWORD AND EXECUTIVE SUMMARY

### COMPONENT A: CHAIRPERSON’S FOREWORD

#### CHAIRPERSON’S FOREWORD

##### a. 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 wastewater treatment 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 the water company of choice. Its mission is to provide sustainable, affordable, quality water services through innovative, effective 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 wastewater treatment works.

ERWAT identified two main strategic objectives:

- Achieve green drop status for all our works
- Increase external business to a turnover of R200m 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.

##### b. 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

# Chapter 1

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.

## **c. Key Service Delivery Improvements:**

It is worth highlighting that the overall water quality green drop compliance achieved 87%. This represents a slight decline of 1% compared to the previous financial year.

Revenue generated from external businesses was 5.12% higher at R114.9 million as compared to R109.8 million recorded during 2015/16 financial year. Long-term capital expenditure and the funding thereof is very important for the long-term success of ERWAT. Our ability to finance an execute projects is paramount and we have improved our capital spending significantly over the last year, 86% against 61% in the 2015/2016 financial year.

One of ERWAT's biggest challenges remains the financing of new extensions of wastewater treatment 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.

## **d. 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.

## **e. Future Actions:**

Initiatives committed whereby service delivery will be improved over the next few years. The entity now has four board committees which will assist with close oversight in strategic and critical areas where the entity was challenged.

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.

## **f. 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)

## **g. Conclusion:**



# Chapter 1

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.

Signed by:

\_\_\_\_\_  
CJ CORNISH  
**Chairperson of the Board**

\_\_\_\_\_  
Date

# Chapter 1

## COMPONENT B: EXECUTIVE SUMMARY BY MANAGING DIRECTOR

### 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 megaliters 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, 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 2017, ERWAT had an accumulated surplus from the inception of ERWAT to date of R1 499 018 514. The total assets exceeded its liabilities by the same amount.

ERWAT's existence by large is 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 wastewater treatment works on behalf of

# Chapter 1

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 wastewater treatment works, treating a combined capacity of approximately 696 megaliters (Ml) of wastewater, both domestic and industrial, per day. The smallest works treat approximately 0.5 Ml per day, while the largest works treat up to 170 Ml of wastewater per day. ERWAT also operates and manages industrial effluent treatment works on behalf of industries on their premises, including the provision of scientific services. Most of ERWAT's operations are located in the eastern parts of Gauteng.

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

# Chapter 1

<b>TABLE 1.1: SANITATION</b>			
<b>Number of households by type of toilet</b>			
<b>Type of toilet</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
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>

## **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.

## **1.3. SERVICE DELIVERY OVERVIEW**

### **SERVICE DELIVERY INTRODUCTION**

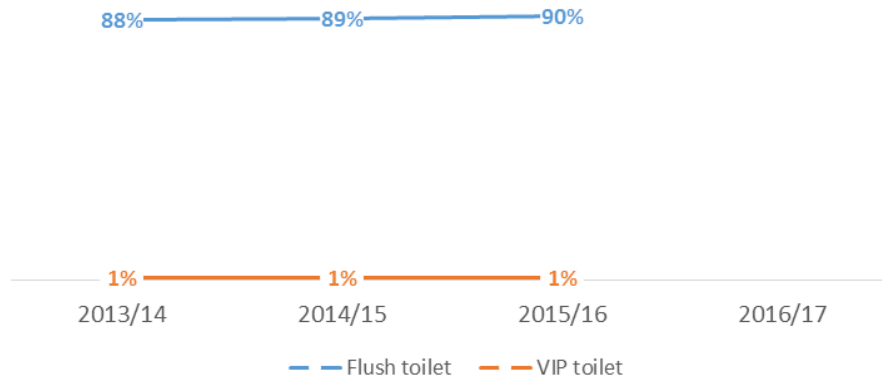
ERWAT provides bulk wastewater treatment services to the CoE, servicing over 3.5 million people and some 8 000 industries.

ERWAT's 19 wastewater treatment works treat on average approximately 696 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 wastewater treatment works. Furthermore, ERWAT is in the process of implementing a regionalization and 50-year masterplan for wastewater conveyancing and treatment works. Emergency/stand-by generators have been procured and are in a process of being installed at the works to mitigate the challenge of power interruptions, especially unplanned power interruptions.

# Chapter 1

## PORTION OF HOUSEHOLDS WITH ACCESS TO BASIC SERVICES (SANITATION)



### 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

### FINANCIAL OVERVIEW

The entity's financial review is premised on the approved 2016/17 business plan and budget. The entity continued to perform well in most of its financial indicators. Total operating revenue increased from R698.6 million to R777.04 million (11.23%) which includes service charges of R645.2 million in 2016/17 (2015/16: R575.5 million).

The entity ended the year with a net surplus of R149.5 million (2015/16: R115.2 million). The increase in the net surplus is mainly attributable to a significant increase in developers contribution received coupled with an increase in other income received from external commercial. Operating expenditure for the year was recorded at R762.90 million against a budgeted expenditure of R771.1 million. Although finance charges and depreciation increased significantly, this was offset by savings in employee costs, materials and bulk purchases and other expenditure resulting in 7.28% saving against budget.

### FINANCIAL ANALYSIS AND RATIO COMPARISON

# Chapter 1

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 R1.50 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 0.37 in 2015/16 to 0.34 in 2016/17. 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 2.41:1 in 2015/16 to 1.69:1 in 2016/17. This was however, mainly due to the entity significantly improving the capital spending for the year under review.

**TABLE 1.2: FINANCIAL OVERVIEW: 2016/17**

DETAILS	ACTUAL 2015/2016 R'000	ORIGINAL BUDGET 2016/2017 R'000	ADJUSTMENT BUDGET R'000	ACTUAL 2016/2017 R'000
<b>INCOME</b>				
Grants	50 000	50 000	50 000	50 000
User Charges (Service )	575 533	645 216	645 216	645 216
Other	213 275	125 848	125 848	217 230
<b>Sub Total</b>	<b>788 808</b>	<b>771 064</b>	<b>771 064</b>	<b>912 446</b>
Expenses	675 585	771 064	771 064	762 946
<b>Surplus</b>	<b>113 223</b>	<b>0</b>	<b>0</b>	<b>149 500</b>

**TABLE 1.3 OPERATING RATIOS 2016/17**

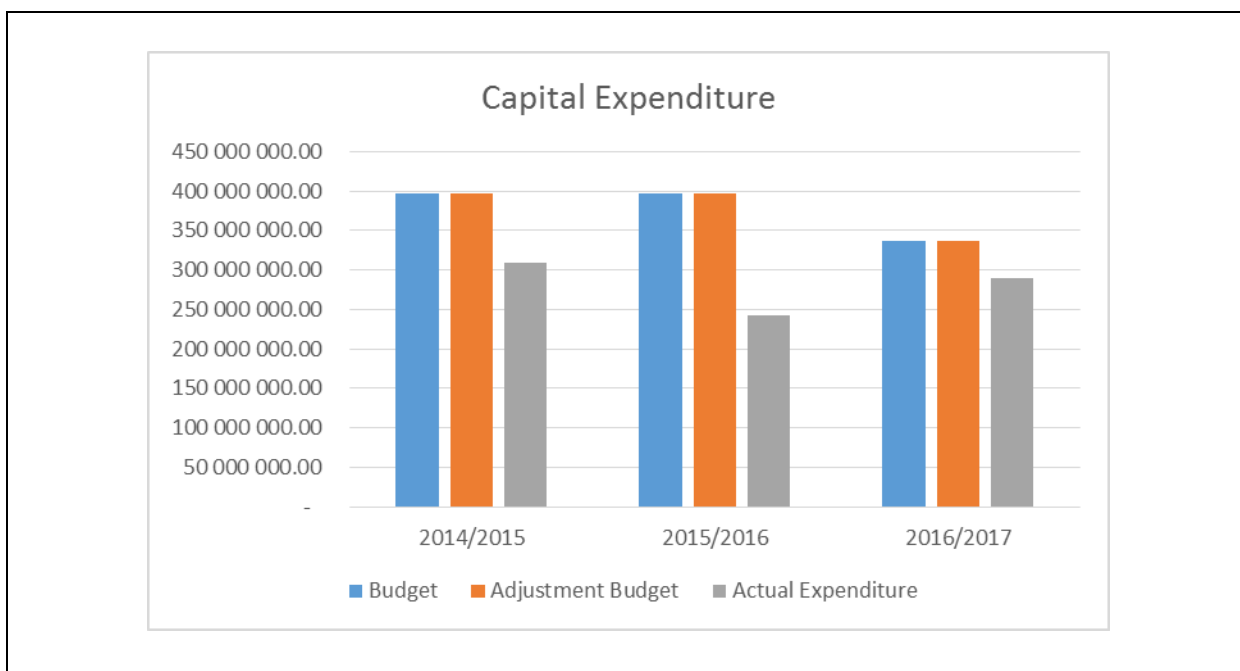
DETAIL	%
Employee costs	34.08%
Repairs and maintenance	12.91%
Finance Charges	8.73%

## COMMENT ON OPERATING RATIOS

The main cost driver is the employee costs that are reported at 34.08%. Repairs and maintenance are recorded at 12.91 % with finance charges recorded at 8.80%. Apart from repairs and maintenance, these are within the expected norms of 30% for employee costs, 20% for repairs and maintenance and 10% for finance charges and impairment.

# Chapter 1

TABLE 1.4: TOTAL CAPITAL EXPENDITURE			
Years 2014/2015 to 2016/2017	Year 2014/15	Year 2015/16	Year 2016/17
<b>DETAIL</b>			
Original Budget	R396.7 million	R397.4 million	R336.2 million
Adjustment Budget	R396.7 million	R397.4 million	R336.2 million
Actual	R308.6 million	R242.3 million	R288.4 million
<b>ANALYSIS</b>			
	%	%	%
% Capital Spent based on <b>Original</b> Budget	78%	61%	86%
% Capital Spent based on <b>Adjustment</b> Budget	78%	61%	86%



### COMMENT ON CAPITAL EXPENDITURE:

The total capital budget for 2016/17 was R336.2 million. Some of the projects were delayed, therefore the actual spend was R288.4 million. The actual spend versus the budget is a significant improvement from the previous financial year.

# Chapter 1

## 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: 2016/17**

The Auditor-General (AG) issued an unqualified audit opinion for 2016/2017 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 entities systems and prevent the 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 2016. These figures were restated as a result of errors discovered in the comparative figures (2015/16) during the preparation phase of the 2016/17 financial statements.



# Chapter 1

## 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 2016/17 annual report to internal audit and AG	
5	ERWAT submit 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 receive and start 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	December
16	Board adopts oversight report	
17	Oversight report is made public	
18	Oversight report is submitted to relevant provincial councils	January
19	Commencement of draft budget/ strategic plan finalisation for next financial year. Annual report and oversight reports to be used as input	

### 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 the CoE department with apposite authority to review the report on whether it succinctly follows the broad guidelines of the template provided by

# Chapter 1

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.

# Chapter 2

## 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 a defining characteristic 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 recognizes the short- and long-term impact of its activities on the economy, society and the environment. In its deliberations, decisions and actions, the board is sensitive to the legitimate interests and expectations of the company's stakeholders.

## COMPONENT A: 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 recognizes the short- and long-term impact of its activities on the economy, society and the environment. In its deliberations, decisions and actions, the board is sensitive to the legitimate interests and expectations of the company's stakeholders.

The entity applies the governance principles contained in King Report for Corporate Governance for South Africa 2009 (King III) 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 III. Through this process, members and other stakeholders may derive

# Chapter 2

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 III forms part of the mandate of the audit committee. The entity has complied with the code in all respect during the year under review.

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

The protocol is premised on the principles enunciated in the King III. The company steadfastly consolidated its position in respect of adherence to the King III. The entity practices are, in most material instances, in line with the principles set out in the King III Report. Ongoing steps are however taken to align practices with King III'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 consists of one executive and eight 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, characterized 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 protects ERWAT's assets and reputation;

# Chapter 2

- (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.

**TBALE 2.1: ERWAT BOARD OF DIRECTORS**

Board Member Capacity:	Executive / Non-Executive Director	Race	Gender	Designation
CC Cornish	Non-Executive	Coloured	Male	Chairperson of the board* Finance Committee Chairperson
LJ Mojapelo **	Non-Executive	Black	Male	Chairperson of the Board
LN Bokaba	Non-Executive	Black	Male	Member of HR and Remunerations and Operations committees
Dr KC Wall	Non-Executive	White	Male	Operations Committee Chairperson
Adv MM Mochatsi	Non-Executive	Black	Male	HR & Remunerations Committee Chairperson
EE Themba	Non-Executive	Black	Female	Risk Committee Chairperson
N Sidondi	Non-Executive	Black	Female	Member of the Operations & Finance Committees
D Coovadia	Non-Executive	Indian	Male	Member of the Risk Committee
T Gopane	Executive	Black	Male	Managing Director

\* From 1 June 2017

\*\* Resigned 31 May 2017

Key committees are functional for risk, finance, operations and human resources and remuneration. The company does not have an audit committee as the oversight function is included in the purpose of the finance committee. ERWAT also relies on the oversight by the CoE. It follows that company does not have an oversight committee comprised of non-executive members, with the specific purpose of providing the company with comments and recommendations on the annual report.

Appendix A sets out committees and committee purposes.

# Chapter 2



## **Mr Joe Mojapelo (Chairperson of Board until 31 May 2017)**

Mr Joe Mojapelo has the following qualifications: Diploma in Civil Engineering, B.Tech Civil: Urban Engineering, Master's Degree in Technologiae – dissertation pending and MBA, currently finalizing his DBA.

He initiated and introduced the concept of Aerotropolis to Ekurhuleni and SA. He was appointed as a special advisor to SA Honorary Consul to the Midlands (UK) and is currently the Special Advisor to the Minister of Transport in South Africa.

He is a professional engineering technologist with extensive experience in both water and transport sector, as well as served on a number of Boards within the public and private sectors.



## **Mr Craig Cornish (Chairperson from 1 June 2017)**

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.

# Chapter 2



## **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,  
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), C 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.

# Chapter 2



## **Ms Nompilo Sidondi (Non-Executive Director)**

Ms 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.



## **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. She currently serves as the risk committee chairperson.



# Chapter 2



**Mr Dawood Coovadia (Non-Executive Director) Justice of the Peace (JHB)**

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

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

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

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



**Mr Lucky Bokaba (Non-Executive Director)**

Mr L 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.

# Chapter 2



## **Mr Tumelo Gopane (Managing Director)**

Mr 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, Kwa Zulu Natal, reporting to the Municipal Manager. He oversaw Water & Sanitation Services; Transport, Roads, Storm water and Coastal Management Services, Electricity Supply, Process Control and Telecommunications Services as well as Engineering Support Services.



## **Ms Zimasa Socikwa (Company Secretary)**

Ms Zimasa Socikwa is a Chartered Secretary and she 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 governance oversight, and compliance.

# Chapter 2

## BOARD SUB-COMMITTEES

The sub committees of the board have been established with each committee comprising of at least three members.

**TABLE 2.2: BOARD SUB-COMMITTEES**

Finance committee	Operations committee	Human resource and remuneration committee	Risk committee
Mr C. Cornish <b>(Chairperson)</b>	Dr KC Wall <b>(Chairperson)</b>	Adv M Mochatsi <b>(Chairperson)</b>	Ms S Themba <b>(Chairperson)</b>
Ms N. Sidondi	Mr L Bokaba	Mr L Bokaba	Adv M Mochatsi
Mr D. Coovadia	Ms N Sidondi	Mr J Mojapelo (Ex-Officio)	Dr KC Wall
Mr S. Themba (Ex-Officio)	Mr J Mojapelo (Ex-Officio)		Mr C. Cornish (Ex-Officio)

A resolution was taken by the board for board and board committee meetings be held on a monthly basis.

**TABLE 2.3: BOARD AND SUB-COMMITTEE MEETINGS 2016/17**

Name	Board Meeting	Risk Committee	Finance Committee	Operations Committee	HR and Remuneration Committee	Total
Mr Joe Mojapelo	5	-	-	3	2	10
Mr Lucky Bokaba	5	-	-	5	5	15
Mr Dawood Coovadia	4	1	5	-	-	10
Adv. Moferefere Mochatsi	5	4	-	-	5	14
Ms Nompilo Sidondi	5	-	4	3	-	12
Dr Kevin Wall	5	4	-	6	-	15
Ms Esther Themba	4	4	6	-	-	14
Mr Craig Cornish	5	4	6	-	-	15

## 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.

# Chapter 2

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

#### **Directors' responsibility in relation to internal controls and financial controls**

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

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

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

The managing director is responsible for the day to day management and administration and her entire staff, assisted by the executive management. The managing director reports to the board and is responsible for the implementation of company policy, the organizational strategy as directed by the board.

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

# Chapter 2

**TABLE 2.4: ADMINISTRATIVE STRUCTURE**

<b>NAME</b>	<b>DESIGNATION AND FUNCTION</b>
<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
Ella Mutyaba	Acting executive manager: Maintenance
Emmanuel Khomela	Acting executive manager: Development
<b>THIRD TIER</b>	
Eden Botha	Financial manager
Johan Engelbrecht	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, 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.

# Chapter 2

## 2.3 INTERGOVERNMENTAL RELATIONS

### **NATIONAL INTERGOVERNMENTAL STRUCTURES**

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

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

### **PROVINCIAL INTERGOVERNMENTAL STRUCTURE**

ERWAT participates in meetings with neighboring 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 form part of the metro's institutional arrangements. The CoE remains legislatively obliged to ensure that municipal services are delivered in accordance with its objectives and legislative mandate.

As a municipal entity, ERWAT is thus subject to the CoE's overall strategic and policy direction, while allowing for the company board and management to exercise relative autonomy in the execution of their fiduciary duties and operational responsibilities. The CoE's municipal entities current entities include - Ekurhuleni Housing Company SOC Ltd, Brakpan Bus Company SOC Ltd; East Rand 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 are 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

# Chapter 2

boards of entities received board induction training and were trained on the corporate governance framework.

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

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

- 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.

# Chapter 2

## 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 input 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 information and update on performance.



# Chapter 2

## 2.5 BUSINESS PLAN PARTICIPATION AND ALIGNMENT

**TABLE 2.5: BUSINESS PLAN PARTICIPTION AND ALIGNMENT**

<b>Business plan participation and alignment criteria</b>	<b>Yes/No</b>
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 III 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 III 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 III. Monitoring the entity’s compliance forms part of the members’ mandate through internal audit and the audit committee.

# Chapter 2

## **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 behavior 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

### 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.

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 assist top management and the board to achieve its strategic objectives.

# Chapter 2

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 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 formalize risk management within the entity. These documents are reviewed on regularly to ensure that current best practices are incorporated. Top management strive 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 2016/2017

ERWAT has adopted the following best practices public sector risk management framework from National Treasury and ISO 31000 Standard. ERWAT in 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 is current and relevant.

A formal strategic risk assessment is conducted annually to ensure ERWAT achieve 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.

**TABLE 2.6: TOP RISKS AND RISK TREATMENT PLANS**

	Risk	Risk treatment plans	Strategic focus
1.	Inability to spend capital budget	<ul style="list-style-type: none"> <li>○ Capacitate the current development department to become a fully-fledged project management office.</li> <li>○ Conduct a process mapping exercise to improve workflow and optimise efficiencies throughout the organisation.</li> <li>○ Conduct a full investigation into the extension of Transversal Contracts with National Treasury and develop Master Service Contracts with the aim to improve service delivery turnaround time for internal and external stakeholders.</li> <li>○ Integration of all ERWAT current computer systems with the newly acquired SOLAR enterprise resource planning (ERP) system.</li> <li>○ Integrate all internal systems with the new SOLAR ERP system</li> </ul>	19 Green Drops

# Chapter 2

**TABLE 2.6: TOP RISKS AND RISK TREATMENT PLANS**

	Risk	Risk treatment plans	Strategic focus
2.	Inability to raise capital for projects and urbanisation requirements	<ul style="list-style-type: none"> <li>○ Elevate all budget and SDBIP discussions to senior management team meetings at the CoE</li> <li>○ Calculate the grant ratio - ERWAT infrastructure asset register value vs the CoE infrastructure asset register value</li> <li>○ Propose dividing the 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> <li>○ Review of tariff policies and models (development contributions and user charges);</li> <li>○ Strengthen relations with the CoE's internal audit function by convening regular meetings to address all internal and external audit matters.</li> </ul>	19 Green Drops and R200 million revenue
3.	Not realising full benefits from sludge beneficiation.	<ul style="list-style-type: none"> <li>○ Conduct feasibility study to determine the benefits of sludge beneficiation for ERWAT</li> <li>○ Identify all key stakeholders in the agricultural sector and establish an in-house steering committee with key stakeholder such as Agri-SA to form part of the team for sludge beneficiation</li> <li>○ Review the current running research projects with WRC and identify other research on sludge beneficiation</li> </ul>	R200 million revenue
4.	Inadequate infrastructure capacity to treat wastewater.	<ul style="list-style-type: none"> <li>○ Undertake a feasibility study as part of regionalisation and develop a 50 year master plan for the bulk sanitation network.</li> <li>○ Updating of the current facilities development plan and reprioritisation, final facilities development plan report depended on the output of the regionalisation feasibility study. (completion after regionalisation and master plan)</li> <li>○ Establish service masters and contracts to improve our maintenance civil structural audits to check the structural integrity of the 19 wastewater care works</li> <li>○ Research and development on latest technology by conducting a desktop study</li> </ul> <p><b>PROJECTS to increase wastewater treatment works capacity-</b></p> <ul style="list-style-type: none"> <li>○ Upgrading of Tsakane wastewater treatment works with HYBACS technology to increase capacity by another 10 M<sup>3</sup> per day</li> <li>○ Construction to modify Vlakplaats wastewater treatment works flow diversion, final collection of treated effluent from 4 modules and divert the flow around ponds.</li> </ul>	19 Green Drops

# Chapter 2

**TABLE 2.6: TOP RISKS AND RISK TREATMENT PLANS**

	<b>Risk</b>	<b>Risk treatment plans</b>	<b>Strategic focus</b>
		<ul style="list-style-type: none"> <li>○ Investigate the use of an integrated sludge beneficiation plant.</li> <li>○ Conduct an asset management assessment in line with (ISO 55 000) to determine the gap on the current status of asset management and the requirements of the best practice.</li> </ul>	
5.	Possible collapse of wastewater treatment works infrastructure	<ul style="list-style-type: none"> <li>○ Structural audits to determine the integrity of ERWAT infrastructure</li> <li>○ The rehabilitation of infrastructure by retrofitting newer technologies.</li> <li>○ Implement and formalise business continuity management in line with best practice.</li> <li>○ Develop an asset management strategy that aligns with ISO 55 000 best practice.</li> </ul>	19 Green Drops

## 2.7 ANTI-CORRUPTION AND FRAUD

### FRAUD AND ANTI-CORRUPTION STRATEGY

Fraud risk management and ethics management has become part of ERWAT risk management. The commitment to fraud risk management is articulated in the entity's fraud prevention policy and fraud strategy as approved by the board. In an effort to strengthen the control environment in the area of fraud risk management various initiatives were undertaken by the entity as part of the zero tolerance stance to fraud.

Incidents are investigated and followed up by the application of all remedies available and the implementation of appropriate prevention and detection controls. ERWAT is committed to a strong set of values, which is shared, known and supported by everyone in the company.

The company, in line with the requirements of the CoE, embarked on a fraud risk assessment followed by an ethics survey as part of rolling out fraud risk management and ethics management. The review of the current fraud prevention policy and fraud prevention strategy is scheduled to take place in the 2017/2018 financial year for board approval. The fraud prevention plan will form part of the overall risk management plan.

**TABLE 2.7: FRAUD RISK PROFILE**

# Chapter 2

No	Risk	Risk Treatment Plans	Focus Area
1.	Potential abuse of Supply Chain Management (SCM) processes	<ul style="list-style-type: none"> <li>○ Perform probity checks on employees</li> <li>○ Continuous awareness and training on (SCM).</li> <li>○ Anti-Fraud campaign to raise awareness on fraud and corruption</li> <li>○ Implementation of gift registers for all employees</li> <li>○ Branding of fleet with the hotline number and include it in the tender documents</li> </ul>	Fraud Risk & Ethics Management
2.	General unethical conduct and practices by employees	<ul style="list-style-type: none"> <li>○ Implement the ethics management program</li> <li>○ Conduct an ethics survey</li> <li>○ Conduct ethics workshops</li> </ul>	Fraud Risk & Ethics Management
3.	Possible abuse of ERWAT fleet	<ul style="list-style-type: none"> <li>○ Develop a defence driving plan for ERWAT employees</li> <li>○ Develop a programme to assess individual drivers</li> <li>○ Review of the fleet policy and staff workshop on the revised policy</li> <li>○ Develop a fleet safety programme</li> <li>○ Conduct a fleet risk assessment</li> </ul>	Fraud Risk & Ethics Management

Strategies that are in place to prevent fraud and corruption are as follows:

- Fraud hotline manned by the audit firm KPMG
- Continuous awareness and training in MFMA
- Gift registers
- Declaration of interest

There were no cases for investigation in the period under review. The company has a risk committee which deals with fraud risk and ethics Management as part of the risk management.

## 2.8 SUPPLY CHAIN MANAGEMENT

### OVERVIEW SUPPLY CHAIN MANAGEMENT

The entity has adopted SCM systems in compliance with the provisions of the MFMA and 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,

# Chapter 2

- 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 seeks 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 2016/17 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 COMPANY WEBSITE CONTENT AND ACCESS:**

The company will strive 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.

Plans are in place to redesign the website in the next financial year. All the relevant information will be available on the website at the completion of the project.

# Chapter 2

**TABLE 2.8: COMPANY WEBSITE: CONTENT AND CURRENCY OF MATERIAL**

Documents published on the municipality / 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 (2015/16)	NO	N/A
The annual report (2016/17) published/to be published	YES	February 2018
All current performance agreements required in terms of section 57 (1)(b) of the Municipal Systems Act (2016/17) and resulting scorecards	NO	N/A
All service delivery agreements (2016/17)	NO	N/A
All long-term borrowing contracts (2016/17)	NO	N/A
All SCM contracts above are prescribed values (give value) for 2016/17	NO	N/A
An information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14 (2) or (4) during Year 1	NO	N/A
Contracts agreed in 2016/17 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 2016/17	NO	N/A
All quarterly reports tabled in the council in terms of section 52 (d) during 2016/17	NO	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 2017 survey has 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.



# Chapter 2



## COMMENT ON SATISFACTION LEVELS

ERWAT strives to improve satisfaction levels through its service delivery and strategic direction. We eagerly await the publication of the 2017 Quality of Life survey.

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

# Chapter 3

## 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.



treatment 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.

# Chapter 3



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 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.

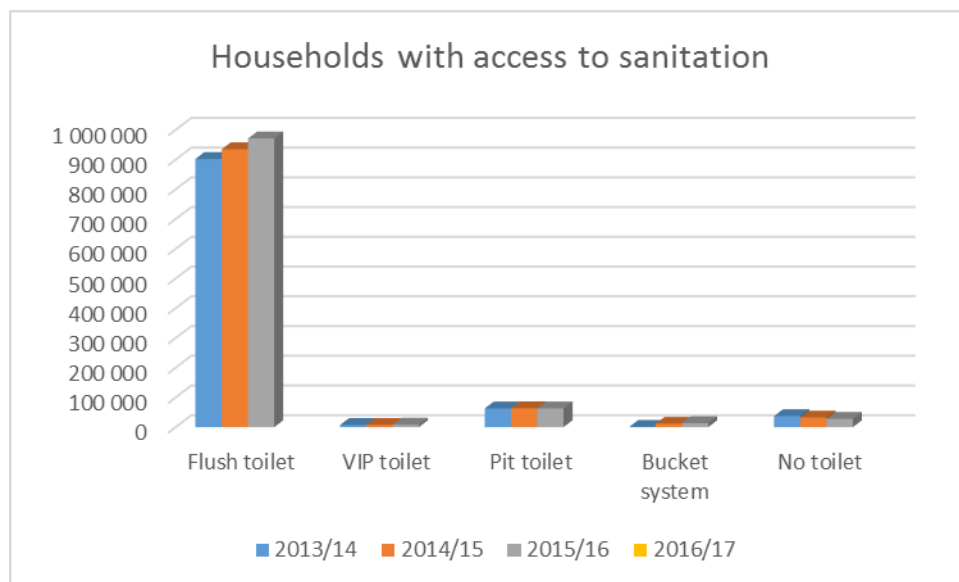
# Chapter 3

## 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 2015/16 financial year, 971 046 households had access to flush toilets. It is encouraging to note that the number of households without access to toilets have decreased from 37 180 in 2013/14 to 27 989 in 2015/16.

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



# Chapter 3

TABLE 3.1: EMPLOYEES: OPERATIONS					
Job Level	2015/16	2016/17			
	No of employees	No of posts	No of employees	No of vacancies (fulltime equivalents)	Vacancies (as a % of total posts)
A2	180	195	168	27	14%
B1	80	89	66	23	26%
B2	57	75	73	2	3%
B4	41	47	39	8	17%
B5	3	3	3	0	0%
C1	19	25	22	3	12%
C3	17	19	14	5	26%
C4	7	8	8	0	0%
C5	8	8	7	1	13%
D1	9	9	8	1	11%
D3	3	3	3	0	0%
E1	1	1	1	0	0%

TABLE 3.2: PRE-DETERMINED METRO-WIDE OBJECTIVES			
<b>Responsible department</b>	Direct outcome (Metro-wide SDBIP)		
<b>Planning statements</b>	Improve the effluent quality compliance		
<b>Indicators</b>	% compliance with wastewater treatment works license conditions and/or exemptions standards		
<b>Portfolio of evidence</b>	Dated and signed compliance reports drawn from laboratory information management system (LIMS)		
<b>5-year target</b>	95%		
<b>Baseline (2015/16)</b>	88%		
<b>Annual Target 2016\2017</b>	92%		
<b>2016/17</b>	Quarter 1	Planned Target	88%
		Performance Achieved	84%
	Quarter 2	Planned Target	89%
		Performance Achieved	86%
	Quarter 3	Planned Target	91%
		Performance Achieved	88%

# Chapter 3

**TABLE 3.2: PRE-DETERMINED METRO-WIDE OBJECTIVES**

	Quarter 4	Planned Target	92%
		Performance Achieved	88%
	Annual	Planned Target	92%
		Performance Achieved	87%
<b>Reasons for variance:</b>	Target not achieved and this is mainly due to the following reasons: 1. Unfavorable wastewater characteristics (Industrial pollution); 2. Failure of critical equipment; 3. Hydraulic and organic overloading of works; 4. Power interruptions.		
<b>Mitigation plans:</b>	1. 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 works via the ERWAT commercial department; 2. The maintenance department has put together strategies to improve equipment availability and reliability; 3. In response ERWAT has developed a 5-year capital expenditure plan aimed at reducing the backlog and creating a bit of redundancy at the wastewater treatment works. Furthermore, ERWAT is in the process of implementing a regionalisation and 50-year master plan; 4. Emergency/stand-by generators have been procured and are in a process of being installed at the works to mitigate the challenge of power interruptions, especially unplanned power interruptions.		
<b>Progress on Performance</b>	The performance has marginally declined by 1% between 2015/2016 and 2016/2017		
<b>Year to Date Performance</b>	87%		

**Key performance indicator (KPI) 1 – Metro-wide**

% compliance with wastewater treatment works license conditions and/or exemptions standards

**Method of Measure**

Water Quality analysis of all 19 wastewater treatment 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 works and per month
- Quarterly reports, showing the water use license and/or exemption standards and compliance calculations

**Annual Target**

90%

# Chapter 3

**Annual Actual**

87%

**Green drop performance**

ERWAT has continued with the green drop programme even though the DWS has not been able to carry out the necessary audits/assessments. ERWAT has been performing self-assessments over the past 3 years using the same tools that DWS uses to score the works. As can be noted in the table below, ERWAT is operating at the excellent level in terms of the overall score. Nine works are currently achieving the 90% and above score that is required to attain the green drop certification. Eight works achieved scores between 80% and 90%, which is considered good status according to the DWS scale. Only one works achieved below 80%.

**TABLE 3.3: OVERALL GREEN DROP SCORE OVER THE PAST FIVE YEARS**

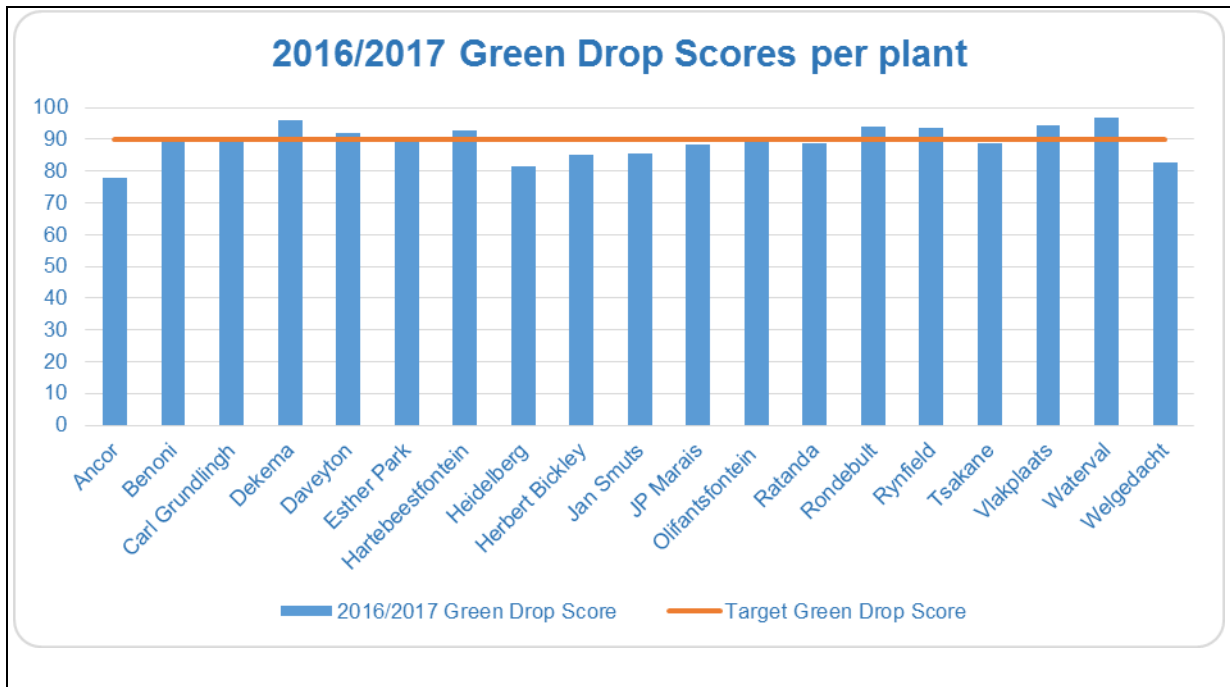
Wastewater Systems	2009/2010 Green drop Report (DWS Assessment)	2011/2012 Green drop Report (DWS Assessment)	2013/2014 Green drop Report (DWS Assessment)	2015/2016 Green drop Report (ERWAT Assessment)	2016/2017 Green drop Report (ERWAT Assessment)
<b>ERWAT AVERAGE</b>	<b>65%</b>	<b>78.8%</b>	<b>83.61%</b>	<b>92.7</b>	<b>90.9%</b>

Colour codes	Appropriate action by institution
90-100%	Excellent situation, need to maintain via continued improvement
80-<90%	Good status, improve where gaps identified to shift to 'excellent'
50-<80%	Fair performance, ample room for improvement
31-<50%	Very poor performance, need targeted intervention towards gradual sustainable improvement
0-<31%	Critical state, need urgent intervention for all aspects of the wastewater services business

ERWAT is operating at this level

Number of works achieving 90% and above score for 2016/17 is indicated in the diagram below.

# Chapter 3



## Comment on performance

The targets were not achieved. Ten out of nineteen works could not achieve the required levels of compliance and that led to the overall target of 90% for 2016/2017 not to be met. **Appendix B** contains the annual performance report.

The reasons that the works did not achieve the required levels of compliance are:

- Industrial pollution
- Failure of critical equipment
- Hydraulic capacity
- Power interruptions

### i. Industrial Pollution

Works continued to receive high strength influent from the industries throughout the year, which at times was more than the plants could handle. Such was the case at Ancor, Herbert Bickley, Heidelberg and Olifantsfontein. The plants received different types of influent from blackish water, to pulp and paper, organic animal fats and high chemical oxygen demand.

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 CoE has also revised the industrial discharge standards during the review of the by-laws, which ERWAT had an opportunity to advise the CoE on the acceptable limits.



# Chapter 3

## ii. Failure of Critical Equipment

Equipment failure still remained a major challenge for operations during the year. The plants which were mostly affected during 2016/2017 were Ancor, Herbert Bickley, Jan Smuts, Welgedacht and Olifantsfontein.

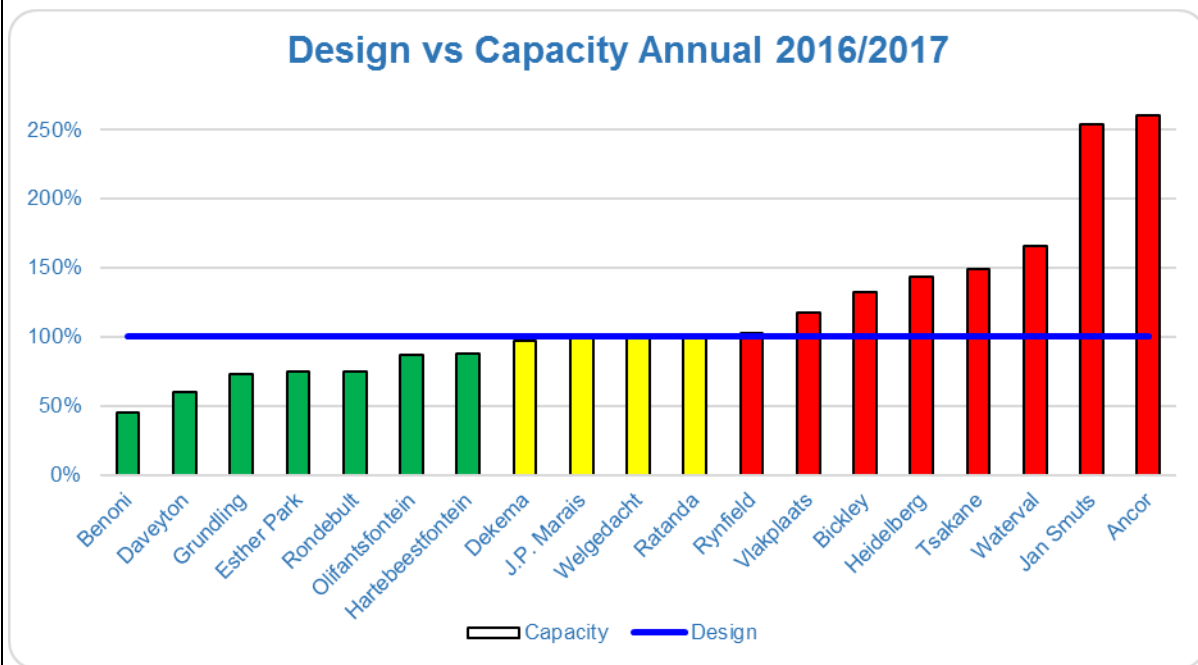
The maintenance department has put together strategies to improve equipment availability and reliability.

These strategies include developing an asset management policy, strategy and processes that are in line with ISO 55000 (asset management world best practices) and to improve equipment availability and reliability.

The department is also conducting opportunity maintenance during plant shutdowns as an attempt to extend the asset life span of all critical equipment.

## iii. Hydraulic Capacity

The figure below depicts a very gloomy picture of the ERWAT wastewater treatment works with regards to treatment capacity. Eight out of the 19 plants are operating above their design capacity, four are operating between 80% and 90% (this is a trigger point for upgrade), and five operating below the 80% mark, which is the acceptable level. The plants' operating capacity was affected by the heavy storms experienced during Q2 and Q3 of the 2016/17 financial year.



The 13 000 housing units pronounced by the Executive Mayor of the CoE are expected to yield an additional 6.5 million litres per day over the next 2 financial years, but with a deficit in treatment capacity it will be a mammoth task to accommodate an extra flow into the current bulk sanitation infrastructure.

# Chapter 3

Failure to upgrade the bulk sanitation infrastructure will result in:

- Backflows in the outfall sewers, which will lead to blockages and spillages in the city;
- 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 ten-point plan, including Aerotropolis;
- Water reclamation strategy being costly to implement;
- Directives being issued by the DWS for issues of non-compliance;
- Delayed achievement of green drop status.

In response, ERWAT has developed a 5-year capital expenditure plan aimed at reducing the backlog and creating a bit of redundancy at the wastewater treatment works. Furthermore, ERWAT is in the process of implementing a regionalisation and 50-year master plan.

#### iv. Power interruptions

The following plants experienced power interruptions which affected compliance during the financial year: Welgedacht, Herbert Bickley, Tsakane and Olifantsfontein. These interruptions were as a result of faulty electricity supply cable, cable theft at the main substation and unscheduled high tension maintenance of the ESKOM main substation.

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.

**TABLE 3.4: CAPITAL EXPENDITURE YEAR 2016/17**

Capital projects	Budget	Adjustment budget	Actual expenditure	Original budget variance	Total project value
	R'000	R'000	R'000	Percentage	R'000
Total all	43	76	65	153%	602
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

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

#### CAPITAL PROJECTS

In terms of approved capital expenditure for the 2016/17 financial year, ERWAT has planned to implement the following projects which are aligned to the strategic objective of the CoE and DWS.

##### **Welgedacht 50M/day Upgrade**

# Chapter 3

The project entails the construction of a new module at Welgedacht wastewater treatment works to increase capacity of the plant by 50 M<sup>3</sup>/day. The project has been commissioned in December 2016. The defect liability period ends in November 2017.



## **New 50 M<sup>3</sup>/day Module 2 at Welgedacht wastewater treatment works**

### **Hartebeestfontein Capacity Upgrade (5 M<sup>3</sup>/day)**

The project entails increase the capacity of Hartebeestfontein wastewater treatment works by 5 M<sup>3</sup>/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 wastewater treatment works**

### **Tsakane Capacity Upgrade (10 M<sup>3</sup>/day)**

# Chapter 3

The project entails the increase of capacity of Tsakane wastewater treatment works by 10 M<sup>3</sup>/day through retrofitting of new technology that combines the existing Biological Nutrient Removal (BNR) plant and smart unit technology. The project is at advanced stage and it is expected to be commissioned in September 2017.



Tsakane capacity upgrade (10 M<sup>3</sup>/day)

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

Although ERWAT did not achieve its 2016/17 water quality performance target, the company has developed strategies to mitigate the challenges to improve performance of the various wastewater treatment 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 wastewater treatment works. Furthermore, ERWAT is in the process of implementing a regionalization and 50-year masterplan; emergency/stand-by generators have been procured and are in a process of being installed at the 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 wastewater treatment works.

# Chapter 3

The implementation of the green drop improvement plans for 2015/16 has seen 13 plants achieving green drop excellent status (internal green drop assessment was performance 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 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
- Development

## 3.2 BOARD OF DIRECTORS

### INTRODUCTION TO EXECUTIVE AND BOARD

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 III. The entity steadfastly consolidated its position in respect of adherence to King III, and its practices are in most material instances in line with the principles set out in the report.

# Chapter 3

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.

# Chapter 3

## 3.3 FINANCIAL SERVICES

### INTRODUCTION FINANCIAL SERVICES

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

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

### Total Revenue

ERWAT's revenue for the period under review consists mainly of rendering wastewater treatment services to the members of the company. This amounted to R645.2m of a total income of R912.4m.

**TABLE 3.5: REVENUE PER SOURCE**

Revenue source	2015/16	2016/17
	R'000	R'000
Service charges	575 533	645 216
Development contribution	40 228	85 408
Other income	109 849	114 955
Interest received – investment	13 048	16 312
Dividends received	150	555
Government grants and subsidies	50 000	50 000
<b>TOTAL</b>	<b>788 808</b>	<b>912 446</b>

The percentage debt collection for the financial year 2016/2017 was 84% by taking the total value of the year's revenue collected against the bills raised in the year by the year's billed revenue.

**TABLE 3.6: EMPLOYEES: FINANCIAL SERVICES**

Job level	2015/16		2016/17		
	No of employees	No of posts	No of employees	No of vacancies	Vacancies %
B	1	1	1	0	0%
C	7	8	8	0	0%
D	1	2	1	1	50%
E	1	1	1	0	0%

# Chapter 3

**TABLE 3.7: FINANCIAL PERFORMANCE 2016/17**

Details	2015/16	2016/17			
	Actual	Original budget	Adjustment budget	Actual	Variance to budget
	R'000	R'000	R'000	R'000	Percentage
Total operating revenue	738 808	771 064	771 064	862 446	11.85%
<b>Expenditure</b>					
- Employee costs	230 555	282 399	282 399	260 012	-7.9%
- Repairs and maintenance	105 667	120 682	120 682	98 470	-18.41%
- Other	333 413	485 450	485 450	403 525	-16.88%
<b>Total operating expenditure</b>	<b>669 635</b>	<b>771 064</b>	<b>771 064</b>	<b>762 007</b>	<b>-1.17%</b>
<b>Net operating expenditure</b>	<b>119 173</b>	<b>0</b>	<b>0</b>	<b>150 439</b>	

## COMMENT ON THE PERFORMANCE OF FINANCIAL SERVICES OVERALL

Overall financial services has 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.

## 3.4 HUMAN RESOURCE SERVICES

### INTRODUCTION TO HUMAN RESOURCE SERVICES

The departmental 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.



# Chapter 3

The human resources 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, appointment of staff. The department also assist with the alignment of the organisation 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
- Improved efficiency of business continuity management through the implementation of a online backup solution

### **SERVICE STATISTICS FOR ICT SERVICES**

The ICT department comprises of four employees. The ERWAT ICT supports head office, laboratory services, 19 wastewater treatment works and is currently servicing 31 servers and 412 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.

# Chapter 3

TABLE 3.8: EMPLOYEES: ERWAT ICT SERVICES					
Job level	2015/2016	2016/2017			
	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%

The financial performance of the ICT department for the 2016/17 financial year is included with the finance department.

TABLE 3.9: CAPITAL EXPENDITURE: ICT SERVICES IN R'000					
Capital Projects	2016/2017				
	Budget	Adjustment Budget	Actual Expenditure	Variances from original budget	Total project value
Total all projects	8 000	8000	6 394	20.08%	6 394
Project: Solar					
-HR system	600	600	510	15.08%	510
-Payroll	600	600	599	0.16%	599
-Performance	2 200	2 200	2 028	7.80%	2 028
Project: Other laptops and Software	0	0	3 257		3 257

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

The largest ICT project within ERWAT embarked on for the financial year ending 2016/17 was the SOLAR project. This project ensures that ERWAT complies with National Treasury requirements to be mSCOA compliant.

Some of the capital budget for the 2016/17 financial year could not be spent due to a number of delays and will be brought forward into the 2017/18 financial year. The Solar system for Finance had to be customised 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.

The targets set out in the schedule above can be attained within approved budget provision.

# Chapter 3

## 3.6 LEGAL; RISK MANAGEMENT AND PROCUREMENT SERVICES

This component includes: legal; risk management and procurement services.

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

The governance legal and compliance unit has a staff compliment of three. It is headed by the company secretary. Risk management is a division of Governance Legal and Compliance. The priorities for the division is to ensure that ERWAT prioritises risk in its decision making process and highlight any non-compliance matters that may have a negative impact to the organisation to the board of directors.

The main priorities in the 2016/2017 financial year are as follows:

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

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

TABLE 3.10: EMPLOYEES: LEGAL AND RISK MANAGEMENT

Job Level	2015/16		2016/17		
	Employee No	Posts No	Employee No	Vacancies (fulltime equivalent)	Vacancies %
B	1	0	1	0	0
D	1	0	1	0	0
E	1	0	0	1	0

### COMMENT ON THE OVERALL PERFORMANCE OF SERVICES

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

# Chapter 3

## COMPONENT C: ORGANISATIONAL PERFORMANCE SCORECARD

**TABLE 3.11: ORGANISATIONAL PERFORMANCE SCORECARD**

Level of Planning	Planning Statements	Indicators	Annual Target 2016/17	Performance 2016/17	Comments
Direct Outcome	Improve the effluent quality compliance	% compliance with wastewater treatment works license conditions and/or exemptions standards	92%	87%	<p><b>Not Achieved</b> Target not achieved and this is mainly due to the following reasons:</p> <ul style="list-style-type: none"> <li>• Unfavourable wastewater characteristics (Industrial Pollution);</li> <li>• Failure of critical equipment;</li> <li>• Hydraulic and organic overloading of plants;</li> <li>• Power interruptions;</li> </ul>
Output	Increase Revenue Generated	Rand Value of the revenue generated	R123m	R113m	<p><b>Not achieved</b> ERWAT is embarking on the process of finding ways to increase revenue from both state owned entities and the private sector. This will be done through a process of signing of memorandum of understanding (MoU's), joint venture agreements with different state entities and the private sector including capability presentations to potential customers and by responding to RFQ's and RFP's (Request for Quotations/ Proposals).</p>
Output	Capital expenditure	% Budget Spent	95%	86%	<p><b>Not achieved</b> ERWAT has currently spent (86%) of its capital budget at the end of the fourth quarter. ERWAT has planned to spend 95% at the end of the fourth quarter; however, this was not achieved due to delay in some other projects.</p>

# Chapter 4

## CHAPTER 4 – ORGANISATIONAL DEVELOPMENT PERFORMANCE (PERFORMANCE REPORT PART II)

### INTRODUCTION TO ORGANISATIONAL DEVELOPMENT PERFORMANCE

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

**TABLE 4.1: EMPLOYEES**

Department	2015/2016 Year	2016/2017 Year			
	No of Employees	No of Approved Posts	No of Employees	No of Vacancies	Vacancies %
Managing Director	5	7	7	-	-
Legal & Compliance	5	6	5	-	-
Human Resources	6	6	6	-	-
Laboratory Services	57	59	58	1	1.69%
Development	10	19	18	1	5.26%
Admin & Finance	22	23	19	4	17.39%
Operations	377	399	396	3	0.75%
Loss Control	7	7	7	-	-
Technical Services	111	111	107	4	3.60%
Supply Chain	7	10	9	-	-
Commercial Business	12	12	11	1	8.33%
<b>Totals</b>	<b>619</b>	<b>657</b>	<b>643</b>	<b>14</b>	<b>2.13%</b>

Employee and approved posts numbers are as at 30 June 2017, as per the approved organogram.

# Chapter 5

**TABLE 4.2: VACANCY RATE 2016/2017**

Department	Position	Date Vacant	Comments
Laboratory Services	Executive Secretary: Laboratory	30/04/2014	Currently filled by temporary personnel.
Development	Executive Manager: Development	30/04/2016	Mr Khomela currently acting
Admin & Finance	Fixed Asset Accountant	N/A	New position, currently being advertised
	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	30/06/2017	Currently vacant
	Works Manager	31/01/2017	New employee started 01/08/2017
	Works Manager	31/03/2017	Recruitment process in progress
Technical Services	Executive Manager: Technical	30/09/2015	Ms Mutyaba currently acting
	Executive Secretary: Technical	18/11/2016	Currently filled by temporary personnel
	Engineering Manager	30/06/2016	Currently vacant
	Maintenance Manager	03/09/2015	Currently vacant
Commercial Business	Project Manager: New Business	30/09/2016	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	Turn-over Rate %
2015/16	91	59	9.85%
2016/17	107	23	3.72%

## COMMENT ON VACANCIES AND TURNOVER

Total overall organisational structure is currently being reviewed, hence the vacancies for engineers and senior manager has 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.

# Chapter 5

## COMPONENT B: MANAGING THE COMPANY'S WORKFORCE

### INTRODUCTION TO COMPANY'S WORKFORCE MANAGEMENT

The total number of employees for the year is 643 which is a slight increase on the year before. The emphasis is on performance management. The new performance management system has been implemented to support the function.

#### 4.2 POLICIES

**TABLE 4.4: HR POLICIES AND PLANS**

	Name of Policy	Completed %	Reviewed %	Date adopted by council
1	Acting Policy	100%	100%	23/10/2000
2	Affirmative Action Policy	100%	100%	23/10/2000
4	Career Planning and Succession Planning Policy	100%	100%	12/02/2015
5	Cellular Policy	100%	100%	01/07/2013
7	Conflict of Interest Policy	100%	100%	09/04/2015
8	Employment Equity Policy	100%	100%	23/10/2000
9	Flexi Time Policy	100%	100%	20/05/1998
10	Gifts Policy	100%	100%	12/02/2015
11	Guideline for Dismissal due to Operational Requirements	100%	100%	-
12	HIV/AIDS Policy	100%	100%	12/02/2015
13	Induction Policy	100%	100%	17/08/1998
15	Job Evaluation Policy	100%	100%	12/02/2015
16	Leave Policy	100%	100%	12/02/2015
17	Long Service Awards Policy	100%	100%	12/02/2015
18	Long Service Leave Policy	100%	100%	04/03/1998
19	Medical Aid Subsidy Policy	100%	100%	29/10/2008
20	Performance Management Policy	100%	100%	29/10/2008
21	Personal Code of Conduct Policy	100%	100%	12/02/2015
22	Recruitment of Temporary Employees	100%	100%	12/02/2015
23	Recruitment, Selection and Placement Policy	100%	100%	23/10/2000
24	Recruitment, Selection and Placement of Executives Policy	100%	100%	02/04/2015

# Chapter 5

25	Remuneration Policy	100%	100%	29/10/2008
26	Retrenchment Policy	100%	100%	12/02/2015
27	Sexual Harassment Policy	100%	100%	23/10/2000
28	Small Tool Scheme Policy	100%	100%	31/07/1996
29	Smoking Policy	100%	100%	12/02/2015
30	Stand By Service Policy	100%	100%	23/10/2000
31	Substance Abuse Policy	100%	100%	14/11/1996
32	Tool of Trade Vehicle Scheme Policy	100%	100%	14/11/1996
33	Uniform Provision Policy	100%	100%	12/02/2015
34	Death and Funeral Policy	100%	100%	09/04/2015
35	Home Ownership Scheme Policy	100%	100%	16/05/1995
36	Bursary Scheme Policy	100%	100%	04/09/1997
37	Capacity Building for Directors Policy	100%	100%	14/11/1996
38	In-Service Training Policy	100%	100%	09/01/1996
39	Study Scheme Policy	100%	100%	11/05/1995
40	Travel Policy	100%	100%	11/05/2017

## COMMENT ON WORKFORCE POLICY DEVELOPMENT

Policies are reviewed every two years. All policies will be reviewed during the current 2017/2018 financial year.

### 4.3 INJURIES, SICKNESS AND SUSPENSIONS

**TABLE 4.5: NUMBER AND COST OF INJURIES ON DUTY**

Type of injury	Injury Leave Taken Days	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>		

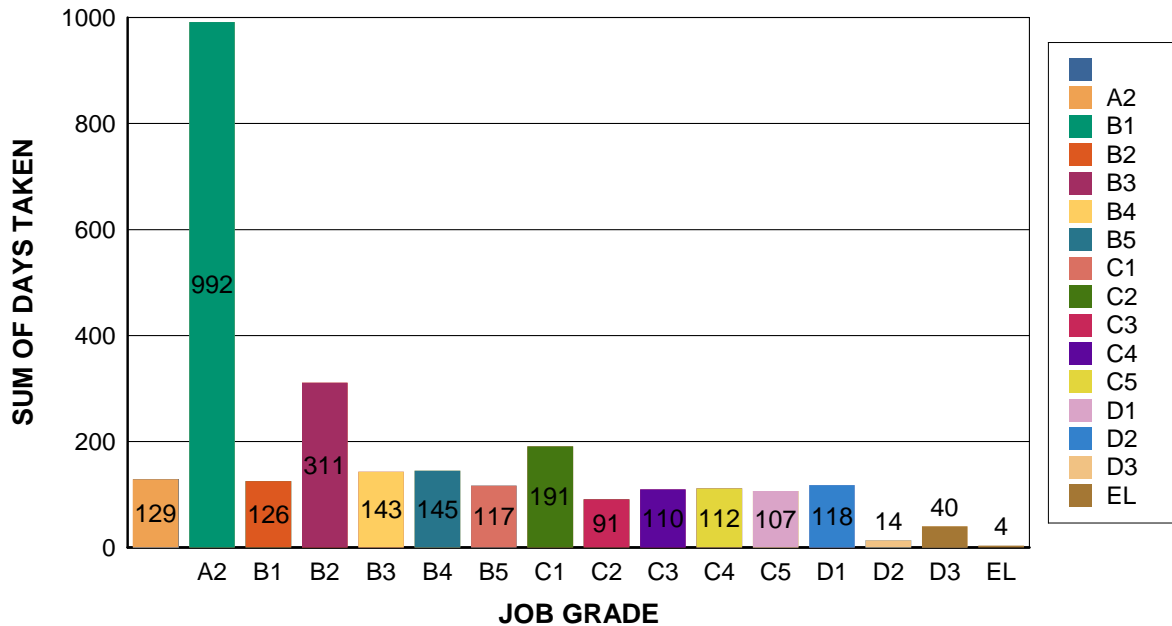


# Chapter 5

**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  
01/07/2016 to 30/06/2017**



**COMMENT ON INJURY AND SICK LEAVE**

ERWAT has just introduced a new human resources management system that will enable the HR department to track all leave and act on leave abused.

# Chapter 5

**TABLE 4.7: NUMBER AND PERIOD OF SUSPENSIONS**

Position	Nature of alleged misconduct	Date of suspension	Details of disciplinary action taken or status of case and reasons why not finalised	Date finalised
None	Not applicable	Not applicable	Not applicable	Not applicable

**TABLE 4.8: 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
None	Not applicable	Not applicable	Not applicable

**COMMENT ON SUSPENSIONS AND CASES OF FINANCIAL MISCONDUCT**

No disciplinary action for financial misconduct or suspensions took place during the period under review.

**4.4 PERFORMANCE REWARDS**

**COMMENT ON PERFORMANCE REWARDS**

No performance rewards were awarded during the 2016/17 financial year.

**COMPONENT C: CAPACITATING THE COMPANY'S WORKFORCE**

**INTRODUCTION TO WORKFORCE CAPACITY DEVELOPMENT**

The current structure has been reviewed and is awaiting board approval. This structure will address all the capacity shortages especially in the core departments of operations and maintenance. The structure does not seek to attract new employees, but rather upskill the existing staff complement where needed.

# Chapter 5

## 4.5 SKILLS DEVELOPMENT AND TRAINING

TABLE 4.9: SKILLS MATRIX							
Gender	No of employees in post as at 30 June 2017	Original Budget and Actual Expenditure on skills development					
		Learnerships			Skills Programmes & other short courses		
		Actual: End 2015/16	Actual: End of 2016/17	2016/17 Target	Actual: End of 2015/16	Actual: End of 2016/17	2016/17 Target
Female	177		60			70	
Male	466		19			222	
<b>Total</b>	<b>643</b>		<b>79</b>	<b>0</b>	<b>0</b>	<b>292</b>	<b>0</b>

ERWAT currently does not have a training and development system to facilitate reporting per management level. The company does not budget training costs per individual and thus there are no targets specified.

TABLE 4.10: SKILLS DEVELOPMENT EXPENDITURE		
Original Budget and Actual Expenditure on skills development		
2016/17	Original Budget	Actual
Totals	R 3 786 985	R 2 720 762
<i>Included in the total budgeted figures is R1.4 million that was transferred from Finance for Learnerships</i>		

The training budget caters for all ERWAT employees

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

All senior managers excluding the managing director and the CFO have completed all unit standards as per the minimum competency requirements. The financial manager and SCM Manager are currently in the process of finalising the outstanding unit standards.

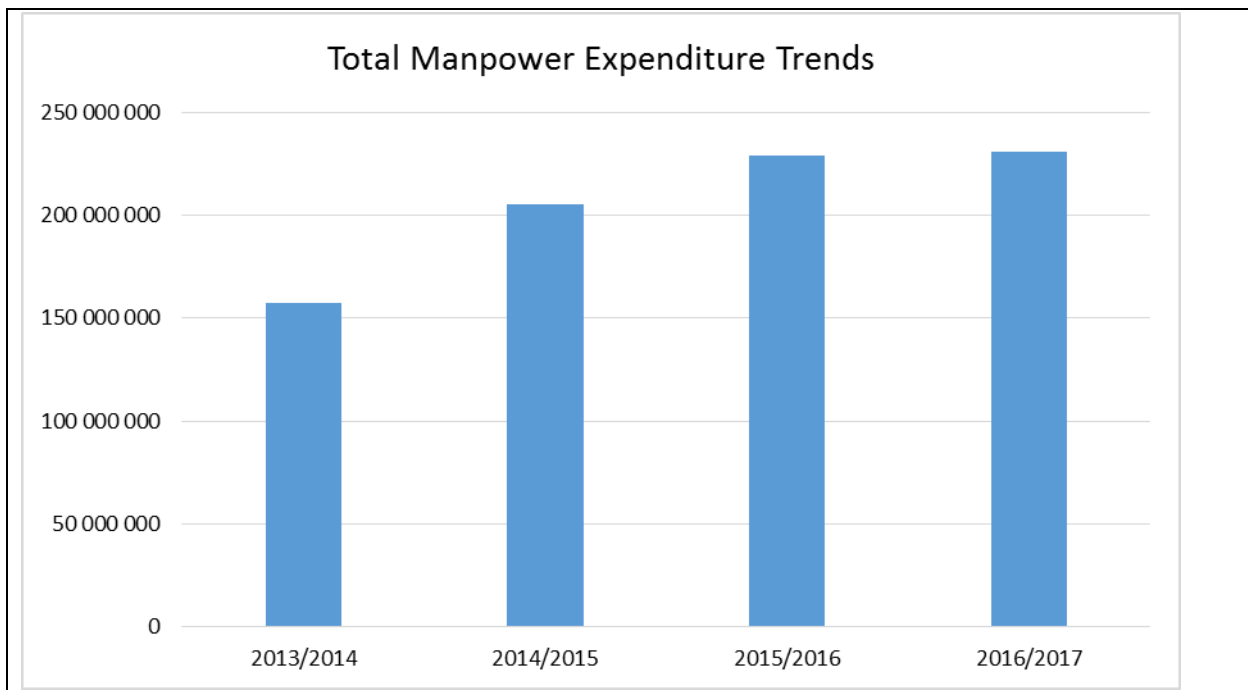
# Chapter 5

## COMPONENT D: MANAGING THE WORKFORCE EXPENDITURE

### INTRODUCTION TO WORKFORCE EXPENDITURE

The importance for managing workforce expenditure is to ensure that the bulk of the budget is spent on service delivery. Majority of the manpower budget is spent on the operation and maintenance areas, as opposed to the support departments. ERWAT is currently reviewing the total organisational structure in order to achieve better efficiencies and in the process and the structuring the departments more efficiently. Value for money is achieved by ensuring that the best possible skill is recruited.

#### 4.6 EMPLOYEE EXPENDITURE



### COMMENT ON WORKFORCE EXPENDITURE

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

No employees received an increase due to the position being updated.

Overtime and temporary workers influenced workforce expenditure.

# Chapter 5

The current structure is being reviewed. Anomalies in salary levels will be addressed in the next financial year. No employees are appointed in posts that are not approved.

Total employee related cost as a percentage of total operational cost is 34%. This is 4% above the guidelines set by National Treasury.

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

ERWAT is currently in the process of going out on tender for a remuneration benchmark, which will include job analysis, job evaluation and grading, and the development of pay scales

## DISCLOSURES OF FINANCIAL INTERESTS

The financial interest of officials are provided in the table below as required by the PM Regulations 805 of 2006.

**TABLE 4.11: DISCLOSURES OF FINANCIAL INTEREST**

Period 1 July to 30 June of 2016/17

Position	Name	Description of Financial Interests (Nil / Or details)
Chief Financial Officer	Wim Louw	Nil
Company Secretary	Zimasa Socikwa	Nil
Executive Manager: Laboratory 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 Tsotetsi	Nil
Acting Executive Manager: Development	Emmanuel Khomela	Nil
Acting Executive Manager: Technical	Ella Mutyaba	Nil

# Chapter 5

## CHAPTER 5 – FINANCIAL PERFORMANCE

### INTRODUCTION

Chapter 5 contains information regarding financial performance and highlights specific accomplishments. The chapter comprises of 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 R698.6m in 2015/16 to R777.04m in 2016/17 year, leading to an operating surplus of R19m. Development contributions increased significantly, from R40.2m in 2015/16 to R85.4m in 2016/17. Operating expenditure increased from R669.6m in 2015/16 to R762.0m in 2016/17, mainly as a result of increases in bulk purchases and finance costs.

# Chapter 5

## 5.1 STATEMENTS OF FINANCIAL PERFORMANCE

### STATEMENT OF FINANCIAL PERFORMANCE

TABLE 5.1: FINANCIAL SUMMARY								
Description	Ref	2014/15	2015/16	Current year 2016/17			Year 2016/17 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		525 601	575 533	645 216	645 216	645 216	100%	100%
Interest earned - external investments		4 536	13 048	1 960	1 960	16 312	832%	832%
Dividends received		91	150	80	80	555	693%	693%
Other revenue		138 380	200 077	173 808	173 808	250 363	144%	144%
<b>Total Revenue (excluding capital transfers and contributions)</b>		<b>668 608</b>	<b>788 808</b>	<b>821 064</b>	<b>821 064</b>	<b>912 446</b>	<b>111%</b>	<b>111%</b>
<b>Expenditure By Type</b>	-							
Employee related costs		209 384	227 993	279 644	279 644	257 302	92%	92%
Remuneration of Directors		1 622	2 562	2 858	2 858	2 710	95%	95%
Debt impairment		1 502	293	56	56	1 274	2283%	2283%
Depreciation & asset impairment		32 561	50 514	38 832	38 832	64 681	167%	167%
Finance charges		23 265	54 491	51 055	51 055	66 605	130%	130%
Bulk purchases	2	143 285	161 483	195 937	195 937	194 282	99%	99%
Other expenditure		148 660	176 221	202 682	202 682	176 092	87%	87%
<b>Total Expenditure</b>	3	<b>560 280</b>	<b>673 556</b>	<b>771 064</b>	<b>771 064</b>	<b>762 946</b>	<b>99%</b>	<b>99%</b>
<b>Surplus/(Deficit)</b>		<b>108 328</b>	<b>115 252</b>	<b>50 000</b>	<b>50 000</b>	<b>149 500</b>	<b>299%</b>	<b>299%</b>

# Chapter 5

TABLE 5.1 FINANCIAL SUMMARY (CONTINUED)								
Description	Ref	2014/15	2015/16	Current year 2016/17			Year 2016/17 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)</b>		<b>108 328</b>	<b>115 252</b>	<b>50 000</b>	<b>50 000</b>	<b>149 500</b>	<b>299%</b>	<b>299%</b>
Transfers recognised - capital		(50 000)	(50 000)	(50 000)	(50 000)	(50 000)	100%	100%
<b>Surplus/(Deficit) before taxation</b>		<b>58 328</b>	<b>65 252</b>	<b>0</b>	<b>0</b>	<b>99 500</b>		
Taxation								
<b>Surplus/(Deficit) for the year</b>		<b>58 328</b>	<b>65 252</b>	<b>0</b>	<b>0</b>	<b>99 500</b>	<b>-</b>	<b>-</b>
<b>Capital Expenditure &amp; funds sources</b>	4, 6							
<b>Capital Expenditure</b>		308 581	242 343	336 206	336 206	288 427	86%	86%
<b>Funded by:</b>								
National Government		50 000	50 000	50 000	50 000	50 000	100%	100%
<b>Transfers recognised - capital</b>		<b>50 000</b>	<b>50 000</b>	<b>50 000</b>	<b>50 000</b>	<b>50 000</b>	<b>100%</b>	<b>100%</b>
<b>To be determined</b>								
<b>Borrowing</b>	1	128 786	51 996	-	-	236 333		
<b>Internally generated funds</b>		129 796	140 347	103 809	103 809	2 094	2%	2%
<b>Total Capital Funding</b>		<b>308 581</b>	<b>242 343</b>	<b>336 206</b>	<b>336 206</b>	<b>288 427</b>	<b>86%</b>	<b>86%</b>
<b>Financial Position</b>								
Total current assets		195 673	418 174	(186 151)	(186 151)	308 291	-166%	-166%
Total non-current assets		1 541 838	1 733 935	2 244 143	2 244 143	1 956 641	87%	87%
Total current liabilities		86 708	174 197	107 896	107 896	181 631	168%	168%
Total non-current liabilities		422 945	628 392	643 103	643 103	584 282	91%	91%
Equity		1 227 858	1 349 519	1 306 993	1 306 993	1 499 019	115%	115%
<b>Cash flows</b>								
Net cash from (used) operating		80 461	232 171	111 170	111 170	169 021	152%	152%
Net cash from (used) investing		(307 813)	(241 032)	(336 206)	(336 206)	(288 327)	86%	86%
Net cash from (used) financing		300 803	226 949	74 232	74 232	(28 266)	-38%	-38%
<b>Cash/cash equivalents at the year end</b>		<b>87 265</b>	<b>305 353</b>	<b>154 550</b>	<b>154 550</b>	<b>157 782</b>	<b>102%</b>	<b>102%</b>



# Chapter 5

## COMMENT ON FINANCIAL PERFORMANCE:

### Material differences between budget and actual amounts:

#### Total Revenue - 112% achieved due to the following reasons:

- Investment Revenue - 827% achieved
- Interest received - Due to under spending on capital items ERWAT had a higher bank balance, which resulted in higher interest.
- Dividends received - ERWAT had received 693% higher than budgeted amount for dividends, as projected dividend income is subject to estimation uncertainty.

#### Other own revenue - 162% achieved

Development contribution - An amount of R85 408 228 relating to development contribution was received to which ERWAT could not budget as there is no information to calculate a budget.

#### Total operating Expense - 99% achieved due to the following reasons:

Debt impairment – 2283% incurred due to the small budget for impairment. At the stage of preparing the budget, with the change to a new accounting system, we incurred a few challenges and therefore our impairment provision has increased significantly.

Depreciation and amortisation - 167% achieved due to the unbundling of assets, which entailed a decrease of useful lives of assets. This resulted in depreciation increasing significantly.

Finance costs - 130% 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 budgeted for. In addition, the drawdown of the loan differed from the planned drawn down which also increased the finance cost.

Other expenditure - 87% achieved. ERWAT has reprioritised spending on other expenditure, which resulted in a saving on expenditure.

## 5.2 GRANTS

TABLE 5.2: GRANT PERFORMANCE

Description	2015/16	2016/17				
	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	50 000	50 000	0%	0%
<b>TOTAL</b>	<b>50 000</b>	<b>50 000</b>	<b>50 000</b>	<b>50 000</b>	<b>0%</b>	<b>0%</b>

# Chapter 5

## COMMENT ON OPERATING TRANSFERS AND GRANTS

The parent municipality, the CoE allocates a portion of the infrastructure grants that they receive toward bulk sanitation services. This amounted to R50m in the 2016/17 financial year. This is the only grant that ERWAT received from the CoE. Development contributions of R85.4m were received in 2016/17 (R40.2m in 2015/16). 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 includes the asset strategy and asset management plans.

# Chapter 5

## 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

# Chapter 5

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.

# Chapter 5

## 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 is 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

# Chapter 5

**TABLE 5.3: TREATMENT OF THE THREE LARGEST ASSETS ACQUIRED IN 2016/17**

<b>Asset 1</b>				
<b>Name</b>	Hartebeestfontein – Capacity extension			
<b>Description</b>	Capacity upgrade FST			
<b>Asset type</b>	Fixed (Infrastructure)			
<b>Key staff involved</b>	Development, Supply Chain and Finance			
<b>Staff responsibilities</b>	Engineering manager manages the project and ensure that quality work is performed			
<b>Year</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
<b>Asset value</b>	-	14 070 018	28 055 890	5 524 071
<b>Capital implications</b>				
<b>Future purpose of asset</b>	Asset built to meet plant capacity needs			
<b>Describe key issues</b>				
<b>Policies in place to manage asset</b>	Asset management policy			
<b>Asset 2</b>				
<b>Name</b>	Waterval Mechanical and Electrical			
<b>Description</b>	Capacity upgrade			
<b>Asset type</b>	Fixed (Infrastructure)			
<b>Key staff involved</b>	Development, Supply Chain and Finance			
<b>Staff responsibilities</b>	Engineering manager manages the project and ensure that quality work is performed			
<b>Year</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
<b>Asset value</b>	-	12 492 231	45 677 577	2 768
<b>Capital implications</b>				
<b>Future purpose of asset</b>	Asset built to meet plant capacity needs			
<b>Describe key issues</b>				
<b>Policies in place to manage asset</b>	Asset management policy			
<b>Asset 3</b>				
<b>Name</b>	Waterval Civil works			
<b>Description</b>	Capacity upgrade			
<b>Asset type</b>	Fixed (Infrastructure)			
<b>Key staff involved</b>	Development, Supply Chain and Finance			
<b>Staff responsibilities</b>	Engineering manager manages the project and ensure that quality work is performed			
<b>Year</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
<b>Asset value</b>	4 723 656	12 626 089	8 999 938	39 228 296
<b>Capital implications</b>				
<b>Future purpose of asset</b>	Asset built to meet plant capacity needs			
<b>Describe key issues</b>				
<b>Policies in place to manage asset</b>	Asset management policy			

# Chapter 5

## 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 formalize the asset policy, strategy and plans. These issues will be addressed in the 2017/18 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 2016/17**

Detail	Original budget	Adjustment budget	Actual	Budget variance
Repairs and maintenance expenditure	120 682	120 682	98 470	12.91%

## 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 are extremely important as it not only improve efficiencies on the plants but extend the useful lives of the infrastructure.

Repair and maintenance cost as a percentage of operating expenditure has decreased from 15.34% in 2015/16 to 12.91% in 2016/17.

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

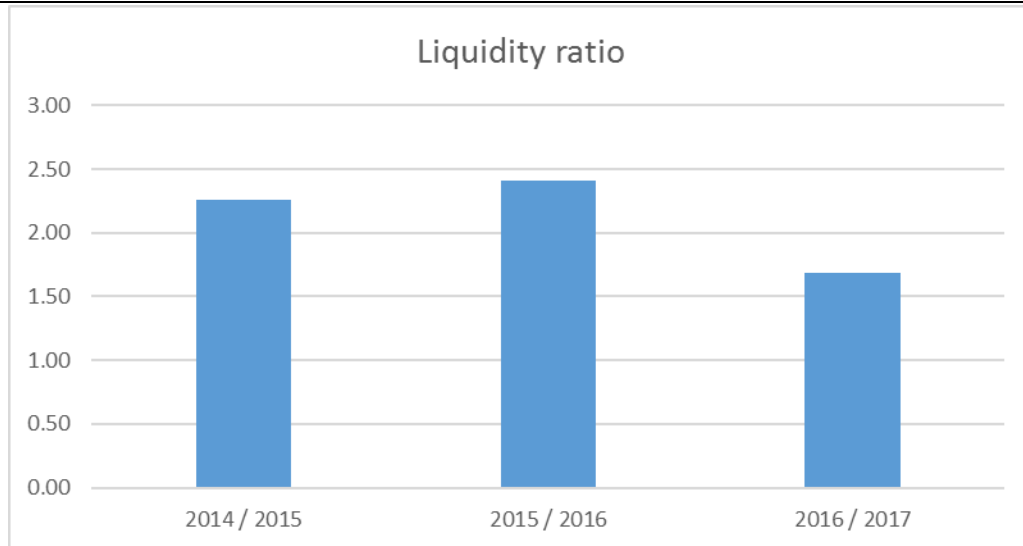
## 5.4 FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS

### Current ratio

ERWAT's current ratio deteriorated from 2.41:1 in 2015/16 to 1.69:1 in the 2016/17 year. This was due to improved capital spending in 2016/17.

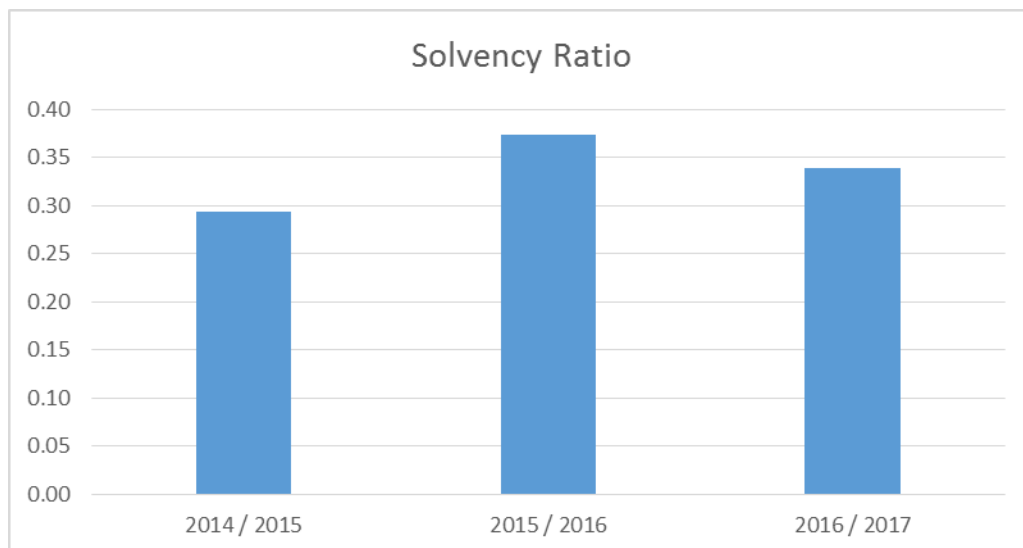
### Liquidity ratio

# Chapter 5



## Solvency ratio

The company's solvency position reduced from a solvency ratio of 0.37 in 2015/16 to 0.34 in 2016/17. The solvency of ERWAT will continue to be problematic unless alternative funding sources to loan funding can be accessed.

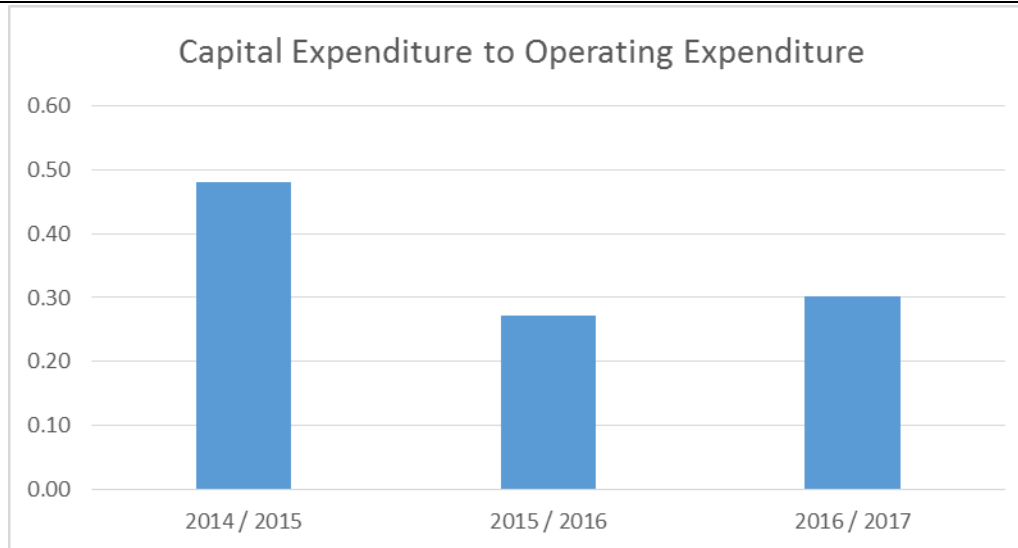


## Capital expenditure to operating expenditure

This ratio has improved from 0.27:1 in 2015/16 to 0.30:1 in 2016/17. 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.

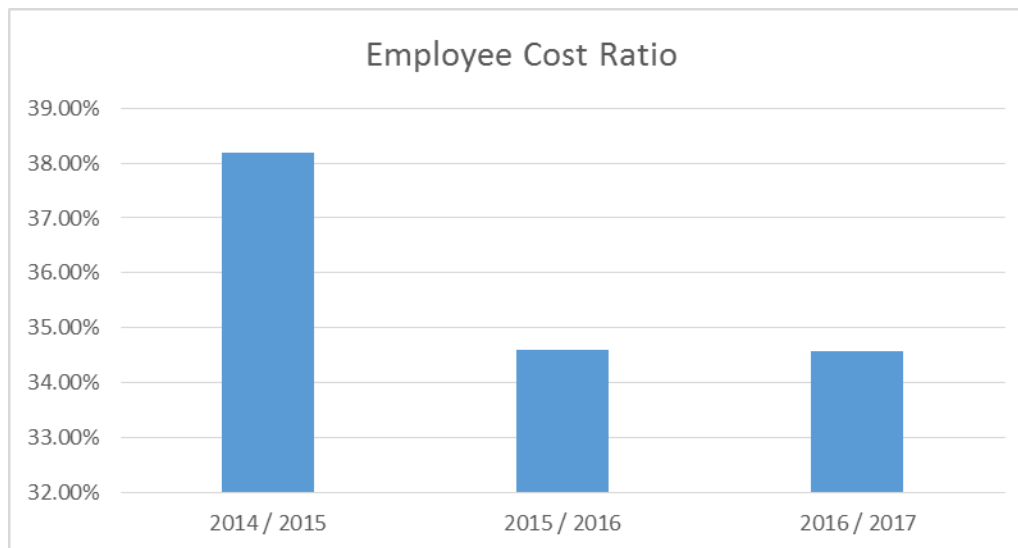


# Chapter 5



## Employee cost ratio

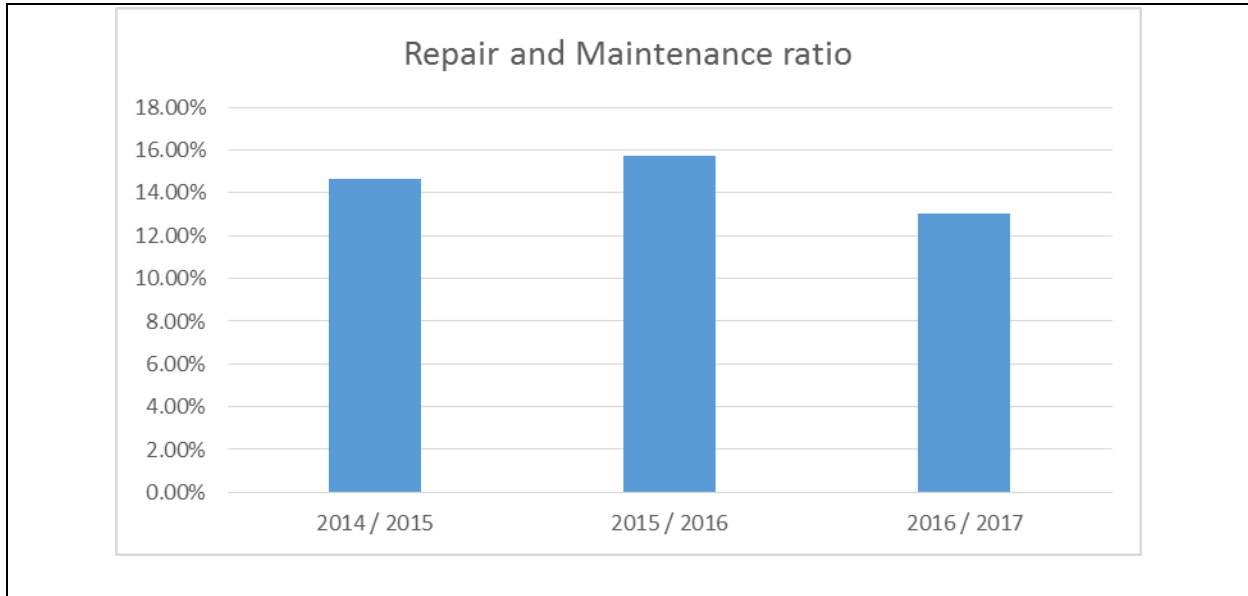
Employee cost as a percentage of operating expenditure has remained virtually constant from 34.39% in 2015/16 to 34.08% in 2016/17.



## Repair and maintenance ratio

Repair and maintenance cost as a percentage of operating expenditure has decreased from 15.34% in 2015/16 to 12.91% in 2016/17. Expenditure on maintenance, both planned and ad hoc maintenance are extremely important as it not only improve efficiencies on the plants but extend the useful lives of the infrastructure.

# Chapter 5



## COMMENT ON FINANCIAL RATIOS

The financial health of the company is improving.

## COMPONENT B: SPENDING AGAINST CAPITAL BUDGET

### INTRODUCTION TO SPENDING AGAINST CAPITAL BUDGET

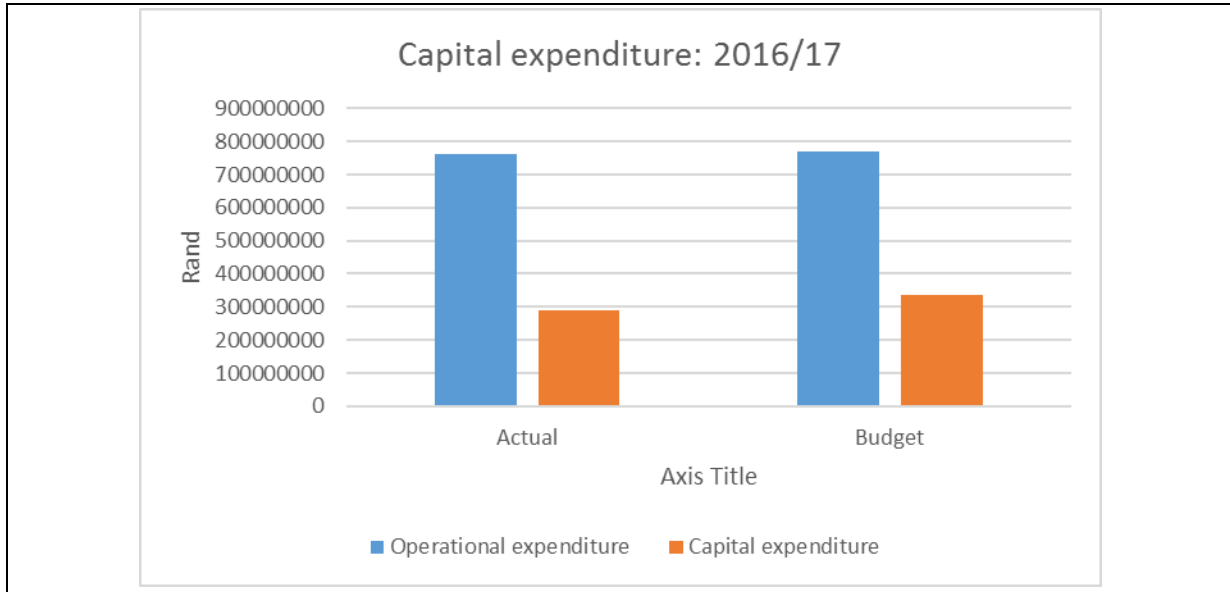
Capital expenditure for the year amounted to R288.4m which is 86% of the budget of R336.2m. This represents a significant increase on the 2015/16 year.

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.

# Chapter 5

## 5.5 CAPITAL EXPENDITURE



## 5.6 SOURCES OF FINANCE

**TABLE 5.5: SOURCE OF CAPITAL FUNDING**

Source of finance	2015/16	2016/17			
	Actual	Original budget	Adjustment budget	Actual	Variance
	R'000	R'000	R'000	R'000	%
Grant	50 000	50 000	50 000	50 000	0%
Internally generated funding	237 080	284 112	284 112	263 333	7.31%
External loan	2 094	2 094	2 094	2 094	0%
<b>TOTAL</b>	<b>289 174</b>	<b>336 206</b>	<b>336 206</b>	<b>315 427</b>	<b>6.18%</b>
<b>Percentage of finance</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Grant	17.29%	14.87%	14.87%	15.85%	%
Internally generated funding	81.99%	84.50%	84.50%	83.48%	100%
External loan	0.72%	0.62%	0.62%	0.66%	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 wastewater treatment works and construction of new wastewater treatment works. The other

# Chapter 5

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 5 LARGEST PROJECTS

**TABLE 5.6: CAPITAL EXPENDITURE OF LARGEST PROJECTS**

Name of project	2016/17		Variance: 2016/17		
	Original budget	Adjusted budget	Actual expenditure	Original budget variance	Total project value
	R'000	R'000	R'000	%	R'000
<b>TOTAL ALL PROJECTS</b>	<b>43 000</b>	<b>76 000</b>	<b>55 000</b>	<b>153%</b>	<b>602 000</b>
Hartebeestfontein 12M $\ell$ /day upgrade	2 000	6 000	5 000	314%	26 000
Vlakplaats emergency dam and related works	30 000	26 000	10 000	34%	66 000
Welgedacht 50M $\ell$ /day	8 000	32 000	37 000	468%	458 000
Tsakane	3 000	12 000	13 000	431%	52 000
<b>Project with highest capital expenditure in 2016/17</b>					
<b>Name of project</b>	Welgedacht 50M $\ell$ /day				
<b>Objective of the project</b>	Increase works capacity				
<b>Anticipated future benefits</b>	Quality of affluent discharge will improve and will provide capacity development in the area				

### COMMENT ON CAPITAL PROJECTS

#### 1.1. Hartebeestfontein Capacity Upgrade (5 M $\ell$ /day)

The budget for the financial year 2016/17 of R1 500 000 was revised to R5 844 786 to cater for the installation of a new mini substation due to insufficient power at the works. A total of R4 706 870 have been spent on this project as at 30 June 2017.

#### 1.2. Vlakplaats emergency dam and related works

The original budget of R30 000 000 was revised to 26 000 000. The project was 39% complete at the end of the 2016/17 financial year.

#### 1.3. Welgedacht 50M $\ell$ /day Upgrade

The budget for the financial year 2016/17 of R8 000 0000 was revised to R32 000 000. The extra R24 000 000 required was moved from Vlakplaats emergency dam and related works (R4 000 000)

# Chapter 5

and integrated sludge beneficiation plant (R20 000 000). A total of R37 409 948 have been spent on this project as at 30 June 2017.

## 1.4. Tsakane Capacity Upgrade (10 M/day)

The project has experienced serious setbacks on civil, mechanical and electrical works. This has since been resolved and there have been extensive progress as at 30 June 2017.

## 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.

**TABLE 5.7: SERVICE BACKLOGS AS AT 30 JUNE 2016\***

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 2017 data is not available at the time of compiling the annual report)

### COMMENT ON BACKLOGS

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

## COMPONENT C: CASH FLOW MANAGEMENT AND INVESTMENTS

### INTRODUCTION TO 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.

# Chapter 5

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 the 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	2014/15	2015/16	Current year 2016/17		
	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>					
Ratepayers and other	563 158	720 933	769 024	769 024	806 222
Government - capital	50 000	50 000	50 000	50 000	50 000
Interest	4 536	13 048	1 960	1 960	16 312
Dividends	91	150	80	80	555
<b>Payments</b>					
Suppliers and employees	(514 297)	(497 469)	(658 839)	(658 839)	(637 717)
Finance charges	(23 028)	(54 491)	(51 055)	(51 055)	(66 350)
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>	<b>80 461</b>	<b>232 171</b>	<b>111 170</b>	<b>111 170</b>	<b>169 022</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
<b>Payments</b>					
Capital assets	(307 813)	(241 032)	(336 206)	(336 206)	(288 327)
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>	<b>(307 813)</b>	<b>(241 032)</b>	<b>(336 206)</b>	<b>(336 206)</b>	<b>(288 327)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
<b>Receipts</b>					
Borrowing long term/refinancing	300 803	226 949	169 232	169 232	(28 266)
<b>Payments</b>					
Repayment of borrowing					
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>	<b>300 803</b>	<b>226 949</b>	<b>169 232</b>	<b>169 232</b>	<b>(28 266)</b>
<b>NET INCREASE/ (DECREASE)</b>	<b>73 451</b>	<b>218 088</b>	<b>(55 804)</b>	<b>(55 804)</b>	<b>(147 572)</b>

# Chapter 5

TABLE 5.8: CASH FLOW OUTCOMES					
Description	2014/15	2015/16	Current year 2016/17		
	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Actual
	R'000	R'000	R'000	R'000	R'000
<b>IN CASH HELD</b>					
Cash/cash equivalents at the year begin:	13 814	87 265	305 353	305 353	305 353
Cash/cash equivalents at the year end:	87 265	305 353	249 549	249 549	157 781

## COMMENT ON CASH FLOW OUTCOMES

ERWAT's cash reserves declined from R305.3m in 2015/16 to R157.8m in 2016/17. This was mainly the result of improved capital spending in 2016/17 where ERWAT managed to spend 86% of the capital budget. (2015/16: 61%).

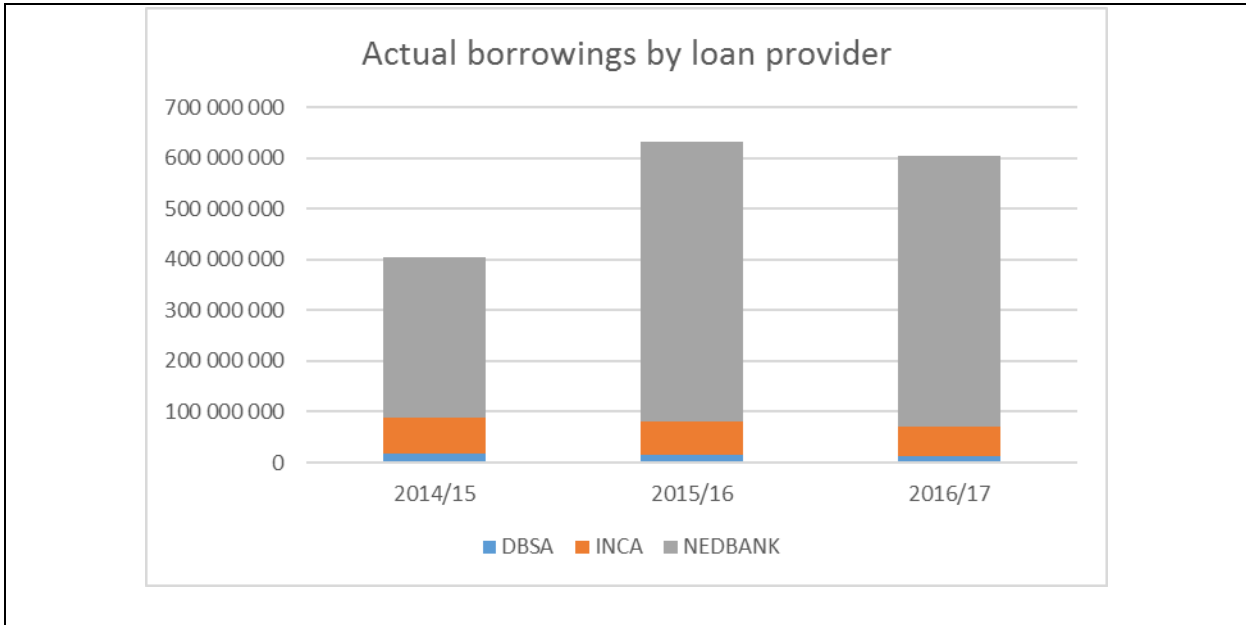
## 5.10 BORROWING AND INVESTMENTS

### INTRODUCTION TO BORROWING AND INVESTMENTS

ERWAT has long-term loans from DBSA, INCA and Nedbank. The ABSA 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.

TABLE 5.9: LONG TERM LOANS FROM 2014/15 to 2016/17			
Outstanding balances as at 30 June			
Loan provider	2014/15	2015/16	2016/17
DBSA	18 627 063	15 378 339	11 946 072
INCA	69 168 932	64 779 763	59 777 571
NEDBANK	317 495 354	552 553 867	533 281 072
<b>TOTAL LOANS</b>	<b>405 291 350</b>	<b>632 711 969</b>	<b>605 004 715</b>

# Chapter 5



## COMMENT ON BORROWING AND INVESTMENTS

ERWAT has long-term loans from DBSA, INCA and Nedbank. The ABSA 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 2016/17.

## 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 was entered into for the purification of wastewater received from said members.



# Chapter 5

## 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 2016/17 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 utilizing Regulation 36(1)(v) was adopted and implemented
- New municipal bid documentation which are 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 2017 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.

# Chapter 5

## 5.13 GRAP COMPLIANCE

### GRAP COMPLIANCE

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

ERWAT 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

## CHAPTER 6 – AUDITOR-GENERAL AUDIT FINDINGS

### INTRODUCTION

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

The annual financial statements set out in Volume II was 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 2015/16; Component B covers the same for 2016/17.

## COMPONENT A: AG OPINION OF FINANCIAL STATEMENTS 2015/16

### 6.1 AUDITOR-GENERAL REPORTS 2015/16 FINANCIAL YEAR

**TABLE 6.1: AUDITOR-GENERAL REPORT ON FINANCIAL PERFORMANCE 2015/16**

<b>Audit Report Status:</b>	<i>Unqualified with other matters specified</i>
<b>Non-compliance issues</b>	<b>Remedial Action Taken</b>
Inappropriate deviations- SCM Regulation 36	<p>Corrections have been made to the Regulation 36 and Irregular expenditure disclosure notes.</p> <p>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 condition where comments must be obtained from National or Provincial Treasury prior to the approval of a Regulation 36(1)(v) deviation.</p>

**AUDITOR-GENERAL REPORT ON SERVICE DELIVERY PERFORMANCE 2015/16**

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

# Chapter 6

## COMPONENT B: AUDITOR-GENERAL OPINION 2016/17

### 6.2 AUDITOR-GENERAL REPORT 2016/17 FINANCIAL YEAR

#### AG REPORT ON THE FINANCIAL STATEMENTS: YEAR 2016/17

AG audit opinion for 2016/2017 indicates an unqualified report with emphasis of matter issues. The company has since worked on the issues to avoid repeat findings.

The AG report for 2016/2017 is attached as Volume III.

**TABLE 6.2: AUDITOR-GENERAL REPORT ON FINANCIAL PERFORMANCE 2016/17**

<b>Audit Report Status:</b>	<i>Unqualified with other matters specified</i>
<b>Non-compliance issues</b>	<b>Remedial Action Taken</b>
The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.	Management will implement effective review procedures over the financial statements to be submitted for audit to ensure that errors are detected and corrected.

**TABLE 6.3: AUDITOR-GENERAL REPORT ON SERVICE DELIVERY PERFORMANCE 2016/17**

<b>Audit Report Status:</b>	<i>Unqualified with other matters specified</i>
<b>Non-compliance issues</b>	<b>Remedial Action Taken</b>
The budget was not consistent with the service delivery agreement between the entity and the parent municipality, as required by section 87(5)(b) of the MFMA.	Management will implement the necessary internal controls. The 2017/18 business plan that has been approved by the board and council has budget allocated to each key performance indicator both on the metro-wide and the departmental service delivery and budget implementation plan.
The annual performance objectives and indicators were not consistent with the performance objectives established by agreement with the parent municipality as required by section 87(5)(d)	Management will ensure that the annual performance objectives and indicators are consistent with the SDBIP and business plan agreement entered into with the CoE.

# Chapter 6

## COMMENTS ON AUDITOR-GENERAL'S OPINION 2016/17

The outcome of the AG's opinion was noted and accepted. Action plans on matters raised by the AG have been developed and will be implemented in the next financial year.

## 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.

Signed (Chief Financial Officer)..... Dated

# Glossary

## 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 “ <i>full and regular</i> ” 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 “ <i>what we do</i> ”.
<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 performance indicators</b> <b>Key</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 “ <i>what we use to do the work</i> ”. They include finances, personnel, equipment and buildings.
<b>Integrated Development Plan (IDP)</b>	Set out municipal goals and development plans.
<b>National</b> <b>Key</b>	<ul style="list-style-type: none"> <li>• Service delivery and infrastructure</li> </ul>

# Glossary

<b>performance areas</b>	<ul style="list-style-type: none"> <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 immunization, or a service such as processing an application) that contributes to the achievement of a Key Result Area.
<b>Performance Indicator</b>	Indicators should be specified to measure performance in relation to input, activities, outputs, outcomes and impacts. An indicator is a type of information used to gauge the extent to which an output has been achieved (policy developed, presentation delivered, service rendered)
<b>Performance Information</b>	Generic term for non-financial information about municipal services and activities. Can also be used interchangeably with performance measure.
<b>Performance Standards:</b>	The minimum acceptable level of performance or the level of performance that is generally accepted. Standards are informed by legislative requirements and service-level agreements. Performance standards are mutually agreed criteria to describe how well work must be done in terms of quantity and/or quality and timeliness, to clarify the outputs and related activities of a job by describing what the required result should be. In this EPMS performance standards are divided into indicators and the time factor.
<b>Performance Targets:</b>	The level of performance that municipalities and its employees strive to achieve. Performance targets relate to current baselines and express a specific level of performance that a municipality aims to achieve within a given time period.
<b>Service Delivery Budget Implementation Plan</b>	Detailed plan approved by the mayor for implementing the municipality's delivery of services; including projections of the revenue collected and operational and capital expenditure by vote for each month. Service delivery targets and performance indicators must also be included.
<b>Vote:</b>	<p>One of the main segments into which a budget of a municipality is divided for appropriation of money for the different departments or functional areas of the municipality. The vote specifies the total amount that is appropriated for the purpose of a specific department or functional area.</p> <p>Section 1 of the MFMA defines a "vote" as:</p> <p><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></p> <p><i>b) which specifies the total amount that is appropriated for the purposes of the department or functional area concerned</i></p>

# Appendices

## APPENDICES

### APPENDIX A – COMMITTEES AND COMMITTEE PURPOSES

<b>COMMITTEES (OTHER THAN EXECUTIVE COMMITTEE) AND PURPOSES OF COMMITTEES</b>	
<b>Committees</b>	<b>Purpose of Committee</b>
Finance	The finance Committee supports the Board of directors in discharging its finance and audit oversight
Risk Management	The risk and management supports the Board of Directors in maintaining effective and transparent systems of risk management
Remuneration and HR	The Remuneration and Ethics committee has an independent role, operating as an overseer and a market of recommendations to the Board for its consideration and final approval about the company remunerates directors and executives fairly and responsibly and the disclosure of director remuneration is accurate, complete and transparent.
Operations	The Operations Committee support the Board of Directors in overseeing operations of the entities.



# Appendices

## APPENDIX B – ANNUAL PERFORMANCE REPORT

### EAST RAND WATER CARE COMPANY (ERWAT)

#### ANNUAL PERFORMANCE REPORT (2016/17)

I hereby certify that all information presented in this report has been made available and declared openly to the City of Ekurhuleni (Parent Municipality).

**MR TUMELO GOPANE**

**MANAGING DIRECTOR (MD)**

ERWAT was established in 1992 as a Section 21 company. Its members are the Ekurhuleni Metropolitan Municipality (main member), Johannesburg Metropolitan Municipality and Lesedi Local Municipality. ERWAT operates 19 wastewater treatment 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.

ERWAT provides 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 wastewater treatment works, treating a combined capacity of approximately 696 megaliters (Ml) of wastewater, both domestic and industrial, per day. The smallest works treat some 0.5 Ml per day, while the largest works treat up to 170 Ml of wastewater per day. Most of ERWAT's operations are located in the CoE in the eastern parts of Gauteng.

# Appendices

## ANALYSIS OF STRATEGIC OBJECTIVES

ERWAT has three (3) strategic objectives, which are aligned to those of the City of Ekurhuleni (CoE).

### 2016/17 PERFORMANCE AGAINST SDBIP FOR ERWAT

As indicated above, ERWAT has three (3) strategic objectives, which are aligned to those of the CoE. Key Performance Areas (KPA) and Key Performance Indicators (KPI) are reviewed annually and approved by the Board of Directors in the Business Plan. There were no adjustments that were done on 2016/17 Business Plan.

### 2016/17 ASSESSMENT OF annual SDBIP PERFORMANCE

Level of Planning	Planning Statements	Indicators	Annual Target 2016/17	Performance 2016/17	Comments
Direct Outcome	Improve the effluent quality compliance	% compliance with wastewater treatment works license conditions and/or exemptions standards	92%	87%	<p><b>Not Achieved</b></p> <p>Target not achieved and this is mainly due to the following reasons:</p> <ul style="list-style-type: none"> <li>• Unfavourable wastewater characteristics (Industrial Pollution);</li> <li>• Failure of critical equipment;</li> <li>• Hydraulic and organic overloading of works;</li> <li>• Power interruptions;</li> </ul>
Output	Increase Revenue Generated	Rand Value of the revenue generated	R123m	R113m	<p><b>Not achieved</b></p> <p>ERWAT is embarking on the process of finding ways to increase revenue from both State Owned Entities and the Private Sector. This will be done through a process of signing of Memorandum of</p>

# Appendices

Level of Planning	Planning Statements	Indicators	Annual Target 2016/17	Performance 2016/17	Comments
					Understanding (MoU's), Joint Venture agreements with different state entities and the private sector including capability presentations to potential customers and by responding to RFQ's and RFP's (Request for Quotations/ Proposals).
Output	CAPEX Expenditure	% Budget Spent	95%	86%	<b>Not achieved</b>  ERWAT has currently spent (86%) of its capital budget at the end of the fourth quarter. ERWAT has planned to spend 95% at the end of the fourth quarter; however, this was not achieved due to delay in some other projects.

Prepared by:

**Zimasa Socikwa**  
Company Secretary

# 2016/17

VOLUME II: ANNUAL FINANCIAL STATEMENTS

**EAST RAND WATER CARE COMPANY (ERWAT) NPC**



## **Annual report**

## **Volume II**

# 2016/17

VOLUME III: AUDIT REPORT 2016/17

**EAST RAND WATER CARE COMPANY (ERWAT) NPC**



## **Annual report**

## **Volume III**

# Report of the auditor-general to the Gauteng Provincial Legislature and the council of City of Ekurhuleni Metropolitan Municipality on the East Rand Water Care Company NPC

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the East Rand Water Care Company (ERWAT) NPC set out on pages xxx to xxx, which comprise the statement of financial position as at 30 June 2017, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts (Appropriation Statement) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of East Rand Water Care Company NPC as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipal entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matter

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Restatement of corresponding figures

7. As disclosed in note 32 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors discovered in the financial statements of the municipal entity at, and for the year ended 30 June 2017.

## **Other matter**

8. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Unaudited disclosure notes**

9. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of financial statements and accordingly I do not express an opinion thereon.

## **Responsibilities of Accounting Officer for the financial statements**

10. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

11. In preparing the financial statements, the accounting officer is responsible for assessing ERWAT's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the municipal entity or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

12. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

13. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

## **Report on the audit of the annual performance report**

### **Introduction and scope**

14. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

15. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipal entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
16. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the municipal entity for the year ended 30 June 2017:

Objectives	Pages in the annual performance report
Improve the effluent quality compliance	xx
Capex expenditure	xx

17. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
18. I did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

**Other matters**

19. I draw attention to the matters below. My opinion is not modified in respect of these matters

**Achievement of planned targets**

20. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year and explanations provided for the underachievement of a significant number of targets.

**Adjustment of material misstatements**

21. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the Capex expenditure objective. As management subsequently corrected the misstatements, we did not raise any material findings on the usefulness and reliability of the reported performance information.



## Report on the audit of compliance with legislation

### Introduction and scope

22. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipal entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
23. The material findings on compliance with specific matters in key legislations are as follows:

#### Annual financial statements, performance and annual reports

24. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

#### Strategic planning and performance information

25. The budget was not consistent with the service delivery agreement between the entity and the parent municipality, as required by section 87(5)(b) of the MFMA.
26. The annual performance objectives and indicators were not consistent with the performance objectives established by agreement with the parent municipality and, as required by section 87(5)(d) of the MFMA.

## Other information

27. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report thereon and those selected intermediate outcomes presented in the annual performance report that have been specifically reported on in the auditor's report.
28. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
29. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected intermediate outcome presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work I have performed on the other information obtained prior to date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Internal control deficiencies

30. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

### Leadership

31. The accounting officer did not ensure that systems of internal controls designed to ensure credible financial reporting and compliance with key legislation are adequately implemented. Adherence to the designed controls to produce credible financial and performance reports were not monitored adequately and thus as a result material errors or omissions were identified during the audit process.

### Financial and Performance Management

32. Management did not review and monitor compliance with applicable legislation. The controls over compliance with key legislation are not effectively implemented to prevent material non-compliance.

33. Management did not prepare regular, accurate and complete financial and performance reports that are supported and evidenced by reliable information. The review controls over the annual financial statements submitted for audit were insufficient to prevent material misstatements.

*Auditor - General*

Johannesburg

30 November 2017



AUDITOR-GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected intermediate outcomes and on the municipality’s compliance with respect to the selected subject matters.

### Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the COE’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.