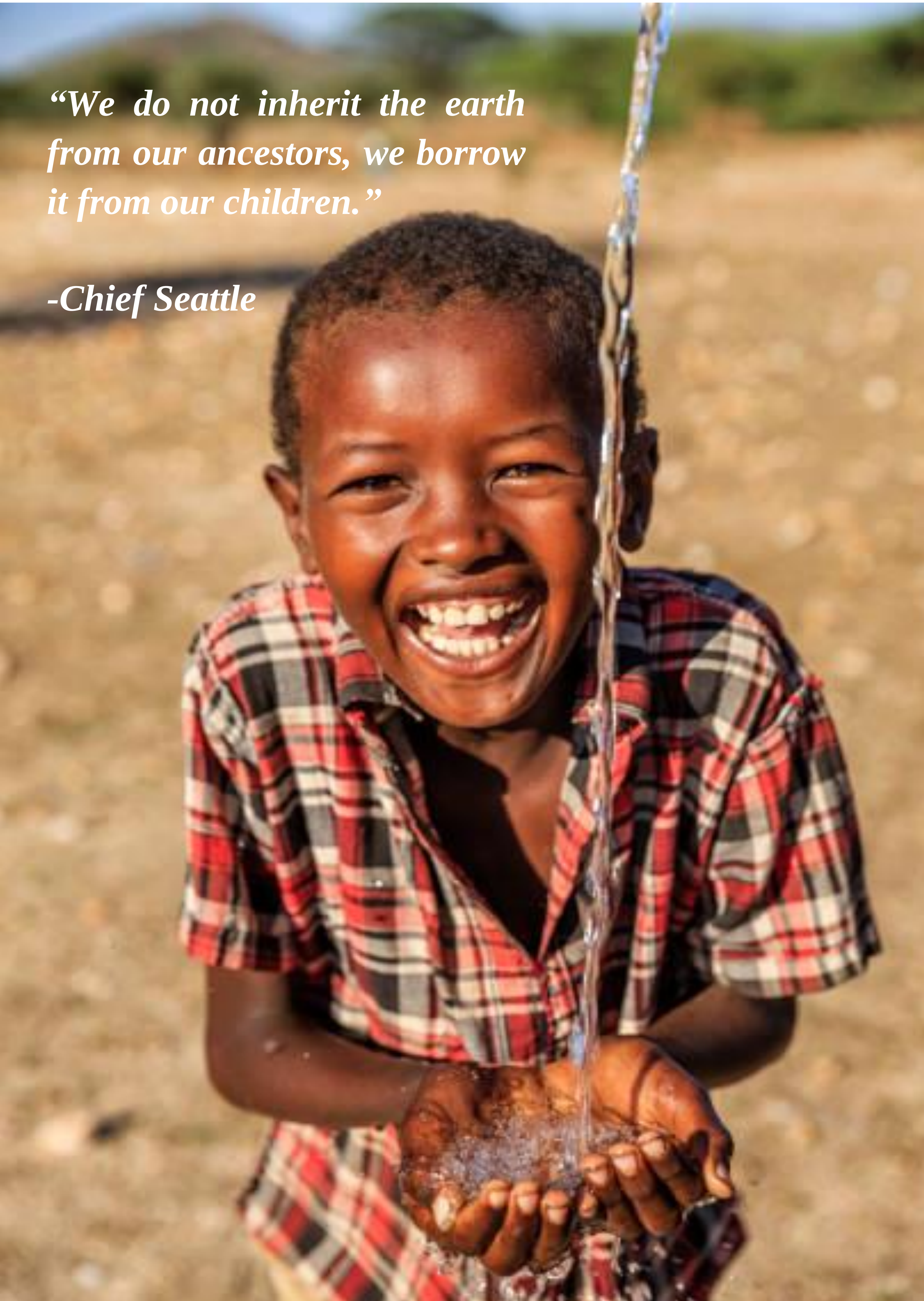
uThukela Water (Pty) Ltd

Annual Report
2022


"We do not inherit the earth from our ancestors, we borrow it from our children."
-Chief Seattle

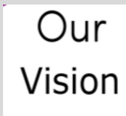
CONTENTS

Annexures-

uthukela water

OVERVIEW

Organisational Profile



- Who uThukela Water is and what it does.
- Presents the Vision, Mission and Strategic Intent.
- Describes the Entity`s Institutional Arrangements.

Governance

- Entity received an unqualified AGSA Audit Opinion.
- The MD`s has developed an Action Plan to redress audit findings.
- There is healthy relationship between the Shareholders, the Board and Company Executives.
- Functional Board, with its Committees.
- Functional Executive Management Committee.

Board Chairman`s Report

- Makes reflections on-
  - The importance of Good Governance,
  - COVID-19 implications on operations,
  - Company state of financials,
  - Service delivery achievements and challenges.
- Concludes by acknowledging various contributors to company performance.

Managing Director`s Report

- Focuses on the need to get the basics right.
- Presents the MD`s perspective on the operational and financial performance of the Entity.
- Discusses the importance of employer-employees.
- Highlights the imperatives of stakeholder management.
- Concludes by acknowledging various contributors to company performance.

Financials

- AFS for year under review approved
- Healthy financial position
- Positive Financial Indicators/Ratios
- Need to improve on:
  - Capital investment for infrastructure upgrades and new developments,
  - Infrastructure maintenance budgeting,
  - Revenue and debt management.

Operational

- Overall achievement on the execution of the Utility/Shareholder SLA.
- Achieved a Blue Drop water quality status
- There is need to improve operational efficiency, in particular on the control of water losses.

ORGANISATIONAL PROFILE

Who we Are

uThukela Water (Pty) Ltd is a municipal owned Entity established in September 2001, then called uThukela Water Partnership (TWP). Its establishment was birthed from a study commissioned by the Department of Water and Sanitation (DWS) and the Australian government (AUSAID) between 1997 and 2000. The outcome of the study was made possible by the active participation of various stakeholders, including, all municipalities in the previous uMzinyathi and uThukela regions, organs of civil-society-based organizations, non-government organisations, organised business, agriculture, industry and labour.

The Company was changed from its original form to a bulk water services provider as a result of a Provincial Cabinet decision dated 6 June 2013, which became effective from 1 July 2013. Its company registration number is 2003/029916/07.

VISION Where we intend to be	**MISSION** Means towards the realisation of our vision	**VALUES** Standards that define our day-to-day operations
"uThukela Water, your partner in growth" / "Amanzi o Thukela umngani wakho enthuthukweni"	The provisioning of quality bulk water services, and related laboratory and environmental services. From raw water sources (boreholes, rivers and dams) emanating mainly from the Ntshingwayo/Chelmsford dam and the Buffalo and Ngagane rivers and purified at the Ngagane and Biggarsberg bulk water works.	Integrity Trust Transparency Accountability Teamwork Professionalism Passion

Note: uThukela Water will always adhere to sound business and corporate governance principles.

Where we Operate

uThukela Water was the first Municipal Entity which provided a full spectrum of bulk and reticulation water and sanitation services on a regional basis, covering three shareholding municipalities, namely: Amajuba District Municipality (DC25), uMzinyathi District Municipality (DC24) and Newcastle Municipality. The company`s Head office and Laboratory facilities are situated in Newcastle.

The above maps portray the geographic coverage of uThukela Water service area.

Operations within uThukela Water are centred in Newcastle, from which the bulk water works at Ngagane (outside Newcastle) and Biggarsberg (outside Dundee) are operated.

The table below provides further details on the two Plants.

Table 1: Summary of baseline information on Ngagane and Biggarsberg Plants

Plant	Design Capacity	Production	Service Areas	Status	Future plans
Ngagane Water Works	115 mega-litres per day	100.8 mega-litres per day	Newcastle, Madadeni, Osizweni, Brakfontein, Kilbarchan, Eskom Village, Ballengeich and the rural areas of the Amajuba District Municipality.	Blue Drop	To increase this capacity to 150 mega-litres per day in order to meet current and future demands, subject to the availability of appropriate resources.
Biggarsberg Plant	100 mega-litres per day	14.51 mega-litres per day	Dundee, Glencoe, Sithembile, Wasbank, Hattinghspruit and certain rural areas.	Blue Drop	To increase the Plant`s capacity, subject to the availability of sufficient and sustainable raw water sources.  Company`s Master Plan recommends sourcing additional water from high-up in the Dranskensberg to augment water supply in the Umzinyathi area

What we Do

uThukela Water (Pty) Ltd.'s business focus is on the provision of quality bulk water services to its shareholders for further distribution to their customers as well as providing bulk water services to farmers and industry with its area of jurisdiction. The Company also provides local laboratory services to the municipalities and the public at affordable prices.

Consequent to a 2011 Section 78 assessment, the Company transferred the water reticulation services back to the municipalities, and now only operates as a bulk water services provider to its shareholders, farmers and industry. uThukela Water has established itself to be an industry leader with emphasis on a high-quality water product, and prides itself on this achievement. The Company provides bulk water from its Ngagane and Biggarsberg Water Plants and services approximately 250 000 households.

The provision of water services to shareholders and the overall management and operations of services are carried out in terms of the policies established by the Water Services Authorities. These include prioritisation within funding constraints, and matching levels of service with affordability levels, as well as required income streams and tariff levels.

Water Purification	- Operations and maintenance of water purification plants (WPPs). - Produces approximately 150 mega-litres of potable water per day. - Function technology ranges from borehole abstraction points, raw water river. extraction and dam water extraction, to formal process-based water purification plants.
Bulk Water Services	- Operations and maintenance of bulk water supply. - includes pump stations, reservoirs, rising mains and in excess of 30 kilometres of gravity and pumped mains.
Engineering Services	- Operates from the Engineering Services Centre. - Functions include the application of professional engineering discipline of water services – "river to tap" for optimal delivery in the short, medium and long term horizons. - Utilises the concept of minimum total cost of ownership and maximum use of resources. - - Planning activities carried out jointly with the Operations Service Centre, the Water Services Authorities and national government departments. - Reliance on the Geographic Information System and technology based applications.

Strategic Intent

The Entity`s strategic intent is derived from its Shareholder approved Strategic Plan 2030 (SP2030), whose strategic deliverables are as follows:

- Safe bulk drinking water for all our shareholder municipalities to distribute to their customers and rural clients (farmers and remote industries).
- Raw bulk water to farmers and industries outside the developed areas.
- Recognises affordable yet effective environmental and catchment management.
- Creating and sustaining a pristine environment.
- Being an important participant in the regional economy.
- Being a world-class recognised utility for doing more with less.
- Projecting a model example for capacity-building and empowerment.
- Optimal deployment of appropriate and focused technologies, including information technology and systems.
- Having a dynamic, pulsating and young professional workforce.
- Facilitating unique sourcing deployment.
- Facilitating resourcing at agreed risk.
- Being a leader in digital workflow processes.
- Implement continuous improvement processes to minimise tariff increases.
- Adherence to the concepts of total cost of ownership, value of ownership and risk of ownership. (TCO, TVO, TRO).
- Performance management to be based on self-management concepts linked to organisational performance management.

As a bulk water services provider, we will provide the services on behalf of, and in agreement with, the Water Services Authorities (municipalities) who further distribute to their customers, i.e. community households, industries, businesses, agriculture, government institutions, etc.

With the aim to improve value proposition, we may also provide water and related services beyond the current area of jurisdiction.

Institutional Structures

The uThukela Water institutional structures comprise of four key committees, namely: Shareholders Committee, Board of Directors, Leadership Committee and Management Committee.

uThukela Water Institutional Structures

Shareholders Committee	Board of Directors	Leadership Committee (LEADCO)	Management Committee (MANCO)
Comprises of three Mayors and the Municipal Managers of the shareholding Water Services Authorities. Represents the collective interests of the company shareholding municipalities.	The current Board was appointed by the shareholders on the 15/03/2022, comprising of 5 independent members and municipal managers from each shareholder municipality. With 1 member having resigned, the Board currently comprises 4 independent members. It guides the company policy direction and provides oversight on management performance.	Comprises of senior managers of the Company, inclusive of the Managing Director. Responsible for strategic management, policy and strategy implementation. Accountable to the Board through the Managing Director.	Comprises of middle level managers. Its primary function is to ensure horizontal coordination of activities and functions within various functional centres. MANCO also ensures that the Company's plans and policies are effectively implemented.

Synopsis of Shareholder Matters

The relationship between the Shareholders and uThukela Water is governed by a Shareholders` Compact, born out of the Service Level Agreement (SLA) between the `Parties`. The SLA provides for the rights, obligations and responsibilities of both parties. The table below highlights a high-level summary of such.

Table 2: High-level summary of key shareholder matters

Shareholders Rights	Shareholders Responsibilities	uThukela Water`s obligation	Communication and Customer Care Imperatives
Accurate measurement of water produced and sold. The right to quality, clean, good and safe drinking water. Have the right to error-free billing. Right to prompt and efficient service. The right to a reliable, efficient and effective water service	Pay for bulk water services provided. Be water-conservation-conscious and apply water demand management principles. Monitor and control Company's budget and operational activities. Support and provide bulk water governmental grants and other grants to the Company. Adhere to acts, by-laws, and water restriction notices.	See section under "What we Do" in page 4 of this report.	Maintenance of effective communication between the Company, shareholders and customers that provides for feedback mechanisms. The customers of uThukela Water are the Shareholder Municipalities, who reticulate the water and provide sanitation services to their jurisdictional areas via their own reticulation infrastructure networks. The Municipalities administer customer care departments that filters bulk water queries and reports directly to the Company for attention. Billing: The Company bills the Municipalities for bulk water only, and the municipalities in turn bill their water customers directly for water consumed.

uThukela Water (Pty) Ltd.

Section 87 of the Municipal Systems Act.

Multijurisdictional Municipal Entity

Shareholder parent municipal % shareholding

Newcastle Municipality
Water Services Authority (WSA)
34%

Amajuba District Municipality
Water Services Authority (WSA)
33%

Umzinyathi District Municipality
Water Services Authority
33%

PRIMARY ACTIVITIES

Section 89 of Municipal Systems Act 32/2000 and WSP agreement

OPERATIONAL AND CUSTOMER SERVICES

Supply sustainable bulk water services to uThukela Water shareholders

ENGINEERING AND SCIENTIFIC SERVICES

Provide specialist technical, scientific and engineering support to the organisation

FINANCE

Support the organisation with financial plans and sustainable financial management

CORPORATE AND HUMAN RESOURCES

Support with human resource information and communication technology and property services

MANAGING DIRECTORS OFFICE AND COMPANY SECRETARIAT

Provide integrating funtion for strategy execution and performance, monitoring, governance, legal, risk and stake holder management

Board Chairperson`s Report

Introduction

"*The best-performing companies are embracing governance activities, not as separate compliance needs, but as business essentials that are fundamentally linked; risks to strategy, strategy to purpose, and reward to what really matters to all*." Grant Thornton (2020)

This 18th report encapsulates the performance of uThukela Water in line with its key performance objectives and targets as set out in the WSP/WSA business plans and agreements as well as its Business Plan for the year.

Since the resignation of the Board Chairperson as well as the Acting Managing Director in July 2021, the shareholders prioritised the appointment of the full board as well as the Managing Director, in order to ensure that the company fulfil its mandate to supply bulk water that meets the SANS 241: 2015 drinking water standard daily to its clients despite the challenging socio-economic climate in which the company operates.

The Year under Review

Notably, this year`s operations were severely compromised by the COVID-19 pandemic with its resultant national lockdowns. This occurrence negatively affected operations and our ability to render services efficiently to our clients. Despite this, the company continued to implement stringent measures as directed by the government to keep its employees safe and ensure the continuity of quality bulk water services.

As we continue to recover to return to 'normal' operations, business continuity planning has come under the spotlight. The recent devastating floods in the eThekwini region put a further strain on our operations. Consequently, the company has since included the development of business continuity plans into its strategy to ensure water resource sustainability, in addition to our endeavour to develop practical and implementable operational continuity plans that will enable the company to quickly respond to eventualities.
The Board will thus continue to liaise with the shareholder municipalities for the rolling out of the regional bulk water infrastructure master plan which is critical to the process of business continuity planning, as the plan identifies a new raw water catchment facility, as well as a new water treatment, works to be built within the region. This will be of paramount importance should any eventuality threaten our current raw water sources as well as the operations of our water treatment facilities.

Financials –

The 2021/22 financial year continued to be a challenging year for the company. The cash flow of the company showed a decline from previous financial years. This may be attributed firstly to the poor and inconsistent payments for services by shareholder municipalities, and secondly to the company’s new strategy to address its long-standing debt with the Department of Water and Sanitation, having committed to consistent payments as compared to previous financial years as well as lastly, to the rising costs to produce acceptable quality water in terms of the required drinking water standard. Evidently, these cash inflow challenges negatively impact the company’s liquidity.

The bulk water tariff approved by the shareholder municipalities for 2021/22 was fixed at R3,92 per kilolitre, with an additional R0,02 per kilolitre levy for laboratory services. The approved bulk water tariff of the company is not cost-reflective as it does not include depreciation cost recovery or any capital element to allow the company to adequately manage infrastructure maintenance and register new capital water infrastructure projects. The approved bulk water tariff can therefore be deemed unsustainable.

Service delivery -

I am glad that despite all these challenges, the company managed to provide the following agreed potable of106% to Newcastle Local Municipality, 97% to uMzinyathi District Municipality and 94% to Amajuba District Municipality. The company also provided laboratory services to both Newcastle Local Municipality and Amajuba District Municipality.

The company managed to keep its bulk water losses under 15% (best practice standard: 15%) compared to a 9.93% loss last year, which reflects a difference of 5,07%. These continued water losses could be attributed to the fact that the infrastructure of the company is ailing and failing significantly.

Considering that the provision of bulk water is the core function of the company, rising water losses become a matter of significance. The company is aware of the root causes as well as the consequences of the high-water losses and is doing everything within its control to mitigate the risk of its ageing infrastructure by continuing to lobby to all shareholder municipalities for a cost-reflective bulk water tariff that will include a capital element to refurbish and replace ageing infrastructure.

The company has a fully-fledged maintenance plan aimed at ensuring that all infrastructure and equipment are adequately maintained. Also, a reactive maintenance team has been set to respond to all maintenance-related outages and failures within 24 hours of being known to ensure an uninterrupted bulk water service provision to our customers.

It is my strong assertion that the bulk water tariff modelling needs to be revisited in the subsequent financial years to address current deficiencies in the current pricing. Sadly, the many service delivery challenges facing local government today are forcing municipalities to base their water service budgets and allocations on other factors and not assigning water services the priority that it deserves. This must be corrected.

The Board approved a strategic performance plan with measurable targets. I am pleased to report that the company managed to achieve 90% of all its pre-determined objectives as set out in the strategic performance plan. The Board of Directors applauds the management of the company for this achievement, noting the challenging circumstances it worked under. The Board will continue to provide support and oversight to the company to ensure that it meets its strategic objectives. We will also work tirelessly to ensure that the company embeds a culture of good corporate governance and a staff complement that is motivated and performance-driven.

I have noted that for the period under review, the performance scorecard shows that there has been a decline in compliance. The root causes have been identified and the Board will continue to play oversight on the management`s implementation of the corrective measures. The management`s critical function in the subsequent financial years will be to reverse the pattern of non-compliance with legislation that undermines the good work done by the company as this can compromise the reputation, confidence and public trust in the company.

Acknowledgements-

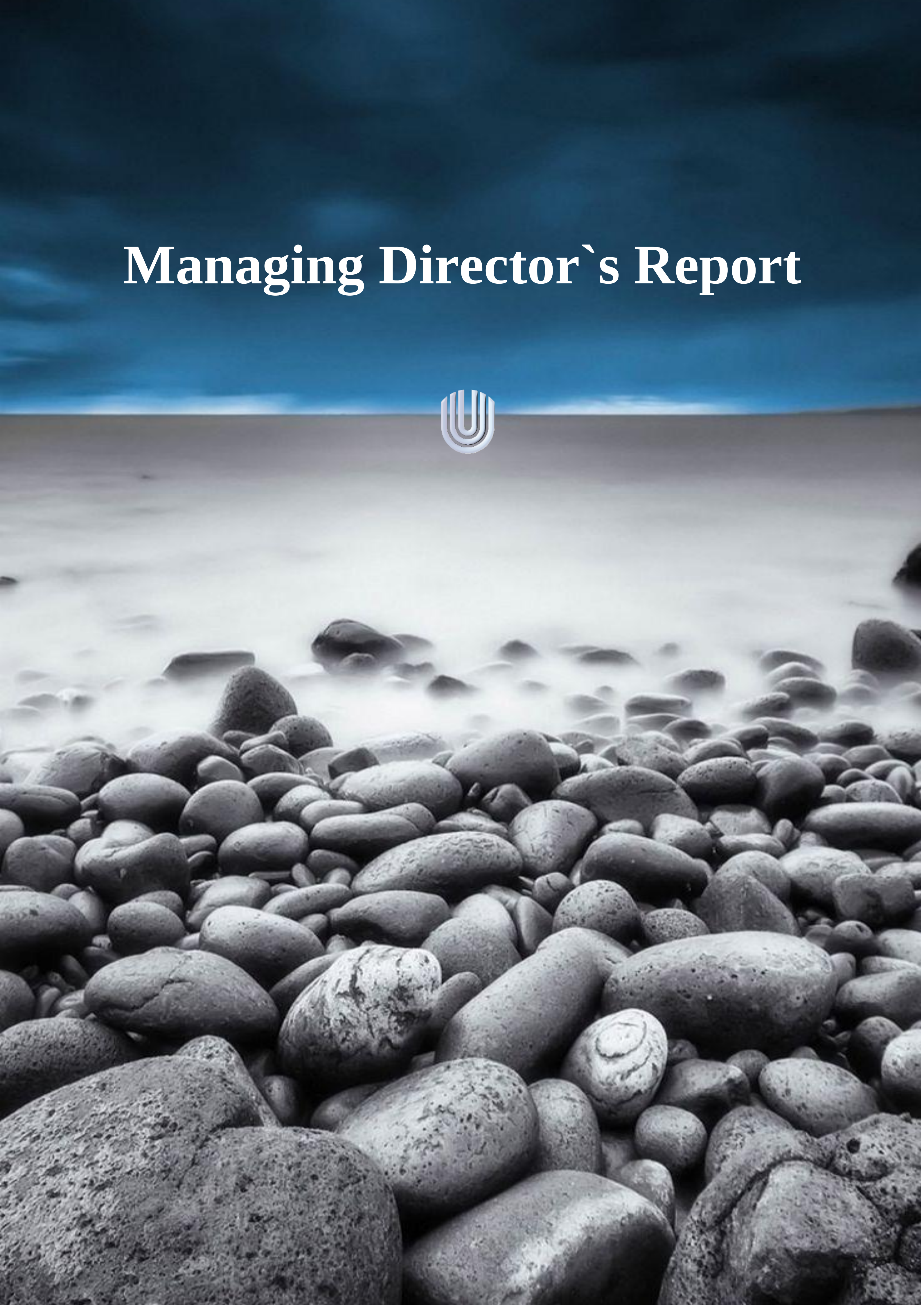
The Board would like to take this opportunity to thank the following people:

- The LEADCO and the entire staff complement for their dedication to service delivery for us to be able to deliver on our mandate. I would also like to urge all staff to remain focused, always strive to bring their very best self to work diligently and be cognisant that we provide an essential service that directly affects the livelihood of ourselves and the people.
- Our shareholder municipalities for their continuous support and cooperation, despite the many service delivery challenges they are all currently facing.
- The Departments of Water and Sanitation and Co-operative Governance and Traditional Affairs for their continuous support and understanding.

- My colleagues on the Board, who sacrifice their time to make tremendous inputs and take hard decisions to ensure water service delivery and sustainability within the region.

Dr. AS MOKOENA
Board Chairperson

Managing Director`s Report



The Year under Review

The activities of the year under review reflect the set of plans, strategic objectives and targets that formed the shareholders` compact agreement with uThukela Water. The finer details of these plans and strategies are set out in the operational and capital budget submissions, institutional performance plan, the bulk water master plan, the Business Plan and the risk management plan.

The operations of the company during this financial year were affected by the of the COVID19 pandemic, however, the company slowly eased out of the stringent measurements that were enforced by government at the beginning of December 2021.

Doing the basics right

The company prides itself in doing the basics right is a good premise to work from. Good business practices, controls, reporting and oversight provide the framework for successful operations. The Board and management are ever conscious of, and are focused on, delivering good quality, uninterrupted and economically viable cost-effective bulk water service, that seeks to create an environment for inclusive participation, teamwork, proper planning, and regular interaction across all levels within the water chain.

Bulk water production

A reliable and constant Bulk water supply was made available to the WSA's, 33,6 million mega litres to the Newcastle municipality, 5,6 million mega litres to the uMzinyathi DM and 5 million mega litres to the Amajuba DM, who in turn supplied approximately 43 million mega litres to their customers.

The design capacity of the Ngagane water purification plant in Newcastle is 115 Mega litres of purified water per day, whereas its current production is approximately 105 mega litres of water per day. This plant supplies the areas of Newcastle, Osizweni, Madadeni, Braakfontein and Kilbarchan, the Eskom village and Ballengeich, and Amajuba District areas of Emadlangeni, Buffalo flats Alcockspruit and Steildrift. Plans are in place to increase the design capacity of this plant to 153 Mega litres per day as per the regional bulk water master plan, as well as to build a new 150 mega litre water plant at the Ntshingwayo dam. The regional bulk water master plan also proposes the construction of a new dam higher up in the northern catchment area to augment the existing supply to Newcastle and Amajuba.

The Biggarsberg Plant at Dundee has a design capacity of 19, 3 Mega litres of purified water per day, and is currently delivering approximately 15, 84 Mega litres per day. This plant supplies the areas of Dundee, Glencoe, and Sibongile. In terms of the bulk water master plan, there are plans to supply this area from the proposed new water plant at the Ntshingwayo Dam.

The proposal for building a dam and expansion of water works capacity is intended at ensuring the water supply and shareholder's water supply security and support of the economic development initiatives in the regions. A process has been started towards the securing of a new water source (dam) in the area though still at its infancy stage.

Product Quality

The company produces excellent drinking water quality to its Shareholder municipalities. Laboratory water analysis and test results, on average has always exceeded 99% of SAB SANS241: 215 drinking water standards across all determinants.

The regular water monitoring and statistical analyses results is detailed under the `Engineering` section of this report.

The company also provides the Newcastle municipality and Amajuba District Municipality with regular monitoring and measurement of its reticulated water standards. The uMzinyathi District municipalities utilise a private service provider for laboratory services.

Bulk water losses

Bulk water losses on the bulk water mains, plants and installations were restricted to about 6.19 %, during the year. Maintaining losses at this low level is a very good achievement particularly under the difficult financial circumstances in which the company operates, coupled with the aged condition of the bulk water infrastructure and the lack of funding to replace it.

Financial performance

This year once again the company enforced strict and disciplined financial management to ensure that water service delivery is not interrupted.

The payment for monthly Bulk water services billed to the municipalities, continues to be a matter of concern and frustration. It must be stated categorically and without fear of contradiction, that the management and Board of this company, has done all necessary to ensure that it collects its revenues. The reality is that the municipalities are, due to their financial predicaments, unable to honour their payment commitments to the Board.

The historic debt of R78 million by the WSAs (uMzinyathi and Amajuba DM) remain unresolved. And as previously reported, this inextricably tied up to the Utility`s non- payment of the Department of Water and Sanitation raw water charges. Negotiations are taking place with all parties concerned to find a resolution to the matter.

The company has continued to strive towards its audit preparedness, in line with the governments drive to achieve "clean audits", by improving and developing its administrative, financial, operational, Information Technology, Human Resources Management and other controls necessary to achieve this purpose in the shortest possible time.

A more in-depth and detailed analyses of the financial results and ratios of the company for the 2021/2022 financial year are indicated in the Financial Review section of this report.

The entities total revenue accrued for the year amounted to R 182 million (2021: R 167 million), and included in this figure is an amount of R 174 million (2021: R 165 million) which relates to Bulk water sales raised for the year, an amount of R 858k (2021: R 1.1 million) in respect of external investment interest income received and accrued, an amount of R 6.8 million (2021: R 0) in respect of interest on receivables, and finally an amount of R 369 K (2020: R 327 K) in respect of miscellaneous revenues accrued.

Total staff costs, as measured against expenditure (excluding depreciation and impairment0, equates to 33 %, well within the accepted norm of 35% for the industry. Depreciation provided on capital assets amounts to R 79 .4 million (2021: R 79.3 million), and this charge is not recovered in the bulk water tariff from the municipalities but is recovered against the capital grant contributions paid by the municipalities and reflected as their shareholding in the company. Only depreciation provided on assets funded by external loan is charged to the Statement of Financial Performance. By accounting for the depreciation charges accordingly, it is ensured that the consumer is not “double taxed” by having to pay for a service twice.

Financial status

The Statement of Financial Performance in the 2022 Annual Financial Statements of the company reflects a small surplus, (excluding non-cash items) of R 6 million and R 129 million in bulk Water Service Authority debtors to. The debt seriously challenged the Entity`s ability to render services post 30 June 2022 and the Board had to take drastic action to recover some of the debt to carry on with operations.

The big creditor reflected in the Statement of Financial Position of R 443 million relates to the non-payment of the Department of Water and Sanitations raw water charges. This matter is being addressed with the Department with a view to finalising the unresolved tariff issues and the structuring of a payment plan with the relevant WSA’s and the Department.

Performance management

To achieve its goals, the company annually encapsulates its major outcomes for sustainable value creation within its pre-determined performance objectives and targets, and accordingly measures its results against these targets, in a determined effort to ensure its progression and the current sustainability of bulk water services. These areas include:

- **Manage stakeholder relationships**: Producing understanding and support for water service budgets, water service levels volumes and quality, bulk tariffs, capital investment, risk management and water resource sustainability as well as the need to timeously pay and recover the costs of water services.

- **Communicate performance to all stakeholders**: Regular reliable and interactive reporting and communication, enabling all stakeholders to make informed decisions and responsive feedback on the challenges in the region.
- **Ensure good corporate governance**: compliance with statutory legislation, water services provider agreements and maintenance of effective internal controls, procedures and policies and the regular review thereof.
- **Increase financial sustainability**: achieved by understanding the water business and its costs, maintaining a balance between debt necessity and utilisation and asset replenishment requirements for future sustainability of water services. Also key is to carefully manage operating expenditures and collecting revenue driven by an affordable bulk water tariff.
- **Improve Service Delivery:** achieved by working together to ensure that water resources and abstractions are carefully managed, optimized, shared, planned, and treated to the required SANS241:2015 standard and distributed as per the budgeted volumes with WSA's with minimal bulk water service interruption.
- **Increase Water Resource Sustainability:** achieved by understanding and performing regular asset condition assessments and including them within an asset replacement and maintenance program. Coordination of regional bulk water master plan meetings to continuously lobby for the rollout of the regional infrastructural master plan that will ensure the sustainability of our water resources and services and the business continuity planning which will ensure the resiliency of the company in the face of crisis and disaster.
- **Maintain Water Infrastructure:** achieved by having a fully-fledged maintenance department that has annual proactive maintenance plans in place to ensure the longevity of the infrastructure.

A detailed performance management scorecard in this report reflects the results of the company's achievements.

Customer Satisfaction

The company is a customer driven and focused organisation, and this mandate is clearly provided and chartered for in the Bulk WSP agreement. The guiding principles encapsulated therein promote adherence to the "Batho Pele" principles and customer service. The principles embrace, the delivery and supply of value for money services and good quality and a reliable service.

The SANS241: 215 high water quality standards achieved by uThukela Water on behalf of its WSA Shareholders, attests to the superior and high-quality bulk water services delivered from both the bulk water plants at Ngagane and Biggarsberg.

These achievements are attained on shoestring budgets and at very limited cost to the shareholders. Sheer dedication and hard work are the milestones by which these successes can be measured.

Regular engagement with our municipalities ensures that we continue to remain responsive to our customer needs, and as a result we maintain compliance with our WSP principles

Infrastructure Stability

One of the major benefits of cost sharing is the regional approach to planning for water distribution. The company strives to ensure that its capital and maintenance programmes are aligned to those of its WSA's, the government and provincial strategic plans. Its water demand projections, are regularly updated based on projections in the bulk water master plan. The company would like to be involved early in the shareholder's IDP processes so that it can meaningfully contribute more to service delivery in terms of water services.

One major challenge that directly affects the stability and sustainability of the region's water services infrastructure is the lack of adequate budget allocations to fully implement the Strategic Water Services Master Plan. The budgets and plans should intend on providing a long-term solution to water provision in the area, and the provision of a safe, and affordable water service with sustainable infrastructure over the whole region comprising of some 26000 km2. The plan transcends over WSA boundaries, and eliminates the continued utilisation of expensive ancillary, ad hoc, and standalone water treatment plants.

The existing ageing infrastructure has been successfully maintained. However, the only viable option is to (a) increase the capital investment infrastructure refurbishment and upgrades and new projects and (2) give focus to the objectives of the regional bulk water master plan.

The status quo is simply not sustainable in the longer term, and if one looks at the capital investment (R1.2million) injected into water infrastructure with the company during the current year, it is simply inadequate and does not address the R15 billion infrastructure requirements. The Financial Report shows the disinvestment in bulk water services over the past 10 years.

A unified approach and pooling of all water revenue and government grants is required for any inroads to be made into resolving the water backlogs and demands of the region in the future.

Water Resource Adequacy

The Newcastle area raw water requirements are extracted from the Ntshingwayo/Chelmsford Dams, Ngagane River and the Buffalo River. These water resources have adequately served the developed areas of Newcastle, Osizweni, Madadeni, Durnacol and Dannhauser for many years. They however are not enough to sustain the increase in demand beyond the short to medium term.

The uMzinyathi area has poor natural water resources and relies on the Blood and Buffalo Rivers for its main raw water supply. These water sources, although perennial, are not sufficient to ensure a constant supply of raw water to meet the demands of the area, in particular noting the high development in the rural areas. The water services master plan proposes solutions that will addresses this problem. One of the goals of uThukela Water should therefore be to link the many widespread rural developments to a sustainable raw water supply source.

Community Sustainability

With the transfer of reticulation and the smaller local bulk water plants back to the municipalities in July 2013, many of these responsibilities were to be returned to the WSA. However, the longer-term vision should be to focus attention on the Bulk Water Master Plan, and to eradicate these smaller and un-economically viable and unsustainable water plants, and to link them to the major water producing plants and more sustainable water resources.

Our approach, as a water service provider, and our investment in water projects, utilising the local community, is to optimise employment opportunities and provide development opportunities to emerging and BEE compliant contractors.

The Board has a long-standing commitment for conservation of natural resources and has put in place key environmental sustainability indicators applicable to the water sector. We regularly assess our indicators for environmental friendliness. The increases noted in these indicators over the past few years are mainly attributable to, demand, extra chemical dosing to disinfect new schemes commissioned, poor raw water quality, and the above average inflation cost increases imposed by ESKOM, DWS and chemical suppliers due to high and fluctuating fuel and oil prices. We are always cognisant of environmental regulations and monitor all impending projects and our test results regularly to ensure compliance and high-quality standards.

Operational Optimisation and Resiliency

The company places great emphasis on effective and efficient governance and management structures to implement its strategy, and it has made great strides to ensure that in cases where there has been any deficiency in the past, that this is adequately addressed. The company has strengthened its internal controls by assigning direct responsibility to Managers on issues pertaining to AGSA findings, with keen focus on operational systems, asset management, infrastructure planning and Geographic Information System, financial systems (including billing and metering systems), Human Resources and Payroll systems, a central procurement system and other governance and control systems that will enhance risk management and corporate performance.

Employee and Leadership Development

uThukela Water has a sound human resource management strategy that supports management to operate effectively. A moratorium on the appointment of Senior staff, and on restructuring of the fixed staff establishment was lifted by the Board towards the end of the financial year, subject to the availability of funds. This will aid our advances in as far as the HR strategy is concerned. It must be noted that the moratorium, together with the uncertainty on the going concern of the Entity had affected the filling of critical posts, hence the prolonged acting appointments of the CFO and Director Operations.

The company continues to comply with statutory provisions in relation to labour matters. Local Labour Forum meetings are held on monthly basis unless parties to the forum resolve otherwise. This creates a platform for employer-employee engagements and resolve issues at LLF level.

The company cares about the development of its employees and that is why it has successfully implemented its Workplace Skills Plan. Further, the Board has approved a study assistance policy to support staff to better their education, thereby developing institutional capacity. Also, in order to resolve the technical skills shortages, the company has trained and appointed and quite a number of artisans within the organization.

All staff continue to commit themselves to the performance management system of the organization, which helps contribute to the achievement of strategic objectives of the board. The human resource management functions are managed in terms of the South African Board for Personnel Practices (SABPP) which assist the organization to adhere to the National Human Resource Management Standards.

Future Financial Viability – going concern

The company's financial indicators are detailed in more depth in the financial performance report, and they reflect good positive ratios. The Board's financial records reflect its resolve and determination to deliver a high class and affordable product, albeit with limited available financial resources. Its bulk cost indicator is well within the industry norm and is a catalyst for increased investment.

The Balance sheet, post reticulation transfer, certainly highlights the reduced activities and value of the company, but also indicates positively on the viability and exposure of the company as a going concern. I am confident that that once the WSA and DWS outstanding debt matters are resolved; the Balance Sheet will appear very attractive.

Improvements to budgeting techniques and cost allocations are continually being re-assessed and implemented. Proper scientifically calculated models are in place to measure and analyse the financial performances of the Entity.

The current practice of annually allocating popular fixed inflationary increments to budgets and tariffs is counterproductive and falls far short of good service delivery objectives. The implementation of a Bulk water tariff cost recovery strategy is the way forward and the way in which to manage future water costs.

The formulation and development of short-, medium, and long-term financial plans that are aligned to the budgets and IDPs of the Shareholders is receiving high priority on the planning front, and is necessary to ensure that all communities are serviced with their basic constitutional rights: access to basic water.

The financial success of uThukela Water is encouraging for the parent municipalities, and it should instil confidence that a sustainable and effective service delivery mechanism is in place.

Obtrusive Challenges

The inadequate capital funding continues to be the single most damning impediment to the bulk water operational and developmental objectives of this region.

Similarly, the situation of poor and inconsistent funding for bulk water services, imposition of affordability-based budgets, the inappropriate provision of capital funding persists against a background of deteriorating financial circumstances in the municipalities.

The key progressive challenges highlighted in the firm`s business plans, bulk water master plan and risk management plans, do not get the attention they deserve when compared to competing priorities.

Some of the significant challenges and impediments to effective and efficient bulk water service delivery include:

- The obligation and responsibility to pay for bulk services in line with the agreed terms of payment, e.g., payment within 30 days from date of invoice.

- Aligning the company`s and municipal bulk water operational and capital budgets based on the real cost of providing the water services, the developmental infrastructure needs and equitable and fair tariff.
- The urgency persuading the bulk water services master plan and formulating a financial model that will be a catalyst to the implementation the plan.
- Clearly establishing the responsibility for bulk water infrastructure development on the bulk water installations.

These same critical issues have bedevilled the company since its inception in 2004 and have prevented it from effectively fulfilling its developmental objectives to the water service authorities and their communities in terms of the integrated development plans and the shareholder agreements in place.

Conclusion

We will continue to strive for continued service excellence and quality and work towards achieving all the targets set out in our joint strategic and business plans. It is our desire to fully service our shareholders and assist them with knowledge and the management of their water reticulation to ensure that end-users are service with minimal interruptions.

With its turnaround strategies, the Board has ensured that this company has gone from strength to strength and is making a meaningful contribution to the development of sustainable communities in the region.

I am indeed grateful for the contributions and partnerships which made it all possible to achieve these commendable results and would like to thank the following:

- All Board members, past and present, and particularly to the Chairperson, Dr. AS Mokoena, who has worked hard to bring this company back into focus and on track to serve the objectives of its parent bodies,
- LEADCO and the employees of the Board, who have worked tirelessly, sometimes under very difficult circumstances to keep the ship afloat and steered in the right direction,

- The WSA municipalities, their Councils and officials who also endured frustrating times of dealing with community complaints and concerns, we thank them for their support and for the way in which they have continued to deliver the same excellent services to their communities,
- The Premier's office for its continued support and for always holding the interests of all parties and communities at heart, and
- Finally, the Department of Water and Sanitation, for its guidance, assistance and being readily available to us.

Mr. Nkosi WB
Managing Director

Corporate Governance

Corporate Governance Imperatives

Broadly, corporate governance relates to way by which companies are directed and controlled. Board of Directors are responsible for the governance of the company, including setting the strategic direction of the company, as well as play oversight over management of the set strategic priorities.

It is against this background that uThukela Water, despite experiencing many teething problems associated with the ever changing business environment, continues to commit to the principles of good corporate governance as per the Municipal Systems Act (32 of 2000), the Municipal Finance Management Act (65 of 2003), the Water Services Act (108 of1997), the Companies Act (61 of 1973) and the King Code of Governance Report IV. The Board activities for the year under review are discussed here below:

Board Meetings
• An annual general meeting and quarterly general meetings held in line with the Shareholders Compact. • The Company's Strategy, Business Plan, monthly activity reports, Audit Reports, Annual Financial Statements, budgets and other reports were duly approved at the Board meetings. • Special Board and Ad-Hoc Committee meetings were held at the request of the Chairperson as required.
Audit Function
• As a state-owned company, uThukela Water is subjected to AGSA annual regulatory audit. • An independent Internal Audit (IA) function has been established to provide an assurance service on company administration. • The purpose and authority of IA is defined in the Board approved Audit Charter in line with the Institute for Internal Auditors and MFMA. • The Board reviews the accuracy, reliability and credibility of statutory financial reporting. • The internal auditors provide assurance to management, the Audit Committee, the Board and external auditors on the appropriateness and effectiveness of internal controls.
Procurement Adjudication Committees
• This Committee is constituted in terms of the Board's Supply Chain Management Policy. • It comprises of five Senior Managers, and appoints tenders within its delegated authority. • The committee also recommends on procurement policy amendments when necessary. • It ensures that the Company's SCM procedures are fair, equitable, transparent, competitive and cost effective. • Contracts which exceed the Committee's delegation of authority are referred to the Managing Director for a final decision.

Leadership Committee

- It is constituted by the Managing Director, Director Operations, the Chief Financial Officer, the Manager Human Resources, the Manager Customer Services and the Manager ERP Services.
- Established to assist the Managing Director in guiding the overall direction of the business and to exercise executive control.
- Meetings are held weekly and its task is to steer the effective management of the day to day operations of the business.

Board Remuneration

- The current Board Members are remunerated by the company at a fixed rate of R6000 per sitting.

Delegation of Authority

- A comprehensive delegation of authority framework governs the levels of authority for the Board and management.
- The framework is exercised through the Board, LEADCO and individual Senior Managers
- The framework assists the Board and Executives to discharge their duties with proper accountability and responsibility.
- The Board reviews the framework periodically.

Fraud Prevention

- The Board acknowledges its responsibility to ensure that the organisation conducts its business in a fair, transparent and ethical manner.
- A proper risk assessment was conducted.
- A Fraud Prevention Plan was formulated during the year and will shortly serve before the Board for approval and implementation.
- The purpose of the fraud prevention plan is to help prevent and respond to incidents of fraud, corruption or any other irregularity.
- The company participates in the provincial fraud hotline.

The Annual Report

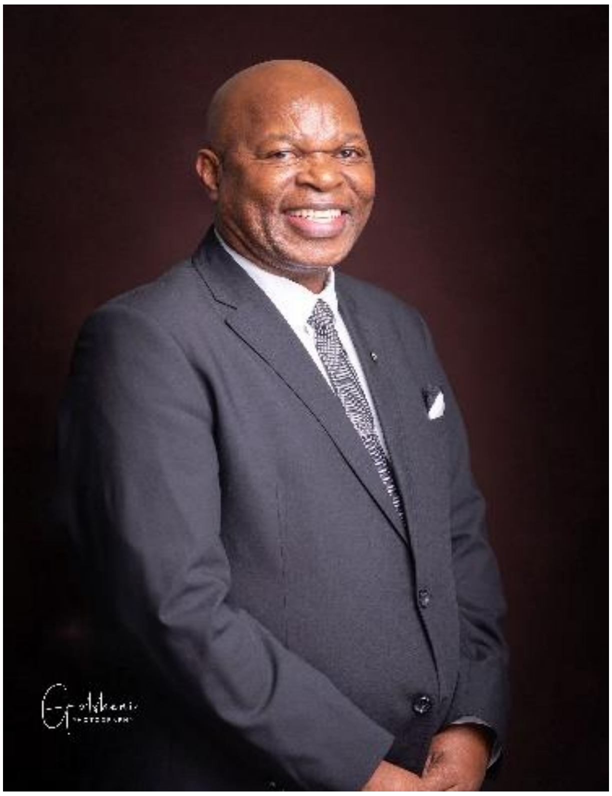
- The company views the report as an important instrument for its strategic execution system.
- It is a valuable mechanism to measure performance over a specific period.
- The report is prepared in compliance to Section 126 of the MFMA, which requires mandatory disclosure of annual performance against the annual Business Plan.
- This report is therefore the means by which the company communicates its annual performance to all its shareholders and their customers, regulatory bodies, investors, employees and civil society.

Board Appointment and Composition

uThukela Water (Pty) Ltd is a multijurisdictional water utility that was established in terms of section 87 of the Municipal Systems Act (32 of 2000).

With a quest to achieve good corporate governance for uThukela Water, the shareholding municipalities appointed a Board with a balance composition. The initial Board was comprised of five independent members but one member has since resigned. The current Board was appointed by the shareholders of uThukela Water (Pty) Ltd, on the 15th of March 2022. It is comprised of the Chairperson: Dr. Albert Sepatake Mokoena and three other Independent Directors: Mr. Tshabang James Mphela, Mr. Mtsheneni Erickson Zungu and Mr. Mandla Patrick Ngcobo.

Note: The Municipal Managers of the Shareholder municipalities (i.e., Newcastle, Amajuba and uMzinyathi), the MD and CFO of uThukela Water also serve in the Board.



Dr. AS Mokoena, Board Chairperson

Mr. TJ Mphela, independent Board Member

Mr. ME Zungu, independent Board Member

Mr. MP Ngcobo, independent Board Member

The Board Chairperson: Dr. AS Mokoena

Dr. Mokoena is a revered businessman, former Director General, academic, scholar, board member of various organisations, mentor and community leader with many awards under his belt.

He has a wealth of experience in business and in government. His detailed academic record and experience is self-explanatory.

Some of his community building endeavours include fund raising huge amounts of money for various sports clubs and associations. A selfless leader whose country and community always comes first. He is undoubtedly an ethical leader by example. His academic qualifications and experience are detailed here below:

Shareholders Rights	Work experience
• Diploma in Computer Science – Rand Afrikaans University (1980) • B. Comm (Accounting) – University of the North (1983) • Post Graduate Diploma in Service Industry Management – • Wharton Business School (University of Philadelphia) • MBA – University of the Witwatersrand (1989) • Post Masters Certificate in Leadership Coaching – Wits Business School (2009) • Doctor of Business Administration (Knowledge Management) – University of Liverpool (2019) • Post Graduate Diploma in Corporate Governance (Cum Laude) – Monash University (2020)	• Director-General – Department of Home Affairs • Consultant and Chief Executive Officer – FCAK • Chairman of the South African Basketball Association • NED and Chairman of REMSEC – Johannesburg Roads Agency • Secretary General - Basketball South Africa • REMCO Chairman – Premier Soccer League • Board Chairman and CEO – Mavambo ITS • Board Chairman – Johannesburg Roads Agency • Board Chairman – Basketball National League • Board Chairman – Sepatake Corporate Solutions (Pty) Ltd • Chairman and Chief negotiator for Basketball unification and many others

Executive Management Profile

Managing Director - Mr. WB Nkosi

Mr. Nkosi joined uThukela Water as the Managing Director in 2022, after serving as the Municipal Manager of the Dannhauser Municipality. He also worked as a Manager: Support Services at the AbaQulusi Municipality as well as the Manager of Corporate Services of the Utrecht Municipality to mention a few.

<u>Qualifications</u>

Name of Institution	Mangosuthu University of Technology
Qualification	National Diploma
Course	Public Management
Name of Institution	University of South Africa
Qualification	B-TECH
Course	Labour Relations Management
Name of Institution	University of Pretoria
Qualification	Municipal Finance
Course	Municipal Finance Management Programme

Ms. F Moola (Acting Chief Financial Officer)

Ms. Moola, holds a Bachelor of Accounting Science Degree (Hons) and is a Chartered Accountant.

She has in excess of 20 years' experience in the municipal and municipal entity environment. Ms. Moola joined uThukela Water as an Accountant in May 2005, having previously worked for an accounting firm at Amajuba District Municipality in the levy collections department for 27 months.

She was appointed to the position of Manager General and Expenditure Control and thereafter to the position of Manager General and Expenditure and Income Control. Ms. Moola is currently the Acting Chief Financial Officer since February 2017.

Mr. C. Dhliwayo - Acting Executive Director Operations and Engineering Services

Mr. Dhliwayo Joined uThukela Water (Pty) Ltd as a planning and Design Engineer in February 2010 after serving the Government of Zimbabwe for 9 years as a Chief Provincial Engineer in the Ministry of Water and infrastructural Development. Appointed to the position of Acting Engineering Manager in July 2013, he is currently the Acting Executive Director Operations and Engineering since February 2017.

His academic qualifications include:

- Qualifications: BSc. Engineering Honours (1999), University of Zimbabwe
- MSc. Water Resources & Engineering Management (2006), (University of Zimbabwe)
- Post Grad Diploma Project Management (2015), (Management College of Southern Africa)
- Master of Business Administration. (2019), Management College of Southern Africa
- Certified Public – Private Partnership Practitioner (CP^3P) (2000856050)

Strategy, Performance and Sustainability

Strategy, Performance and Sustainability

uThukela Water continues to strive for a sound balance between performance, value creation and resource utilization. This balance is enabled through the pursuit of the organization's strategic objectives and achievement of performance targets as set in the company's annual Business Plans.

Scientific Services

The supply of safe potable water is an important performance indicator for uThukela Water and the laboratory provides assurance that the company complies with the guidelines of the South African National Standard (SANS 241:2015) for Drinking Water. This is achieved by implementing a water quality monitoring programme that meets legislative requirements, water treatment process requirements and considers the risks that have been identified in the system, rendering water quality management efficient and effective.

uThukela Water Laboratory is committed to providing accurate, reliable and professional services to its internal and external customers. The laboratory continues to improve its Quality Management System that is based on ISO/IEC 17025:2017 requirements. The targeted future goal is to fulfil all the requirements of ISO/IEC 17025:2017 and be a South African National Accreditation System (SANAS) accredited facility which will ensure that services rendered are in line with national and international quality standards, thus bolstering customer confidence.

To complement this quality management system, the laboratory participates in two proficiency testing schemes, the South African Bureau of Standards (SABS) Water Check and the National Laboratory Association (NLA) Water Microbiology Proficiency Testing Schemes where it competitively continues to improve its performance in terms of accuracy and precision.

With a quest to support its operations, the laboratory is in the final phase of development of a Laboratory Information Management System (LIMS). This system will assist the laboratory with more efficient sample management, instrument integration, reporting, improving result traceability and data security.

In addition to assuring the quality of bulk water produced, the Laboratory provides water testing and sampling services to municipalities, ensuring alignment in meeting their Blue Drop and Green Drop requirements.

Water resource surveillance is also conducted to ensure wastewater discharges are not harmful to the environment and downstream users. uThukela Water Laboratory also monitors industrial effluent discharges into Municipal Wastewater Reticulation Network, and as a result pollution is minimized and controlled.

Potable water quality performance

The SANS 241:2015 for Drinking Water prescribes a structured and risk based systematic approach to the management of drinking water. In 2021/2022, uThukela Water demonstrated its commitment to customers by providing safe, clean drinking water. The quality of water produced was evaluated against the following five risk categories of the SANS 241:2015:

- Acute Health: Microbiological.
- Acute Health: Chemical.
- Chronic Health.
- Operational.
- Aesthetic.

Ngagane Water Purification Plant

The Ngagane Water Purification Plant continued to supply good quality potable water during this financial year, maintaining the compliance of various risk categories above 99% as shown in figure 1. However, the operational and aesthetic categories recorded non-compliances. This was attributable to increased turbidity levels as displayed in table 1.

Table 3: Bulk Potable Water Quality Compliance per determinant based on SANS 241:2015

Ngagane Water Purification Plant 2021/2022.

				Ngagane		
Determinand	**Risk**	**Unit**	**SANS 241:2015 Limits**	**No. of results**	**Required Compliance**	**Actual Compliance**
Microbiological determinands						
E.coli count	Acute health	Count per 100 mL	not detected	304	≥99%	100.00%
Cryptosporidium spp	Acute health	Count per 10 L	not detected	2	≥99%	100.00%
Giardia spp	Acute health	Count per 10 L	not detected	2	≥99%	100.00%
Total Coliforms	Operational	Count per 100 mL	≤10	303	≥95%	100.00%
Heterotrophic Plate Count	Operational	Count per mL	≤1000	304	≥95%	100.00%
Somatic Coliphages	Operational	Count per 10 mL	not detected	2	≥95%	100.00%
Physical and aesthetic determinands						
Colour	Aesthetic	mg/L Pt-Co	≤15	107	≥95%	100.00%
Conductivity at 25˚C	Aesthetic	mS/m	≤170	305	≥95%	100.00%
Total Dissolved Solids	Aesthetic	mg/L	≤1 200	303	≥95%	100.00%
Turbidity	Operational	NTU	≤1	407	≥95%	96.56%
Turbidity	Aesthetic	NTU	≥5	407	≥95%	99.75%
pH at 25˚C	Operational	pH units	≥5 to ≤9.7	407	≥95%	100.00%
Chemical determinands - macro						
Free Chlorine	Chronic health	mg/L	≤5	406	≥97%	100.00%
Monochloramine	Chronic health	mg/L				
Nitrate	Acute health	mg/L	≤11	107	≥99%	100.00%
Nitrite	Acute health	mg/L	≤0.9	107	≥99%	100.00%
Combined nitrate plus nitrite	Acute health		≤1	107	≥99%	100.00%
Sulphate	Acute health	mg/L	≤500	107	≥99%	100.00%
Sulphate	Chronic health	mg/L	≤250	107	≥97%	100.00%
Flouride	Chronic health	mg/L	≤1.5	107	≥97%	100.00%
Ammonia	Aesthetic	mg/L	≤1.5	2	≥97%	100.00%
Chloride	Aesthetic	mg/L	≤300	2	≥97%	100.00%
Sodium	Aesthetic	mg/L	≤200	2	≥97%	100.00%
Zinc	Aesthetic	mg/L	≤5	2	≥97%	100.00%
Chemical determinands - micro						
Antimony	Chronic health	µg/L	≤20	2	≥97%	100.00%
Aluminium	Operational	µg/L	≤300	107	≥95%	100.00%
Arsenic	Chronic health	µg/L	≤10	2	≥97%	100.00%
Barium	Chronic health	µg/L	≤700	2	≥97%	100.00%
Boron	Chronic health	µg/L	≤2 400	2	≥97%	100.00%
Cadmium	Chronic health	µg/L	≤3	2	≥97%	100.00%
Total Chromium	Chronic health	µg/L	≤50	2	≥97%	100.00%
Copper	Chronic health	µg/L	≤2 000	2	≥97%	100.00%
Cyanide (recoverable)	Acute health	µg/L	≤200	2	≥99%	100.00%
Iron	Chronic health	µg/L	≤2 000	107	≥97%	100.00%
Iron	Aesthetic	µg/L	≤300	107	≥95%	100.00%
Lead	Chronic health	µg/L	≤10	2	≥97%	100.00%
Manganese	Chronic health	µg/L	≤400	106	≥97%	100.00%
Manganese	Aesthetic	µg/L	≤100	106	≥95%	100.00%
Mercury	Chronic health	µg/L	≤6	2	≥97%	100.00%
Nickel	Chronic health	µg/L	≤70	2	≥97%	100.00%
Selenium	Chronic health	µg/L	≤40	2	≥97%	100.00%
Uranium	Chronic health	µg/L	≤30	2	≥97%	100.00%
Chemical determinands - organic						
Total Organic Carbon	Chronic health	µg/L	≤10	2	≥97%	100.00%
Total Trihalomethanes (combined ratio)	Chronic health		≤1	2	≥97%	100.00%
Chloroform	Chronic health	µg/L	≤300	2	≥97%	100.00%
Bromoform	Chronic health	µg/L	≤100	2	≥97%	100.00%
Dibromochloromethane	Chronic health	µg/L	≤100	2	≥97%	100.00%
Bromodichloromethane	Chronic health	µg/L	≤60	2	≥97%	100.00%
Microcystin (Total)	Chronic health	µg/L	≤1	2	≥97%	100.00%
Phenols	Aesthetic	µg/L	≤10	2	≥95%	100.00%

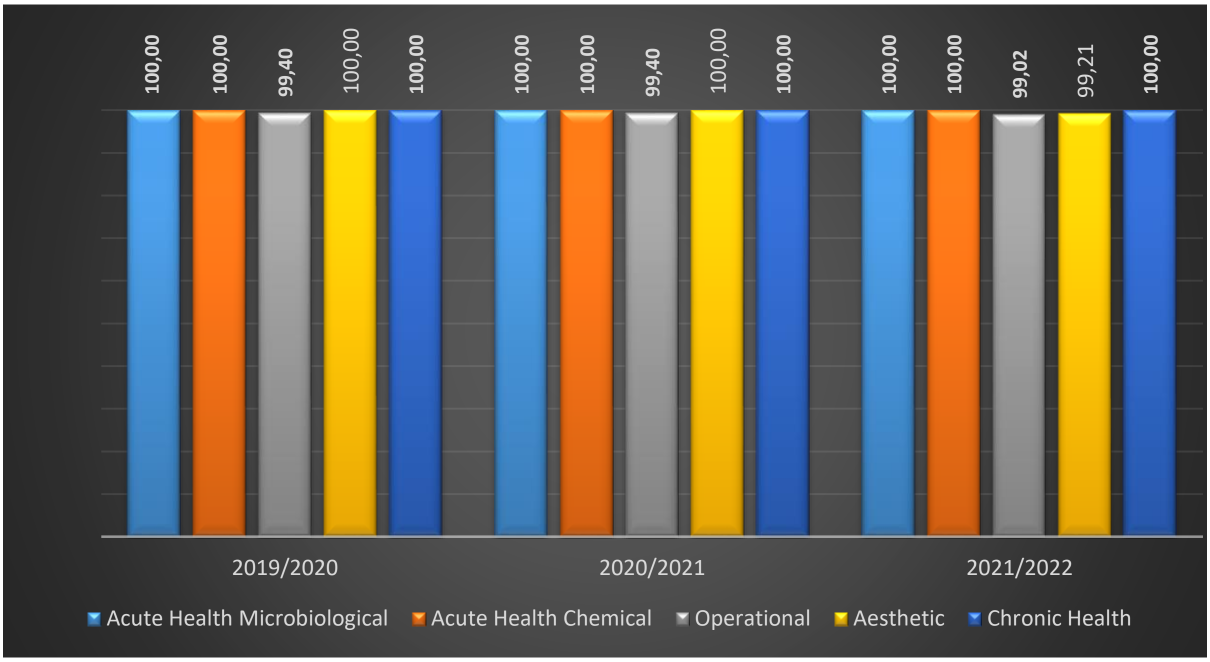


Figure 1: Percentage Bulk Potable Water Quality Compliance per risk category for Ngagane Water Purification Plant

Biggarsberg Water Purification Plant

During this financial year, Biggarsberg Water Purification Plant continued to supply good quality potable water, maintaining the compliance of various risk categories above 99% as shown in graph 2. The operational and aesthetic non-compliances were attributable to slightly increased turbidity levels and increased manganese levels respectively.

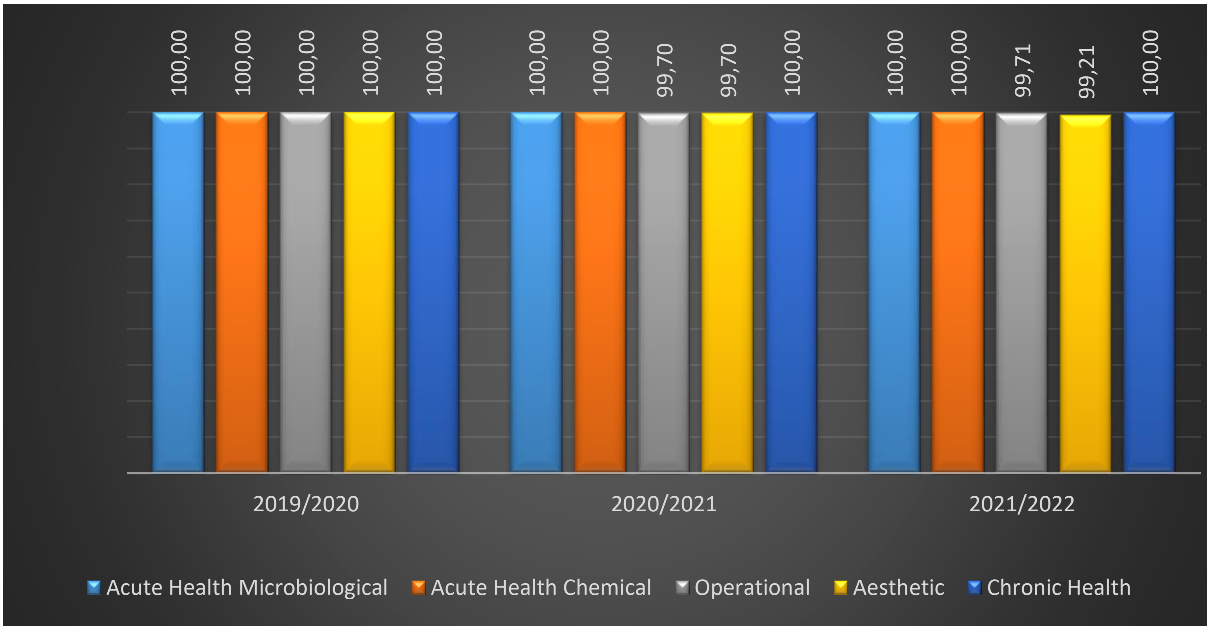


Figure 2: Percentage Bulk Potable Water Quality Compliance per risk category for Biggarsberg Water Purification Plant

Table 4: Bulk Potable Water Quality Compliance per determinant based on SANS 241:2015

Biggarsberg Water Plant 2021-2022

				Biggarsberg		
Determinand	**Risk**	**Unit**	**SANS 241:2015 Limits**	**No. of results**	**Required Compliance**	**Actual Compliance**
Microbiological determinands						
E.coli count	Acute health	Count per 100 mL	not detected	174	≥97%	100.00%
Cryptosporidium spp	Acute health	Count per 10 L	not detected	1	≥97%	100.00%
Giardia spp	Acute health	Count per 10 L	not detected	1	≥97%	100.00%
Total Coliforms	Operational	Count per 100 mL	≤10	174	≥93%	100.00%
Heterotrophic Plate Count	Operational	Count per mL	≤1000	175	≥93%	100.00%
Somatic Coliphages	Operational	Count per 10 mL	not detected	1	≥93%	100.00%
Physical and aesthetic determinands						
Colour as mg/L	Aesthetic	mg/L Pt-Co	≤15	77	≥93%	100.00%
Conductivity at 25C in mS/m	Aesthetic	mS/m	≤170	173	≥93%	100.00%
Total Dissolved Solids as mg/L	Aesthetic	mg/L	≤1 200	173	≥93%	100.00%
Turbidity in NTU	Operational	NTU	≤1	305	≥93%	99.02%
Turbidity in NTU	Aesthetic	NTU	≥5	305	≥93%	100.00%
pH at 25C in pH units	Operational	pH units	≥5 to ≤9.7	305	≥93%	100.00%
Chemical determinands - macro						
Free Chlorine	Chronic health	mg/L	≤5	305	≥95%	100.00%
Monochloramine	Chronic health	mg/L				
Nitrate	Acute health	mg/L	≤11	77	≥97%	100.00%
Nitrite	Acute health	mg/L	≤0.9	77	≥97%	100.00%
Combined nitrate plus nitrite	Acute health		≤1	76	≥97%	100.00%
Sulphate	Acute health	mg/L	≤500	77	≥97%	100.00%
Sulphate	Chronic health	mg/L	≤250	77	≥95%	100.00%
Flouride	Chronic health	mg/L	≤1.5	77	≥95%	100.00%
Ammonia	Aesthetic	mg/L	≤1.5	1	≥93%	100.00%
Chloride	Aesthetic	mg/L	≤300	1	≥93%	100.00%
Sodium	Aesthetic	mg/L	≤200	1	≥93%	100.00%
Zinc	Aesthetic	mg/L	≤5	1	≥93%	100.00%
Chemical determinands - micro						
Antimony	Chronic health	µg/L	≤20	1	≥95%	100.00%
Aluminium	Operational	µg/L	≤300	77	≥93%	100.00%
Arsenic	Chronic health	µg/L	≤10	1	≥95%	100.00%
Barium	Chronic health	µg/L	≤700	1	≥95%	100.00%
Boron	Chronic health	µg/L	≤2 400	1	≥95%	100.00%
Cadmium	Chronic health	µg/L	≤3	1	≥95%	100.00%
Total Chromium	Chronic health	µg/L	≤50	1	≥95%	100.00%
Copper	Chronic health	µg/L	≤2 000	1	≥95%	100.00%
Cyanide (recoverable)	Acute health	µg/L	≤200	1	≥97%	100.00%
Iron	Chronic health	µg/L	≤2 000	77	≥95%	100.00%
Iron	Aesthetic	µg/L	≤300	77	≥93%	100.00%
Lead	Chronic health	µg/L	≤10	1	≥95%	100.00%
Manganese	Chronic health	µg/L	≤400	77	≥95%	100.00%
Manganese	Aesthetic	µg/L	≤100	77	≥93%	90.91%
Mercury	Chronic health	µg/L	≤6	1	≥95%	100.00%
Nickel	Chronic health	µg/L	≤70	1	≥95%	100.00%
Selenium	Chronic health	µg/L	≤40	1	≥95%	100.00%
Uranium	Chronic health	µg/L	≤30	1	≥95%	100.00%
Chemical determinands - organic						
Total Organic Carbon	Chronic health	µg/L	≤10	1	≥95%	100.00%
Total Trihalomethanes (combined)	Chronic health		≤1	1	≥95%	100.00%
Chloroform	Chronic health	µg/L	≤300	1	≥95%	100.00%
Bromoform	Chronic health	µg/L	≤100	1	≥95%	100.00%
Dibromochloromethane	Chronic health	µg/L	≤100	1	≥95%	100.00%
Bromodichloromethane	Chronic health	µg/L	≤60	1	≥95%	100.00%
Microcystin (Total)	Chronic health	µg/L	≤1	1	≥95%	100.00%
Phenols	Aesthetic	µg/L	≤10	1	≥93%	100.00%

Raw water quality

The raw water sources forms part of the Tugela catchment, comprising of four main sources, Buffalo River, Ncandu River, Ingagane River and Nsthingwayo Dam. Of the four, the Buffalo River system which the Buffalo River System is the biggest and is one of the most significantly polluted rivers in the Tugela catchment. The key issues affecting the four major raw water sources of the catchment are discussed hereunder.

Critical concerns affecting the four main Raw Water Sources

Buffalo River

Highly polluted, hence the poor water quality of the river system.

Poor water also caused by

- pollution from Ngagane River.
- acid mine drainage from old coal mines and industrial pollution from Newcastle.

Ncandu River

Flows from the high-lying south-western parts of the area and meanders through an important drainage area before it enters Newcastle and joins the Ngagane River.

The water flow in the river is impacted on by forestry and agricultural activities.

Where it enters Newcastle it is impacted on by urbanization and the water quality impacted on by industries, especially from Wastewater Treatment Works effluent and sewage spillages.

The river pollution leads to eutrophication, resulting in increased sulphide concentration downstream.

Ingagane River

This river rises in the high-lying south-western parts and flows through highly transformed landscape before it meets the Ncandu river and flows into the Buffalo.

Where the river meanders through the Bosworth and Ballengeich area, it is impacted upon by agriculture, industry, coal mining activities and waste dumps causing poor water quality.

Where the river meets the Ncandu, an increased sulphite concentration is recorded.

Ntshingwayo Dam

Dam flows originates from catchment areas higher in the mountains.

Agriculture and forestry impacts on the inflow water quality of the dam.

The Ntshingwayo Dam, the main raw water source's biological water quality, is the best of all the raw water sources.

Turbidity levels average below a hundred NTU's during the reported period (figure 3).

There are several issues that impact source water quality, such as but not limited to; rapidly changing turbidity levels, faecal contamination and associated pathogens; and chemical constituents.

The issues discussed, and the quality concerns are based on water quality information on the points used for raw water abstraction for drinking water purposes.

To abate the risks discussed above, all the water sources are continuously monitored and treatment processes are proactively managed to produce potable water that complies with SANS 214:2015 requirements.

Figure 3 to figure 7 presents Turbidity, Iron, Manganese, E. coli and Total coliform levels in the raw water sources.

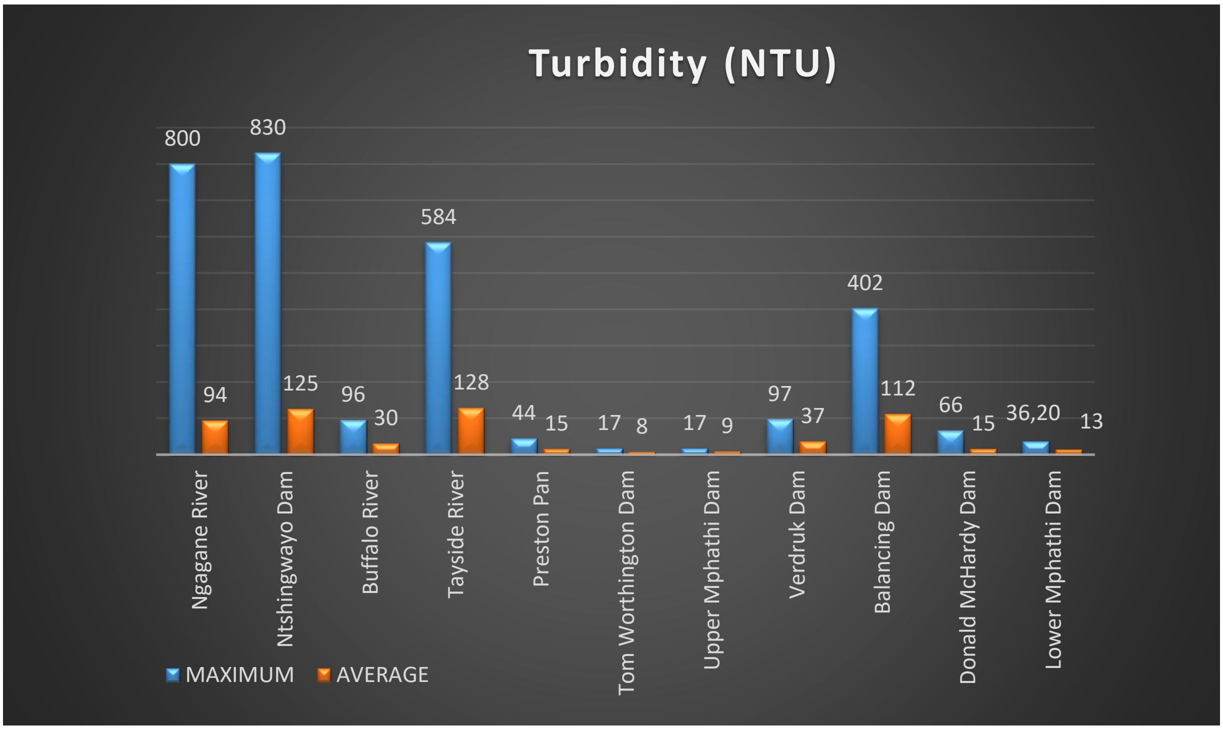


Figure 3: Turbidity levels

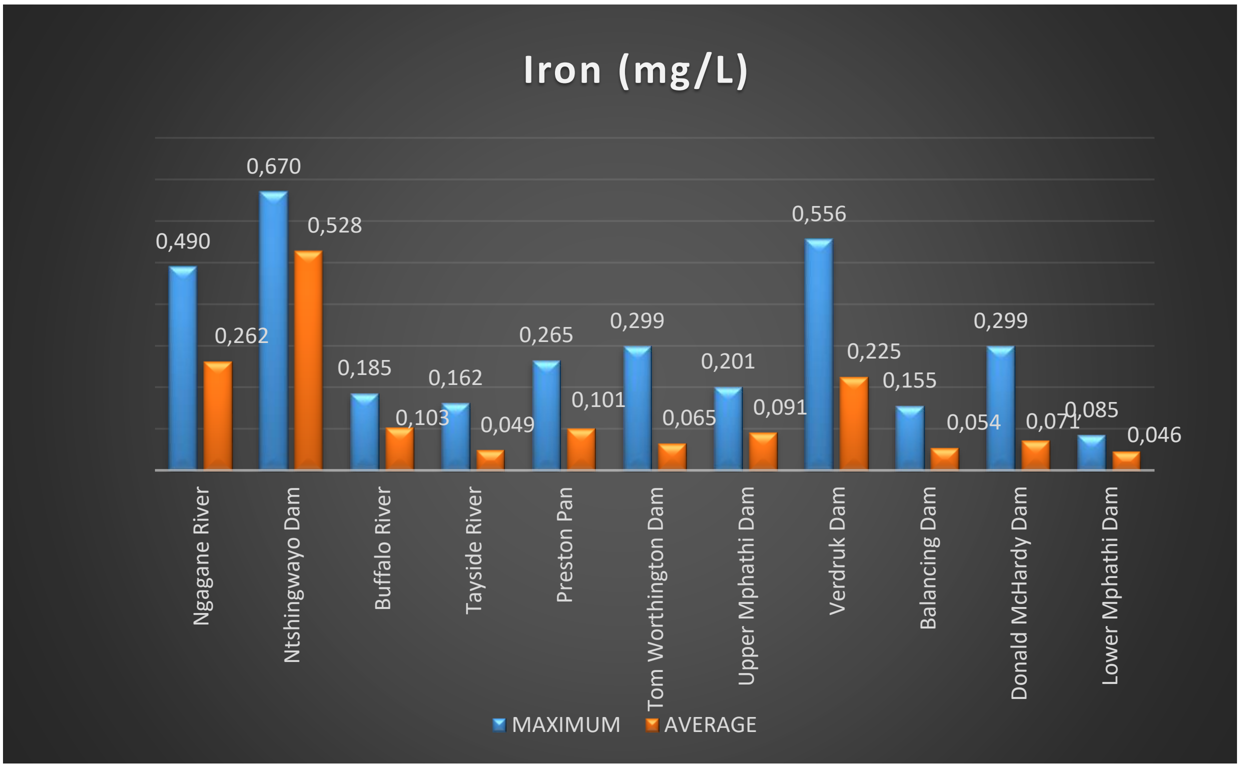


Figure 4: Iron levels

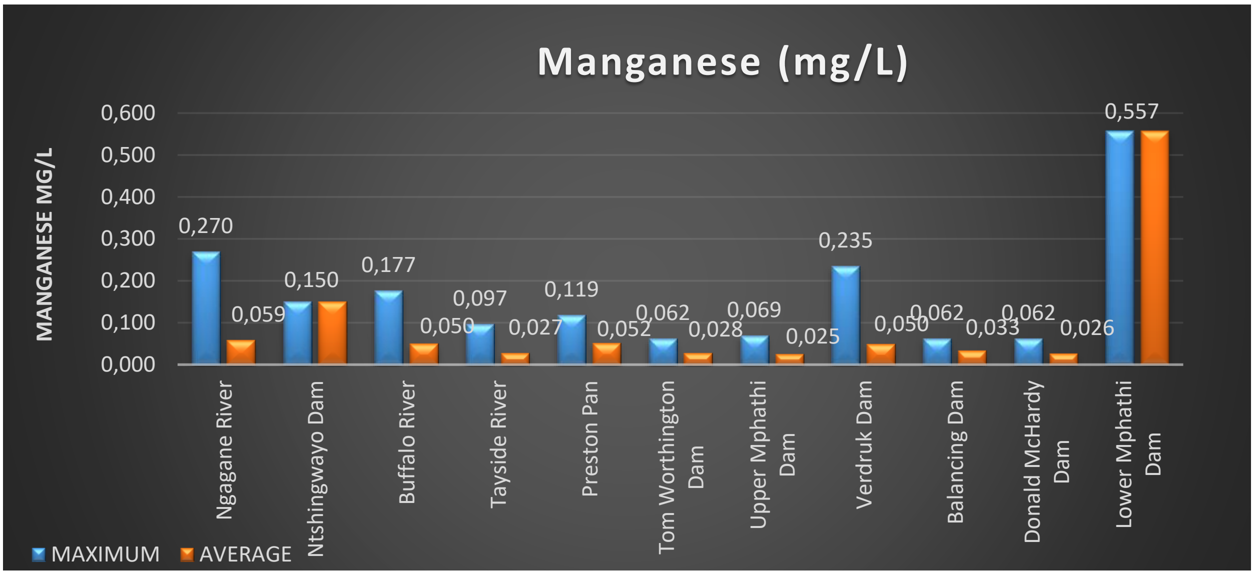


Figure 5: Manganese levels

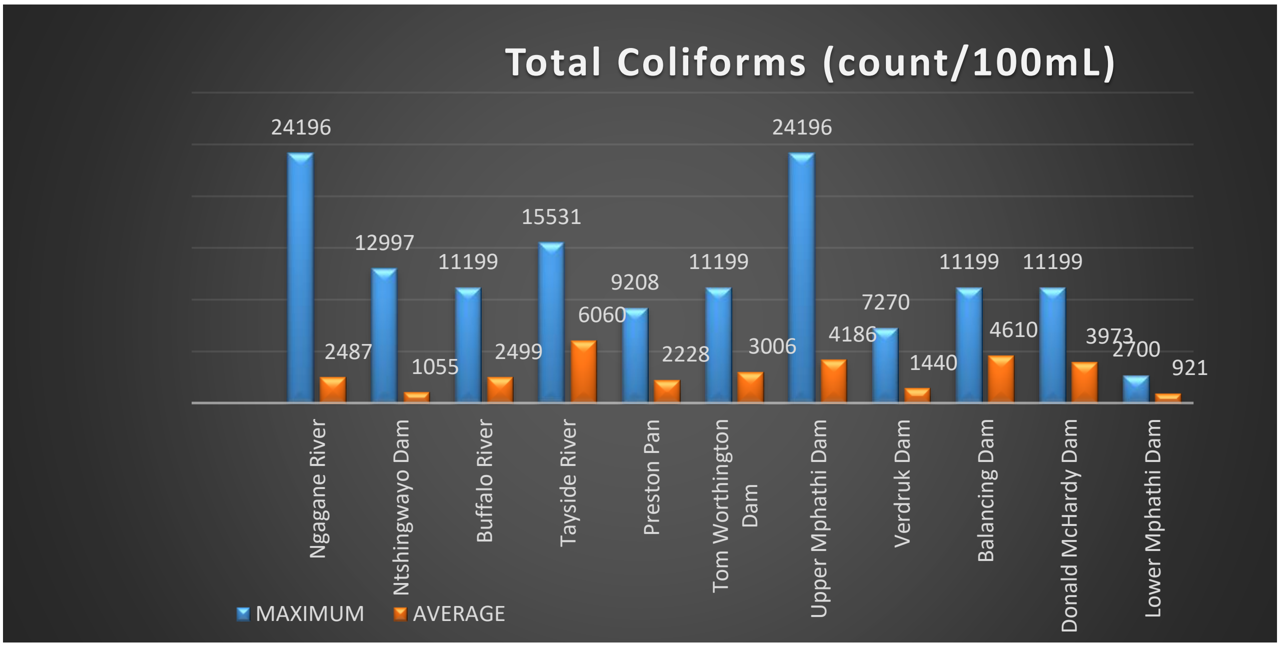


Figure 6: Coliforms levels

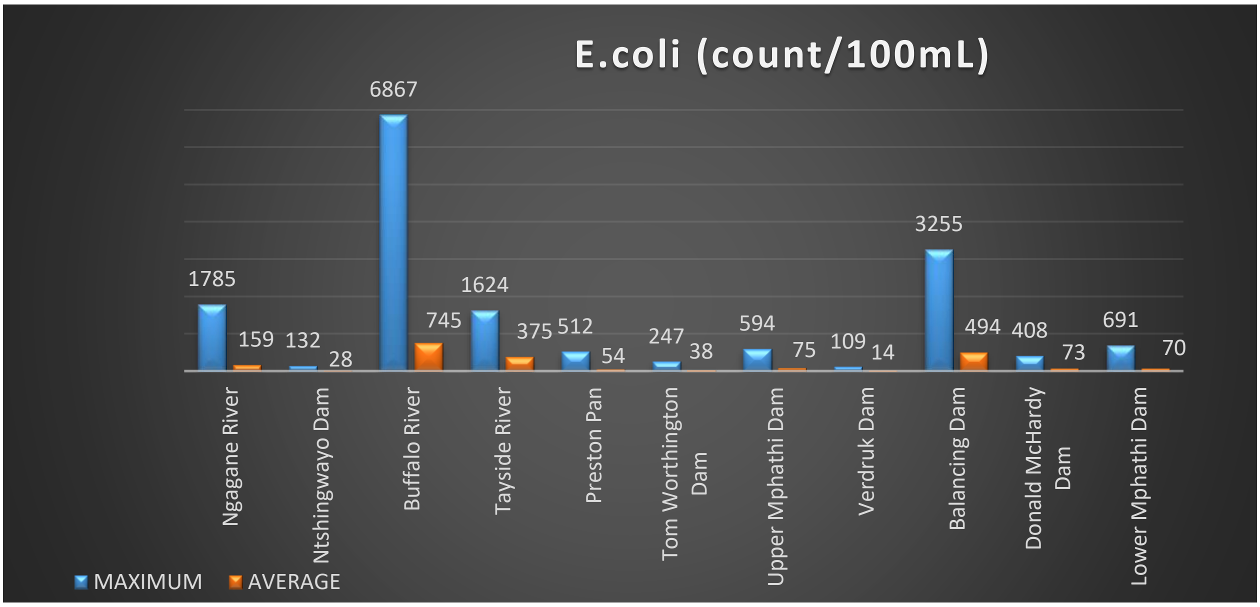


Figure 7: E.coli levels

Operations

Introduction

The uThukela Water Operations function is responsible for the core business of the company, from raw water abstraction from dams and rivers, pumping and/or gravity feed of the raw water to plant inlets, the purification of raw water and the supply of bulk water to demand reservoirs. The function includes the operations and maintenance of raw and final water pump stations, raw and potable bulk pipelines and water purification plants, reservoirs and associated infrastructure.

Raw water abstraction sites

As already indicated, the main sources of raw water supply for the area is the Ntshingwayo Dam, Ngagane River and Buffalo River. The Buffalo River is one of the ten identified free flowing rivers in KZN, and it flows undisturbed from its source to the confluence with the Blood River. It is not a very reliable source as it is dependent on seasonal rains. The Ngagane River can also drop to very low levels during drought periods, however, similar to Buffalo River, it is supplemented by Ntshingwayo Dam releases during dry seasons.

Ngagane River

Ngagane Water Purification Plant receives resource water from the Ntshingwayo Dam via two gravity pipelines. The other suppliers are Buffalo River and the Ngagane River itself. The Ngagane River is the 2nd resource, via the Ngagane River pump station and the 3rd resource is the Buffalo River, Schurwepoort weir, higher up in the Volksrust area. An average daily supply volume of 80 Mℓ /day are received from Ntshingwayo Dam. The Buffalo River's average supply volume is 25 Mℓ /day and the Ngagane River pump station supplies on average 20 Mℓ / day with one pump operational and 35 Mℓ /day with two pumps operational.

Ntshingwayo Dam

Ntshingwayo Dam is the main source of raw water supply to the Ngagane Water Purification Plant via two gravity pipelines, supplying it with a daily average volume of 80 Mℓ.

Buffalo River

The Buffalo River (Tayside weir and pump station) is the main raw water source for Biggarsberg Water Purification Plant and can deliver a daily supply volume of 15 Mℓ/day.

The Buffalo River supplies 90% of the required raw water volumes to the plant. Six dams (i.e., Upper and Lower Mpathi Dam, Tom Worthington and Verdruk Dams, Donald McHardy Dam and Preston Pan) in close proximity to the plant augments the river supply.

Bulk water supply volumes

A total of 44 291 Mega litres (Mℓ) of potable water was supplied to the three Water Services Authorities during the 2021/2022 financial year by the two Bulk Water Purification Plants. A 3.6% increase from the previous year's total supply volumes was recorded.

Amajuba consumption volumes decreased by 5.1% this financial year compared to the previous year. Newcastle consumption volumes increased by 4.9% and uMzinyathi increased by 0.2% compared to FY2020-2021 volumes.

Ngagane Water Purification plant is the major contributor to the total supply volumes, it contributes 87% and Biggarsberg Water Purification Plant contributed 13% of the total bulk water supply volumes

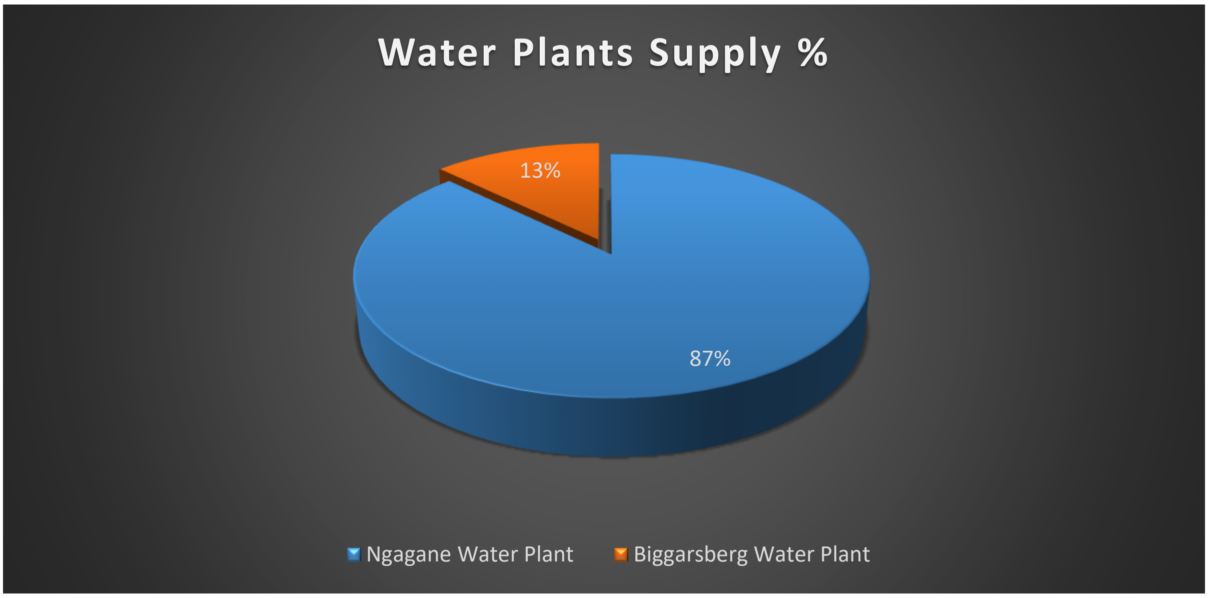


Figure 8: Bulk Water Plants contribution percentage to the total supply volume

Ngagane Water Purification Plant

Water produced at the Ngagane Water Plant amounted to 36 791 Mℓ for the 2021/2022 financial year. The plant operated at an average daily supply volume of 100.8 Mℓ/day. The Ngagane Water Plant's past five years' annual supply volume trend is illustrated in figure 9.

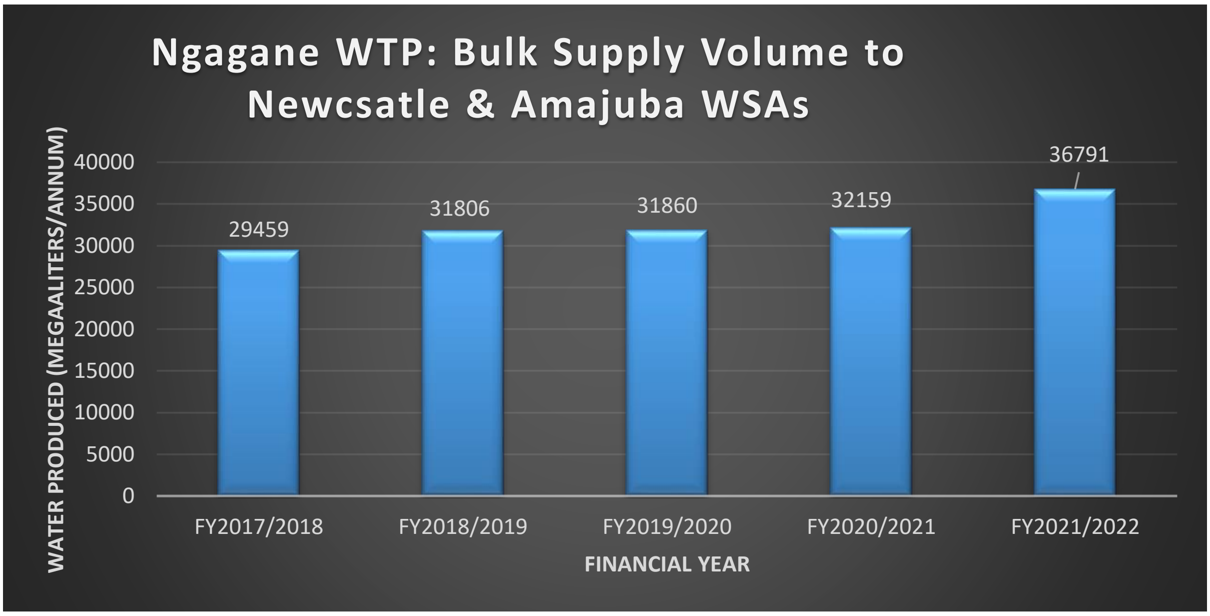


Figure 9: Annual Ngagane Plant Production Trends in Megalitres (Mℓ)

Biggarsberg Water Purification Plant

Water produced at the Biggarsberg Water Plant amounted to 5297 Mℓ for the 2021-2022 financial year. A daily average supply volume of 14.51 Mℓ/day was supplied for the year. The plant's past five- years supply volume trend is illustrated in figure 10 below.

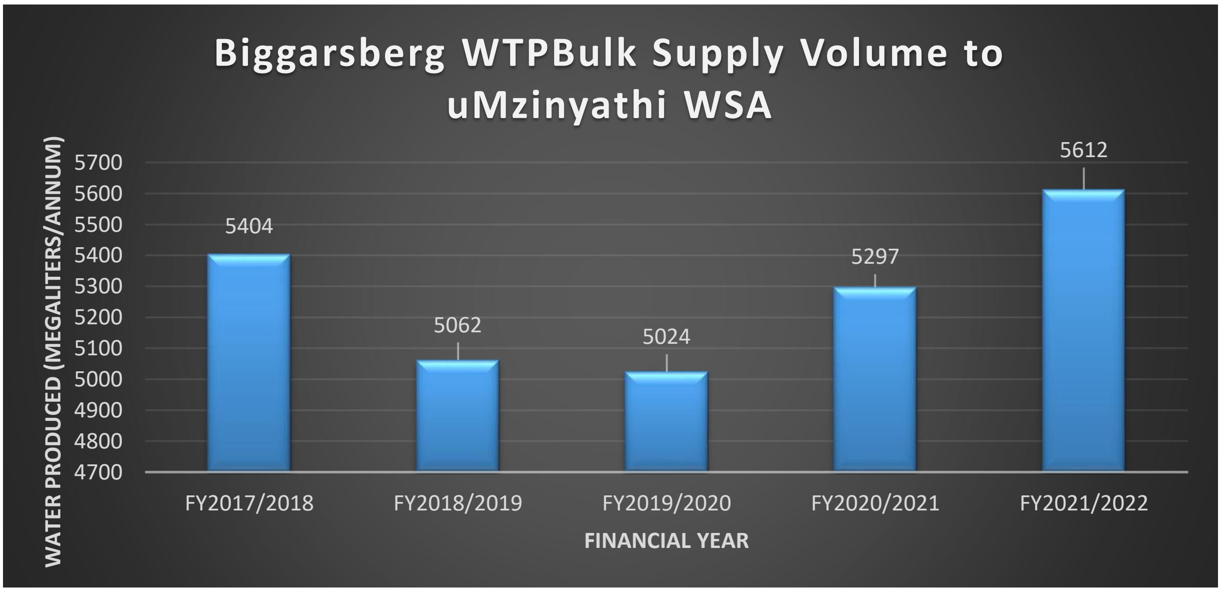


Figure 10: Annual Biggarsberg Plant Production Trends in Megalitres (Mℓ)

Amajuba Water Supply Area

Amajuba supply area receives bulk water from both Ngagane and Biggarsberg Plants. A total supply volume of 5297 Mℓ was received in the 2021-2022 financial year. This amounts to a daily average supply volume of 14.51 Mℓ/day. Figure 11 indicates the supply volumes over the past five years for the combined Amajuba supply area.

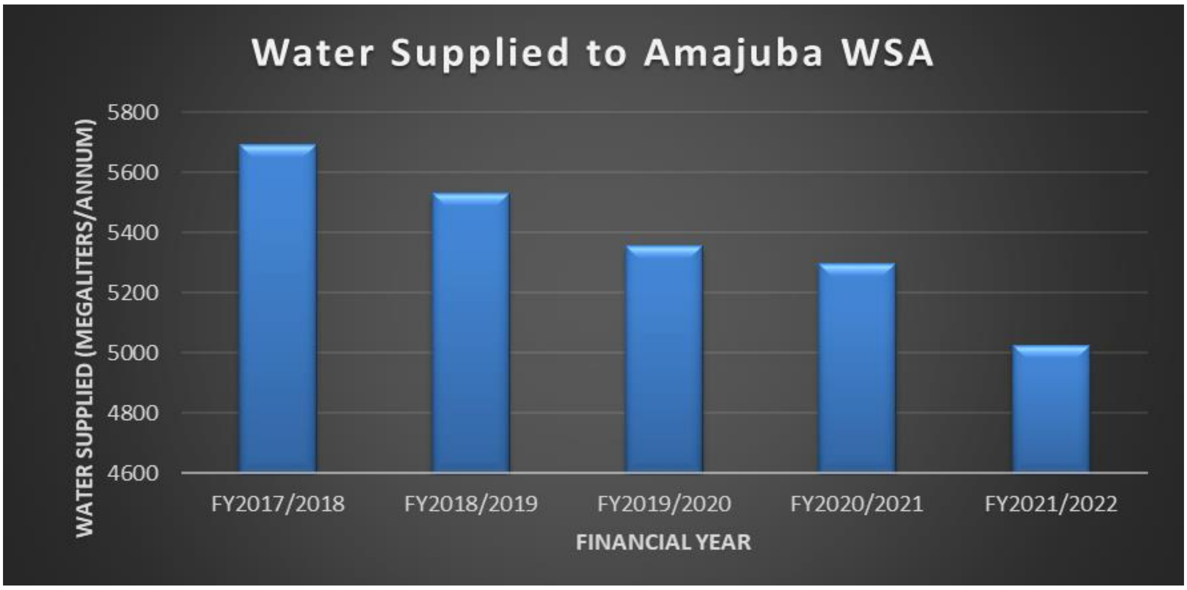


Figure 11: Annual Amajuba WSA Consumption Trends in Megalitres (Mℓ)

Water losses

uThukela Water prides itself in continuous improvement of potable water supply, it therefore recognises the importance of efficient and effective water loss control in the bulk system. The main aim is to save a precious and valuable resource and increase the efficiency of the existing supply system.

The water loss control strategy can only be effective if it is a continuous activity forming part of the Utility`s vision. The commitment and dedication at all levels within the Utility determines the success of the strategy. The water loss management strategy of uThukela Water includes the following:

- Formulation of a water loss management plan.
- Continuous flow monitoring which includes bulk meter accuracy assessment, meter readings and replacements plan.
- Data capturing and logging of flow and level readings as well as permanent remote data logging and recording on plant scada systems.
- Permanent system leak monitoring through actual inspections, flow readings and supply volume calculations.
- Water balance calculations and minimum night flow analysis.

The existing ultrasonic flow meter readings functions provides a Daily Flow Dashboard with Meter Readings Reports (excel format) and Graphed Flow Trends, Line Pressure Trends, Battery Power, Antenna Power Trends and Events Logs of each meter. These functionalities are used by the Operations and Maintenance teams and also used for billing purposes.

The current water loss control system needs to be rolled out further and the functionality of these mag flow meters used more effectively. Proposals for the upgrading of the current plants scada systems and live real-time off-site data availability are being investigated.

Water loss is calculated over the entire system from raw water abstraction to potable supply points, demand reservoirs. For the FY 2021-2022, the total water loss percentage for the entire uThukela Water utility is 6.19 %. The water loss is calculated from the raw water abstraction points to the inlet of the Water Purification Plants, the water losses in the purification plants processes, bulk metered supply points and bulk reservoir inlets, where the WSA's metered billing points are. The flow meters are monitored, and a maintenance program is rolled-out to allow accurate and consistent flow meter readings for accurate water loss calculations over the entire water supply system.

Maintenance Management

The provision of sustainable bulk water services by uThukela Water is largely asset dependent. Well managed and maintained infrastructure will support efficient bulk water supply to serviced municipalities, and by extension, good social and economic stability. The repairing or replacing of assets is costly, therefore, the Utility employs effective maintenance of assets that involves making provision for on-going cost on a planned basis to limit asset failures and to maintain infrastructure and asset stability.

The drive to have assets perform at an optimum level was given high priority. This was achieved by the utilization of a Maintenance Plan which also incorporates an asset grading system.

The implementation of Asset Maintenance Planning is aimed at ensuring that assets remain productive at the lowest possible long-term cost and involves:

- A detailed functional analysis of maintenance needs that meet the required service delivery outcomes.
- The development of maintenance strategies.
- The institution of procedures to ensure adequate control of the implementation of a maintenance plan.

Asset Maintenance

The implementation of the Asset Maintenance Strategy succeeded in directing asset maintenance, thereby achieving optimal results. A maintenance plan is of key importance in the strategic management of assets over its useful lifespan.

The objective of this strategy is to develop maintenance and minor works plans for assets, which correlate and quantify the maintenance requirements for service delivery, asset performance standards and risk management for all assets as defined/segmented in the asset strategy.

The following benefits were derived from the implementation of the Asset Maintenance Management System:

- The minimization of breakdown time
- Improvement in total availability of the system with optimum capacity
- Extended useful life of asset and equipment
- Safety of personnel and assets

An asset grading system was used in conjunction with the Maintenance Plan, to establish the nature of maintenance action required with regard to maintenance being conducted, refurbishments, the upgrading of assets and infrastructure maintenance activities included:

- Reconditioning of pumps and motors
- Replacement of valves
- Preforming condition monitoring at pump stations
- Cleaning and repairs of clarifiers
- Installation of safety signage.
- Repairs of burst pipes
- Repairs, calibration and replacement of flow meters and ultrasonic level indicators.
- Filter and filter equipment refurbishment and replacement.
- Vehicle repairs and services.
- Buildings and grounds refurbishment and repairs.

Table 5: Examples of Planned and corrective maintenance carried out at the two plants

Planned Maintenance	Corrective Maintenance
Repair of pump No.3 in the main pump station at the Ngagane WTP.	Cleaning of Sump at Tayside low lift pump station.
Reconditioning of a Backwash pump No.1 as well as replacement of the electrical motor at the Ngagane Water Purification Plant.	The repair of burst pipe on the Strekstrom to Biggarsberg WTP pipeline.
Replacement of Tayside low lift pumps with boreholes as a temporary measure.	Repair of tempered with NZ meter.
Cathodic protection assessment was carried out for the new 700mm NB Steel pipeline at Ngagane	Repair of Biggarsberg WTP pipe in the dosing room.
Reconditioning of B1 pump spare motor at Ngagane WTP.	Attend to Verdruik pump station break-in light which were stolen.
Replacement of Bearing for Tayside high lift pump No.2.	Replacement of gland packing on valve at Tayside pump station.

Examples of maintenance activities performed in the 2021-2022 FY

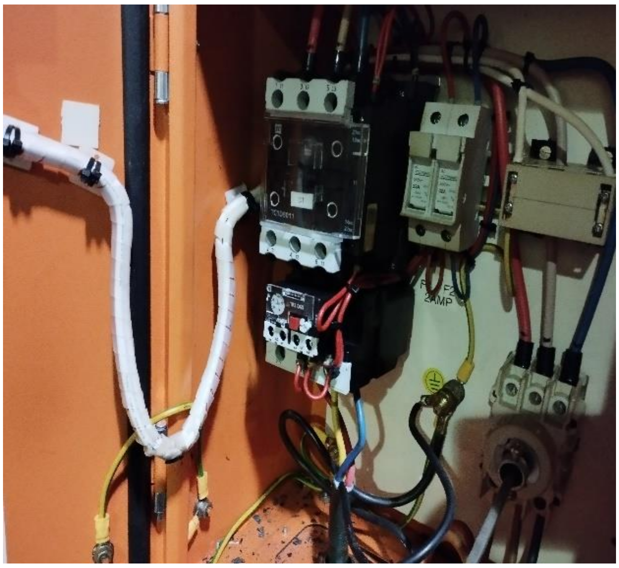
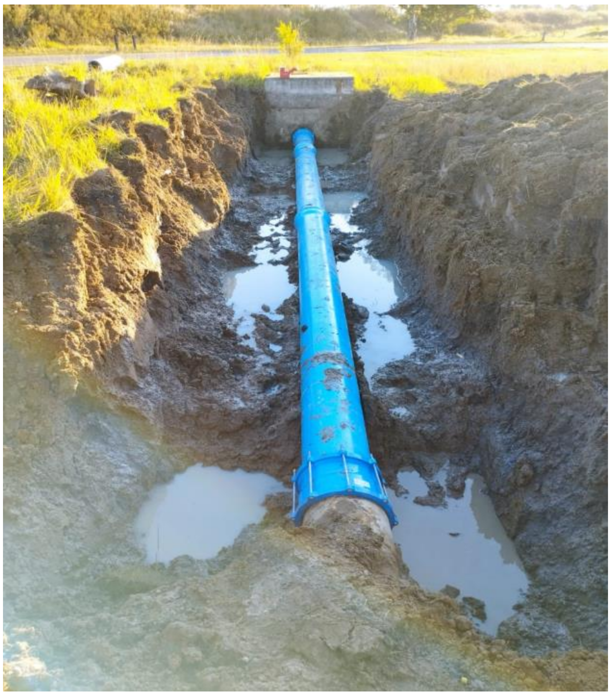
Planned Maintenance of asset infrastructure ensured asset functionality.	Corrective maintenance of infrastructure ensured asset functionality.
 Figure 12: Planned inspection and servicing of pumps at the Ngagane Water Purification Plant.	 Figure 13: Installation of a new coupling on B1 pump at the Ngagane WPP.

Examples of maintenance activities performed in the 2021-2022 FY

Planned Maintenance ensured the functionality of Key assets.	Corrective Maintenance of asset infrastructure ensured asset functionality.
 Figure 14: Installation of a new diesel tank at the Biggarsberg WPP.	 Figure 15: Installation of a new non-return valve on Backwash pump at Biggarsberg WPP.
Corrective maintenance of asset infrastructure ensured asset functionality.	Corrective maintenance of infrastructure ensured asset functionality.
 Figure 16: Repairing a burst on the Ntshingwayo raw water pipeline to the Ngagane WPP.	 Figure 17: Repairing a burst on the Hilldrop AC pipeline from the Ngagane WPP.

Examples of maintenance activities performed in the 2021-2022 FY

Planned Maintenance ensured the functionality of Key assets.	Planned Maintenance of asset infrastructure ensured asset functionality.
 Figure 18: Removal of a faulty multi-stage pump at the Verdruk pump station.	 Figure 19: Refilling the Clarifier after cleaning at the Tayside high lift pump station.
Corrective maintenance of asset infrastructure ensured asset functionality.	Corrective maintenance of infrastructure ensured asset functionality.
 Figure 20: Tracing an electrical fault incurred on the A-Pump panel at the Ngagane WPP.	 Figure 21: Removal of an electrical motor for testing at the Ngagane WPP.

Examples of maintenance activities performed in the 2021-2022 FY	
Corrective Maintenance ensured the functionality of Key assets	Planned Maintenance of asset infrastructure ensured asset functionality.
 Figure 22: Installation of a new electrical conductor at the Tayside Low Lift electrical panel	 Figure 23: Cleaning the inlet chamber at the Buffalo river weir.
Corrective maintenance of asset infrastructure ensured asset functionality.	Planned maintenance of infrastructure ensured asset functionality.
 Figure 24: Repairing a burst on the Hilldrop AC pipeline	 Figure 25: Installation of a new electrical motor at the Glencoe pump station.

Examples of maintenance activities performed in the 2021-2022 FY	
Corrective Maintenance ensured the functionality of Key assets.	Corrective Maintenance of asset infrastructure ensured asset functionality.
 Figure 26: Installation of a new mechanical seal on the Backwash pump at the Ngagane Water Purification Plant.	 Figure 27: Installation of a new mixer at the Biggarsberg Water Purification Plant.
Corrective maintenance of asset infrastructure ensured asset functionality.	Corrective maintenance of infrastructure ensured asset functionality.
 Figure 28: Installed a new electrical motor at the Indian village pump station.	 Figure 29: Repair of a burst on the Verdruk raw water pipeline.

<table>
<tr><th colspan="2">Examples of maintenance activities performed in the 2021-2022 FY</th></tr>
<tr><td>Corrective Maintenance ensured the functionality of Key assets.</td><td>Planned Maintenance of asset infrastructure ensured asset functionality.</td></tr>
<tr><td>
Figure 30: Repairing a leak on the Ntshingwayo raw water pipeline to the Ngagane Water Purification Plant.</td><td>
Figure 31: Delivery of a new High Lift pump at the Tayside High Lift pump station.</td></tr>
</table>

Engineering

The company`s engineering service is hosted in its Engineering Department, which is mandated to identify, initiate, coordinate, negotiate, plan and manage the strategic direction regarding the growth of the business of uThukela Water in terms of infrastructure management to assess and advise on the bulk water supply systems performance and raw water resource utilization and availability.

In all its operations, the department ensures that there is safety in all construction sites and ensures compliance with the OHS Act, Construction Regulations and Environmental management legislation.

Further, the department is responsible for planning short, medium- and long-term solutions for bulk water supply to the company`s clients. To monitor the implementation of this mandate, quarterly meetings are scheduled to with the three WSAs to plan for bulk water supply to the region. Sadly, poor attendance of the meetings by officials from the

WSAs has derailed the process. This makes the WSAs to individually submit their bulk water business plans in silos and defeats the purpose of the existence of the bulk water supply company (uThukela Water) as it negates the ability to plan for the regional requirements holistically with an eagle's view.

Nonetheless, the planning and day-to-day engineering operations are guided by the Bulk Water Infrastructure Masterplan compiled Bulk Water Infrastructure Masterplan compiled in 2012. The masterplan identifies the crucial and fundamental lack of raw water as the main in the region. It then proposed the establishment of a new dam that would serve as additional raw water source to address the medium to long term demands. The masterplan predicted that by the year 2025, the region will be faced with a serious shortage of raw water if the current resources are not maximized and augmented. This was affirmed by a pre-feasibility study that was commissioned by Amajuba District Municipality in June 2017, that came up with the same conclusion.

Bulk Water Production Volumes

During the 2021/2022 FY, the Utility has supplied more water its shareholder municipalities than in the previous years since 2018 when the region was hit by severe drought.

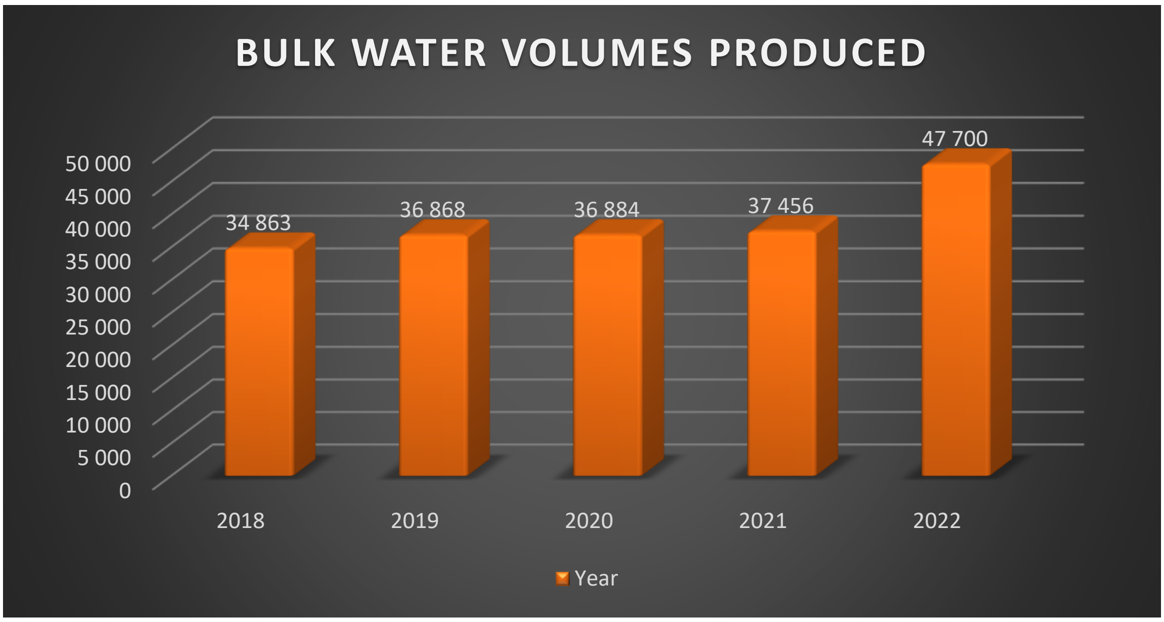


Figure 32: Bulk Water produced and supplied to shareholder municipalities over time

Notably, the Amajuba District water resource demand is projected to rise steadily over the next 42 years (figure 33). However, with the proposed interventions of the upgrade of Ngagane River Pumps and some short-term treatments, the water demand curve shows a significant decline (figure 34).

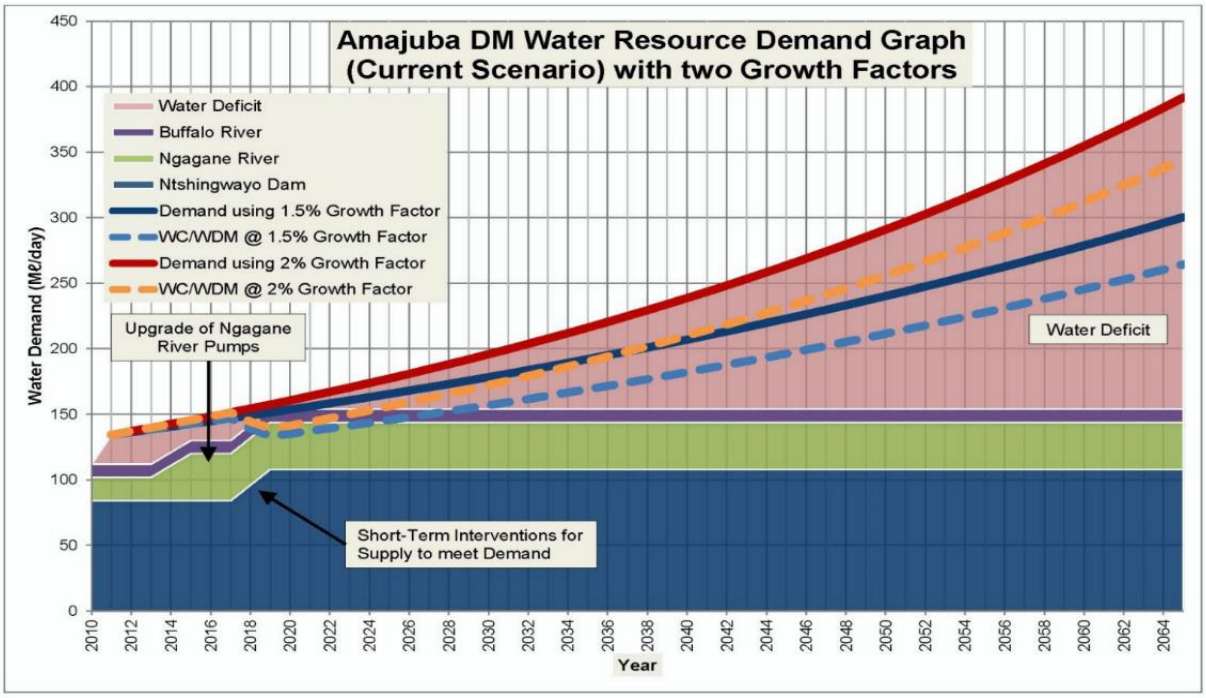


Figure 33: Amajuba District raw water availability.

Figure 34 below depicts the raw water availability with proposed interventions where it is clear that for the region to meet demands beyond 2050, a new raw water source must be commisioned.

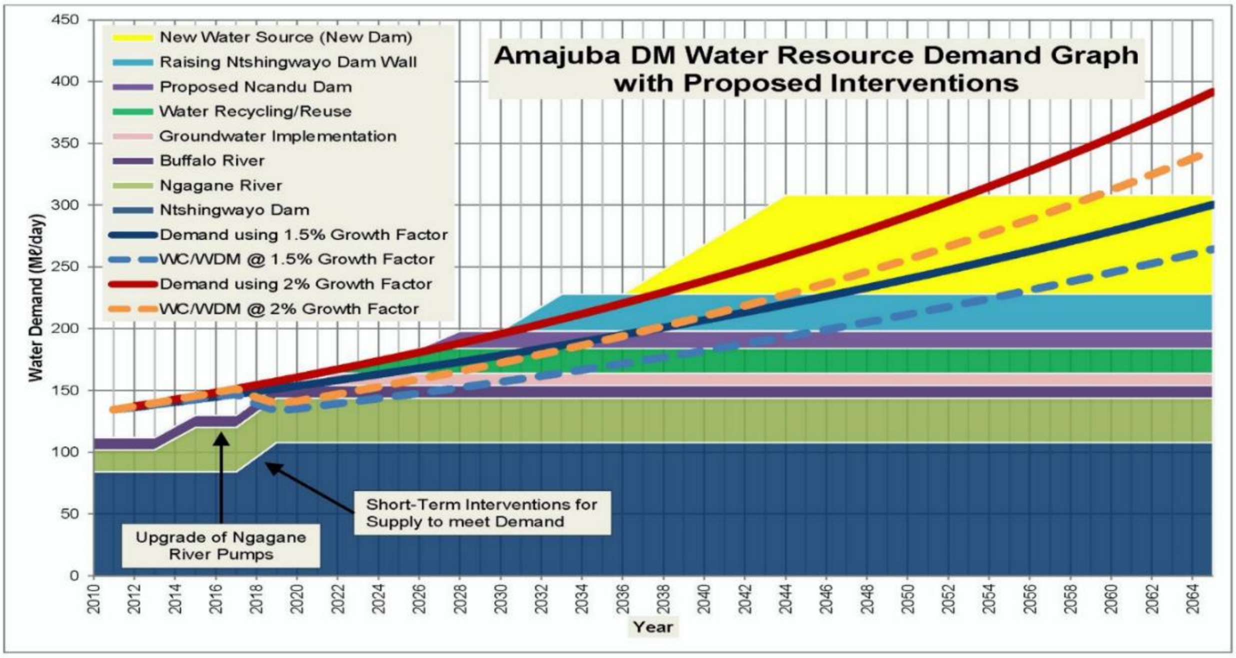


Figure 34: Amajuba District raw water demand graph

Noting the seriousness of the impact of the predicted shortage of raw water, the Utility has plans at advanced stage to kick-start the implementation of the Ncandu dam project. The construction of this dam will relieve pressure from the Ntshingwayo Dam, with new water production of 46Ml/day that can be used downstream by uMzinyathi District Municipality and the Dannhauser Local Municipality in the Amajuba District Municipality.

Projects

Despite the need, no new projects were registered in the 2021/2022 financial year. This is testimony to the lack of capital funding for the company. The same projects which were reported in the previous financial year are still ongoing. It is envisioned that the Braamfontein Reservoir Project being implemented by Amajuba District Municipality will be completed by January 2023.

Table 6: Tayside Abstraction Works Drought Relief Refurbishment

Phase 2-High Lift Pumping Station

ITEM	QTY	UNIT PRICE	TOTAL
New high lift pumps	3	R 2 800 000.00	R 8 400 000.00
New soft-starters for high lift pumps	3	R 850 000.00	R 2 550 000.00
New 6.6kV 4 panel board including reprograming of PLC etc.	1	R 750 000.00	R 750 000.00
Associated new pipework and refurbishment of existing pipework	3	R 250 000.00	R 750 000.00
Electrical actuators for valves	3	R 78 000.00	R 234 000.00
Application fee for upgraded supply from Eskom (from quote Dun138017828)	1	R 800 000.00	R 800 000.00
insulation, patch concrete bunwalls, bird proofing, drainage, airvents, roller shutter door etc.	1	R 250 000.00	R 250 000.00
New Razor mesh boundary fencing	510	R 550.00	R 280 500.00
New Pedestrian access gates	1	R 6 300.00	R 6 300.00
Subtotal A			R 14 020 800.00
Add 15% for preliminary and general costs			R 2 103 120.00
Subtotal B			R 16 123 920.00
10 % Contingencies			R 1 612 392.00
Subtotal C			R 17 736 312.00
Add 15% VAT			R 2 660 446.80
Total construction Costs			**R 20 396 758.80**
Professional Fees estimation based on 14% of the total construction cost (excluding disbursements)			**R 2 855 546.23**
Total Project cost excluding specialist services			**R 23 252 305.03**

Phase two and Phase three of the Tayside upgrades in the uMzinyathi District Municipality is currently under construction. Two of the three high lift pumps were bench tested and performed to specifications. One of the unit was delivered to Tayside in June 2022 - awaiting installation. The rest of the works as per the scope below is still ongoing.

Table 7: Tayside Abstraction Works Drought Relief Refurbishment Phase 3-Existing 450mm K9 Ductile Iron Pipeline			
ITEM	**QTY**	**UNIT PRICE**	**TOTAL**
Refurbish existing air and scour valve installations on rising main	35	R 35 000.00	R 1 225 000.00
Refurbish existing surge tank and associated valves	1	R 80 000.00	R 80 000.00
Refurbish inline isolation valve chambers complete	3	R 200 000.00	R 600 000.00
Refurbish/address corrosion protection on the rising main	1	R 2 500 000.00	R 2 500 000.00
Additional 16.75m diameter clarifier	1	R 400 000.00	R 400 000.00
Additional 500kl balancing reservoir	1	R 2 800 000.00	R 2 800 000.00
Subtotal A			R 7 605 000.00
Add 15% for preliminary and general costs			R 1 140 750.00
Subtotal B			R 8 745 750.00
10 % Contingencies			R 874 575.00
Subtotal C			R 9 620 325.00
Add 15% VAT			R 1 443 048.75
TOTAL			**R 11 063 373.75**
professional Fees estimation based on 14% of the total construction cost(excluding disbursements)			**R 1 548 872.33**
Total Project cost excluding specialist services			**R 12 612 246.08**

Tayside High Lift Pumps

First high lift pumping unit delivered at Tayside

Figure 35: Photos of Tayside High Lift Pumps

Tayside Civil works

`s

 Blinding – (New Clarifier)	 New Clarifier & New Reservoir
 Excavation for Geopipes (New Reservoir)	 Reinforcement of New Reservoir

Figure 36: Tayside Progress Civil Works

Financial Performance

This financial report is in line with section 126 of the MFMA, that requires Accounting Officers of municipal entities to report on the financial performance of their entities and accordingly prepare and submit Board approved annual financial statements to their parent municipalities and the AGSA.

The ensuing sections present a review of an analysis of the key areas of the uThukela Water`s financial performance, operational results and financial position, which must be read in conjunction with the annual financial statements presented with this report.

Table 8: Graphical Presentation of Financial Performance

Five Year Financial Review					
	2022	2021	2020	2019	2018
Capital Expenditure	**1 233 541**	**1 258 341**	**1 648 854**	**18 661 411**	**3 927 556**
Total capital transfers recognised		-	222 372	13 598 135	-
Borrowing		-	-	-	-
Accumulated Funds	1 233 541	1 258 341	1 426 482	5 063 276	3 927 556
Water services: bulk water sales	**174 372 947**	165 403 505	148 550 115	128 439 901	114 978 266
Average bulk water cost per Kl produced	3,92	3,81	3,46	3,03	3,15
Financial Position					
Total current assets	177 348 284	194 713 303	151 757 865	111 934 609	99 292 996
Total non current assets	711 289 570	789 451 219	867 454 343	936 160 385	965 994 728
Total current liabilities	460 827 513	422 035 966	370 175 393	316 414 535	278 836 748
Total non current liabilities	11 010 000	11 963 630	9 821 457	10 192 126	10 492 040
Accumulated funds and share capital	416 800 341	**550 164 926**	**639 215 358**	**721 488 232**	**775 958 936**
Cash Flows					
Net cash from (used) operations	(8 390 362)	10 612 266	7 652 415	2 033 404	19 308 280
Net cash from (used) investing	(1 233 541)	(1 258 341)	(1 648 854)	(16 778 498)	(3 927 556)
Net cash from (used) financing					
Net increase/ (decrease) in cash and cash equivalents	**(9 623 903)**	**9 353 925**	**6 003 561**	**(14 745 093)**	**15 380 724**

Table 8: Graphical Presentation of Financial Performance…continued

Financial Indicators/Ratios						
	2022	2021	2020	2019	2018	2017
Employee related costs to total expenditure ratio excl depreciation	25%	33%	32%	32%	34%	27%
Employee related costs to total expenditure ratio incl depreciation	19%	23%	22%	21%	18%	14%
Number of permanent employees at year end	84	87	87	91	94	86
Repairs and maintenance costs to total expenditure ratio excl depreciation	2%	3%	2%	3%	3%	2%
Repairs and maintenance costs to total expenditure ratio incl depreciation	1%	2%	1%	2%	2%	1%
Current ratio (current assets/current liabilities)	(2,60)	(2,17)	(2,44)	(2,83)	(2,81)	(3,82)

Financial performance highlights

The Company delivers on its mandate to provide bulk water services to its shareholder municipalities under severe financial constraints and trades under difficult circumstances with:

- Curtailed and restricted water budgets due to affordability factors.
- The absence of a capital budget to implement business and bulk water master plans.
- Funding Model: grant funding not paid directly to company resulting in delays to water projects.
- Delays with payment for bulk services impacting on cash flows and the ability to operate unrestricted in terms of its goals and objectives.

Solvency and cash flow

As indicated in table 6 above, the company is generally in a healthy financial position. Albeit the high employee related costs, there has been a significant improvement in 2021/2022 compared to the past three financial years.

Cash flow decreased over the last year from R 29 424 084 to R 19 800 255 owing to consistent non- payment by some of the shareholders. Nonetheless, more funds were invested in short term investments due to the deteriorating shareholder payments to provide a buffer in times of non-payment and this is barely sufficient to sustain the Company for a period of less than 1.5 months. Should the municipalities update and pay their current bulk billing accounts up to date, it would bring the Company into a favourable position enabling it to operate effectively and efficiently.

Budgets and planning alignment

The alignment of the company's operational and capital budgets, Integrated Development Plans and the Bulk Water Master Plan to that of the shareholder municipalities and moving towards a volume based bulk tariff driven business has still not been fully realised during the year. For the water business model to operate effectively, this is a priority and must be prioritized in the short-term.

Bulk Water tariff

Although the principle of a single Bulk Water tariff was approved and applied during the year for Bulk water service cost recovery purposes, the municipalities are still not adequately paying for the services. This places severe strain on the company to effectively deliver on its mandate.

The Bulk Water tariff of R 3, 92 per kilolitre measures way below the National Norm of about R 8, 75 per kilolitre. The Shareholders have unfortunately not accepted the inclusion of a capital element within the bulk tariff structure. Consequently, the company has no means to raise sufficient capital to perform necessary and planned refurbishments and upgrades to its old and ailing water infrastructure and new water infrastructure projects. This anomaly has been identified and documented in the company`s Risk Management Plan. The municipalities also do not pay depreciation charges to the company to perform capital replacements.

Creditors and Raw Water charges

It must be noted in the statement of financial position records a substantial amount owed to the Department of Water and Sanitation (DWS) for unpaid raw water charges amounting to approximately R443 million. This is attributable to the shareholder municipalities not settling their old shortfall debt and current DWS raw water charges. The Minister of Water and Sanitation raised this matter in Parliament recently and it is imperative that this matter be finalised as a matter of priority.

The cost of raw water purchases levied by the Department is in terms of their National Water Pricing Policy and is an integral cost component of bulk water production.

uThukela Water is currently engaging the Department to finalise outstanding queries and to deal with certain issues pending the formulation of an agreement to settle the arrears.

Payment for bulk water services

All three municipalities have approved their bulk water service operational budgets based on the costs of providing the service and at the cost recovery tariff of R 3, 92 per kilolitre. Despite this tariff being too low, municipalities do not pay their monthly billing as contracted (see figure 36 for the rise in the bulk water service debt of the WSAs).

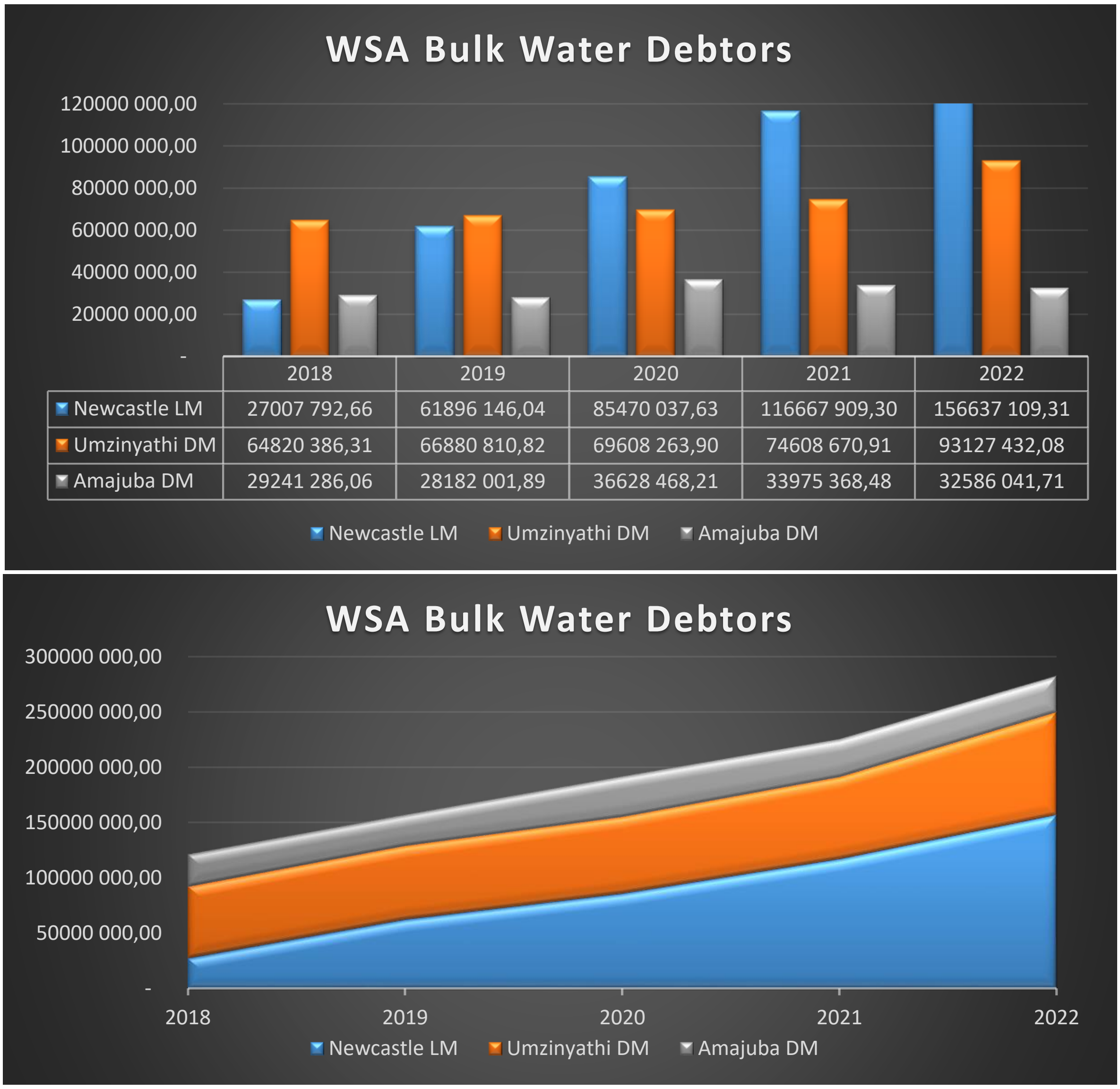


Figure 37: WSA bulk water service debt

There has been a significant decline in the timeous payment by all three of the shareholders for the bulk water services rendered to them, and this places the company in severe financial distress and is a matter of extreme concern. The lack of payment commitment and uncertainty of when and how much will be received makes it extremely difficult to plan and function effectively and could result in the total collapse of water services in the very near future.

Capital requirements for infrastructure

A capital budget comprising of most urgent and immediate capital requirements of approximately R 332 million was submitted to the WSA's for approval, unfortunately, no capital budget was approved by the shareholders.

Furthermore, full depreciation charges are not provided by the Shareholder municipalities. Currently the municipalities pay minimal depreciation charges to the Company.

Restrictions to implementation of adequate maintenance programs

It must be noted that the bulk water service infrastructure is not being maintained and upgraded in terms of best practices due to shortage of funds. For the year under review, the total actual used on maintenance was R3 948 601.00, which is 1.41% of the overall expenditure of R278 785 942.00.

Loans

The Company's external debt was either fully redeemed or transferred back to the municipalities with the transfer of reticulation services at the end of June 2013.

The Utility had capacity to rid external loan debt off its balance sheet, but unfortunately, due to the impending incorporation into a new water structure this avenue has not been pursued further.

Current Asset Ratio

For the past five years, the current asset ratio has been unfavourable due to the non-payment of the DWS raw water charges by the company (see figure 37 below).

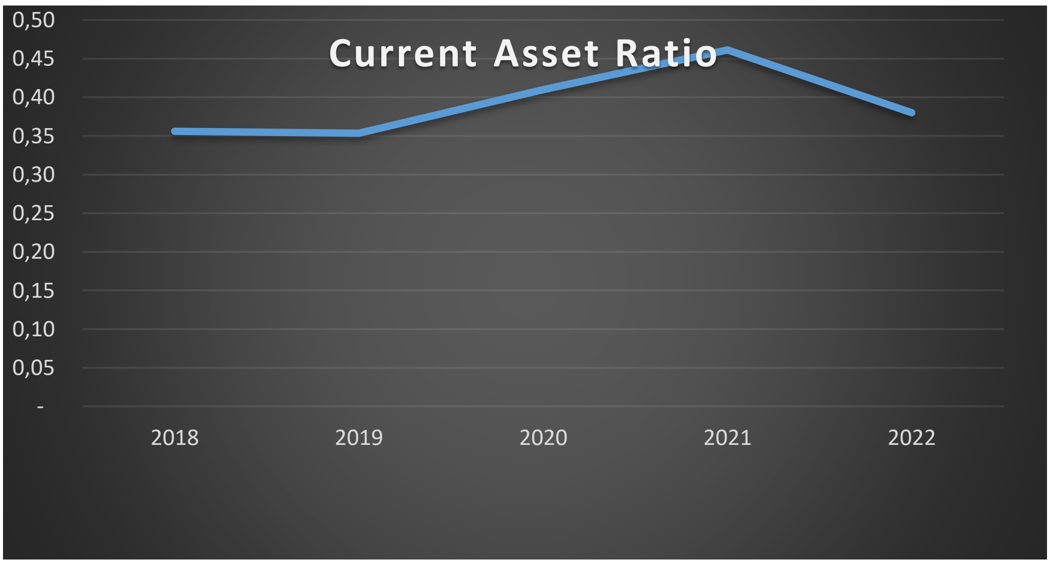


Figure 38: uThukela Water Current Asset Ratio

Contribution to an affordable tariff

As seen in figure 38, the company`s bulk water tariff is well below industry norm and unfortunately does not include a capital element or include depreciation charges.

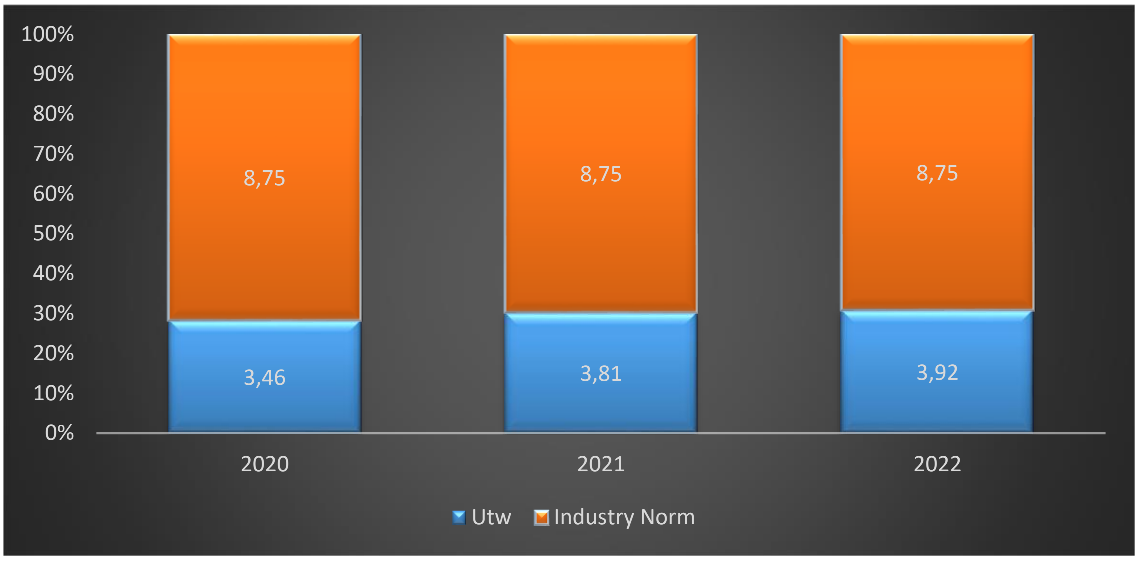


Figure 39: Comparison between uThukela Water bulk tariff with that of Industry Norm

Income categories

A depiction of the revenue streams of the Company is depicted by the diagram below.

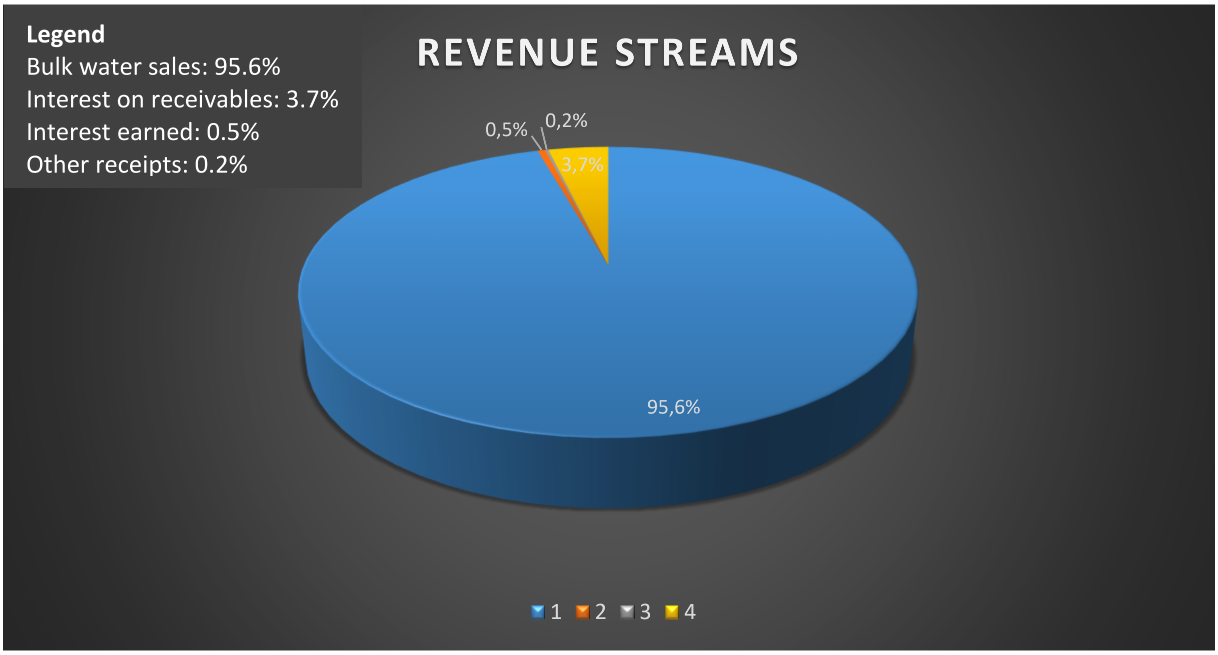


Figure 40: percentage contribution of the main company revenue streams

Cash and Investment Holding

The Company's cash and investment holding has been strained due to non-payment by the municipalities and it currently provides cover for less than 1.5 months of operations.

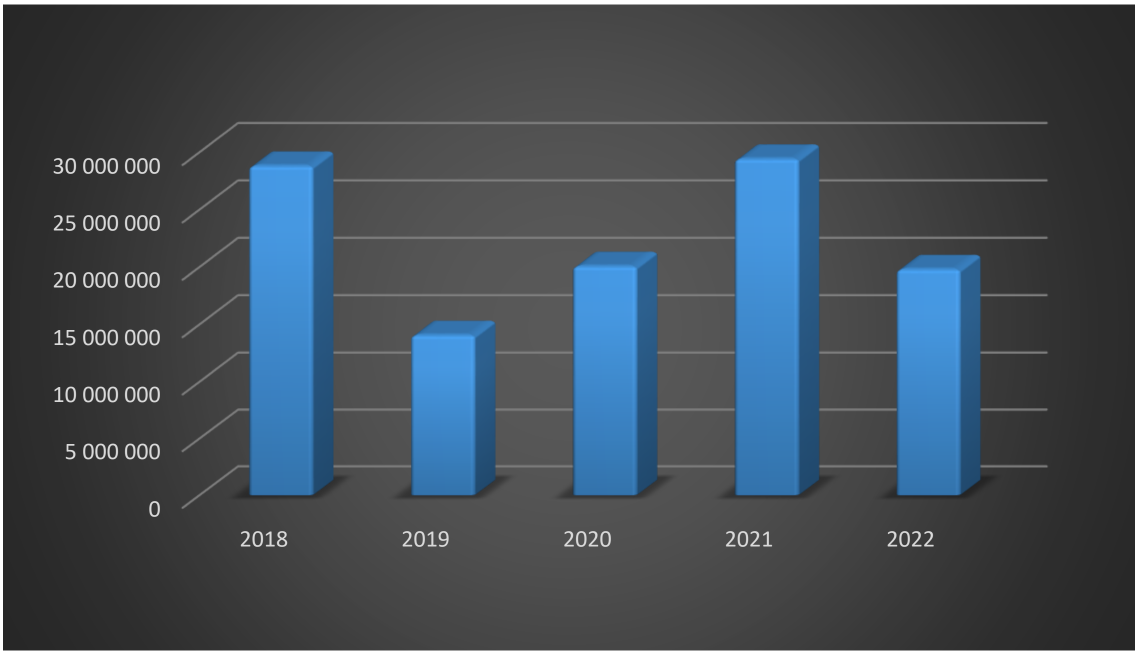


Figure 41: uThukela water cash and investment holding

Expenditure Cost Drivers

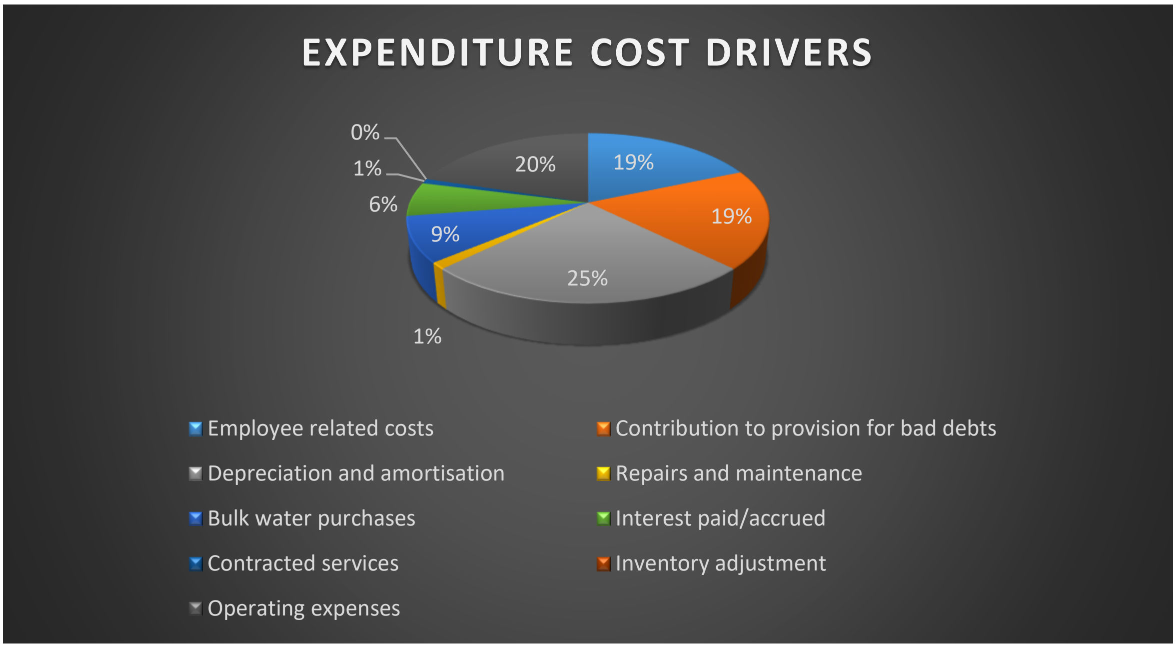
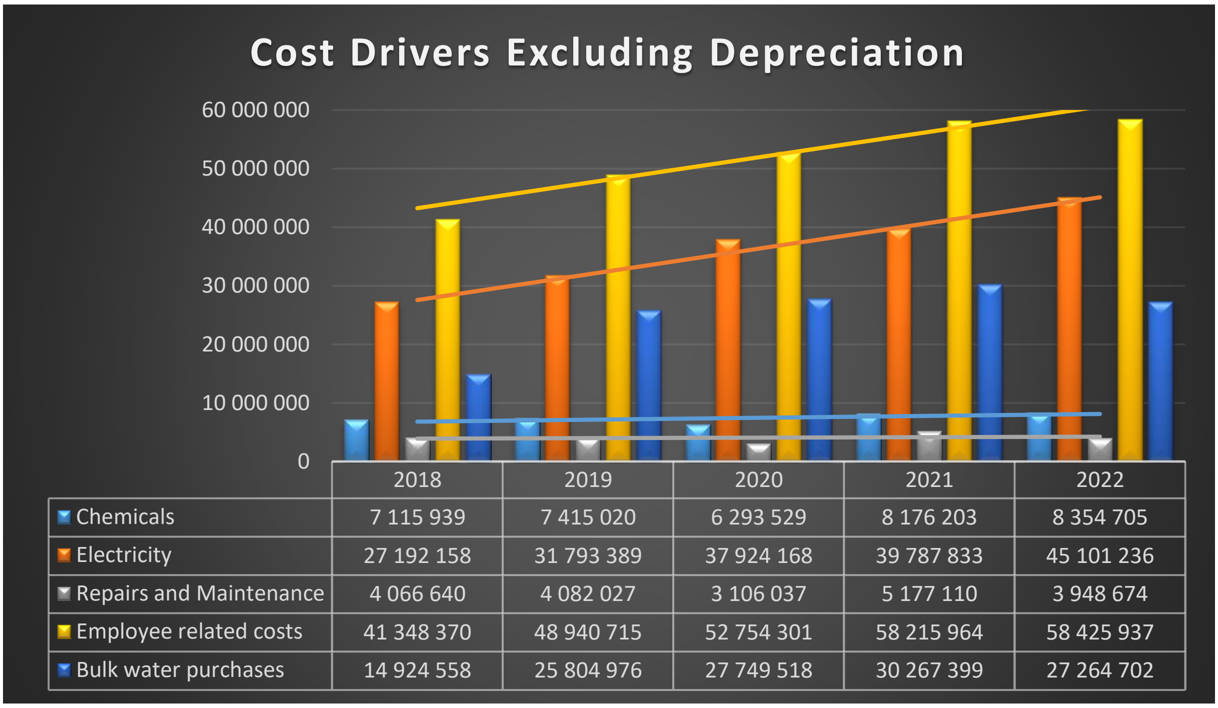


Figure 42: Company expenditure cost drivers

An analyses of expenditure cost drivers.

The main expenditure cost drivers for uThukela Water are chemical, electricity, repairs and maintenance, employees and bulk water purchase costs. Figure 43 and table present a summary analysis of the company`s cost drivers.



	2018	2019	2020	2021	2022
Chemicals	7 115 939	7 415 020	6 293 529	8 176 203	8 354 705
Electricity	27 192 158	31 793 389	37 924 168	39 787 833	45 101 236
Repairs and Maintenance	4 066 640	4 082 027	3 106 037	5 177 110	3 948 674
Employee related costs	41 348 370	48 940 715	52 754 301	58 215 964	58 425 937
Bulk water purchases	14 924 558	25 804 976	27 749 518	30 267 399	27 264 702

Figure 43: uThukela water cost drivers without depreciation

Table 9: An analysis of uThukela Water cost drivers

Cost Driver	Analysis
Chemical Costs	Follow the same trend over the years, except for 2020, as the bulk water volume and had increased by the inflationary rate.
Electricity Costs	Energy costs show a sharp increase in the 2021/2022 FY.
Repairs and Maintenance	This category shows a general upward trend after following the bulk water volume production matrix. The expenditure in this category should be substantially more considering the age and the deteriorating condition of the water infrastructure. At 7, 5% of total expenditure, it should be more than triple the current expenditure and at 7, 5% of asset value, it should be substantially higher per year. Expenditure has been curtailed due to poor payments from the WSA's.
Employee Related Costs	Employee related costs have shown a steady increase over the past five years.
Raw Water Purchases	Raw water costs follow the general upward trend of the potable water volumes production.

Investment in Capital Development Projects

Investment into the ageing and outdated bulk water infrastructure has been abysmal considering the bulk water demands of the region. Less than R 5 million a year, except for 2019 (R 18.6 million invested), has been invested by the Shareholder municipalities over the last eight years (figure 44).

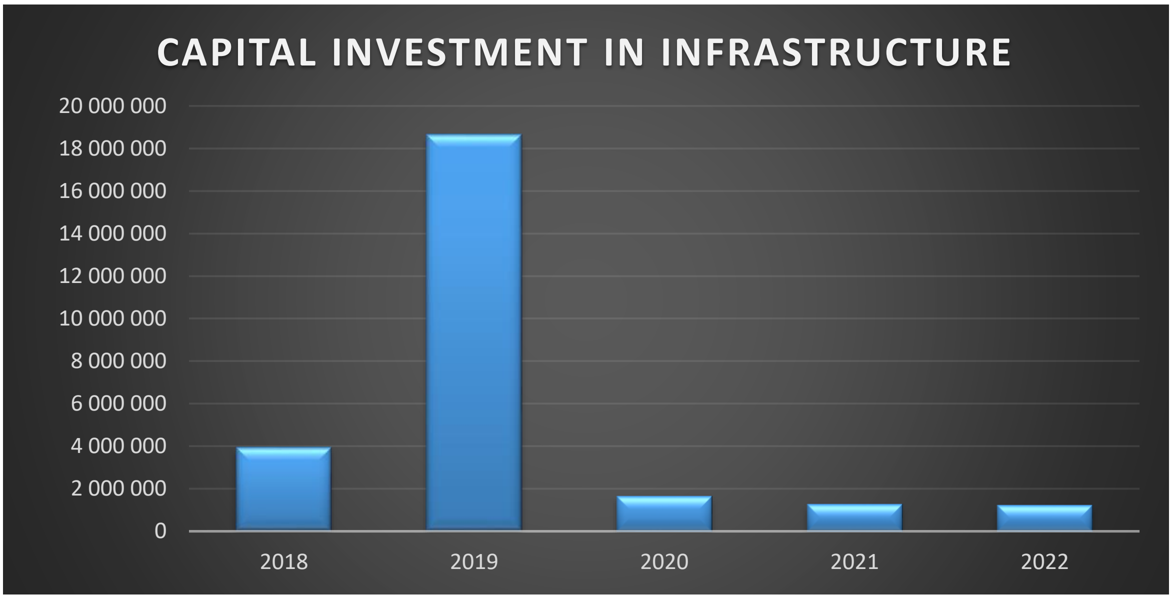


Figure 44: Capital Infrastructure Investment over five years

In order to adequately address the infrastructure challenges, the Bulk Water Master Plan envisages an investment well in excess of R 15 billion over the next 10 years. This area requires urgent attention and will be the focus of the Board going forward.

Capital Projects

As already discussed, capital has decreased dramatically over the past five years. The reason for the disinvestment in infrastructure development is due to the retention of bulk water grants by the municipalities, non-payment by the municipalities and the lack of a capital element within the bulk water tariff to fund the company's necessary capital refurbishments and upgrades.

The tariff capital element needs to be considered as a serious option to raise capital funding. Dependency on Government grant funding (i.e. MIG, MWIG, and the DWS) will further stifle infrastructure development. The inadequate capital investment is a high risk are for the Utility and Shareholders.

As part of the solution to this challenge, several tariff models have been proposed, including a capital levy of R 1, 00 per kilolitre. This has the potential to raise approximately R 45.5 million per annum.

The Board has targeted the next financial year to, jointly with its shareholders, re-strategize and prioritize water capital development requirements and to target key areas identified in the bulk water master plan for short, medium to long-term implementation. One key intervention would be the construction of a new water resource and a new water treatment plant to augment the three WSA current water demands.

Funding Requirements

Along with the registration of the Company in its current form in 2004, a 30-year Strategic Plan (SP2030) was developed for the delivery of water bulk infrastructure services.

The purpose of the SP2030 is to have a reference for the sustainable provisioning of safe, acceptable and affordable water and sanitation services. The estimated total cost of bulk infrastructure required to implement the SP 2030 master plan amounts to R 5, 5 billion.

The Water Services Master Plan is currently being considered for implementation as a matter of urgency as the water resources in the area have reached critical capacities and the drought in 2017 has served to further highlight the importance of planning for the future now.

The company is very restricted in its limited institutional capacity to augment funding sources, as it is confined to the reliance on grant funding from the WSA's for its capital requirements.

Retirement Benefit Obligations

The scheme is currently unfunded, and the Board has recognised its full past service liability in the balance sheet at the actuarial valuation of about R 18 million.

The provision for these costs is a GRAP accounting standard requirement and is a statutory obligation/disclosure.

Financial Risk

The company faces fundamental operational and financial risks that need to be effectively managed to ensure that any negative impact on the its operational and financial performance is identified, minimised, measured and effectively mitigated.

The Board has approved a risk management strategy and plan in place, and the plan is regularly updated, monitored and managed at LEADCO, Audit Committee and Board level. The plan rates the risks according to the level of threats they pose to the company and outlines the proposed actions to be taken at the various levels within the organisation in order to mitigate the effects of and properly control and manage the risk profile.

The highest risks on the matrix are related to the non-payment for bulk water services, underfunded budgets and the lack of capital investment into the replacement, refurbishment and development of bulk water needs for the region. The inability of municipalities to, from within their own varied basket of services and water revenue, be able to afford and take seriously the vast water development needs is seriously impeding development and creating challenges for the Board.

A rethink on these important matters and the possibility of restructuring the water business and tariffs to meet the future demands is essential.

Accounting Policies

It is concerning that the adoption of the new and revised accounting standards issued by the International Accounting Standards Board and the International Reporting Interpretations Committee effective for the current year, as noted in the accounting policies, have not led to any changes in the company`s accounting policies.

Despite this concern, the company`s accounts are fully GRAP compliant for the 2022 financial year. The Utility has implemented the Municipal Standard Chart of Accounts (mSCOA) with effect from 2018.

Various finance and employee related policies have been developed and are reviewed by the Board on an annual basis. The Board has put in place mechanisms to monitor the implementation of the policies.

Future Dispensation

Since 1 July 2013, uThukela Water operates as an interim Bulk Water Services Provider to its Shareholders, and will do so until such time that the Minister of Water Affairs has made a final determination concerning the future institutional arrangements and the composition of a new Water Structure that will deliver regional bulk water services in the area.

The current situation is that the Minister of Water and Sanitation has gazetted the formation of a single water board for the whole of the Kwazulu-Natal province. However, this process has been discontinued and the Minister has referred the matter back to Cabinet for further consideration and a decision.

The purpose of a single water board is to:

- Regionalize Bulk Water service delivery.
- Achieve, long term regional planning and match this to all available funding sources.
- Achieve assurance of supply.
- Maintain the current status of bulk water service provision.
- Introduce and implement a sustainable bulk tariff for the region.
- Foster potential efficiency of shared services
- Enable sharing of scarce capacity within the region.
- Reduce overheads costs.
- Enhance the potential for direct access to regional bulk infrastructure grant funding.

Statement of Directors' Responsibility

The Directors acknowledge their responsibility for the preparation of the annual financial statements for the year ended 30 June 2022, which in their opinion, fairly presents the results and cash flows for the financial year and the situation of uThukela Water (Pty) Ltd at the end of the financial year. The annual financial statements set out in this report have been prepared in accordance with International Reporting Standards, and in the manner required by the GRAP standards and the MFMA (56 of 2003).

The Directors are also responsible for the systems of internal control. These systems are reviewed on an ongoing basis and the Auditor General`s preliminary "dashboard" report for the forthcoming year reflects very positively and is indicative of the enormous improvements made in this regard. *"Green happy smilies"* reflect in the report for these reforms.

Internal control systems are designed to provide reasonable but not absolute assurance on the reliability of the AFS and to adequately safeguard, verify and maintain accountability of assets and recorded liabilities as well as detect and correct material misstatements. The systems are implemented by suitably trained personnel with appropriate segregation of authority and duties.

uThukela Water is equally serious about and supports the government`s "operation clean audit" initiative. It has thus set administrative structures accordingly and has as a result achieved clean audit in the 2017/18 financial year, with unqualified audit opinions in the 2018/19, 2019/20, 2020/21 and 2021/22 financial years respectively.

The Directors are firm in their belief that based on the information and explanations given by management, the internal auditors and the external auditors, that the system of internal control provides reasonable assurance that the financial records may be relied upon for the preparation of the consolidated annual financial statements.

The AGSA reports on the fair representation of the AFS. Therefore, the AGSA has audited the AFS after being granted unrestricted access to all accounting and financial records and related data. The Directors believe that all representations made to the AGSA during their audit were valid, appropriate and complete.

uThukela Water has reviewed its forecast financial performance for the year ended 30 June 2022, as well as the longer-term budget, and in the light of this review and the current financial position, they are satisfied that the company has access to adequate resources, and to under the current circumstances, continue as a going concern for the foreseeable future. This does not detract from the fact that the current tariff, debt poor payment, capital funding requirements and budget issues need to be resolved.

This positive sentiment is expressed on condition that shareholder municipalities address these pressing issues: scientific tariff determination, timorous payment of accounts, full payment of raw water production costs and adequate capital infrastructure planning and funding.

Approval of the Annual Financial Statements

The annual financial statements of uThukela Water (Pty) Ltd for the year ended 30 June 2022 have been approved by the Board of Directors and signed on its behalf and presented accordingly to the office of the Auditor General for the statutory audit thereof.

Dr. AS MOKOENA	**Ms. F Moola**
Board Chairperson	**Acting Chief Financial Officer**

Audit Committee Chairperson`s Report

Draft Audit Committee Report for the period ending 30 June 2022

1. Background

The UThukela Water has an Audit Committee as prescribed by Section (166) of the Municipal Finance Management Act 56 of 2003. The Audit Committee serves the purpose of being an independent advisory body that assist the UThukela Water Board and the Accounting Officer in carrying out their responsibilities.

2. Membership of the Audit Committee

The committee has four (3) members and they are:-

- Mr S Majola : Audit Committee Chairperson
- Mr. I. Simjee : Audit Committee Member
- Mr A. Jordan : Audit Committee Member

The Audit Committee consists of independent members who by virtue of the requirement of the Municipal Finance Management Act 56 of 2003 and in terms of its approved Terms of Reference are required to meet at least four times a year. This translates to one meeting per quarter. Four meetings were held for the year under review and they were attended by members as follows:

Name of Member	Number of Meetings Attended
Mr S Majola	4
Mr I Simjee	4
Mr A Jordan	4

3. Audit Committee Responsibility

We report that we have performed our responsibilities for the 2021/22 financial year in terms of the Municipal Finance Management Act No 56 of 2006, Section 166. We further report that we conducted our affairs in compliance with the Audit Committee Terms of Reference.

4. The Effectiveness of Internal Control

The Municipal Finance Management Act (MFMA) requires that the entity's system of internal controls be designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital were effectively managed. In line with this act and the King IV reports on Corporate Governance requirements, Internal Audit reports provide the Audit Committee and Management with assurance that the system of internal controls of the Municipality were effective or not.
The Audit Committee monitored the implementation of both the internal auditor's and Auditor-General's recommendations by management to ensure that reasonable steps were taken by management to address internal control weaknesses identified. We can report that management accepted the recommendations proposed, most of them have been implemented, and others are in progress.

5. Internal Audit

The entity has an external service provider who carries out the internal audit services for the entity. Audit committee approved the internal audit plan for 2021/22 financial year.

As required by the International Internal Auditors(IIA) standards, the entity's internal audit section was reviewed to assess its compliance with the IIA standards. This review was undertaken by PwC and they provided the Audit Committee with their findings. There are areas of concern where the entity's internal audit section did not comply with the IIA standards. We have recommended to management that an action plan to address those issues be drawn up and we will monitor the implementation of this plan in our quarterly meetings.

As the Committee, we recommend that management continue to implement recommendations made by internal audit to improve internal controls. We note that management is in the process of filling the internal audit position with the intention to establish an internal audit unit within the entity. We also recommend that, that the internal audit unit be fully capacitated to enable it to execute all the assignments as per the internal audit operational plan.

6. Financial reporting and financial management

Financial Reporting
We reviewed the monthly financial reports and we have raised our concerns about the reports submitted to us. Our main concerns here were:

- Increasing debtors book relating to debt owed by WSA's

- Capital budget submitted by the entity was not approved by the WSA's
- Non-payment of the Department of Water debt due to lack of funds

Annual Financial Statements (AFS) for the 2021/22 financial year were reviewed in a special audit committee meeting which sat on 29 August 2022. Internal audit as well as the audit committee raised issues with management that needed to be attended to before submission of these AFS to the OA-G. Management made an undertaking to address these issues before submission of the AFS to OA-G.

We recommend the Board to take these matters seriously as they affect:

- The ability of the entity as a going concern
- The aging infrastructure which might fail at anytime and affect the provision of water

We therefore recommend that:

- WSA's when finalising their budgets for the 2022/23 financial year, they factor in the repayment of debt they owe to Uthukela Water.
- WSA's should also set aside a funding for the Capital Budget of the entity to address the aging infrastructure.
- Payment plan for the Department of Water debt must be finalised and complied with to reduce this debt.

Financial management

As the Committee, we are concerned about non-payment by WSA's for water supplied by the entity and also for historical debt. This results in huge financial burden being borne by the entity.

We have recommended in the past that WSA's should consider ring fencing the water revenue so that this can be easily identified and paid directly to the entity at the end of each month.

7. Performance Management System (PMS)

We are not aware of any performance assessments that have been carried out during the current financial year and for the previous financial year.
We recommend that an Annual performance assessment should take place to assess the performance of senior management.

In our special audit committee meeting which sat on 29 August 2022 we also reviewed the Annual performance report. The committee together with Internal audit raised issues with management that needed to be attended to before submission of this report to the OA-G. Management made an undertaking to address these issues before submission of the report to OA-G.

8. Risk Management and Compliance

The entity has a Risk Management Committee (RMC) that deals with matters of risk management. We commend management for the establishment of this committee. A risk register has been compiled and is continually updated by the RMC on a quarterly basis. We recommended to management that this register be updated with the Auditor-General's findings.

9. Operations of the entity

It is pleasing to note that the entity even though it faces financial constraints it has been able to:

- In most cases, it has met its production targets
- Provide water of high quality
- Keep water loses at minimal levels

We however have concerns with regards to the maintenance of the entity's infrastructure. We therefore recommend WSA's to settle their monthly bills timeously to enable the entity to have funds to carry out the required maintenance of its infrastructure.

10. Corporate governance

We are pleased to note that Uthukela Water Board has been established. We recommend that a schedule of meetings be set and that all board members should attend the Board's meetings. The are positive improvements in governance within the entity and we will assist the board to improve even more.

11. Conclusion

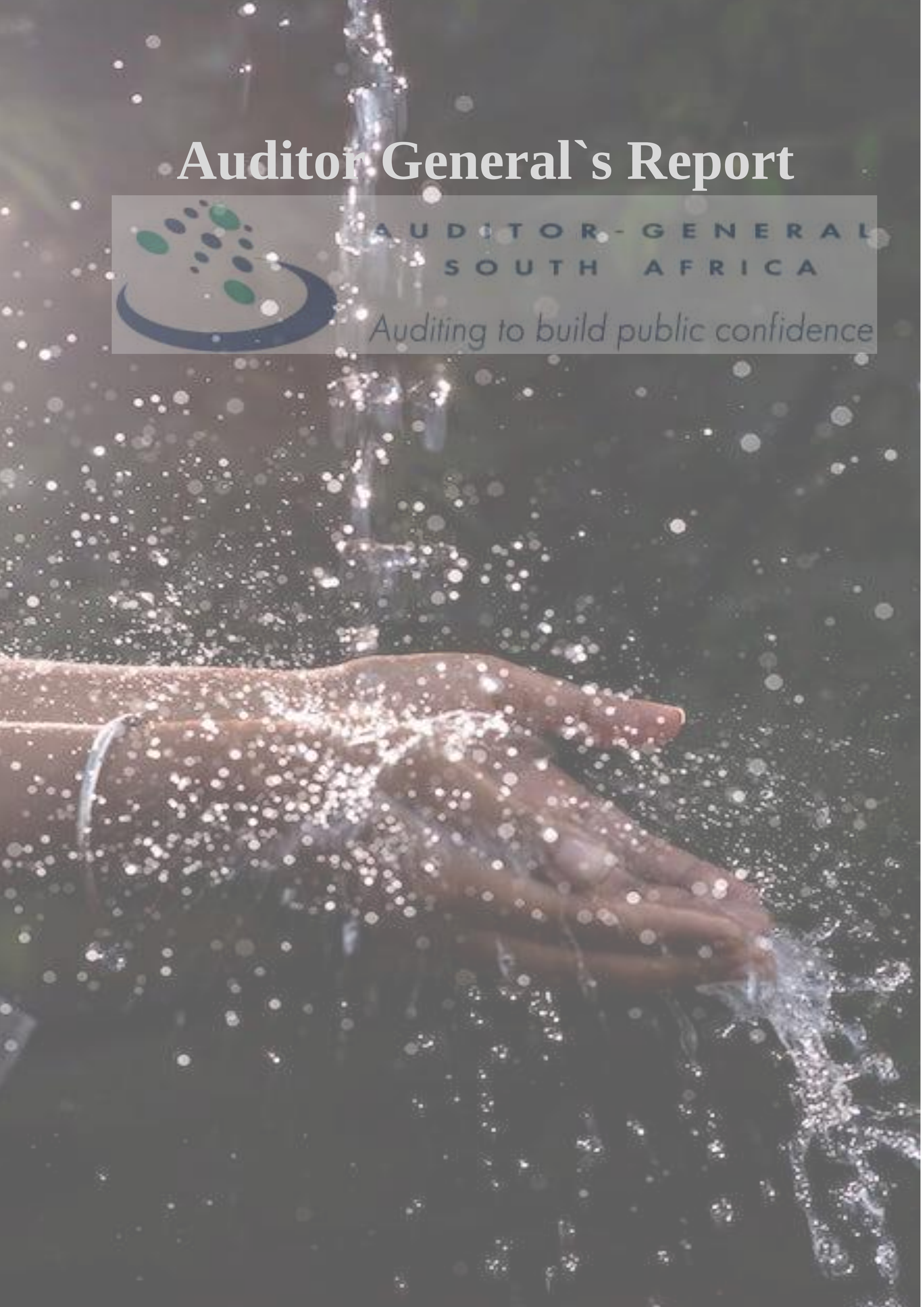
The Committee would like to commend management team led by the acting Accounting officer and UThukela Water Board for the support given to the committee and we would like to reassure UThukela Water Board that we are committed to work with the Board to improve its internal controls to achieve its objectives.

Mr S Majola - For the Audit Committee

Auditor General`s Report

AUDITOR-GENERAL SOUTH AFRICA

Auditing to build public confidence



REPORT OF THE AUDITOR-GENERAL OF SOUTH AFRICA

For the year ended 30 June 2022

uThukela Water (Pty) Ltd

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the Board of Directors on uThukela Water (Pty) Ltd

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of uThukela Water (Pty) Ltd) set out on pages ... to ..., which comprises of the statement of financial position as at 30 June 2022, the statement of financial performance, statement of changes in net assets, and cash flow statement for the year then ended, as well as 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 uThukela Water (Pty) Ltd as at 30 June 2022, and its financial performance and cash flows for the year then ended in accordance with the 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) and 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' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA code) as well as other 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.

Material uncertainty relating to going concern

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

7. As disclosed in note A to the financial statements, the municipality entity's current liabilities exceed its current assets by 2.6 to 1. Consequently, the entity is unable to pay the Department of Water and Sanitation's accounts in full as and when they become due. Furthermore, note A indicates that the debtor's collection period is 281 days, and an impairment of debtors of R22,78 million as well as an annual deficit of R93,40 million was incurred in the current financial year. These events or conditions along with other matters as set forth in disclosure note A indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue to operate as a going concern in the foreseeable future.

Emphasis of matters

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

Restatement of corresponding figures

9. As disclosed in note 45 to the financial statements, the corresponding figures for 30 June 2021 were restated as a result of an error in the financial statements of the entity at, and for the year ended, 30 June 2022.

Irregular expenditure

10. As disclosed in note 29.3 to the financial statements, the entity incurred irregular expenditure of R4,1 million due to proper supply chain management processes not followed.

Provision for bad debts

11. As disclosed in notes 2, 3 and 4 to the financial statements, a provision for bad debts of R22,78 million (2021: R36,72 million) was recognised mainly as a result of outstanding payments from the water services' authorities.

Other matter

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

Unaudited supplementary schedules

13. The supplementary information set out on pages xx to xx do not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

Unaudited disclosure notes

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

Responsibilities of the accounting authority for the financial statements

15. The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the financial statements in accordance with SA Standards of GRAP and the requirements of the MFMA and the Companies Act, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

16. In preparing the financial statements, the accounting authority is responsible for assessing the municipal entity'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 the appropriate governance structure either intends 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

17. 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 the 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Report on the audit of the annual performance report

Introduction and scope

19. 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 on the usefulness and reliability of the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.

20. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipal entity's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipal entity enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or 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.

21. 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 Objective 5 – Improve service delivery as presented in the municipal entity's annual performance report for the year ended 30 June 2022.

22. I performed procedures to determine whether the reported performance information was properly presented and whether performance 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.

23. I did not identify any material findings on the usefulness and reliability of the reported performance information for Objective 5 – Improve service delivery.

Other matter

24. I draw attention to the matter below.

Achievement of planned targets

25. The annual performance report on pages xx to xx sets out information on the achievement of planned targets for the year.

Report on the audit of compliance with legislation

Introduction and scope

26. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipal entity's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

27. The material findings on compliance with specific matters in key legislation are as follows:

Financial statements

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, current liabilities, expenditure, and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

29. Some of the goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by regulation 19(a) of the Municipal Supply Chain Management Regulations of 2017 (MSCMR). Deviations were approved by the accounting authority even though it was not impractical to invite competitive bids, in contravention of regulation 36(1) of the MSCMR.

30. The contract performance and monitoring measures were not in place to ensure effective contract management, as required by section 116(2)(c)(ii) of the MFMA.

31. The performance of contractors or providers were not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

Expenditure management

32. Money owed by the municipal entity was not always paid within 30 days, as required by section 99(2)(b) of the MFMA.

33. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R20,38 million (2021: R22,95 million), as disclosed in note 29.2 to the financial statements, in contravention of section 95(d) of the MFMA. The fruitless and wasteful expenditure was caused by interest incurred on overdue accounts.

Other information

34. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the director's report and the audit committee's report as required by the Companies Act. The other information does not include the financial statements, the auditor's report and the selected objective presented in the annual performance report that have been specifically reported in this auditor's report.

35. My opinion on the financial statements and findings on compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

36. 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 objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

37. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact.

38. I have nothing to report in this regard.

Internal control deficiencies

39. 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 on it. 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.

40. The accounting authority did not adequately oversee financial reporting and the related internal controls to ensure that regular, accurate and complete financial reports were prepared and effectively monitored by the management team. Moreover, compliance was not adequately monitored to ensure adherence to certain legislative prescripts.

Material irregularities

41. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit and on the status of the material irregularities reported in the previous year's auditor's report.

Material irregularities identified during the audit

42. The material irregularities identified are as follows:

Outstanding invoices not paid within 30 days

43. The municipal entity failed to ensure that the payments due to the Department of Water and Sanitation were made within 30 days of the invoice date. This amounted to a non-compliance with section 99 (2)(b) of the MFMA. The non-compliance resulted in a material financial loss of R29,88 million incurred by uThukela Water (Pty) Ltd before 30 March 2020. The interest incurred has been disclosed as fruitless and wasteful expenditure in note 29.2 to the 2020-21 annual financial statements.

44. The accounting authority was notified of the material irregularity on 25 January 2022 and was invited to make a written submission on the actions taken and that will be taken to address the matter.

45. The accounting authority had entered into agreements with their debtors to ensure recovery of long outstanding receivables in order to fund the payments due to the Department of Water and Sanitation.. However, to date, although payments to the Department of Water and Sanitation have improved, further interest and penalties of R20,38 million have been incurred in the current year.

46. I will follow up on the implementation of the planned actions during my next audit.

Other reports

47. I draw attention to the following engagements conducted by various parties which had, or could have, an impact on the matters reported in the municipal entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

48. The KwaZulu-Natal Department of Co-operative Governance and Traditional Affairs (COGTA) has conducted an investigation into various allegations levelled against the officials of the municipal entity. In the prior financial year, the recommendations of the investigation were communicated to the three shareholders of the municipal entity. The Board's resolutions on the recommendations contained in the report are being implemented. The Managing Director has been tasked to provide feedback on the progress on the implementation thereof to the Board at next the scheduled Board meeting.

49. The Board has appointed an external service provider to probe the prior year's irregular as well as fruitless and wasteful expenditure incurred by the municipality entity. The investigation has been completed and the report is to be presented to the Board at the next scheduled Board meeting.

Auditor-General

Pietermaritzburg

30 November 2022

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 objective and on the municipal entity'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 this 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 municipal entity's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority.
   - conclude on the appropriateness of the accounting authority'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 relating to events or conditions that may cast significant doubt on the ability of uThukela Water (Pty) Ltd 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 my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipal entity to cease operating as a going concern
   - evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and determine 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 authority 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 provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Managing Director`s Audit Action Plan

uthukela water

ACTION PLAN TO ADDRESS AUDIT FINDINGS

FOR THE 2021/2022 FINANCIAL YEAR

A: MATTERS AFFECTING THE AUDITOR'S REPORT

Expenditure management

AUDIT FINDING	AG RECOMMENDATION	MANAGEMENT RESPONSE	AUDITORS CONCLUSION	PROPOSED ACTION	RESPONSIBLE OFFICIAL	RETURN/ TARGET DATE	STATUS
1. Suppliers not paid within 30 days	Management should review and monitor the creditors age analysis to ensure that suppliers are paid within 30 days of receipt of invoice and ensure that they are compliant with the requirements of the MFMA.	Management has taken every reasonable step at its disposal to pay suppliers within 30 days. However, the Entity is unable to pay fully for the DWS raw water charges whilst the WSA's are not timeously paying for their bulk water accounts, and, are not paying for their arrears relating to prior years.	Management response has been noted however the entity did not pay the Department of Water and Sanitation within 30 days and as a result has not complied with the requirements of section 99(2)(b) of the MFMA. The finding remains and will be included in the audit report as a material compliance matter. Follow-up will done in the next audit.	The shareholder municipalities have agreed to implement payment plans. Payment plans have been submitted to the municipalities for their execution. If payment plans are executed, the entity can then draft a payment plan with DWS.	MD and Chairperson of the Board	31st January 2023	Pending

AUDIT FINDING	AG RECOMMENDATION	MANAGEMENT RESPONSE	AUDITORS CONCLUSION	PROPOSED ACTION	RESPONSIBLE OFFICIAL	RETURN/ TARGET DATE	STATUS
2. No reasonable steps were taken to prevent fruitless & wasteful expenditure at the entity	Management should adequately monitor the creditor's age analysis to ensure suppliers are paid within the payment terms. Management and those charged with governance should take reasonable steps to prevent fruitless and wasteful expenditure	Management has taken every reasonable step at its disposal to prevent fruitless and wasteful expenditure. However, the Entity is unable to pay fully for the DWS raw water charges whilst the WSA's are not timeously paying for their bulk water accounts and are not paying for their arrears relating to prior years.	Management comments are noted. However, the finding remains as the fruitless and wasteful was still incurred regardless of management's efforts to reduce the expenditure and a MI is raised on the matter. The finding remains and will be included in the audit report as a material compliance matter. Follow-up will be done in the next audit.	Obtain approved payment plans from the shareholder municipalities Draft a payment plan with DWS Engage with DWS on the write off of interest and part of the debt	MD and Chairperson of the Board	28th February 2023	Pending

Procurement and contract management

AUDIT FINDING	AG RECOMMENDATION	MANAGEMENT RESPONSE	AUDITORS CONCLUSION	PROPOSED ACTION	RESPONSIBLE OFFICIAL	RETURN/ TARGET DATE	STATUS
3. Contract performance measures were not in place and performance of contractors/ providers was not monitored on a monthly basis	Management should ensure that they have proper contract performance measures in place to ensure effective contract management and ensure that the performance of the providers is monitored on a monthly basis. Management should have a proper documented and approved policy for contract management.	UTW has drafted a contract management policy to ensure that it is in line with the National Treasury contract management framework in place. The contract management policy has been presented to MANCO and submitted to Provincial treasury for their review thereafter will be sent to LEADCO and subsequently to the board for approval. The contract management policy will serve as a guide as to how to manage existing	Management comments are noted, therefore the finding remains as contract management policy is still being reviewed and has not been implemented in the period being audited. The entity did not comply with requirements of section 116(2) of MFMA. The finding will be included in the audit report as a material non-compliance. Follow-up will done in the next audit.	Board approval of contract management policy and implementation of the policy thereafter. The performance supplier evaluation forms has been designed and give to all heard of unit to monitor the performance	SCM Manager Acting CFO	31st March 2023	Pending

		contract and ensure that the management of the contracts is line with the National Treasury contract management framework. Attached is the draft contract management policy and provincial treasury response on the contract management policy review. The SCM unit has a contract register that records the contract period, spending on contracts on monthly bases and reports to MANCO when the contract is due to expire. The departments are responsible to manage the performance of suppliers where the service is rendered and to indicate to the SCM unit if goods are not delivered on time. UIW does not have a system in place to record the performance management however as soon as Provincial Treasury review the contract management policy and it gets approved by the board of uThukela Water, the contract management unit/function will be proper established.		of suppliers on monthly bases and report to SCM on quarterly bases.			

Financial Statements

AUDIT FINDING	AG RECOMMENDATION	MANAGEMENT RESPONSE	AUDITORS CONCLUSION	PROPOSED ACTION	RESPONSIBLE OFFICIAL	RETURN/TARGET DATE	STATUS
6. Insufficient information on the Valuation of staff houses, cottages, and buildings	Management should ensure that the valuation report includes the workings on which the valuation amounts are based. Management should provide the auditors with the workings used to value the property.	GRAP 17 paragraph 36 states that if it is difficult to establish a market value due to an absence of a market then the entity may use the replacement cost of the asset. The entity has always used registered professional engineers to do the revaluation of assets, as they are industry experts. Attached Is a letter from the engineers stating that due to the lack of a liquid market of property in the area they used the replacement cost for the valuation of buildings.	Management response is noted. Inspected the valuation report and financial statements confirmed that the adjustment has been made. The finding will remain as relates to non-compliance with section 122 of the MFMA and will be included in the audit report as it relates to material adjustments to the financial statements.	A new valuation was undertaken which provided all the required information Obtain complete workings from Valuator for future valuations	Asset Manager Acting CFO	30th June 2023	Pending

B: OTHER IMPORTANT MATTERS

Property, plant and equipment

AUDIT FINDING	AG RECOMMENDATION	MANAGEMENT RESPONSE	AUDITORS CONCLUSION	PROPOSED ACTION	RESPONSIBLE OFFICIAL	RETURN/TARGET DATE	STATUS
11. Motor vehicles registered in the name of uThukela Water (Pty) Ltd not Included in the fixed asset register.	Management should ensure that the motor vehicles owned and controlled by uThukela Water (Pty) Ltd are	Management does not agree with the finding. Please note the table below that indicates the 2 assets that have been	Management comments are noted. The transferred assets were not located to the fixed asset register.	Deregistration of transferred assets	Asset Manager	31st March 2023	Pending

	included in the fixed asset register and financialstatements. These vehicles should include a cost, accumulated depreciation and carrying value together with the remaining useful lives of the vehicles in the fixed asset register.	transferred to Newcastle Municipality in June 2013.	Management needs to deregister these assets if they are no longer part of the entity. The finding remains.				

Trade and other payables

AUDIT FINDING	AG RECOMMENDATION	MANAGEMENT RESPONSE	AUDITORS CONCLUSION	PROPOSED ACTION	RESPONSIBLE OFFICIAL	RETURN/ TARGET DATE	STATUS
12. Amounts as per supplier statements does not agree to supplier age analysis	Management should review the creditors age analysis and creditors reconciliation to ensure all the relevant information is appropriately disclosed and accurately reflects the transactions of the entity. Management should review the financial statement to ensure that they are compliant with GRAP and the MFMA. Management should include all creditor accounts held in the name of uThukela Water (Pty) Ltd be included in trade and other payables	These accounts were transferred from the entity to the WSA's when • the reticulation function was handed back to them. • when uThukela District Municipality withdrew.	Management response has been noted. The table provided could not be reliably validated as the statements and accounts remain in the name of the entity. The finding therefore remains. Follow- up will be done during the next audit.	Engage with DWS to reconcile the account	Acting CFO	30th April 2023	Pending

Procurement and contract management

AUDIT FINDING	AG RECOMMENDATION	MANAGEMENT RESPONSE	AUDITORS CONCLUSION	PROPOSED ACTION	RESPONSIBLE OFFICIAL	RETURN/ TARGET DATE	STATUS
14. Awards to suppliers in service of the state	Management should validate that information submitted by suppliers during the SCM process is correct to ensure that awards are not made to suppliers in service of the state as there is a risk that suppliers might submit inaccurate declarations.	Both suppliers submitted MBD4 and did not declare that they are in service on the state. Additional controls will be implemented to ensure that MBD4 are checked for accuracy and correctness.	Management comments are noted. The finding therefore remains. Follow-up will be done during the next audit	Additional verification of MBD4 to be implemented by utilising National Treasury Central Supplier database portal.	SCM Manager Acting CFO	30th April 2023	Pending
18. Water Services Development Plan not prepared by the entity	Management should prepare and adopt a water services development plan as required by the Water Services Act and also budget for maintenance cost of the Water services system, refurbishment requirements and capital investment requirements.	Management does not agree with this finding. The preparation and adoption of a water services development plan is the mandate of the Water Services Authorities. uThukela Water (Pty) Ltd is a Water Services Provider. Section 12 referred to in this finding is under Chapter 3 of the act which is clearly stated: Chapter 3: Water Services Authorities. Everything discussed in this chapter pertains to Water Services Authorities, not Water Services Providers.	Management comments are noted. uThukela Water is responsible for the provision of bulk water and the maintenance of the water infrastructure. The ownership of the water infrastructure is retained by the municipal entity as per the Transfer Agreements. The finding therefore remains. Follow-up will be done during the next audit.	Engage with the WSA's for the preparation and adoption of a Water Services Development Plan	Acting Executive Director: Operations and Engineering	31st May 2023	Pending

Annual Financial Statements uThukela Water (Pty) Ltd FY 2021/2022

uthukela
water

uthukela
water

uThukela Water (Pty) Ltd

Annual Financial Statements

For The Year Ended 30 June 2022

I am responsible for the preparation of these amended annual financial statements which are set out on the pages 3 to 61, in terms of section 126 (2) of the Municipal Finance Management Act, 56 of 2003, and the Companies Act, 71 of 2008, and which I have signed on behalf of the company.

____________________	25 November 2022
Managing Director	**Date**
____________________	25 November 2022
Acting Chief Financial Officer	**Date**

UTHUKELA WATER (PTY) LTD
ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2022

Contents

uThukela Water (Pty) Ltd

Annual Financial Statements for the year ended 30 June 2022

GENERAL INFORMATION

Province: Kwazulu-Natal

AFS rounding: SA Rand only, no cents.

Contact Information

Acting Managing Director: Advocate Nontobeko Khambule

Acting Chief Financial Officer: Farida Moola

Telephone Number: 034 328 5000

Email Address: Nontobeko.Khambule@uthukelawater.co.za

Chairman of the Board: Dr J Vorster

Telephone Number: 011 342 2289

Email Address: alimokoena@gmail.com

Auditor General South Africa Contact: Aruna Soopal

Telephone: 033 264 7400

Email Address: ArunaS@agsa.co.za

General Information

Legal form of business

uThukela Water (Pty) Ltd is an interim Water Service Provider operating under Provincial Council authority dated 6 June 2012, and via a water services provider agreement signed with the Shareholder municipalities of; Newcastle, Umzinyathi and Amajuba Districts, in accordance with the provisions of section 78 of the Municipal Systems Act 32/2000, for the purposes of providing Bulk water services to these municipalities.

The National Minister of Water Affairs and Sanitation via government gazette number 39491 dated 15 December 2015 determined that the Entity will be incorporated into a new single Water Board proposed for the whole of KwaZulu Natal.

The entity operates as a Bulk water services provider to its controlling Shareholders, and performs no other functions outside the scope of the draft agreement between the parties.

The entity is governed by the provisions of the Companies Act 71/2008, Municipal Finance Management Act 56/2003, Municipal Systems Act 32/2000, Water services Act 108/1997 and the Public Audit Service Act 25/2004.

Members of the Board

Dr. J.A Vorster (Chairman of the Board)

Dr. A.S Mokoena

Mr. E.M Zungu

Mr. P.M Ngcobo

Mr. T.G Mphela

The three Municipal Managers of the Shareholder municipalities, of Newcastle Local Municipality, Umzinyathi District Municipality and Amajuba District Municipality.

Auditors: Auditor General South Africa

Bankers: Standard Bank of South Africa

Registered Office: 79 Harding Street, Newcastle

Physical Address: 79 Harding Street, Newcastle

Postal Address: P O Box 729, Newcastle 2940

Telephone Number: 034 3285000

Fax Number: 034 3263388

Email Address: Nontobeko.Khambule@uthukelawater.co.za

DIRECTORS REPORT

In terms of the Companies Act, 71/2008, as amended, and read with the Municipal Systems Act 32/2000, as amended, the Board of uThukela Water (Pty) Ltd, is the accounting authority and the bulk water services provider to the municipalities of Newcastle, Amajuba and Umzinyathi District, and the Directors have pleasure in presenting their report for the year ended 30 June 2022.

Nature of business

uThukela Water (Pty) Ltd, is an interim multijurisdictional water entity, originally established in 2003 to provide the whole spectrum of water and sanitation services, and then subsequently with effect from the 1 July 2013, was re-constituted to supply only potable bulk water to its parent municipalities. The activities of uThukela Water are in line with the provisions of the Water Act, Act 108/1997.

The primary activities in terms of section 29 of the Act are:

(a) To treat raw water and to distribute the treated water via its infrastructure to its Shareholder municipalities.

(b) To provide Bulk water quality assurance to its Shareholders via its laboratory analyses and measurement in terms of National Water Standards.

In terms of section 30 of the Act, uThukela Water (Pty) Ltd also engages in other services that complement bulk water services such as laboratory services, water quality monitoring and environmental management within the water reticulation systems of the Shareholders, and also acts as an implementing agent for any sphere of government for projects related to water service delivery.

The services are provided on behalf of the following parent municipalities who are also the Water Service Authorities for their respective jurisdictions:

Amajuba District Municipality
Newcastle Municipality
Umzinyathi District Municipality

Compliance with legislation

The annual financial statements are prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such accounts issued by the Accounting Practices Board, with the effective standards of Generally Recognized Accounting Practices (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP statements as indicated in the accounting policies of the Board. The requirements of the following relevant statutes were also taken into account when preparing the annual financial statements:

(a) Water Services Act 108/1997,
(b) Municipal Finance Management Act 56/2003,
(c) Municipal Systems Act 32/2000,
(d) Companies Act 71/2008 and
(e) Public Audit Service Act 25/2004.

These acts require preparation of the financial information to be in compliance with the Companies Act 71/2008, as amended.

Corporate governance and risk management

The Board supports the principles of the code of Corporate Practices and Conduct as set out in the King IV report. The organizations policies, procedures and processes are continuously reviewed to align with King IV and the Board provides the required oversight and is pleased with the commitment that prevails at all spheres of the organization in as far as compliance with King IV is concerned.

The Board is responsible for monitoring the risk management process.

Share capital and Director's interests

The share capital of the Company has been issued in one hundred (100) ordinary shares, and is valued at R100.

The authorized number of ordinary shares is 10 000, with a par value of R 1 per share.

The parent municipalities (Water Service Authorities) are the sole Shareholders of the company, and their individual shareholding is as follows;

Amajuba District Municipality; 33%
Newcastle Municipality; 34%
Umzinyathi District Municipality; 33%

The details of the shares, and share certificates, are recorded in the Register of Shareholders of the Company, in terms of the provisions of the Companies Act 71 of2008, as amended.

The MEC responsible for Co-operative Governance and Traditional Affairs, The Honorable N. Dube, on the 18 June 2012, released a decision of the Provincial Executive Committee taken at a Cabinet meeting held on the 25 April 2012, wherein it was resolved that;

(a) The section 139 (1) (b) of the Constitution of the RSA, Act 108/1996, intervention instituted by the Provincial Executive was terminated with immediate effect, and that the Water Service Authorities would immediately resume and be accountable for water service functions previously assumed by the Provincial Executive of the Province of KZN together with the rights and obligations pertaining to uThukela Water (Pty) Ltd.

(b) The Directive also governed that in relation to the delivery of water services operated by uThukela Water (Pty) Ltd, that in terms of section 139 (1) (a) of the Constitution, the following orders, amongst other things to be done, would be implemented;

- All retail/reticulation water service functions would be de-centralized and returned to the respective municipalities.
- Bulk water services would be regionalized.
- uThukela Water (Pty) Ltd would continue to provide water services as the Bulk water service provider until such time that the National Minister for Water Affairs makes a decision concerning the future composition of the new or reconstituted Regional Bulk water service authority.
- That uThukela Water (Pty) Ltd would be de-registered in terms of the Companies Act once the Minister of Water Affairs had made a decision regarding the new or reconstituted water service authority.

During the financial year, no contracts were entered into in which Directors or Officers of the Company had an interest and which significantly affected the business of the Company.

No special resolutions, the nature of which might be significant to the Shareholder in their appreciation of the state of affairs of the Company, were made by the Company during the period covered by this report.

The future dispensation of the Company

The Minister of Water Affairs and Sanitation has by Government Gazette number 39491 dated the 10 December 2015, declared that in terms of the provisions of the Water Services Act 108/1997, that the extension of the water services will be incorporated into a single water functionary. The mechanism and new functionary have not yet been finalized and determined by the Minister.

Financial performance

The Company's statement of financial position reflects a net asset worth of R 397 068 261 (2021: R 511 552) and is made up as follows;

Share Capital	R	100
Accumulated deficit	R	84 260 733
Asset revaluation Reserve	R	481 328 895

The total net shareholder contributions paid to uThukela Water to date is reflected at R 146 590 121 (2021: R 156 162 652) and is made up of capital contributions to water infrastructure development projects, and excludes bulk water billing payments which are appropriated to accumulated surpluses. The details hereof are reflected in note 13 to the annual financial statements.

There was a net decrease in cash and cash equivalents to R 19 800 255 from R 29 424 084 in 2021. Cash receipts and accumulated funds assisted the Company to invest R 1 233 541 (2021: R 1 258 341) into property, plant, infrastructure and equipment during the year. The total net capital investment in bulk water service infrastructure, and in respect of property plant and equipment is R 690 207 798 (2021: R 789 451 219)

Statement of Financial Performance, June 2022.

The Statement of Financial Performance for the year under review reflects a trading deficit of R 93 402 484 for the year (2021: R 127 149 807). However, it should be noted that the deficit is mainly attributable to the raising of depreciation charges amounting to R 79 285 115 (2021: R 79 261 466), which amount is written back via the accumulated surplus account as a result of the municipalities not providing for or paying for these depreciation charges and the contribution to provision for bad debts amounting to R 22 777 117 (2021: R 36 720 992). The Water Service Authorities only provide and pay for cash items in their operational budgets and do not contribute towards any of the non-cash items accounted for.

Statement of Financial Position, June 2022.

The Statement of Financial Position, present some areas of concern including a negative current ratio, adverse liquidity ratios and adverse cash coverage. These are directly as a result of the non- payment of the raw water charges billed by the Department of Water and Sanitation and consequently raised by the Entity, but not paid to the Department, as a result of non-payment by the shareholder municipalities.

The recovery and/or write off of these raw water charges is receiving attention at the highest level.

There were no external borrowings in the year under review.

Capital expenditure and commitments

Capital expenditure for the year include amounts utilized from accumulated funds and brought into account in the water services balance sheet amounting to R 1 233 541 (2021: R 1 258 341) for property, plant and equipment.

The Companies contractual capital commitments are disclosed in note 32 of the financial statements.

Materiality framework

Management for the purposes of materiality works within the framework of acceptable levels of materiality and significance set and established by the Office of the Auditor General.

Fruitless and wasteful expenditure

There was R 20 380 985 of fruitless and wasteful expenditure comprising mainly of interest raised by the Department of Water and Sanitation on outstanding accounts during the year. See note 29.

Irregular expenditure

Irregular expenditure was reported during the year under review resulting from non-compliance with the supply chain management policy. These instances will be investigated and reported to the Board. See note 29.

Fraud and financial misconduct

There were no instances of fraud and financial misconduct in the current financial year. Internal controls are reviewed and improved on continuously.

Performance against financial targets

The performance of uThukela Water against key financial indicators as agreed in the Shareholders compact is illustrated in the performance management scorecards which are reported in the annual report.

The Company scorecard reflects that the Company has performed within targets and objectives as set out in the Business plans and budgets, albeit it under difficult and restrained circumstances.

Events after the reporting period

There are no events to report

Going concern

The going concern basis has been adopted in preparing the financial statements. The Directors considered the following factors in reaching this opinion:

- The assumption that the shareholders will pay their monthly bulk water service invoices in accordance with their signed agreements and as directed by the Provincial Council in its instruction dated 7 June 2012.

- The entity continues to deliver on its mandates to its shareholders in all respects and in full compliance with all legislation as evidenced by good audit outcomes.

- Stable key executive management incumbents have been, and are in place, albeit in some cases in Acting capacities, providing; expertise, stability, industry know how and guidance in all aspects of effective and efficient water service management to the Board and its shareholders.

- Annually approved MTREF business plans, operational and capital budgets, tariff model, performance management and risk assessment plans are in place and monitored and reported on regularly to the Board and its shareholders.

UTHUKELA WATER (PTY) LTD

Report of the Auditor General

UTHUKELA WATER (PTY) LTD

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2022

	Note	2022	RESTATED 2021
		R	R
ASSETS			
Current assets		177 348 284	157 446 059
Cash and cash equivalents	1	19 800 255	29 424 084
WSA debtors	2	2 026 211	183 138
Trade and other receivables from exchange transactions	3	129 294 921	100 388 929
Other receivables from non-exchange transactions	4	2 792 640	2 653 050
VAT receivable	5	23 225 809	24 610 444
Inventory	6	208 447	186 415
Non-current assets		690 207 798	789 451 219
Property, plant and equipment	7	689 840 770	788 721 338
Intangible assets	8	367 027	729 881
Total assets		867 556 081	946 897 278
LIABILITIES			
Current liabilities		459 477 820	423 381 056
Trade and other payables	9	458 527 859	422 352 803
Unspent conditional grants and receipts	10	460 961	460 961
Current portion of staff benefit obligations	11	489 000	567 292
Non-current liabilities		11 010 000	11 963 630
Service related staff benefit obligations	11	11 010 000	11 963 630
Total liabilities		470 487 820	435 344 686
Net assets		397 068 261	511 552 592
Share capital	12	100	100
Accumulated funds	13	397 068 162	511 552 492
Net assets		397 068 261	511 552 592

UTHUKELA WATER (PTY) LTD.

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2022

	Note	Budget 2022 R	Actual 2022 R	Budget 2021 R	Restated 2021 R
REVENUE					
Revenue from exchange transactions					
Service charges	14	175 768 423	174 372 947	170 263 232	165 403 505
Interest earned - external investments	15	114 490	858 315	107 000	1 067 037
Revenue from non-exchange transactions					
Interest on receivables		-	6 810 980		
Other receipts		50 000	3 451 215	779 300,00	293 631
Total revenue		175 932 913	185 493 457	171 149 532	166 764 172
EXPENDITURE					
Employee related costs	17	(64 313 792)	(58 813 133)	(59 541 583)	(59 561 054)
Contribution to provision for bad debts	2,3,4	-	(22 777 117)	-	(36 720 992)
Depreciation and amortisation	18	(1 885 312)	(79 285 115)	(1 787 026)	(79 261 466)
Repairs and maintenance	19	(9 313 787)	(3 948 601)	(16 110 527)	(5 177 110)
Bulk water purchases	20	(24 275 789)	(27 264 702)	(29 419 149)	(30 267 399)
Interest paid/accrued	21	-	(20 380 985)	-	(22 945 197)
Contracted services	22	(4 520 300)	(2 944 167)	(2 704 180)	(2 535 657)
Inventory adjustment	6	-	22 032	-	10 586
Operating expenses	23	(70 225 484)	(63 394 154)	(60 272 768)	(57 570 388)
Total expenditure		(174 534 463)	(278 785 942)	(169 835 232)	(294 028 676)
Gain / (loss) on disposal/scrapping of assets	24	-	(110 000)	-	114 697
Surplus(deficit) before taxation		1 398 450	(93 402 484)	1 314 300	(127 149 807)
Taxation	25	-	-	-	-
Surplus(Deficit) for the year		1 398 450	(93 402 484)	1 314 300	(127 149 807)

UTHUKELA WATER (PTY) LTD.

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2022

Description, Nature and Purpose of Reserve	Note	Share capital invested in Entity by Shareholders in terms of Company Memorandum of Association	Partner capital grant/partner funds transferred to Entity for projects implemented by the Entity			Asset Revaluation Reserve, reflects assets at fair value, measured reliably, and carried at revalued amounts	Accumulated Surplus/(Deficit) reflects accumulated surplus or deficit of the Entity	Total Net Assets reflects net income retained, no dividends are paid
			Umzinyathl	Amajuba	Newcastle		Excl Partners Contributions	
		R	R	R	R	R	R	R
Balance at 30 June 2019		100	92 496 969	8 814 902	89 062 121	699 709 328	(168 596 001)	721 487 418
Share capital		0						0
Operating (surplus)deficit - including shareholders contributions		-	-	-	-	-	(91 828 627)	(91 828 627)
Correction of error	46						(512 959)	(512 959)
Acquired assets through partners contribution		-	-	-	9 555 653	-		9 555 653
Off- setting depreciation	13		(3 722 395)	(1 093 649)	(3 608 294)	(66 248 321)	74 672 660	-
Balance at 30 June 2020		100	88 774 573	7 721 253	95 009 479	633 461 008	(186 264 928)	638 701 484
Operating (surplus)deficit - including shareholders contributions		-	-	-	-	-	(89 050 432)	(89 050 432)
Correction of error	46						(38 099 375)	(38 099 375)
Off- setting depreciation	13		(3 523 133)	(1 093 649)	(4 955 750)	(65 515 868)	75 088 399	-
Balance at 30 June 2021		100	85 251 440	6 627 604	90 053 729	567 945 140	(238 325 422)	511 552 591
Operating (surplus)deficit - including shareholders contributions		-	-	-	-	-	(93 402 484)	(93 402 484)
Correction of error			-6 531 186		-8 788 169		15 319 355	-
Fair Value Adjustment						(21 081 846)		(21 081 846)
Off- setting depreciation	13		(3 523 133)	(1 093 649)	(4 955 750)	(65 534 399)	75 106 930	-
Balance at 30 June 2022		100	75 197 121	5 533 955	76 309 811	481 328 895	(241 301 621)	397 068 262

UTHUKELA WATER (PTY) LTD.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2022

	Note	2022	RESTATED 2021
		R	R
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts		125 233 169	133 361 729
Sales of goods and services		124 059 296	131 882 549
Interest received		805 394	1 069 299
Other receipts		368 479	409 881
Payments		(133 623 457)	(122 749 462)
Employee costs		(58 460 588)	(59 298 174)
Suppliers		(75 076 020)	(63 347 634)
Other payments		(86 850)	(103 654)
NET CASH FROM OPERATING ACTIVITIES	26	(8 390 288)	10 612 266
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	7	(1 233 541)	(1 258 341)
NET CASH FROM INVESTING ACTIVITIES		(1 233 541)	(1 258 341)
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		(9 623 829)	9 353 925
Cash and cash equivalents at the beginning of the year		29 424 084	20 070 160
Cash and cash equivalents at the end of the year	1&27	19 800 255	29 424 084
		9 623 829	(9 353 925)

ACCOUNTING POLICIES

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognized Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board and The Companies Act, 2008 (Act 71 of 2008) and the MFMA.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention unless specified otherwise. They are presented in South African Rands.

Unless otherwise stated, all figures have been rounded to the nearest rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below. These accounting policies are consistent with the previous period.

Municipal Standard Chart of Accounts

The Entity operates its accounts on the Municipal Standard Chart of Accounts as required by National Treasury, and in line with the shareholder municipalities.

1.1 Significant judgments and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgments are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgments include:

Trade receivables

The entity assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the entity makes judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

1.1 Significant judgments and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating, non-cash generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell.

These calculations require the use of estimates and assumptions. It is reasonably possible that the useful life and market value assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including technological obsolescence, together with economic factors such as interest and inflation rates.

Provisions

Provisions were raised and management determined an estimate based on the information available.

Post-retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The entity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the entity considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 11 – Service related employee benefit obligations.

Effective interest rate

The entity used the prime interest rate to discount future cash flows adjusted for risks specific to the related item.

1.1 Significant judgments and sources of estimation uncertainty (continued)

Allowance for doubtful debts

On receivables an impairment loss is recognized in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivables carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.2 Property, plant and equipment

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

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

- It is probable that future economic benefits or service potential associated with the item will flow to the company;
- The cost of the item can be measured reliably.

Property, plant and equipment are initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognized in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognized.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value. Depreciation begins when the assets are available for use and ceases

1.2 Property, plant and equipment (continued)

at the earlier of the date that the assets are classified as held for sale and the date on which the assets are derecognized.

After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Useful life**
Buildings	50 years
Water infrastructure	5 to 50 years
IT equipment	3 to 10 years
Leasehold property	
Leasehold improvements	5 years over the period of lease
Plant and machinery	
Grass-cutting Equipment	7 to 10 years
Minor plant	5 to 50 years
Mobile plant	7 to 10 years
Office equipment	
Furniture & fittings	7 to 10 years
Other office equipment	3 to 10 years
Motor Vehicles	
Trucks and light delivery vehicles	5 to 7 Years
Ordinary motor vehicles	5 to 7 Years

1.2 Property, plant and equipment (continued)

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each period is recognized in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognized when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognized. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognized as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.3 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless of whether those rights are transferable or separate from the company or from other rights and obligations.

An intangible asset is recognized when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognized at cost.

When an intangible asset is acquired at no or nominal cost, the cost shall be its fair value as at the date of acquisition.

An intangible asset shall be derecognized on disposal or when no future economic benefits or service potential are expected from its use or disposal.

1.3 Intangible assets (continued)

The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognized in surplus or deficit when the asset is derecognized.

Intangible assets are carried at cost less any accumulated amortization and any impairment losses.

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

The amortization period and the amortization method for intangible assets are reviewed at each reporting date. Amortization begins when the assets are available for use and ceases at the earlier of the date that the assets are classified as held for sale and the date on which the assets are derecognized.

The amortization charge for each period shall be recognized in surplus or deficit unless it is permitted or required to be included in the carrying amount of another asset.

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

Item	Useful life
Computer software	3 to 5 years

1.4 Financial instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:

- Loans and receivables
- Financial liabilities measured at amortized cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

Financial assets classified as at fair value through surplus or deficit which are no longer held for the purposes of selling or repurchasing in the near term may be reclassified out of that category:

1.4 Financial instruments (continued)

- If the asset met the definition of loans and receivables and the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

No other reclassifications may be made into or out of the fair value through surplus or deficit category.

A financial asset classified as available-for-sale that would have met the definition of loans and receivables may be reclassified to loans and receivables if the entity has the intention and ability to hold the asset for the foreseeable future or until maturity.

Initial recognition and measurement

Financial instruments are recognized initially when the entity becomes a party to the contractual provisions of the instruments.

The entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through surplus or deficit are recognized in surplus or deficit. Regular way purchases of financial assets are accounted for at trade date.

Subsequent measurement

Loans and receivables are subsequently measured at amortized cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortized cost are subsequently measured at amortized cost, using the effective interest method.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the entity establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity- specific inputs.

1.4 Financial instruments (continued)

Impairment of financial assets

At each end of the reporting period the entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognized in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognized, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognized.

Reversals of impairment losses are recognized in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because the fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognized in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Loans to/from economic entities

These include loans to and from controlling entities, fellow controlled entities, joint ventures and associates and are recognized initially at fair value plus direct transaction costs.

Loans to economic entities are classified as loans and receivables.

Loans from economic entities are classified as financial liabilities measured at amortized cost.

Trade receivables

Trade receivables are measured at initial recognition at fair value and are subsequently measured at amortized cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognized in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognized is measured as the

1.4 Financial instruments (continued)

difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognized in surplus or deficit within operating expenses.

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially measured at fair value and are subsequently measured at amortized cost, using the effective interest rate method.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in accordance with the entity's accounting policy for borrowing costs.

Financial liabilities and equity instruments

Financial liabilities are classified according to the substance of contractual agreements entered into. Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognized as follows:

- A gain or loss on a financial asset or financial liability classified as at fair value through surplus or deficit is recognized in surplus or deficit;

1.4 Financial instruments (continued)

- A gain or loss on an available-for-sale financial asset is recognized directly in net assets, through the statement of changes in net assets, until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in net assets is recognized in surplus or deficit; and
- For financial assets and financial liabilities carried at amortized cost, a gain or loss is recognized in surplus or deficit when the financial asset or financial liability is derecognized or impaired, and through the amortization process.

Derecognition

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the entity retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the entity has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or
- has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Financial assets are derecognized using trade settlement date accounting.

Where the entity has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the entity's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the entity could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the entity's continuing involvement is the amount of the transferred asset that the entity may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or

1.4 Financial instruments (continued)

modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in surplus or deficit.

1.5 Leases

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

Finance leases - lessee

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

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

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

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

Operating leases - lessee

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

1.6 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realizable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

1.6 Inventories (continued)

Net realizable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the entity will incur to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

When inventories are sold, the carrying amounts of those inventories are recognized as an expense in the period in which the related revenue is recognized. If there is no related revenue, the expenses are recognized when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realizable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value, are recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

1.7 Impairment of cash-generating assets

Cash-generating assets are those assets held by the company with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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

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

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

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

1.7 Impairment of cash-generating assets (continued)

Depreciation/amortization is the systematic allocation of the depreciable amount of an asset over its useful life.

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

The recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use, the entity:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and

1.7 Impairment of cash-generating assets (continued)

- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

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

An impairment loss is recognized immediately in surplus or deficit.

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

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

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

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the assets or cash-generating unit's value in use; and

1.7 Impairment of cash-generating assets (continued)

- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognized for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

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

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

1.7 Impairment of cash-generating assets (continued)

A reversal of an impairment loss for a cash-generating asset is recognized immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

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

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.8 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

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

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

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

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

1.8 Impairment of non-cash-generating assets (continued)

Depreciation/amortization is the systematic allocation of the depreciable amount of an asset over its useful life.

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

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Identification

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

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

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

Value in use

Value in use of an asset is the present value of the asset's remaining service potential.

The present value of the remaining service potential of an asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

1.8 Impairment of non-cash-generating assets (continued)

The replacement cost and reproduction cost of an asset is determined on an "optimized" basis. The rationale is that the entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimized basis thus reflects the service potential required of the asset.

Recognition and measurement

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

An impairment loss is recognized immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

A reversal of an impairment loss for a non-cash-generating asset is recognized immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

1.8 Impairment of non-cash-generating assets (continued)

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

1.9 Shareholder's loan on incorporation

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

Shareholder's loan on incorporation is treated as residual interest.

1.10 Employee benefits

Short-term employee benefits

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

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

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

Defined contribution plans

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

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

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected unit credit method. Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. Consideration is given to any event that could impact the funds up to the end of the reporting period where the interim valuation is performed at an earlier date.

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

1.10 Employee benefits (continued)

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

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

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

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

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

Other post retirement obligations

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

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

1.11 Provisions and contingencies

Provisions are recognized when:

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

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

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

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognized as an interest expense.

A provision is used only for expenditures for which the provision was originally recognized. Provisions are not recognized for future operating deficits.

If the entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognized and measured as a provision.

A constructive obligation to restructure arises only when the entity:

- has a detailed formal plan for the restructuring, identifying at least:
- the activity/operating unit or part of an activity/operating unit concerned;
- the principal locations affected;

1.11 Provisions and contingencies (continued)

- the expenditures that will be undertaken; and when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the entity

No obligation arises as a consequence of the sale or transfer of an operation until the entity is committed to the sale or transfer, that is, there is a binding agreement.

After their initial recognition contingent liabilities recognized in business combinations that are recognized separately are subsequently measured at the higher of:

- the amount that would be recognized as a provision; and
- the amount initially recognized less cumulative amortization.

A contingent liability is a present obligation that arises from past events but is not recognized because it is not probable that an outflow of economic benefits or service potential will be required to settle the obligation or the amount of the obligation cannot be measured with certainty.

Contingent assets and contingent liabilities are not recognized, but disclosed.

1.12 Revenue from exchange transactions

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

An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Revenue is recognized when it is probable that future economic benefits or service potential will flow to the entity and these benefits can be measured reliably.

1.12 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognized by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognized on a straight-line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognized that are recoverable.

Service revenue is recognized by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognized when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the company, and
- the amount of the revenue can be measured reliably.

Interest is recognized, in surplus or deficit, using the effective interest rate method.

Royalties are recognized as they are earned in accordance with the substance of the relevant agreements.

1.12 Revenue from exchange transactions (continued)

Dividends or their equivalents are recognized, in surplus or deficit, when the entity's right to receive payment has been established.

Service fees included in the price of the product are recognized as revenue over the period during which the service is performed.

1.13 Revenue from non-exchange transactions

Water Service Authority shortfall contributions are recognized when all conditions associated with the contribution has been met in terms of the WSP agreement and is transferred directly to the Statement of Financial Performance.

Capital grant reimbursements are claimed from the Shareholders who hold all Government grant receipts, and these receipts, are only recognized for payment purposes when actually received by the entity, and are accounted for in the Statement of Financial Performance.

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

1.13 Revenue from non-exchange transactions (continued)

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

The Entity is exempt from the payment of Income Tax

Recognition

An inflow of resources from a non-exchange transaction recognized as an asset is recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.

As the entity satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non- exchange transaction recognized as an asset, it reduces the carrying amount of the liability recognized and recognizes an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognized by the entity.

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

1.14 Cost of sales

When inventories are sold, exchanged or distributed the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. If there is related revenue, the expense is recognized when the goods are distributed, or related service is rendered. The amount of any write-down of inventories to net realizable value or current replacement cost and all deficits of inventories are recognized as an expense in the period the write-down or loss

1.14 Cost of sales (continued)

occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value or current replacement cost, is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

The related cost of providing services recognized as revenue in the current period is included in cost of sales.

1.15 Investment income

Investment income is recognized on a time-proportion basis using the effective interest method.

1.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalization is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalized do not exceed the total borrowing costs incurred.

The capitalization of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realizable value, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets as per accounting policy number 1.7 and 1.8. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalization is suspended during extended periods in which active development is interrupted.

Capitalization ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the entity completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the entity ceases capitalizing borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

1.16 Borrowing costs (continued)

All other borrowing costs are recognized as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Unauthorized expenditure

Unauthorized expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorized expenditure is recognized as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognized as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

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

1.21 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.22 Gratuities

The entity provides gratuities for qualifying staff members in terms of the relevant conditions of employment. The expenditure is recognized in the statement of financial performance when the gratuity is paid.

1.23 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognized as revenue to the extent that the entity has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognized.

Partners contributions (Grants)

Water Service Authority contributions (Grants) utilized to fund assets is accounted for in the Statement of Financial Performance and transferred to the Accumulated Funds.

Water Service Authority contributions (Grants/shortfall contributions) utilized to fund operational expenditures and are accounted for in the Statement of Financial Performance.

1.24 Budget information

The entity is typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which is given effect through authorizing legislation, appropriation or similar.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the annual financial statements as an annexure.

The period of the approved budget is the 1st July 2021 to the 30th June 2022.

1.25 Related parties

A related party is a person or entity that is related to the entity.

(a) A person or a close member of that person's family is related to the entity if that person:

(i) has control or joint control over the entity;

(ii) has significant influence over the entity; or

(iii) is a member of the key management personnel of the entity or of a parent of the entity.

(b) An entity is related to the entity if any of the following conditions applies:

(i) the entity and the company are members of the same group.

1.25 Related parties (continued)

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) both entities are joint ventures of a third party.

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third party.

(v) the entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the entity. If the entity is itself such a plan, the sponsoring employers are also related to the entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of the parent of the entity).

Transactions with related parties are entered into and disclosed at arm's length.

Related party relationships where control exists are disclosed irrespective of whether there have been transactions between the related parties.

In respect of transactions between related parties other than transactions that would occur within normal supplier or client/recipient relationship on terms and conditions no more or less favorable than those which it is reasonable to expect the entity would have adopted if dealing with that individual or entity at an arm's length in the same circumstances, the entity discloses (a) the nature of the related party relationship, (b) the type of transaction that have occurred and (c) the elements of the transactions necessary to clarify the significance of these transactions to its operations and sufficient to enable the financial statements to provide relevant and reliable information for decision making and accountability purposes.

2. FINANCIAL RISK MANAGEMENT

2.1 Credit risk

Potential credit risk mainly consists of short-term investments, cash and cash equivalents and accounts receivable. The risk from short-term investments and other cash items is restricted by transacting only with financial institutions with high credit ratings assigned by international credit-rating agencies. Credit risk with respect to trade receivables is limited to the Shareholders and their municipality's ability to meet their capital grant and trade Bulk water purchase annual Budget commitments to the entity.

2.2 Liquidity risk

uThukela Water (Pty) Ltd manages liquidity risk through proper management of working capital, capital expenditure and actual versus forecasted cash flows.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

3.1 Impairment of consumer and other debtors

Impairment of receivables is established if there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables. Accordingly, management's assessment of the recoverability is reflected through the creation of a provision for doubtful debts as reflected in the notes to the financial statements.

4. SEGMENTAL INFORMATION

Segmental information in respect of property, plant and equipment is disclosed in Appendix B to the annual financial statements attached.

UTHUKELA WATER (PTY) LTD.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

	2022	RESTATED 2021
	R	R

A **PREAMBLE - CHANGE OF FUNCTIONS, GOING CONCERN AND DEVELOPMENTAL OBJECTIVES**

Going Concern - As at 30 June 2022, the entity's current liabilities exceed its current assets by 2.6:1, consequently the entity is unable to pay the Department of Water and Sanitation accounts as and when they become due. The debtor's collection date is 281 days and there is an impairment of debtors of R22 777 117. Annually deficits have been incurred with a deficit of R 93 402 484 incurred in the current financial year. These conditions, indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to operate as a going concern in the foreseeable future.

Bulk water service functions - The entity, consequent to a Provincially instituted section 78 (MSA32/2000) water services assessment conducted for the region, and in terms of a COGTA Provincial Directive dated 7 June 2012, operates as a bulk water services provider to the municipalities of Newcastle, Amajuba and Umzinyathi Districts.

Developmental objectives - The Board annually submits its capital and developmental requirements to the municipalities and it is of great concern that the municipalities do not approve a funded capital budget for the Board to implement. The bulk water infrastructures are very old and outdated and require regular and constant refurbishment and replacement. This lapse in adequate funding is a high risk to the sustainability and future of bulk water services in the region. The Board has provided the municipalities with possible funding models to give emphases to its funding options, but unfortunately, these have not been approved. The municipalities also do not pay the annual capital infrastructure depreciation charges to the entity.

1 **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

	2022	2021
Cash on hand	10 707	13 754
Cash at bank	1 047 061	1 069 054
Cash on call and short notice deposits	18 742 487	28 341 276
	19 800 255	29 424 084

uThukela Water (Pty) Ltd has the following bank accounts:

Account Number - Bank -Account Description	Cash Book Balance 30 06 2022	Bank Statement Balance 30 06 2022	Cash Book Balance 30 06 2021	Bank Statement Balance 30 06 2021
Cash at bank				
4059636838 - Absa	113 561	113 561	145 247	145 247
061938939 - Standard Bank - Primary Current Account	933 500	933 500	923 807	923 807
	1 047 061	1 047 061	1 069 054	1 069 054
Cash on call and short notice deposits				
268586055-020 - Standard Notice Deposit	13 194 786	13 194 786	17 271 106	17 271 106
268586055-002 - Standard Call Account	5 038 520	5 038 520	10 533 309	10 533 309
92 5753 8348 - Absa - Deposit	509 182	509 182	536 862	536 862
	18 742 487	18 742 487	28 341 276	28 341 276
Petty cash	10 707		13 754	
Total Cash and cash equivalents	19 800 255	19 789 548	29 424 084	29 410 330

For the purposes of the cash flow statement, the cash and cash equivalents comprise the total cash and cash equivalents as disclosed above.

2 **WSA DEBTORS**

	2022	2021
Assets Funding	324 745	499 813
Umzinyathi District Municipality	324 745	499 813
Newcastle Municipality	-	-
Revenue Funding	84 781 816	82 763 673
Umzinyathi District Municipality	65 768 818	64 191 401
Amajuba District Municipality	19 012 997	18 572 273
Total WSA Debtors	**85 106 560**	**83 263 487**

There is a Provincial Executive Committee directive that the WSA's in arrears with their shortfall payments must make these good. See also note under section 9 below.

The asset funding debtor arises from funding the WSA's have received in the form of grants which should then be transferred to the entity to expend on it's assets. See note 44.

The revenue funding debtors arose when the entity was carrying out the reticulation function for the WSA's [prior to 1st July 2013] and the WSA's did not fully pay the entity for the amounts billed to them.

Less: Provision for bad debts

	2022	2021
Balance at beginning of the year	83 080 349	83 080 349
Doubtful debts written off against provision		
Provision/(Reversal)	-	-
Balance at end of year	83 080 349	83 080 349
	2 026 211	**183 138**

The debtors balance consists of interest charged.
Output Vat of R 21 272 is included in the debtor balances - also see note 5 below

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

3 **TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS**

3,1 **Trade receivables**	2022 Gross Balances R	2022 Provision for Doubtful Debts R	2022 Net Balance R	RESTATED 2021 Gross Balances R	RESTATED 2021 Provision for Doubtful Debts R	RESTATED 2021 Net Balance R
as at 30 June 2022						
Service debtors						
Water	*213 977*	(20 078)	193 898	222 909	(25 728)	197 181
Total	***213 977***	**(20 078)**	**193 898**	**222 909**	**(25 728)**	**197 181**
as at 30 June 2021						
Service debtors						
Water	222 909	(25 728)	197 181	242 145	(81 003)	161 142
Total	**222 909**	**(25 728)**	**197 181**	**242 145**	**(81 003)**	**161 142**

Water : Ageing	2022 R	RESTATED 2021 R
Current (0 – 30 days)	165 616	66 494
31 - 60 Days	1 631	98 122
61 - 90 Days	9	2 769
+ 91 Days	46 720	55 524
Total	**213 977**	**222 909**

Summary of Debtors by Customer Classification	2022 Consumers R	2022 Industrial / Commercial R	2022 National and Provincial Government R	2021 Consumers R	2021 Industrial / Commercial R	2021 National and Provincial Government R
as at 30 June 2022						
Current (0 – 30 days)	165 616	-	-	66 494	-	-
31 - 60 Days	1 631	-	-	98 122	-	-
61 - 90 Days	9	-	-	2 769	-	-
91 and over	46 720	-	-	55 524	-	-
Sub-total	**213 977**	-	-	**222 909**	-	-
Less: Provision for doubtful debts	(20 078)	-	-	(25 728)	-	-
Total debtors by customer classification	**193 899**	-	-	**197 181**	-	-

Output Vat of R 3 997.33 is included in the debtor balances - also see note 5

Reconciliation of the doubtful debt provision	2022 R	RESTATED 2021 R
Balance at beginning of the year	25 728	81 003
Provision/(Reversal)	(5 649)	(55 276)
Balance at end of year	**20 078**	**25 728**

3,2 **Trade receivables - Bulk Supplies**

	2022 R	RESTATED 2021 R
Umzinyathi District Municipality	27 358 614	10 417 270
Newcastle Municipality	156 637 109	116 667 909
Amajuba District Municipality	13 573 044	15 403 096
Sub-total	197 568 767	142 488 275
Total	**197 568 767**	**142 488 275**

Reconciliation of the doubtful debt provision	2022 R	RESTATED 2021 R
Balance at beginning of the year	42 296 528	4 803
Provision/(Reversal)	26 171 216	42 291 725
Balance at end of year	**68 467 744**	**42 296 528**
Total Trade Receivables - Bulk Supplies	**129 294 921**	**100 388 929**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

	2022				RESTATED 2021
	R				R

Trade receivables - Bulk Supplies: Past Due Not Impaired					
	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 and over	Total
as at 30 June 2022					
Umzinyathi District Municipality	2 307 485	2 450 155	2 167 712	17 827 742	**24 753 094**
Newcastle Municipality	976 444	964 307	972 786	139 967 250	**142 880 788**
Amajuba District Municipality	2 110 713	1 770 811	1 729 535	5 804 360	**11 415 419**
Total	**5 394 642**	**5 185 273**	**4 870 033**	**163 599 352**	**179 049 301**

	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 and over	Total
as at 30 June 2021					
Umzinyathi District Municipality	2 104 601	2 098 804	1 904 165	1 904 165	**8 011 735**
Newcastle Municipality	12 177 601	10 760 511	11 751 435	70 556 276	**105 245 823**
Amajuba District Municipality	2 243 538	1 871 767	1 722 596	7 609 104	**13 447 004**
Total	**16 525 740**	**14 731 082**	**15 378 195**	**80 069 545**	**126 704 562**

Output Vat of R 16 222 905 is included in the debtor balances - also see note 5 below
No receivables were pledged as security

4 **OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS**

	2022	2021
Other debtors	1 150 848	1 069 990
Deposits with suppliers	2 728 655	2 641 805
Total other debtors	3 879 503	3 711 795
Less: Provision for bad debts		
Balance at beginning of the year	1 058 745	1 061 060
Contributions to provision	28 117	(2 315)
Balance at end of year	1 086 863	1 058 745
	2 792 640	2 653 050

Output Vat of R 248,21 is included in the debtor balances - also see note 5 below
No receivables were pledged as security

5 VAT	2022	2021
Debtors Vat Raised - Not Yet Due	(16 244 425)	(13 118 377)
Creditors Invoices Vat Raised - Not Yet Claimed	40 147 649	37 108 730
VAT receivable/(payable)	(677 416)	620 091
Total VAT receivable/(payable)	23 225 809	24 610 444

VAT is currently paid and claimed on the receipts and payments basis. Only once payment is received from debtors or made to creditors is VAT paid/claimed to/from SARS - See also notes 2, 3, 4 & 9.

As the impairment provision for unpaid debtors includes VAT, the amount provided for debtors - vat raised not yet due - excludes the impaired debtors in the provision

	2022	RESTATED 2021
	R	R
6 **INVENTORY**		
Water	**208 447**	**186 415**

Inventories are measured at the cost of production and subsequent net realisable value utilizing the cost of production, and represents the fair value of the inventory at 30 June 2022.

	2022	RESTATED 2021
The total carrying amount of inventory in classification appropriate to the Entity is: Potable; 48,4 Ml at R3,92 per Kl and Raw water; 26,93 Ml at R0,6867 and 4.03 Ml at R0.0323 per kl	208 447	186 415
The total carry amount of inventory at fair Value Less cost to sell : Already accounted for		
The amount of inventory recognized as an expense during the period ended 30 June 2022	(22 032)	(10 586)

No inventory or carrying amounts of inventory were pledged as security

The entity has prepared the Statement of Financial Performance in line with paragraph .50 of GRAP 12, and has adopted a format for surplus or deficit that results in amounts being disclosed other than the cost of inventories recognised as an expense during the period. Under this format, the entity presented an analysis of expenses using a classification based on the nature of expenses. In this case, the entity disclosed the costs recognised as an expense for raw materials and consumables, labour costs, technical water losses and other costs together with the amount of the net change in inventories for the period.

The entity has chosen this method of presenting the Statement of Financial Performance as the sole function of the entity is the supply of bulk water to municipalities and very limited private consumers. As a result all costs incurred in the entity are directly related to this function.

Furthermore, the entity has calculated the net realisable value (NRV) of inventory at R 377 069.72. As inventory is measured at the lower of cost and NRV, this represents the maximum possible value of inventory.

7 **PROPERTY, PLANT & EQUIPMENT**

Assets at 30 June 2022	**Balance at 30-Jun-22**	**Additions**	**Write-Offs**	**Re-Valuations**	**Balance at 30-Jun-21**
Water Infrastructure					
Bulk Water Pipe Lines	736 514 037	-	-	-	736 514 037
Chambers and Components on Pipe Lines	14 729 240	-	-	-	14 729 240
Water Pump Stations	46 813 785	-	-	-	46 813 785
Water Reservoirs	54 299 532	-	-	-	54 299 532
Dams	140 125 465	-	-	-	140 125 465
Buildings	38 605 114	-	-	(21 081 846)	59 686 960
Water Treatment Plants	309 321 942	-	-	-	309 321 942
Vehicles	5 489 827	-	-	-	5 489 827
Plant & Equipment	69 916 037	1 114 382	(110 000)	-	68 911 655
Furniture, Equipment and Fittings	4 044 668	119 159	-	-	3 925 509
Totals	1 419 859 648	1 233 541	(110 000)	(21 081 846)	1 439 817 953

Accumulated Depreciation	**Balance at 30-Jun-22**	**Additions**			**Balance at 30-Jun-21**
Water Infrastructure					
Bulk Water Pipe Lines	484 021 281	47 474 310			436 546 971
Chambers and Components on Pipe Lines	11 304 748	1 391 621			9 913 127
Water Pump Stations	19 714 665	2 574 549			17 140 116
Water Reservoirs	21 645 296	3 037 643			18 607 653
Dams	21 949 844	2 752 625			19 197 219
Buildings	19 522 221	2 451 455			17 070 766
Water Treatment Plants	98 330 604	12 823 630			85 506 973
Vehicles	4 466 627	570 660			3 895 967
Plant & Equipment	45 848 037	5 469 984			40 378 053
Furniture, Equipment and Fittings	3 215 555	375 785			2 839 770
Totals	730 018 879	78 922 263	-	-	651 096 616

Carrying Values at Year End	**Balance at 30-Jun-22**	**Movement**			**Balance at 30-Jun-21**
Water Infrastructure					
Bulk Water Pipe Lines	252 492 756	(47 474 310)	-		299 967 066
Chambers and Components on Pipe Lines	3 424 492	(1 391 621)	-		4 816 113
Water Pump Stations	27 099 120	(2 574 549)	-		29 673 669
Water Reservoirs	32 654 236	(3 037 643)	-		35 691 878
Dams	118 175 621	(2 752 625)			120 928 246
Buildings	19 082 893	(2 451 455)	-	(21 081 846)	42 616 194
Water Treatment Plants	210 991 338	(12 823 630)	-		223 814 969
Vehicles	1 023 200	(570 660)	-		1 593 860
Plant & Equipment	24 068 000	(4 355 602)	(110 000)		28 533 603
Furniture, Equipment and Fittings	829 113	(256 626)	-		1 085 739
Totals	689 840 770	(77 688 722)	(110 000)	(21 081 846)	788 721 337

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

Assets at 30 June 2021	2022 R Balance at 30-Jun-21	Additions	Re-Valuations	RESTATED 2021 R Balance at 30-Jun-20
Water Infrastructure				
Bulk Water Pipe Lines	736 514 037			736 514 037
Chambers and Components on Pipe Lines	14 729 240			14 729 240
Water Pump Stations	46 813 785			46 813 785
Water Reservoirs	54 299 532			54 299 532
Dams	140 125 465			140 125 465
Buildings	59 686 960			59 686 960
Water Treatment Plants	309 321 942			309 321 942
Vehicles	5 489 827			5 489 827
Plant & Equipment	68 911 655	817 994		68 093 661
Furniture, Equipment and Fittings	3 925 509	440 347		3 485 162
Totals	1 439 817 953	1 258 341		1 438 559 612

Accumulated Depreciation	Balance at 30-Jun-21	Additions		Balance at 30-Jun-20
Water Infrastructure				
Bulk Water Pipe Lines	436 546 971	47 474 310		389 072 661
Chambers and Components on Pipe Lines	9 913 127	1 391 621		8 521 507
Water Pump Stations	17 140 116	2 574 549		14 565 568
Water Reservoirs	18 607 653	3 037 643		15 570 011
Dams	19 197 219	2 752 625		16 444 593
Buildings	17 070 766	2 451 455		14 619 310
Water Treatment Plants	85 506 973	12 823 630		72 683 343
Vehicles	3 895 967	540 660		3 355 307
Plant & Equipment	40 378 053	5 401 177		34 976 876
Furniture, Equipment and Fittings	2 839 770	371 332		2 468 438
Totals	651 096 616	78 819 003		572 277 613

Carrying Values at Year End	Balance at 30-Jun-21	Additions	Re-Valuations	Balance at 30-Jun-20
Water Infrastructure				
Bulk Water Pipe Lines	299 967 066	(47 474 310)		347 441 376
Chambers and Components on Pipe Lines	4 816 113	(1 391 621)		6 207 733
Water Pump Stations	29 673 669	(2 574 549)		32 248 218
Water Reservoirs	35 691 878	(3 037 643)		38 729 521
Dams	120 928 246	(2 752 625)		123 680 872
Buildings	42 616 194	(2 451 455)		45 067 650
Water Treatment Plants	223 814 969	(12 823 630)		236 638 599
Vehicles	1 593 860	(540 660)		2 134 520
Plant & Equipment	28 533 603	(4 583 183)	-	33 116 786
Furniture, Equipment and Fittings	1 085 739	69 015		1 016 724
Totals	788 721 337	(77 560 661)		866 281 998

8 **INTANGIBLE ASSETS**

Assets at 30 June 2022	Balance at 30-Jun-22	Movement	Disposals	Balance at 30-Jun-21
Software	5 014 600			5 014 600
Totals	5 014 600			5 014 600
Accumulated Amortization				
Software	4 647 573	362 854		4 284 719
Totals	4 647 573	362 854		4 284 719
Carrying Values at Year End				
Software	367 027	(362 854)		729 881
Totals	367 027	(362 854)		729 881

Assets at 30 June 2021	Balance at 30-Jun-21	Movement	Disposals	Balance at 30-Jun-20
Software	5 014 600			5 014 600
Totals	5 014 600			5 014 600
Accumulated Amortization				
Software	4 284 719	442 464		3 842 255
Totals	4 284 719	442 464		3 842 255
Carrying Values at Year End				
Software	729 881	(442 464)		1 172 345
Totals	729 881	(442 464)		1 172 345

Intangible assets comprise of computer software programmes

9 **TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS**

	2022	2021
Trade creditors	450 008 191	41[illegible] 242 675
Leave pay accrual	6 760 691	6 408 146
Consumer Debtors - Payments in advance	13 732	13 411
Other creditors	1 714 505	1 575 851
Unallocated Receipts	30 740	3 112 719
Total Creditors	458 527 859	422 352 803

Trade Creditors 2022 - Ageing	Current Period	31 - 60 Days	61 - 90 Days	91 - 120 Days	121 and Over	Total
	28 455 020	4 094 259	-1 400 606	2 407 004	416 452 514	450 008 191

Include in the above trade creditors figure is an amount of R 443 404 300.29 raised in respect of bulk raw water charges owed to the Department of Water and Sanitation. This amount is subject to the payment by the Water Service Authorities of their bulk water accounts and raw water budgeted costs. Negotiations are currently taking place between uThukela Water, the WSA's and the Department to resolve this matter.

Leave pay accrual is based on the number of hours accruing to the employee at balance sheet date multiplied by the employee's hourly rate of pay. The accrual includes the liability in respect of accumulated leave due to employees previously in the employ of the WSA's prior to transfer to the company which has not yet been paid over to the company.

Input Vat of R 40 147 649 is included in the Trade Creditor balances - also see note 5 above

The fair value of trade and other payables approximates their carrying amounts.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

	2022	RESTATED 2021
	R	R
10 **UNSPENT CONDITIONAL GRANTS AND RECEIPTS**		
Newcastle	388 455	388 455
Umzinyathi	72 506	72 506
	460 961	460 961
Refer to Note 44		
11 **SERVICE RELATED STAFF OBLIGATIONS**		
Non Current		
Long Service Awards	2 709 000	2 545 380
Post-employment medical benefits	8 301 000	9 418 250
	11 010 000	11 963 630
Current		
Long Service Awards	221 000	296 950
Post-employment medical benefits	268 000	270 342
	489 000	567 292
Total Provisions	11 499 000	12 530 922
The movement in Leave provisions is reconciled as follows: -		
Balance B/fwd	6 408 146	6 096 815
Increase in provision	1 779 203	1 217 943
Expenditure incurred	(1 426 658)	(906 612)
as at 30 June	**6 760 691**	**6 408 146**

Leave pay accrual

Long Service Awards

uThukela offers employees LSA for every five years of service completed, starting from five years of service calculated as follows:

	Long Service Awards for levels of past service				
Completed Service (in years)	Long Service Bonuses(% of Annual Salary)	Description	Completed Service (in years)	Long Service Bonuses(% of Annual Salary)	Description
5	2,0%	5/ 249 x annual salary	5	2,0%	5/ 249 x annual salary
10	4,0%	10/ 249 x annual salary	10	4,0%	10/ 249 x annual salary
15	8,0%	20/ 249 x annual salary	15	8,0%	20/ 249 x annual salary
Every five years thereafter	12,0%	30/ 249 x annual salary	Every five years thereafter	12,0%	30/ 249 x annual salary

In the month that each "Completed Service" milestone is reached, the employee is granted a LSA.
Working days awarded are valued at 1/249 the of annual salary per day
An actuarial valuation of the future liability for this benefit has been undertaken by an independent firm of Actuaries with the following results

	Year ending 2018/06/30	Year ending 2019/06/30	Year ending 2020/06/30	Year ending 2021/06/30	Year ending 2022/06/30
Opening Accrued Liability	2 191 793	2 529 666	2 574 007	2 205 463	2 842 330
Current-service Cost	241 883	302 466	223 878	190 067	234 000
Interest Cost	167 997	204 355	167 481	147 337	216 000
Benefit payments	101 788	(276 618)	49 225	476 567	(297 000)
Total Annual Expense	511 668	230 203	440 584	813 971	153 000
Past Service Cost	-173 795	-185 862	-809 128	-177 104	-65 000
Actuarial Loss / (Gain)					
Closing Accrued Liability	2 529 666	2 574 007	2 205 463	2 842 330	2 930 000

Key Financial Assumptions

	2022/06/30 Males	Females
Discount rate	10,52%	
General salary Inflation	4,90%	
Net effective discount rate	2,12%	
Average retirement age	63	58
Mortality during employment	SA85-90	

In service members withdrawing before retirement	Males	Females
Age 20	16%	24%
Age 30	12%	18%
Age 40	8%	10%
Age 50	4%	4%
Age 55	2%	2%

Post-employment medical benefits

Medical Scheme Arrangements

The Employer offers employees and continuation members the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover.

Membership Eligibility

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Contribution Rate Structure

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

Subsidy Policy

In-service members will receive a post-employment subsidy of 60% of the contribution payable. All continuation members receive a 60% subsidy. Widow(er)s and orphans of eligible in-service members are entitled to receive this same subsidy on and after the death in-service of an employee.

Upon a member's death-in-service or death-in-retirement, the surviving dependants will continue to receive the same 60% subsidy.

	2022	RESTATED 2021
	R	R

An actuarial valuation of the future liability for this benefit has been undertaken by an independent firm of Actuaries with the following results

	Year ending 2018/06/30	Year ending 2019/06/30	Year ending 2020/06/30	Year ending 2021/06/30	Year ending 2022/06/30
Opening Accrued Liability	8 609 181	8 396 642	8 673 753	8 070 742	9 689 000
Current-service Cost	405 655	501 915	349 858	327 067	421 000
Interest Cost	834 113	796 911	914 049	1 024 804	1 079 000
Benefit payments	(239 713)	(248 407)	(246 507)	(277 645)	(270 000)
Total Annual Expense	1 000 055	1 050 419	1 017 400	1 074 226	1 230 000
Actuarial Loss / (Gain)	(1 212 594)	-773 308	(1 620 411)	543 623	(2 350 000)
Closing Accrued Liability	8 396 642	8 573 753	8 070 742	9 688 591	8 569 000

Key Financial Assumptions

	2022/06/30 Males	2022/06/30 Females	2021/06/30 Males	2021/06/30 Females
Discount rate	13,02%		11,29%	
Health care cost inflation rate	10,02%		7,81%	
Net effective discount rate	2,73%		3,23%	
Average retirement age	63	58	63	58
Proportion continuing membership at retirement	100,00%		100,00%	
Proportion of retiring members who are married	100,00%		100,00%	
Proportion of eligible current non-member employees joining the scheme by retirement	10,00%		10,00%	
Mortality during employment	SA85-90		SA85-90	
Mortality post retirement	PA(90)-1		PA(90)-1	

In service members withdrawing before retirement	2022 Males	2022 Females	2021 Males	2021 Females
Age 20	12%	24%	12%	24%
Age 30	5%	15%	5%	15%
Age 40	3%	6%	3%	6%
Age 50	1%	2%	1%	2%
Age 55	1%	1%	1%	1%

12 **SHARE CAPITAL**

	2022	RESTATED 2021
Issued ordinary shares	100	100

The authorised number of ordinary shares is 10 000 with a par value of R 1 per share. The company has issued 100 ordinary shares.

13 **ACCUMULATED FUNDS**

	2022	RESTATED 2021
Accumulated Funds Surplus(Deficit)		
Balance Beginning Year - Surplus(Deficit)	(56 392 648)	5 241 291
Surplus/(Deficit) for year	(93 402 484)	(127 149 807)
Off Setting Depreciation/Partners Cont/Reval Reserve	65 534 399	65 515 868
Balance Year End	-84 260 733	(56 392 648)
Asset Revaluation Reserve	567 945 140	633 461 008
Less: Off Setting Depreciation	(86 616 245)	(65 515 868)
Balance Year End	481 328 895	567 945 140
Total Accumulated Funds	397 068 162	511 552 492
Shareholder Contributions - Projects	157 040 888	181 932 773
Umzinyathi District Municipality	75 197 122	85 251 440
Amajuba District Municipality	5 533 955	6 627 604
Newcastle Municipality	76 309 811	90 053 729
Accumulated Funds Surplus(Deficit) - Excluding Shareholder Contributions - Projects	(241 301 621)	(238 325 421)

14 **SERVICE CHARGES**

	2022	RESTATED 2021
Sale of water	174 372 947	165 403 505
Total Service Charges	174 372 947	165 403 505

15 **INTEREST EARNED - EXTERNAL INVESTMENTS**

	2022	RESTATED 2021
Banks	771 465	963 382
Deposits Made with Suppliers	86 850	103 654
Total Interest	858 315	1 067 037

16 **GRANTS AND SUBSIDIES**

16,1 **Project funding**

	2022	RESTATED 2021
Umzinyathi District Municipality	-	-
Newcastle Municipality	-	-
	-	-

Refer to Note 44

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

		2022	RESTATED 2021
		R	R
17	**EMPLOYEE RELATED COSTS**		
	Salaries and Wages	37 341 054	37 052 866
	Medical, Pension and Provident Fund	7 424 338	9 454 293
	Leave pay	1 779 203	1 217 943
	Bonuses	4 107 883	4 797 719
	Housing benefits and allowances	2 649 129	2 112 578
	Overtime payments	4 515 641	4 191 818
	Other	995 885	733 837
		58 813 133	59 561 054
	Included in the employee related costs are the following:		
	Managing Director		
	Annual Remuneration	1 505 594	-
	Travel, motor car, accommodation, subsistence and other allowances	110 222	-
	Contributions to UIF, Medical and Pension Funds	246 237	-
	Accumulated Leave	188 699	-
	Total	2 050 752	
	Chief Financial Officer		
	Annual Remuneration	1 375 864	1 365 136
	Travel, motor car, accommodation, subsistence and other allowances	59 458	54 000
	Contributions to UIF, Medical and Pension Funds	204 736	183 449
	Accumulated Leave	206 613	300 178
	Total	1 846 671	1 902 763
	Heads of Departments		
	Operations/Engineering		
	Annual Remuneration	1 590 132	1 679 464
	Travel, motor car, accommodation, subsistence and other allowances	135 997	146 260
	Contributions to UIF, Medical and Pension Funds	228 482	262 484
	Accumulated Leave	384 451	356 141
	Total	2 339 062	2 444 349
	Human Resources Manager		
	Annual Remuneration	1 655 605	1 602 138
	Travel, motor car, accommodation, subsistence and other allowances	144 318	152 351
	Contributions to UIF, Medical and Pension Funds	289 284	279 107
	Accumulated Leave	267 265	281 012
	Total	2 356 472	2 314 608
	Remuneration of directors		
	Chairman	58 500	-
	Deputy Chairman		-
	Other board members	192 000	-
	Total Director's Remuneration	250 500	-
18	**DEPRECIATION AND AMORTISATION EXPENSE**		
	Property, plant and equipment	78 922 262	78 819 001
	Intangible assets	362 854	442 464
	Total Depreciation and Amortisation	79 285 115	79 261 466
19	**REPAIRS AND MAINTENANCE ON PROPERTY, PLANT AND EQUIPMENT**		
	Expended	3 948 601	5 177 110

The amounts reflected for the respective financial years indicate the amounts spent by the entity to repair and maintain PPE, and include costs of maintenance, preservation, monitoring, repair, refurbishment, renovation, materials, service provider and if applicable direct employee costs.

		2022	RESTATED 2021
20	**BULK PURCHASES**		
	Water	22 318 969	25 047 706
	Water services and management levy	4 945 733	5 219 693
		27 264 702	30 267 399
21	**INTEREST PAID/ACCRUED**		
	Overdue accounts	20 380 985	22 945 197
	Refer to Note 29.2	20 380 985	22 945 197
22	**CONTRACTED SERVICES**		
	Professional fees and consultant costs	2 711 804	2 394 852
	Legal expenses	232 363	140 805
		2 944 167	2 535 657

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

	2022	RESTATED 2021
	R	R
23 OPERATING EXPENSES		
Included in operating expenses are the following:-		
Advertising	39 892	124 836
Bank charges	83 087	74 987
Board meeting and Chairman's discretionary	321 978	13 183
Chemicals	8 354 705	8 176 203
Communications costs	1 120 835	1 070 278
Conferences and seminars	32 078	21 454
Consumables and stores	103 517	138 764
Covid-19 expenses	41 780	317 253
Electricity	45 101 236	39 787 833
Fuel and Oil	1 022 292	668 285
Insurance	825 279	834 323
Licensing of Motor Vehicles & Trailers	111 088	191 241
Membership fees	24 484	37 079
Municipal services	234 447	207 362
Postage and courier services	6 230	18 248
Printing and stationery	145 643	125 565
Protective clothing	205 991	166 799
Rental	1 412 970	1 434 893
Safety and security	702 217	786 252
Scada and telemetric costs	186 753	150 462
Servitudes and Land Surveys	-	12 250
Software Licenses	802 074	726 526
Staff and other meeting costs	667	400
Staff Emergency Rations	5 754	5 169
Staff recruitment and relocation costs	18 159	2 720
Subsistence and travel	237 941	142 878
Tools and equipment	52 815	4 322
Training	269 245	642 158
Water analysis	1 930 997	1 688 666
	63 394 154	57 570 388

24 GAIN / (LOSS) ON DISPOSAL/SCRAPPING OF ASSETS

	2022	RESTATED 2021
Property, plant and equipment	-110 000	114 697
Total Gain / (Loss) on Disposal/Scrapping of Assets	-110 000	114 697

25 TAXATION

The Company is exempt from the payment of income tax and duties in terms of section 10 (1) (t) (ix) of the Income Tax Act 58/1962

26 CASH GENERATED BY OPERATIONS

	2022	RESTATED 2021
Surplus/(Deficit) for the year	(93 402 484)	(127 149 807)
Adjustment for: -		
Depreciation	79 285 115	79 261 466
Scrapping of assets	110 000	-
Contribution to bad debt provision	22 777 117	36 720 992
Contribution to staff benefits provision	(679 377)	2 566 047
Operating surplus before working capital Amendments	**8 090 371**	**(8 601 302)**
(Increase)/Decrease in Inventories	(22 032)	(10 586)
Decrease/(Increase) in consumer and other debtors	(57 082 341)	(33 795 044)
(Decrease)/Increase in creditors	35 822 511	52 781 789
(Decrease)/Increase in VAT	4 801 203	237 410
Cash generated by operations	(8 390 289)	10 612 266

27 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise the

	2022	RESTATED 2021
Bank balances and cash	1 057 768	1 082 808
Cash on call and short notice deposits	18 742 487	28 341 276
Net cash and cash equivalents (net of bank overdrafts)	19 800 255	29 424 084

28 CHANGE IN ACCOUNTING POLICY

No change in accounting policies during the year

		2022	RESTATED 2021
		R	R
29	**UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED**		
29,1	**Unauthorised expenditure**		
	Reconciliation of unauthorised expenditure		
	Opening balance	-	-
	Unauthorised expenditure current year	-	-
	Unauthorised expenditure awaiting authorisation	-	-
29,2	**Fruitless and wasteful expenditure**		
	Reconciliation of fruitless and wasteful expenditure		
	Opening balance as previously reported	110 706 715	87 761 518
	Correction of prior period error		
	Opening balance as restated	**110 706 715**	**87 761 518**
	Add: Fruitless and wasteful - current	20 380 985	22 945 197
	Add: Fruitless and wasteful – prior period identified in current year		
	Less: Amount recoverable - current		
	Less Amount recoverable – prior period		
	Less: Amounts written-off – current		
	Less: Amounts written-off – prior period		
	Closing balance	**131 087 700**	**110 706 715**

R 131 050 515 comprises of interest raised by the Department of Water and Sanitation on outstanding accounts. Negotiations are currently taking place between uThukela Water, the WSA's and the Department to resolve this matter.

		2022	RESTATED 2021
29,3	**Irregular expenditure**		
	Opening balance as previously reported	66 983 560	62 807 570
	Correction of prior period error	2 868 985	
	Opening balance as restated	**69 852 545**	**62 807 570**
	Add: Irregular expenditure - current	1 231 898	4 175 990
	Closing balance	**71 084 443**	**66 983 560**
	Incided/cases reported in the current year include those listed below		
	Competitive bidding not invited	1 044 369	
	False declaration of interest	161 334	
	Non compliance with local content	26 195	
		1 231 898	
30	**ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL SECTION 27 FINANCE MANAGEMENT ACT**		
30,1	**Contributions to organised local government**		
	Opening balance		
	Council subscriptions		
	Amount paid - current		
	Amount paid - previous years	-	-
	Balance unpaid (included in payables)		-
30,2	**Audit fees**		
	Audit fees paid during the year	1 773 069	1 705 851
30,3	**VAT**		

VAT input - receivables and VAT output - payables are shown in note 5. During the year all VAT returns were submitted by the due date.

		2022	RESTATED 2021
30,4	**PAYE**		
	Opening Balance		
	Current year payroll deductions	11 913 025	10 226 668
	Amount paid - current year	(11 913 025)	(10 226 668)
	Balance unpaid at year end included in creditors		-
30,5	**UIF**		
	Opening Balance		
	Current year payroll deductions	363 713	312 787
	Amount paid - current year	(363 713)	(312 787)
	Balance unpaid at year end included in creditors		
30,6	**Medical aid**		
	Opening Balance		
	Current year payroll deductions	3 615 912	3 349 388
	Amount paid - current year	(3 615 912)	(3 349 388)
	Balance unpaid at year end included in creditors		-
30,7	**Pension and provident fund contributions**		
	Opening Balance		
	Current year payroll deductions	9 361 824	8 501 008
	Amount paid - current year	(9 361 824)	(8 501 008)
	Balance unpaid at year end included in creditors	-	-

31 **COUNCILLOR'S ARREAR CONSUMER ACCOUNTS**

The following Councillors had arrear accounts outstanding for more than 90 days as at: -	Total	Outstanding less than 90 days	Outstanding more than 90 days	Total	Outstanding less than 90 days	Outstanding more than 90 days
	R	R	R	R	R	R
as at 30 June 2022						
Total Councillor Arrear Consumer Accounts	Nil	-	-	Nil	-	-
as at 30 June 2021						
Total Councillor Arrear Consumer Accounts	Nil	-	-	Nil	-	-

		2022	RESTATED 2021
		R	R
32	**CAPITAL COMMITMENTS**		
	Commitments in respect of capital expenditure		
	- Approved and contracted for		
	Infrastructure	-	-
	- Approved but not yet contracted for		
	Infrastructure	-	-
	Total	-	-

33 OPERATING LEASES

At the reporting date the entity has outstanding commitments under operating

Operating leases - lessee

	2022	RESTATED 2021
Within one year	(1 562 683)	(1 520 696)
In the second to fifth year inclusive	(158 429)	(1 760 276)
After five years		
Total	**(1 721 112)**	**(3 280 972)**

Operating Leases consists of the following:

Operating lease payments represent rentals payable by the municipality for its head office property at Lot 600 Newcastle. The current lease expires on 31 July 2023. As well as payments payable to ITEC for rental of printers the contract of which expires on the 31/08/2022 and 09/03/2024

34 RETIREMENT PLANS

34,1 Defined contribution plans

During the year contributions were made to the following are defined contribution plans: Natal Joint Municipal Pension Fund - Provident Funds and GEPF pension fund. These contributions have been expensed.

34,2 Defined benefit plan

The following are defined benefit plans: Natal Joint Municipal Pension Funds - Superannuation and Retirement funds and Government Employees Pension Fund. These are not treated as defined benefit plans as defined by IAS19, but are accounted for as defined contribution plans. This is in line with the exemption in IAS 19 par. 30 which states that where information required for proper defined benefit plan accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans.

In respect of Natal Joint Municipal Pension Funds - Superannuation and Retirement funds regular actuarial assessments are carried out in terms of the fund rules and any actuarial deficit is recovered by a surcharge on all employer members

34,3 Employees retirement funding

An amount of R6 323 878 (2021 : R5 747 938) was contributed by Council in respect of Employees retirement funding. These contributions have been expensed and are included in employee related costs for the year.

35 CONTINGENT LIABILITY

	2022	RESTATED 2021
Claim for damages	Nil	Nil

2022

There were no significant matters to report on

2021

There were no significant matters to report on

36 CONTINGENT ASSET

2022

There were no significant matters to report on

2021

There were no significant matters to report on

37 IN-KIND DONATIONS AND ASSISTANCE

The Entity received no in-kind donations and assistance

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

	2022	RESTATED 2021
	R	R

38 **RELATED PARTIES**

The nature of the relationship between the company and its shareholders, namely: the Water Service Authorities (Umzinyathi District Municipality, Amajuba District Municipality and Newcastle Municipality) is such that any transactions between the parties are related party transactions. Specific categories of such transactions includes:

Revenue Received

	2022	RESTATED 2021
Bulk Water Services	179 525 134	164 129 300
Umzinyathi District Municipality	24 190 504	21 335 009
Amajuba District Municipality	20 503 745	20 287 904
Newcastle Municipality	134 830 885	122 506 386
	179 525 134	164 129 300

Year End Balances

	2022	RESTATED 2021
Assets Funding	324 745	499 813
Umzinyathi District Municipality	324 745	499 813
Newcastle Municipality	-	-
Less: Provision for Doubtful Debt	-316 676	-316 676
	8 069	183 138
Bulk Water Services	197 568 767	142 488 275
Umzinyathi District Municipality	27 358 614	10 417 270
Amajuba District Municipality	13 573 044	15 403 096
Newcastle Municipality	156 637 109	116 667 909
Less: Provision for Doubtful Debt	-68 467 744	-42 296 528
	129 101 023	100 191 747
Revenue Funding	84 781 816	82 763 673
Umzinyathi District Municipality	65 768 818	64 191 401
Amajuba District Municipality	19 012 997	18 572 273
Less: Provision for Doubtful Debt	-82 763 673	-82 763 673
	2 018 143	-
Sundry [mSCOA System]	897 810	875 503
Umzinyathi District Municipality	196 178	191 303
Amajuba District Municipality	701 633	684 200
Less: Provision for Doubtful Debt	-875 503	-875 503
	22 307	-

Key Management Personnel
[Refer to Note 17]

The nature of the related party relationship entered into by the Board and the consultancy service; LL Cunha and Associates, is detailed hereunder, and herewith this note also sets out the terms and conditions of the written agreement and subsequent written amendments, all transactions relating thereto, any commitments and outstanding balances, if any, entered between the parties.

The Consultancy service was initially introduced to the Board by Provincial Treasury in terms of a section 139 of the Constitution of SA intervention, and the objectives thereof were to provide urgently needed financial support services to the entity, including the performance by Mr LL Cunha of the Acting Chief Financial Officer duties. At the time of the engagement of the consultant, PWC SA, had issued a compilation report regarding the collapse of the financial affairs of the Board, and had proposed an urgent and immediate intervention. Financial statements had not been issued and audits had not been conducted for a period of 6 years, and the Shareholder municipalities were very concerned with the status of the entity, as it impacted quite severely on their own financial affairs. Subsequent to the recovery of the entity to unqualified audit status, and pending the establishment of a new water institution envisaged by Provincial Cabinet resolution dated 7 June 2012, the shareholder municipalities took a resolution and placed a moratorium on the appointment of any new senior management positions by the entity during the transitional phase. In October 2014 the Managing Director of the entity resigned and terminated his services with the Board, and the Board, as an interim arrangement to ensure the continuity of its operational requirements, directed the Acting CFO Mr LL Cunha, to carry the Managing Director responsibilities in addition to those of the CFO position, until otherwise directed, or pending the imminent formation of the new water institution.

Consequent to the delays with the implementation of the Provincial Cabinet decision, and the subsequent Government Gazette Notice published on the 15 December 2015 issued by the National Minister of Water Affairs and Sanitation regarding the formation of the new water institution for KZN- Natal, the Board took a decision to secure, on a relatively short term basis, the interim arrangements concerning the Acting Manager Director responsibilities, were secured by contract terminating on the 31 March 2020. This contract was further extended, initially by 3 months to the end of June 2020, then by 6 months to the 31 December 2020, and thereafter two 3 months contracts to 30 June 2021 and a six months contract to 31 December 2021, followed by three further extensions of 3 months each due to the effects and prohibitions on movements imposed by the National COVID19 regulations. The leave and Performance incentives were not continued beyond the 30 June 2020 by mutual agreement due to the short term nature of the contract extensions. Mr Cunha terminated his services in August 2021.

No guarantees are given or provided for in the agreements except for the performance objectives required by the Board.

Detailed hereunder are the transactions resulting from these arrangements and contractual obligations for the period reported in the annual financial statements for the year ending 30 June 2022.

	2022	RESTATED 2021
	362 102	4 175 990
Payments made for contracted services	355 777	3 230 589
Payments for Ad Hoc services to LL Cunha and Associates		869 501
Payments for rental accommodation	6 325	75 900

39 **EVENTS AFTER THE REPORTING DATE**

None

40 **DEVIATIONS FROM SCM REGULATIONS [SCM Regulation Number 36]**

	2022	RESTATED 2021
Emergency procurement	874 376	178 315
Deviation less than R200 000.00	5 249 943	6 241 506

Supply chain deviations from SCM policy listed above were, in terms of section 36 of the municipal SCM regulations, approved by the accounting officer or officials in terms of delegated powers, and noted by the board .

The reasons for the deviations include the following: Acquisition from sole suppliers, non-responsive suppliers, supplies where mechanical units required a strip and quote, acquisitions direct from manufacturers or agents and, where in terms of Board policy, equipment was standardised.

Emergency procurement and circumstances where it is impractical or not possible to follow the official procedure, are assessed in terms of the stipulated criteria by the SCM Bid Adjudication Committee.

	2022	RESTATED 2021
	R	R

41 RISK MANAGEMENT

41,1 Liquidity risk

The company's risk to liquidity is related to the timeous payment of bulk water accounts by its shareholding municipalities. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. The entity manages liquidity risk through ongoing review of future commitments and credit facilities.

41,2 Credit risk

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

Trade receivables comprise of the three municipalities (Amajuba District Municipality, Newcastle Municipailty and uMzinyathi Municipality) and other private customers. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

41,3 Interest rate risk

As the company has no significant interest-bearing assets, the company's income and operating cash flows are substantially independent of changes in market interest rates.

Financial instruments

	2022 R	RESTATED 2021 R
Financial liabilities		
Trade and other payables	458 527 859	422 352 803
Unspent conditional grants and receipts	460 961	460 961
Current portion of staff benefit obligations	489 000	567 292
	459 477 820	**423 381 056**

Financial assets exposed to credit risk at year end were as follows:

	2022 R	RESTATED 2021 R
Financial assets		
Cash and cash equivalents	19 800 255	29 424 084
WSA debtors	2 026 211	183 138
Trade and other receivables from exchange transactions	129 294 921	100 388 929
Other receivables from non-exchange transactions	2 792 640	2 653 050
	132 087 561	**103 041 978**

42 BULK WATER LOSSES

Water stock	2022	2021
	ML	ML
Opening balance treated water	47	48
Opening balance raw water	31	22
Raw water purchases	47 153	47 358
Treated water sales	43 873	43 056
Process water in system	361	2 522
Technical water loss	2 918	1 772
Closing water stock	79	78

Water losses	2022 ML	2022 R	2021 ML	2021 R
Opening Stock Raw	31	20 286	22	13 246
Opening stock Treated	47	184 240	48	166 080
Units purchased - Newcastle and Amajuba	40 960	22 326 899	41 600	25 047 360
Units purchased - Umzinyathi	6 193		5 758	
Total units purchased	47 231	22 531 426	47 428	25 226 686
Units sold	43 873	171 982 160	43 056	164 043 360
Unsold process water in system	361	1 415 120	2 522	9 608 820
Closing Stock	79		78	
Total loss	2 918	1 909 539	1 772	1 064 972
Comprising of				
Technical losses	2 918	1 909 539	1 772	1 066 921
Total loss	2 918	1 909 539	1 772	1 066 921
Percentage loss	%		%	
Technical losses	6,18%		3,74%	
Total	6,18%		3,74%	

43 TRANSFERS OF GRANTS AND OTHER FUNDING TO THE ENTITY TO IMPLEMENT CAPITAL PROJECTS ON BEHALF OF THE MUNICIPALITIES

The WSA's are the recipients of all government grants paid in terms of the Division of Revenue Act, and in cases where the Entity is appointed by the municipality to implement any of its capital grant projects, these are done on an implementation basis only, and the relevant municipality reflects the grants and its conditions and reports back to National or Provincial Treasury directly in relation to the requirements of the grants.

In cases where the municipality transfers its own capital funding to the Entity to implement capital projects, these are also carried out as implementing agent only, and these transfers are not conditional grants, except to say that they are for a specific purpose or project as directed by the municipality.

	2022	RESTATED 2021
	R	R

44 SEGMENTAL ANALYSIS OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2022

For management purposes, the municipal entity is organised and operates in nine key functional segments. To this end, management monitors the operating results of these segments for the purpose of making decisions about resource allocations and assessment of performance. Revenues and expenditures relating to these segments are allocated at a transactional level.

	2022 Actual Revenue	2022 Actual Expenditure	2022 Surplus/ (Deficit)	2021 Actual Revenue	2021 Actual Expenditure	2021 Surplus/ (Deficit)
	R	R	R	R	R	R
Strategy and Leadership		(6 015 081)	(6 015 081)		(6 513 698)	(6 513 698)
Company Secretary		(2 295 923)	(2 295 923)		(1 997 342)	(1 997 342)
Human Resources		(3 770 608)	(3 770 608)		(6 996 756)	(6 996 756)
Finance	4 309 530	(54 898 728)	(50 589 198)	1 360 668	(71 663 917)	(70 303 249)
Technology		(5 796 940)	(5 796 940)		(5 736 427)	(5 736 427)
Environmental Management		(6 633 336)	(6 633 336)		(5 757 210)	(5 757 210)
Engineering		(3 733 356)	(3 733 356)		(3 163 876)	(3 163 876)
ICS		(5 065 107)	(5 065 107)		(4 930 496)	(4 930 496)
Water	181 183 927	(190 576 862)	(9 392 935)	165 403 505	(187 268 956)	(21 865 451)
Total	185 493 457	(278 785 942)	(93 292 484)	166 764 172	(294 028 676)	(127 264 504)
Gain / (loss) on disposal/scrapping of assets		(110 000)	(110 000)	114 697		114 697
	185 493 457	(278 895 942)	(93 402 484)	166 878 869	(294 028 676)	(127 149 807)

45 CORRECTION OF ERROR AND RESTATEMENT OF COMPARATIVE INFORMATION

During the 2021/2022 financial year the following errors were identified:

1. Vat incorrectly raised on the Department of Water and Sanitation WRL charges

2. No impairment for debtors calculated in the prior financial year

3. Leave accrual was incorrectly classified

4. Accrual for annual bonuses not raised

5. Correction of partners contribution

The effect of the errors on the individual line items in the financial statements is as follows:

	2020/2021 Original	2020/2021 Revised	2020/2021 Difference	2019/2020 Original	2019/2020 Revised	2019/2020 Difference
Statement of Financial Position						
Current assets	194 713 303	157 446 059	37 267 243	151 757 865	151 244 906	512 959
Trade and other receivables	145 492 543	103 225 106	42 267 437			
VAT receivable	19 610 261	24 610 444	(5 000 184)	19 847 670	19 334 711	512 959
Total assets	984 164 522	946 897 278	37 267 243	1 019 212 208	1 018 699 249	512 959
Current liabilities	422 035 966	423 381 056	(1 345 091)			
Trade and other payables	414 599 566	422 352 803	(7 753 237)			
Current portion of staff benefit obligations	6 975 438	567 292	6 408 146			
Total liabilities	433 999 596	435 344 686	(1 345 091)			
Net assets	550 164 926	511 552 592	38 612 334	639 215 358	638 702 399	512 959
Accumulated funds	550 164 826	511 552 492	38 612 334	639 215 258	638 702 299	512 959
Statement of Financial Performance						
REVENUE						
Other receipts	326 923	293 631	33 293			
Total revenue	166 797 465	166 764 172	33 293			
EXPENDITURE						
Employee related costs	(58 215 964)	(59 561 054)	1 345 091	(27 749 518)	(28 262 477)	512 959
Contribution to provision for bad debts	-	(36 720 992)	36 720 992			
Total expenditure	(255 962 593)	(294 028 676)	38 066 083	(242 382 869)	(242 895 828)	512 959
Surplus(Deficit) for the year	(89 050 432)	(127 149 807)	38 099 375	(91 828 627)	(92 341 586)	512 959
Statement of Changes in Net Assets						
Operating surplus/(deficit)	(89 050 432)	(127 149 807)	38 099 375	(91 828 627)	(92 341 586)	512 959
Balance	550 164 012	549 651 053	512 959	639 214 444	638 701 484	512 959
Notes to the Annual Financial Statements						
Note 3						
TRADE AND OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS						
3.1 Reconciliation of the doubtful debt provision						
Balance at beginning of the year	81 003	81 003				
Provision/(Reversal)	30 978)	(55 276)	24 298			
Balance at end of year	50 025	25 728	24 298			
3.2 Reconciliation of the doubtful debt provision						
Balance at beginning of the year	4 803	4 803				
Provision/(Reversal)		42 291 725	(42 291 725)			
Balance at end of year	4 803	42 296 528	(42 291 725)			
Note 5						
VAT						
Debtors Vat Raised - Not Yet Due	(18 631 520)	(13 118 377)	(5 513 143)			
Note 9						
TRADE AND OTHER PAYABLES						
Leave pay accrual		6 408 146	(6 408 146)			
Other creditors	230 760	1 575 851	(1 345 091)			
Note 11						
SERVICE RELATED STAFF OBLIGATIONS						
Current						
Leave pay accrual	6 408 146		6 408 146			
Note 13						
ACCUMULATED FUNDS SURPLUS (DEFICIT)						
Balance Beginning Year	5 754 250	5 241 291	512 959	21 778 904	21 265 945	512 959
Surplus/(Deficit) for year	(89 050 432)	(127 149 807)	38 099 375			
Balance Year End	(17 780 314)	(56 392 648)	38 612 334	5 754 250	5 241 291	512 959
Total Accumulated Funds	550 164 826	511 552 492	38 612 334			

46 **Comparison of Budget and Actual Amounts for the year ended 30 June 2022**

				2022	2022	2022	2022	2022	
	Original Budget	Budget Adjustments (i.t.o. s28 & s31 Of The MFMA)	Virement (i.t.o. Council Approved By-law)	Final Budget	Actual	Variance	% Variance to Final Budget	% Variance to Original Budget	Explanation for Significant Variances of more than 10% from Budget
	1	2	3	4	5	6	7	8	
Financial Performance									
Service charges	175 768 423	-	-	175 768 423	174 372 947	(1 395 476)	-1%	-1%	
Interest received	114 490	-	-	114 490	858 315	743 825	650%	650%	Conservative budget provided for Interest income due to uncertainty of payments from WSA's
Interest on Debtors					6 810 980				Not budgeted for
Other receipts	50 000	-	-	50 000	3 451 215	3 401 215	6802%	6802%	Other receipts includes the AG requested prescription of unknown receipts totalling R 3 081 979
Total Revenue (Excluding Capital Transfers & Contributions)	**175 932 913**	-	**-**	**175 932 913**	**185 493 457**	**2 749 564**	**2%**	**5%**	
Expenditure									
Employee related costs	(64 794 522)	480 730	-	(64 313 792)	(58 813 133)	5 572 752	-9%	-9%	
Contribution to Provision for bad debts	-	-	-	-	(22 777 117)	(22 777 117)			Provision not included in budget
Depreciation	(1 885 312)	-	-	(1 885 312)	(79 285 115)	(77 399 803)	4105%	4105%	Full effect of depreciation on assets not provided for on budget - Capital grant and revaluation depreciation off-set not budgeted for.
Bulk water purchases	(24 275 789)	-	-	(24 275 789)	(27 264 702)	(2 988 912)	12%	12%	Two WSA's approved a lesser budget and indicated that they would address it in their adjustment budget but they did not do so

Repairs and maintenance	(15 415 444)	6 101 657	-	(9 313 787)	(3 948 601)	5 365 186	-58%	-74%	Due to intermittent payment from two WSA's, expenditure has been curtailed
Interest paid/accrued	-	-	-	-	(20 380 985)	(20 380 985)	100%		Not included in budget. Department of Water and Sanitation interest on overdue accounts. Non payment of charges by WSA's and dispute with the department
Contracted services	(6 890 995)	2 370 695	-	(4 520 300)	(2 944 167)	1 576 133	-35%	-57%	Due to intermittent payment from two WSA's, expenditure has been curtailed
Inventory	-	-	-	-	22 032	22 032			Annual adjustment not budgeted for
Other expenditures	(61 272 401)	(8 953 083)	-	(70 225 484)	(63 394 154)	6 831 329	-10%	3%	
Total Expenditure	**(174 534 463)**	**(0)**	-	**(174 534 463)**	**(278 785 942)**	**(104 179 385)**	**60%**	**60%**	
Gain / (loss) on disposal/scrapping of assets		-		-	(110 000)				
Surplus/(Deficit)	1 398 450	(0)	-	1 398 450	(93 402 484)	(101 429 821)			
Surplus/(Deficit) After Capital Transfers & Contributions	1 398 450			1 398 450	(93 402 484)	(101 429 821)			
Capital Expenditure & Funds Sources									
Capital Expenditure	-	-	-	-	(1 233 541)	(1 233 541)	100	100	No approved capital budget from the WSA's
Transfers Recognised - Capital	-	-	-	-	-	-			
Internally Generated Funds	-	-	-	-	1 233 541	1 233 541			
Total Sources Of Capital Funds	-	-	-	-	**1 233 541**	**1 233 541**			
Cash flows									
Net Cash From (Used) Operating	1 398 450	(0)	-	1 398 450	(8 390 288)				
Net Cash From (Used) Investing	-	-	-	-	(1 233 541)				
Net Cash From (Used) Financing	-	-	-	-	-				
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	1 398 450	(0)	-	1 398 450	(9 623 829)				

UTHUKELA WATER (PTY) LTD.

APPENDIX A: ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS FOR THE YEAR ENDED 30 JUNE 2022

Laboratory Equipment	Balance at 30-Jun-20	Additions	Work in Progress	Water Service assets work in progress implemented by WSA	Water Service assets transferred to WSA's	Disposals	Revaluation	Balance at 30-Jun-21
	R	R	R	R	R	R	R	R
WATER INFRASTRUCTURE								
Water Purification Plant	309 321 942							309 321 942
Buildings	59 686 960							59 686 960
Pump Stations	46 813 785							46 813 785
Dams	140 125 465							140 125 465
Reservoirs	54 299 532							54 299 532
Chambers & Components on Bulk lines	14 729 240							14 729 240
Reticulation	736 514 037							736 514 037
	1 361 490 962							1 361 490 962
VEHICLES								
Water	5 339 928							5 339 928
Administration	149 899							149 899
	5 489 827							5 489 827
PLANT & EQUIPMENT								
Tractors/Trailers/Machinery	3 092 822							3 092 822
Bulk Water Meters	2 851 807							2 851 807
Laboratory Equipment	4 334 848	[illegible]						4 344 898
Small Plant And Equipment	2 291 906							2 291 906
Water Plant	55 522 278	807 944						56 330 222
	68 093 661	817 994						68 911 655
FURNITURE, EQUIPMENT AND FITTINGS								
Technology	[illegible]	424 849						2 307 759
Finance	[illegible]							205 888
Engineering	[illegible]	15 498						805 945
Administration	[illegible]							471 110
Human Resources	[illegible]							334 807
	[illegible]	440 347						3 925 509
INTANGIBLE								
Technology	5 014 600							5 014 600
	5 014 600							5 014 600
TOTAL	[illegible]	1 258 341						1 444 832 553

Laboratory Equipment	Additions	Work in Progress	Water Service assets work in progress implemented by WSA	Water Service assets transferred from WSA's	Disposals	Write-Offs	Revaluation	Transfers	Balance at 30-Jun-22
	R	R	R	R	R	R			R
WATER INFRASTRUCTURE									
Water Purification Plant									309 321 942
Buildings							(21 081 846)		38 605 114
Pump Stations									46 813 785
Dams									140 125 465
Reservoirs									54 299 532
Chambers & Components on Bulk lines									14 729 240
Reticulation									736 514 037
							(21 081 846)		1 340 409 116
VEHICLES									
Water									5 339 928
Administration									149 899
									5 489 827
PLANT & EQUIPMENT									
Tractors/Trailers/Machinery						[illegible]			2 982 822
Bulk Water Meters	81 120								2 932 927
Laboratory Equipment	88 945								4 433 843
Small Plant And Equipment	90 810								2 382 716
Water Plant	853 507								57 183 729
	1 114 382					[illegible]			69 916 037
FURNITURE, EQUIPMENT AND FITTINGS									
Technology	87 514								2 395 273
Finance							-		205 888
Engineering	27 606						-		833 550
Administration	4 040								475 150
Human Resources									134 807
	119 159								4 044 668
INTANGIBLE									
Technology									5 014 600
									5 014 600
TOTAL	1 233 543					(110 000)	[illegible]		1 424 874 249

Accumulated Depreciation	Balance at 30-Jun-20	Additions	Water Service assets transferred to WSA's	Balance Adj	Disposals	Correction Journals	Balance at 30-Jun-21
	R	R	R		R	R	R
WATER INFRASTRUCTURE							
Water Purification Plant	72 683 343	12 823 630					85 506 973
Buildings	14 619 310	2 451 455					17 070 766
Pump Stations	14 565 568	2 574 549					17 140 116
Dams	16 444 593	2 752 625					19 197 219
Reservoirs	15 570 011	3 037 643					18 607 653
Chambers & Components on Bulk lines	[illegible]	1 391 621					9 913 127
Reticulation	[illegible]	47 474 310					436 546 971
	[illegible]	72 505 833					609 982 826
VEHICLES							
Water	[illegible]	[illegible]					3 778 068
Administration	[illegible]	[illegible]					117 899
	[illegible]	[illegible]					3 895 967
PLANT & EQUIPMENT							
Tractors/Trailers/Machinery	1 799 795	[illegible]				(799)	2 086 634
Bulk Water Meters	869 288	[illegible]					1 114 494
Laboratory Equipment	3 092 017	[illegible]				(13 485)	3 486 847
Small Plant And Equipment	1 898 211	[illegible]				(334)	2 017 888
Water Plant	27 317 564	[illegible]				(438)	31 672 189
	34 976 876	[illegible]				(15 056)	40 378 053
FURNITURE, EQUIPMENT AND FITTINGS							
Technology	1 371 838	217 221				(2 892)	1 586 167
Finance	138 159	21 844					160 003
Engineering	543 441	76 938				(80)	620 298
Administration	321 127	45 388				(716)	365 799
Human Resources	93 872	13 652				(23)	107 502
	[illegible]	375 043				(3 711)	2 839 770
INTANGIBLE							
Technology	3 842 255	[illegible]				[illegible]	4 284 719
	[illegible]	[illegible]				[illegible]	4 284 719
TOTAL	[illegible]	[illegible]				(5 689)	655 381 335

Accumulated Depreciation	Additions	Disposals	Correction Journals	Balance at 30-Jun-22
	R	R	R	R
WATER INFRASTRUCTURE				
Water Purification Plant	12 823 630			98 330 604
Buildings	2 451 455			19 522 221
Pump Stations	2 574 549			19 714 665
Dams	2 752 625			21 949 844
Reservoirs	3 037 643			21 645 296
Chambers & Components on Bulk lines	1 391 621			11 304 748
Reticulation	47 474 310			484 021 281
	72 505 833			676 488 660
VEHICLES				
Water	554 660			4 332 728
Administration	16 000			133 899
	570 660			4 466 627
PLANT & EQUIPMENT				
Tractors/Trailers/Machinery	[illegible]			2 319 271
Bulk Water Meters	251 966			1 366 461
Laboratory Equipment	418 188			3 905 035
Small Plant And Equipment	126 161			2 144 049
Water Plant	4 441 031			36 113 221
	5 469 984			45 848 037
FURNITURE, EQUIPMENT AND FITTINGS				
Technology	213 240			1 799 407
Finance	21 844			181 848
Engineering	81 257			[illegible]
Administration	45 792			411 591
Human Resources	13 652			121 154
	375 765			3 215 555
INTANGIBLE				
Technology	362 854			4 647 573
	362 854			4 647 573
TOTAL	79 285 116			734 666 451

	Carrying Value 30-Jun-20	Carrying Value 30-Jun-21	Carrying Value 30-Jun-22
	R	R	R
WATER INFRASTRUCTURE			
Water Purification Plant	236 638 599	223 814 969	[illegible]
Buildings	45 067 650	42 616 194	[illegible]
Pump Stations	32 248 218	29 673 669	[illegible]
Dams	123 680 872	120 928 246	[illegible]
Reservoirs	38 729 521	35 691 878	[illegible]
Chambers & Components on Bulk lines	6 207 733	4 816 113	[illegible]
Reticulation	347 441 376	299 967 066	[illegible]
	830 013 968	757 508 135	663 920 456
VEHICLES			
Water	[illegible]	[illegible]	[illegible]
Administration	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]
PLANT & EQUIPMENT			
Tractors/Trailers/Machinery	1 293 027	1 006 189	663 551
Bulk Water Meters	1 982 519	1 737 312	1 566 466
Laboratory Equipment	1 242 831	858 051	528 808
Small Plant And Equipment	393 695	274 018	238 667
Water Plant	28 204 714	24 658 033	21 070 508
	33 116 786	28 533 603	24 068 000
FURNITURE, EQUIPMENT AND FITTINGS			
Technology	511 672	721 592	595 866
Finance	67 729	45 885	24 041
Engineering	247 006	185 647	131 995
Administration	149 983	105 311	63 559
Human Resources	40 934	27 305	13 652
	1 016 724	1 085 739	829 113
INTANGIBLE			
Technology	1 172 345	729 881	367 027
	1 172 345	729 881	367 027
TOTAL	867 454 343	789 451 218	690 207 797

APPENDIX B: SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS FOR THE YEAR ENDED 30 JUNE 2022

	Balance at 20120/06/30	Additions	Disposals	Revaluation	Balance at 30-Jun-21	Additions	Water Service assets transferred from WSA's	Write-offs	Revaluation	Transfers	Balance at 30-Jun-22
	R	R	R	R	R	R	R	R			R
SUMMARY											
Water	1 434 924 543	817 994			1 435 742 537	1 114 382	-	(110 000)	(21 081 846)		1 415 665 073
Technology	6 897 510	424 849			7 322 359	87 514					7 409 873
Administration	621 009				621 009	4 040					625 049
Finance	205 888				205 888						205 888
Human Resources	134 807				134 807						134 807
Engineering	790 446	15 498			805 945	27 606					833 550
	1 443 574 203	1 258 341			1 444 832 545	1 233 541		(110 000)	(21 081 846)		1 424 874 240

	Accumulated Depreciation								Carrying Value		
	Balance at 30-Jun-20	Additions	Water Service assets transferred to WSA's	Disposals	Balance at 30-Jun-21	Additions	Disposals	Balance at 30-Jun-22	30-Jun-20	30-Jun-21	30-Jun-22
	R	R	R	R	R	R	R	R	R	R	R
SUMMARY											
Water	569 692 212	78 446 726	-		648 138 938	78 530 478		726 669 416	865 232 330	787 603 599	688 995 657
Technology	5 229 969	646 608	-		5 876 576	576 093		6 452 669	1 667 542	1 445 783	957 204
Administration	422 310	61 388			483 698	61 792		545 490	198 699	137 311	79 559
Finance	138 159	21 844			160 003	21 844		181 848	67 729	45 885	24 041
Human Resources	93 850	13 652			107 502	13 652		121 154	40 957	27 305	13 652
Engineering	543 361	76 938	-		614 609	81 257		695 866	247 086	191 336	137 684
	576 119 860	79 267 156			655 381 327	79 285 116		734 666 443	867 454 343	789 451 218	690 207 797

uThukela Water (Pty) Ltd. Annual Performance Report

Financial Year 2021/2022

Table of contents

1. Introduction

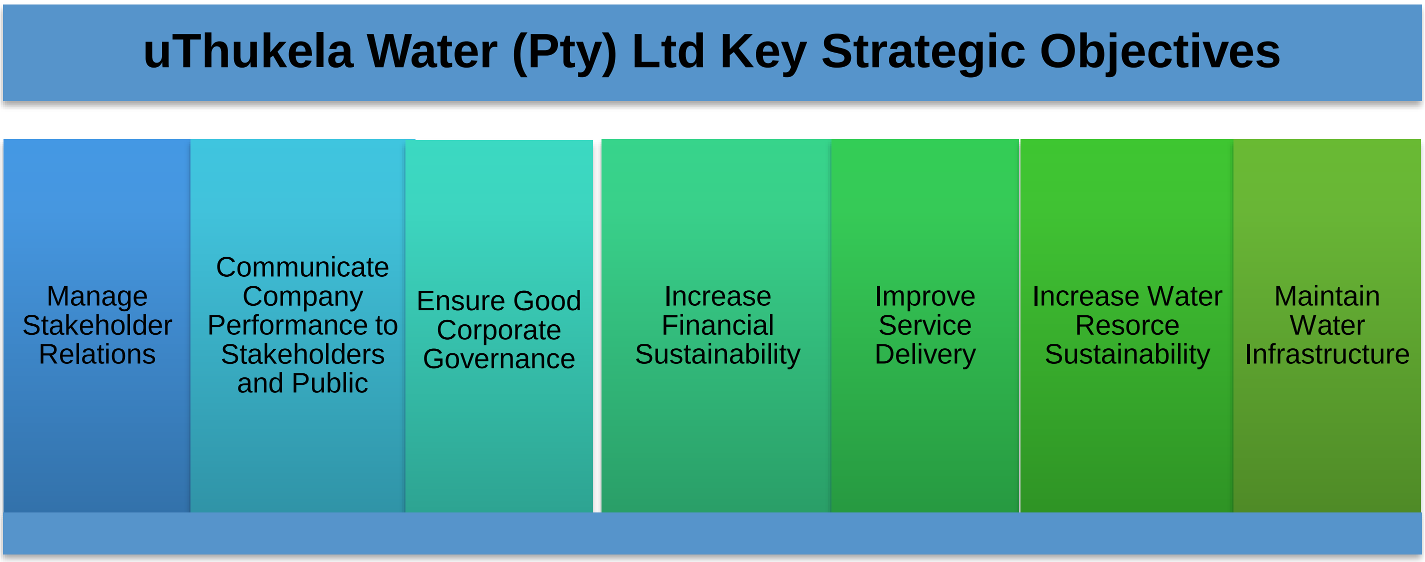
This report serves to table the annual performance of the entity as at 30/06/2022 against its pre- determined objectives planned out in May 2021. (Measurement of performance against the performance plan of FY 2021/2022). This report is subject to change during and after the internal audit process, finalisation of the annual financial statements for 2021/2022 as well as the audit outcomes received from the Auditor General of South Africa.

2. Performance analysis

uThukela water (Pty) Ltd uphold its mission statement by ensuring excellent and consistent performance across all areas of expertise within the entity. In May 2021, a pre-determined strategic plan/performance plan that converts into measurable criteria on how, where and when the strategic objectives and normal business processes of the entity will be achieved and implemented was tabled for the FY 2021/2022.Due to institutional changes the performance plan for the FY2021/2022 was not approved. The scorecard has been subsequently presented to the new Board of Directors for noting.

a) Performance Setting

The performance plan of uThukela Water (Pty) Ltd for the FY 2021/2022 comprised of 7 key strategic objectives. Which were filtered into key performance areas and key performance indicators. Below are the 7 strategic objectives of uThukela Water (Pty) Ltd.



b) Monitoring Performance

Due to institutional changes at board level the entity did not have a Board of Directors for the first three quarters of the financial year. Performance was thus measured by measuring targets vs actuals by the Performance and Risk Officer to determine if the entity is meeting its pre-determined objectives.

As per the MFMA Section 88(1) the entity prepared and submitted a Mid-year Performance Report to its parent municipalities on the 20th of January 2022.

This report serves to table the annual performance of uThukela Water (Pty) Ltd at 30 June 2022, for the financial year 2021/2022.

The entity is currently in the process of establishing performance evaluation committees, one of which will be responsible for the measuring of the performance of the entity.

3. Performance Outcomes

The below chart (*figure 1)* serves to represent the performance outcomes at the year ending 30th June 2022 of the financial year 2021/2022 of uThukela Water (Pty) Ltd. A detailed breakdown of performance outcomes can be found at the end of this report.

The entity managed to meet all its agreed targets as per the performance plan FY2021/2022 in the key performance areas of the following strategic objectives:

- Manage Stakeholder Relations
- Increase Water Resource Sustainability
- Increase Financial Sustainability
- Maintain Water Infrastructure

The entity did not manage to meet agreed targets in the following strategic objectives:

- Communicate Company Performance to Stakeholders and Public
- Ensure Good Corporate Governance
- Improve Service Delivery

The entity did not meet one target under the strategic objective: communicate company performance to stakeholders and public by failing to prepare and submit its annual report by the 25th of August 2021. The entity submitted a final annual report to the municipality and the auditor general in January 2022. As per the MFMA section 127 (1) a municipal entity has 6 months after the end of the financial year or any date earlier than this to prepare and submit its annual report to its parent municipality. The entity has subsequently revised this target for FY 2022 /2023.

The entity did not meet one target under the strategic objective to ensure good corporate governance as it failed to meet the target of receiving less than 3 material audit findings. The entity received 3 material audit findings in the final Auditor General Management report.
The entity is currently taking all steps to rectify the findings raised by the Auditor General.

The entity failed to meet two targets under the strategic objective: improve service delivery as the entity failed to supply the targeted bulk water volumes to 2 WSA's. The entity supplied 97.3% of the agreed bulk water volumes to the uMzinyathi District Municipality and 94.2% of the agreed bulk water volumes to the Amajuba District Municipality. The entity has subsequently revised the bulk water volume targets for the FY 2022/2023.

Recommended Corrective Actions can be found within the performance scorecard that follows.

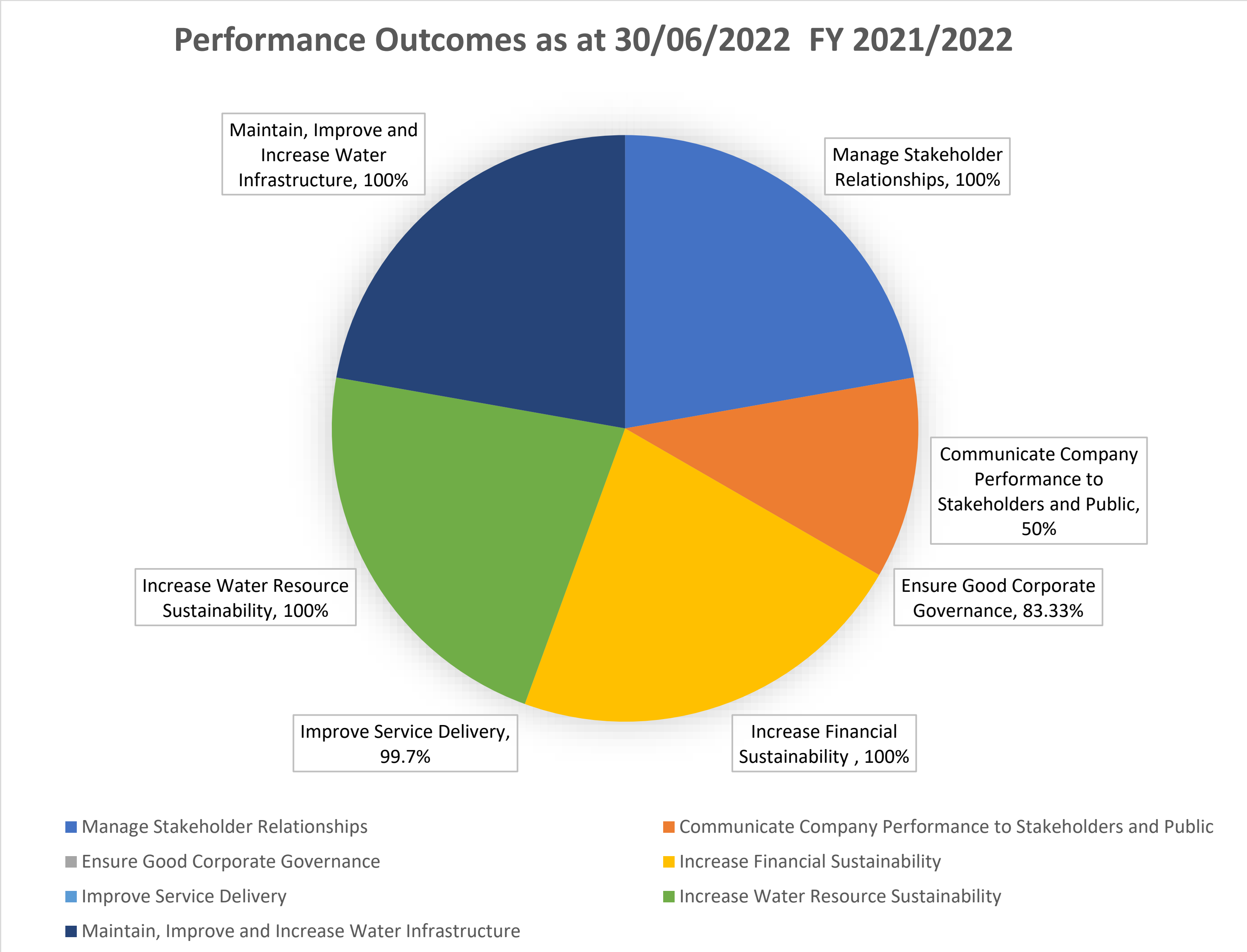


Figure 1- Annual Performance Outcomes of uThukela Water (Pty) Ltd against its annual pre-determined objectives for the Financial Year 2021/2022

uThukela Water (Pty) Ltd.
Annual Performance Scorecard FY 2021/2022

Strategic Objectives	Key Performance Area	Key Performance Indicator	Annual Target	Responsibility	Annual Actual	Target Met/ Not Met	Reason for Variance	Recommended Corrective Action
Manage Stakeholder Relationships	Align Business Plans & Budgets with Municipal IDPs, Budgets & Plans, and National / Provincial Development Objectives	Submission of Business Plan, Budgets and Mid-Year Performance Assessments in terms of the provisions of the MFMA. One Meeting per annum with each Shareholder and Provincial Representative Committee to align budgets to Municipal IDPs, National and Provincial Plans	• Submit an annual business plan to WSA's • Submit a Mid-Year Performance Assessment Report and, a final annual performance report • Schedule one meeting per WSA to align budgets and plans	• Managing Director	• 1 Business Plan submitted To WSA's on the 31/01/2022 • 1 Mid-Year Performance Report submitted to WSA's on the 20/01/2022 • 1 Final Annual Performance report submitted to WSA's on the 20/08/2021 • 1 meeting per WSA to align budgets	Target Met		
	Schedule and attend regular Operational Admin and Financial meetings with Parent Municipalities	To schedule quarterly meetings with all WSA's	• 4 Quarterly meetings scheduled with all WSA's	• Executive Director: Operations and Engineering	12 Monthly meetings scheduled with all WSA's	Target Met	It is important to note that only 2 meetings had a quorum	Bring non-attendance of officials to these meetings to the attention of the Municipal Manager

Strategic Objectives	Key performance area	Key performance indicator	Annual target	Responsibility	Annual actual	Target met/ Not met	Reason for variance	Recommended corrective action
	Board, Shareholder and Audit Committee Meetings	Quarterly meetings to be scheduled	• 4 Board meetings scheduled • 1Shareholders meetings scheduled • 4 Audit Committee meetings scheduled	• Managing Director	• 6 Board Meetings • 4 Audit Committee Meetings • 3 Shareholders Meeting	Target Met Target Met Target Met		
Strategic Objectives	**Key performance area**	**Key performance indicator**	**Annual target**	**Responsibility**	**Annual actual**	**Target met/ Not met**	**Reason for variance**	**Recommended corrective action**
Communicate Company Performance to Stakeholders and Public	Submission of Monthly Section 71 Reports (Section 87(11))	Compile and submit Monthly Reports to Shareholders	• 12 Monthly Section 71 reports	• Chief Financial Officer •Managing Director	12 Monthly Section 71 Reports submitted to WSA's	Target Met		
	Compile Annual Report with Input from Stakeholders	Compile and submit Final Annual Report to Stakeholders and Public by the 25TH of August each year	• Compile and submit 1 annual report by the 25TH August each year	Managing Director	1 Final Annual Report submitted to WSA's on the 10/01/2022	Target Not Met	Report not completed by the 25th August 2021.it is important to note the MFMA 127 (1) states that the municipal entity has 6 months after the financial year end of the financial year to compile and submit an Annual Report to its parent municipalities.	The entity has subsequently adjusted the target for the FY 2022/2023
Strategic Objectives	**Key performance area**	**Key performance indicator**	**Annual target**	**Responsibility**	**Annual actual**	**Target met/ Not met**	**Reason for variance**	**Recommended corrective action**
	Compliance with Statutory Company and Local Government Legislation	To ensure compliance with Company, National, Provincial and Local Government legislative guidelines by updating and signing off control sheets on a quarterly basis	• 4 Quarterly Compliance Control Sheets	Managing Director	4 Quarterly Signed Compliance Sheet	Target Met		

Strategic Objectives	Key performance area	Key performance indicator	Annual target	Responsibility	Annual Actual	Target met/ Not met	Reason for Variance	Recommended Corrective Action
Ensure Good Corporate Governance	Compliance with Statutory Company and Local Government Legislation	Number of material external audit findings in the Annual Audit Report to be less than 3 findings.	< 3 material external findings	Managing Director	3 material external findings	Target Not Met	The entity received 3 material findings in the final AG Management Report.	The entity has an action plan to address all findings from the Auditor General which is monitored monthly. The entity is addressing all findings emanating from the report.
	Ensure Compliance with the Occupational Health and Safety Act and Regulation	Submit Quarterly SHEQ Oversight Reports	4 SHEQ Oversight Reports	Managing Director	4 SHEQ Quarterly Oversight Reports	Target Met		
	Manage and Reduce Risks	Carry out an annual institutional risk assessment and perform quarterly monitoring exercises thereof	• 1 Annual risk assessment • 4 Quarterly Risk Monitoring Reports	Performance and Risk Officer	4 Quarterly Risk Monitoring Reports	Target Met		
	Attract, Retain and increase organisational skills and capacity	Training and development of Staff in line with the institution's succession plan, career pathing, talent management, performance intervention, WSP	• Capacitating staff and developing staff in line with the succession plan. With a total of 80% of all staff in training and development programmes been from the staff highlighted to be developed in terms of the WSP	Human Resource Manager	1 report completed detailing that 92% of staff highlighted to be developed in terms of the WSP are currently enrolled for formal studies.	Target Met		
	Information Technology Systems	Functional modern-day and live IT systems that generate management and stakeholder information.	• 12 monthly IT reports	Chief Technology Officer	12 monthly IT reports submitted	Target Met		

Increase Financial Sustainability	Bulk Water Tariff Modelling	A single cost driven bulk water tariff for all WSA's	• To submit a cost based bulk water tariff model for board approval • Board approved bulk water tariff.	Managing Director	• Cost based bulk water tariff submitted to the Board • Board approved bulk water tariff of 3.92 plus R0.02 Lab surcharge (VAT Exclusive)	Target Met		
	Revenue management	To invoice bulk debtors within 10 days of each new month for services rendered.	• 12 monthly invoices per WSA	Chief Financial Officer	12 monthly invoices per WSA submitted	Target met		
	Financial Performance	To produce Annual Financial Statements by the 31 August each year	• Annual Financial Statements by the 31st August	Chief Financial Officer	Annual Financial Statements submitted on the 31st August 2021	Target Met		
Strategic Objectives	**Key performance area**	**Key performance indicator**	**Annual target**	**Responsibility**	**Annual Actual**	**Target Met/ Not Met**	**Reason For Variance**	**Recommended Corrective Action**
Improve Service Delivery	To supply agreed bulk water volumes to WSAs	To supply uninterrupted bulk water volumes in terms of WSP / WSA Agreements and budgeted volumes.	• Newcastle 33465000 KL • uMzinyathi 5 770 000KL • Amajuba 5 335 000 KL	Executive Director: Operations and Engineering	• Newcastle 33651630 KL • uMzinyathi 5612592KL • Amajuba 5026616KL	• Target Met • Target Not Met • Target Not Met	Due to raw water shortages in the uMzinyathi Region emanating from reduced pumping capacity at the Tayside abstraction works the entity could not fully supply the DM with budgeted volumes. This is also affected Amajuba DM in the Hattingspruit area as it is supplied from Biggarsberg plant. The Amajuba DM also has no secured supply as they share a reservoir with the Newcastle LM. Increased Loadshedding has also affected the	Continue to lobby for the roll out of the Regional Bulk Water Master Plan to be implemented within the region. To develop a business plan to procure requisite generators that will assist the plants and pumpstations to function during power outages and submit such a business plan to WSA's for funding.

							production volumes in the Dundee Area.	
	To supply quality bulk water in terms of SANS 241:2015	95% compliance of; Acute health, chemical and microbiological, Aesthetic and operational, and Chronic health chemical standards.	• 95% Water Quality across all determinants in terms of SANS 241:2015	Executive Director: Operations and Engineering	• **Newcastle:** Acute Health Chemical Compliance 100% Acute Microbiological Compliance 100% Aesthetic Compliance 99.93% Chronic Health Compliance 100% Operational Compliance 99.02% • **Biggarsberg:** Acute Health Chemical Compliance 100% Acute Microbiological Compliance 100% Aesthetic Compliance 99.21% Chronic Health Compliance 100% Operational Compliance 99. 71%	Target Met		
	Reliability of Bulk Water Supply	To minimise unavoidable or planned maintenance interruptions of bulk water supply to less than 24 hours in any one instance.	• All planned and unplanned maintenance disruptions of bulk water should be less than 24 hours per disruption.	Executive Director: Operations and Engineering	127 maintenance disruptions July 2021-June 2022 less than 24 hours.	Target Met		Although the entity met its target it should be noted that on the 17th of December A water disruption lasted 22 hours due to an Eskom outage, the entity should urgently look into funding for backup power sources as 70% of all disruptions are due to Eskom outages.
	Water conservation management	To restrict bulk water losses on raw and potable bulk pipelines to less than 15% per annum	• To restrict water loss on total bulk water system raw and potable pipelines to an average of less than 15% per annum.	Executive Director: Operations and Engineering	6.19%	Target met		

Strategic Objectives	Key performance area	Key performance indicator	Annual target	Responsibility	Annual actual	Target met/ Not met	Reason For Variance	Recommended Corrective Action
Increase Water Resource Sustainability	To coordinate the regional bulk water master plan	To coordinate bi-annual meetings of the regional bulk water master plan	• Schedule 2 Meetings • To include at least 2 Bulk Water Master Planning initiatives in the annual capital budgets	Manager: Engineering	• 4 meetings scheduled • >2 Bulk Water Master Planning initiatives included in the annual capital budget submission.	Target Met	It is important to note that the meetings had no quorum	Bring non-attendance of municipal officials to the attention of the Municipal Managers.
	Increasing the resiliency of the institution	Business Continuity Planning	2 Meetings to develop an Institutional Business Continuity Plan	• Managing Director	2 Meetings Held • 31st January 2022 • 10th May 2022	Target Met		
	Regular asset conditional assessments	To annually assess the overall condition of all assets	1Annual asset conditional assessment	Asset and Budget Manager	1 Annual Asset Conditional Assessment Completed	Target Met		
Strategic Objectives	**Key Performance Area**	**Key Performance Indicator**	**Annual Target**	**Responsibility**	**Annual Actual**	**Target Met/ Not Met**	**Reason for Variance**	**Recommended Corrective Action**
Maintain Water Infrastructure	Maintenance Planning	To update the Annual Maintenance Plan.	1 updated Annual Maintenance Plan	Maintenance Manager	1 Updated Maintenance Plan Jan-Dec2021 Jan-Dec 2022	Target Met		

In signing this document, I declare that all the content contained in this report is complete and accurate to the best of my knowledge, this is a true reflection of the performance of uThukela Water (Pty) Ltd. For the year ending 30th June 2022. FY 2021/2022

Name and surname:

Capacity:
Signature:

Date:

uThukela Water (Pty) Ltd

uThukela Water (Pty) Ltd 79 Harding Street Newcastle
South- Africa Private Bag X644 2940
Office Tel: (034) 3285000
Office Fax: (034) 3263388
http://www.uthukelawater.co.za

email: info@uthukelawater.co.za

uThukela Water (Pty) Ltd Reg. No. 2003/029916/07