ANNUAL REPORT 2017/18

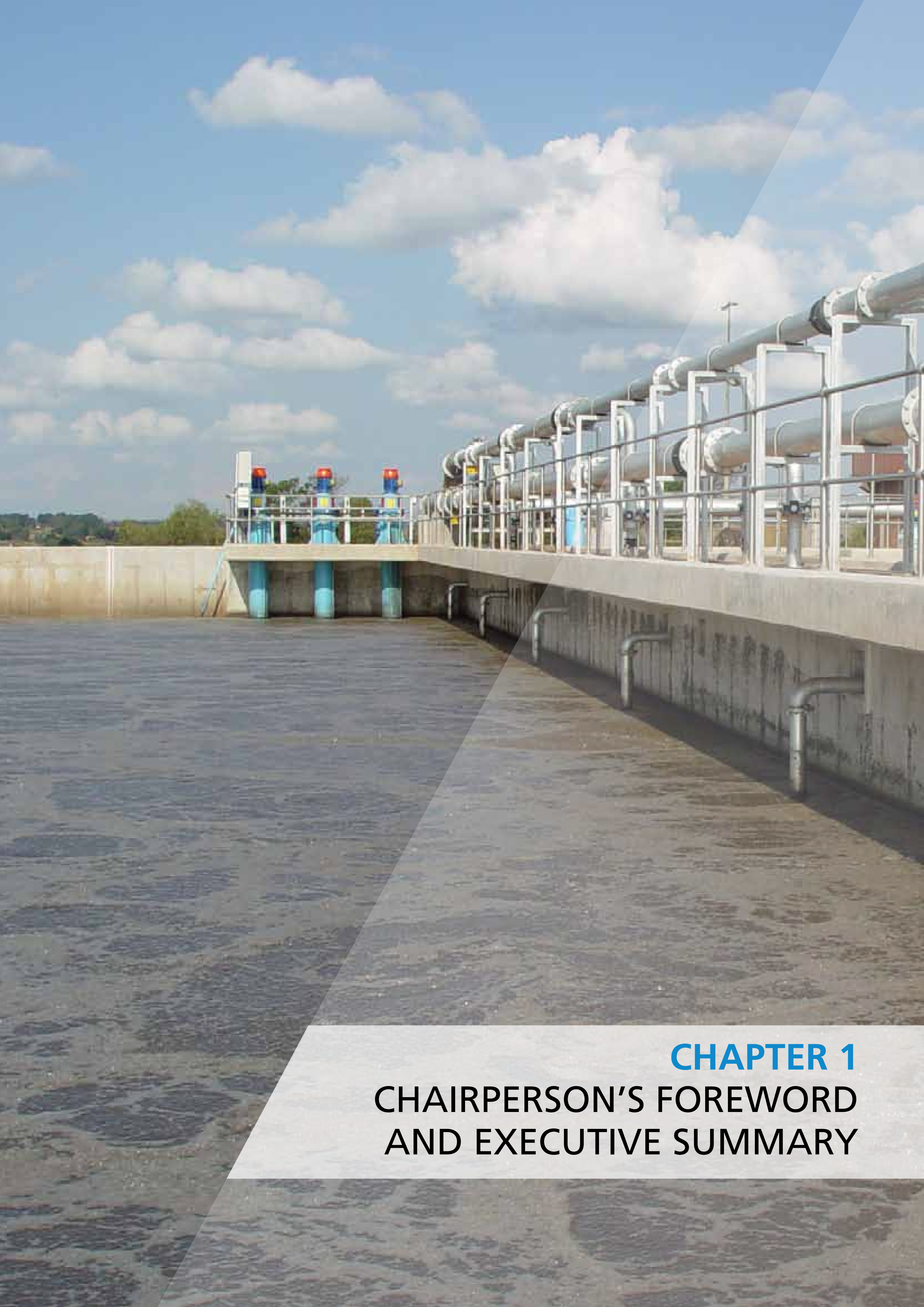
ERWAT

EXCELLENCE IN WASTEWATER

CONTENTS

TERMS AND ABBREVIATIONS

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



CHAPTER 1
CHAIRPERSON'S FOREWORD AND EXECUTIVE SUMMARY

CHAIRPERSON'S FOREWORD

a. Vision

Established in 1992 as a section 21 company, ERWAT's vision is to be the water company of choice. Its mission is to provide sustainable, affordable, quality water services through innovative, effective organisational practices.

ERWAT operates 19 wastewater treatment works each issued with a water use licence and/or exemption by the Department of Water and Sanitation (DWS). Each water use licence and/or exemption contains the final effluent water quality standards with which the works must comply.

ERWAT's members are the City of Ekurhuleni (CoE) (majority member), Johannesburg Metropolitan Municipality and Lesedi Local Municipality. ERWAT is taking the strategic direction of our major member, the CoE, into consideration as it is pivotal for the entity to achieve green drop status for all the wastewater treatment works. To this effect, ERWAT has redefined its Facilities Development Plan, 2028 model, in alignment with the CoE's planning for the future of the region.

ERWAT identified two main strategic objectives:

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

These objectives will enable ERWAT to maintain wastewater purification cost increases at acceptable levels.

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

b. Key policy developments

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

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

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

c. Key service delivery improvements

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

Revenue generated from external businesses was slightly lower than the budgeted revenue of R125 million with an actual achieved revenue of R107.3 million. Long-term capital expenditure and the funding thereof is very important for the long-term success of ERWAT. Our ability to finance and execute capital projects is paramount.

One of ERWAT's biggest challenges remains the financing of new extensions of wastewater treatment works. The success of future projects, as with those of the past, will continue to depend on the availability of funding. The role that our parent municipality, the CoE, will play in securing future funding will remain crucial.

d. Public participation

ERWAT shares the CoE's Department of Water and Sanitation's public participation process. All the comments and views of the community received during this process are channelled through to ERWAT.

e. Future actions

The entity now has three board committees which will assist with close oversight in strategic and critical areas where the entity was challenged. This is for the express purpose of improving service delivery over the next few years.

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

f. Agreements/partnerships

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

- National Department of Public Works (NDPW)
- Energy and Water Sector Education and Training Authority (EWSETA)
- Lepelle Northern Water (LNW)

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

- SafeWater Africa
- ReNEW
- Blesbokspruit Wetlands Research
- WADER

g. Conclusion

We are extremely proud of ERWAT's success which is a direct result of dedication, focus and the concerted efforts of many role-players. Therefore, I would like to express my sincere appreciation to my colleagues on the Board of Directors as well as the managing director, executive management and staff. Thanks must also go to the CoE for its unwavering support which made it possible for ERWAT to achieve its strategic and operational objectives.

Signed by:

CJ Cornish
Chairperson of the Board

5 March 2019

EXECUTIVE SUMMARY BY **MANAGING DIRECTOR**

1. MANAGING DIRECTOR'S OVERVIEW

BACKGROUND

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

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

The favourable financial position we have achieved when it comes to increased capital expenditure and prudent management of finances on the operational expenditure side will strengthen our position going forward. Despite the portfolio growth and disproportionate funding in relation to the portfolio of services, we have been able to cement our position through increased productivity and efficiencies. Performance at all departments comprising Operations, Scientific Services, Maintenance, Infrastructure Planning and Projects, Commercial Business, Finance, Human Resources and Secretariat was maintained at high standards.

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

The annual financial statements were prepared on the basis of accounting policies applicable to a going concern. At 30 June 2018, ERWAT had an accumulated surplus from the inception of ERWAT to date of R1 598 444 118. The total assets exceeded its liabilities by the same amount.

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

ERWAT has embarked on a more aggressive drive to increase its share in the market, when it comes to assessing, designing, constructing and operating wastewater treatment works on behalf of industrial, municipal and other clients. With potable water fast becoming a scarce commodity, the management and recycling of wastewater is a critical factor for the sustained survival of our people.

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

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

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

Going beyond its singular and traditional focus, ERWAT no longer sees itself only as the wastewater treatment company of choice, but as a strategic partner of choice in the wastewater industry, a partner that can collaborate with other players in both the private and public sectors to play a relevant role regionally, provincially, nationally and in the greater context of the African continent.

2. COMPANY'S FUNCTIONS, POPULATION AND ENVIRONMENTAL OVERVIEW

INTRODUCTION TO BACKGROUND DATA

ERWAT contributes to satisfy the basic requirements for sanitation by providing a proficient wastewater treatment service to approximately 8 000 industries and more than 3.5 million people who have access to sanitation. It is currently the custodian of 19 wastewater treatment works, treating a combined capacity of approximately 696 megalitres (Mℓ) of wastewater, both domestic and industrial, per day. The smallest works treat approximately 1,0 Mℓ per day, while the largest works treat up to 180 Mℓ of wastewater per day. ERWAT also operates and manages industrial effluent treatment works on behalf of industries on their premises, including the provision of scientific services. Most of ERWAT's operations are located in the eastern parts of Gauteng.

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

3. SERVICE DELIVERY OVERVIEW

INTRODUCTION TO SERVICE DELIVERY

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

ERWAT's 19 wastewater treatment works treat on average approximately 696 Ml wastewater per day during the dry season and up to 1 000 Mℓ during the wet season.

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

COMMENT ON ACCESS TO BASIC SERVICES

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

4. FINANCIAL HEALTH OVERVIEW

The entity's financial review is premised on the approved 2017/18 business plan and budget. The entity continued to perform well in most of its financial indicators. Total operating revenue increased from R777.8 million to R836.2 million (7.51%) which includes service charges of R719.9 million in 2017/18 (2016/17: R645.2 million).

The entity ended the year with a net surplus of R95.2 million (2016/17: R153.7 million). The decrease in the net surplus is mainly attributable to a significant write-off in developers' contributions received due to two developments that were terminated by the City, coupled with a decrease in other income received from commercial business. Operating expenditure for the year was recorded at R877.1 million against a budgeted expenditure of R864.6 million. The over expenditure is mainly due to the write-off of development contributions not received due to the two projects mentioned.

FINANCIAL ANALYSIS AND RATIO COMPARISON

The strength of the statement of financial position of ERWAT remains pivotal to the continued financial sustainability of the entity. It is reported that the entity is a going concern with an accumulated surplus of R1.598 billion with total assets exceeding total liability by the same amount.

SOLVENCY

The decrease in long-term liabilities impacted positively on ERWAT's solvency ratio. It decreased from 0.34 in 2016/17 to 0.32 in 2017/18. The solvency ratio might come under pressure in future if alternative funding sources, other than loan funding cannot be accessed.

LIQUIDITY

ERWAT's current ratio declined from 1.75:1 in 2016/17 to 1.09:1 in 2017/18.

Table 1.2: Financial overview: 2017/18

Details	Actual	Original budget 2017/18	Adjustment budget	Actual 2017/18
Income				
Grants	50 000	50 000	50 000	50 000
User charges (service)	645	719	719	719
Other	217	144	144	196
Subtotal	913	864	864	966
Expenses	756	864	864	875
Surplus	157	–	–	90

Table 1.3: Operating ratios 2017/18

Detail	%
Employee costs	31
Repairs and maintenance	14.24
Finance charges	6.99

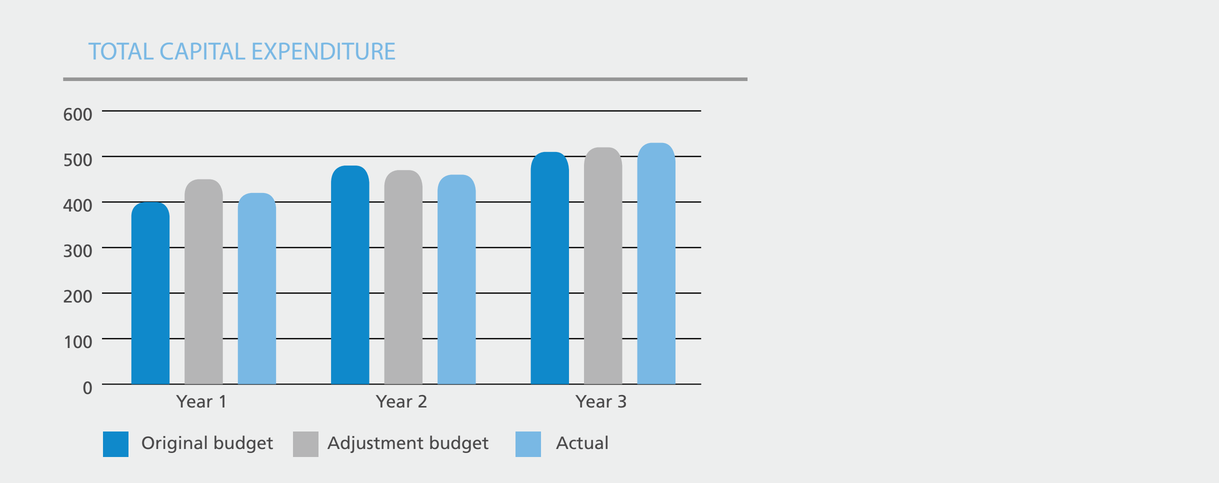
COMMENT ON OPERATING RATIOS

The main cost driver is the employee costs that are reported at 31.97%. Repairs and maintenance are recorded at 14.24% with finance charges recorded at 6.99%. Apart from repairs and maintenance, these are within the expected norms of 25% – 40% for employee costs, 20% for repairs and maintenance and 10% for finance charges and impairment.

Table 1.4: Total capital expenditure

Years 2015/16 to 2017/18	Year 2015/16	Year 2016/17	Year 2017/18
Detail			
Original budget	R397.4 million	R336.2 million	R309.3 million
Adjustment budget	R397.4 million	R336.2 million	R309.3 million
Actual	R242.3 million	R288.9 million	R219.9 million

Analysis	%	%	%
% capital spent based on original budget	61	86	71
% capital spent based on adjustment budget	61	86	71



COMMENT ON CAPITAL EXPENDITURE

The total capital budget for 2017/18 was R309.3 million. Some of the projects were delayed, therefore the actual spend was R219.9 million.

5. ORGANISATIONAL DEVELOPMENT OVERVIEW

ORGANISATIONAL DEVELOPMENT PERFORMANCE

In the business context the entity is encouraged to respond to various challenges. Organisational development issues are in place to attract competent and driven talent that will respond to the business challenges without necessarily being confined to their hierarchies.

These talents are specifically in the audit and risk as well as operations departments. The human resources department ensures that the entity delivers on its areas of expertise with sufficient talent and without unnecessary work stoppages.

6. AUDITOR-GENERAL REPORT

AUDITOR-GENERAL REPORT: 2016/17

The Auditor-General (AG) issued an unqualified audit opinion for 2016/17 highlighting several issues. The findings contained in both the audit report and final management report were addressed by way of an Operation Clean Audit (OPCA) plan. This was developed to address these findings to improve the entities' systems and prevent the repeating the same errors in the future. Most of the findings were dealt with successfully and progress has been made in addressing the rest.

The main issue relates to the restatement of the figures for June 2016. These figures were restated as a result of errors discovered in the comparative figures (2015/16) during the preparation phase of the 2016/17 financial statements.

7. STATUTORY ANNUAL REPORT PROCESS

Table 1.5: Statutory annual report process

No.	Activity	Timeframe
1	Consideration of next financial year's budget and strategic process plan. Except for the legislative content, the process plan should confirm in-year reporting formats to ensure that reporting and monitoring feeds seamlessly into the annual report process at the end of the budget/strategic plan implementation period	
2	Implementation and monitoring of approved budget and strategic plan commences (In year financial reporting)	July
3	Finalise the 4th quarter report for previous financial year	
4	Submit draft 2016/17 annual report to internal audit and AG	
5	ERWAT submits draft annual reports to the CoE	
6	Audit committee of the CoE committee considers draft annual report of the company	
8	Chairperson tables the unaudited annual report	
9	Company submits draft annual report including consolidated annual financial statements and performance report to AG	August
10	Annual performance report as submitted to AG to be provided as input to the strategic plan analysis phase	
11	AG audits annual report including consolidated annual financial statements and performance data	September – October
12	Company receives and starts to address the AG's comments	
13	Chairperson tables annual report and audited financial statements to members complete with the AG's report	November
14	Audited annual report is made public and representation is invited	
15	Oversight committee assesses annual report	
16	Board adopts oversight report	
17	Oversight report is made public	December
18	Oversight report is submitted to relevant provincial councils	
19	Commencement of draft budget/strategic plan finalisation for next financial year. Annual report and oversight reports to be used as input	January

COMMENT ON THE ANNUAL REPORT PROCESS

The company has made some improvements to its compliance with MFMA Circular No 63. The annual report will therefore be tabled to the relevant CoE department with the appropriate authority to review the report. The review will ascertain whether the annual report succinctly follows the broad guidelines of the template provided by National Treasury, whilst properly taking into account the unique nature of the entity. It will also determine whether the quality of information provided therein provides a clear picture of the entity's scope and operations.

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

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

CHAPTER 2
GOVERNANCE

GOVERNANCE

INTRODUCTION TO GOVERNANCE

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

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

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

COMPONENT A: POLITICAL AND ADMINISTRATIVE GOVERNANCE

Introduction to political and administrative governance

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

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

The entity applies the governance principles contained in the King IV Report for Corporate Governance for South Africa 2009 (King IV) and continues to further entrench and strengthen recommended practices in our governance structures, systems, processes and procedures. The Board of Directors and executives recognise and are committed to the principles of openness, integrity and accountability advocated by the King IV Report. Through this process, members and other stakeholders may derive assurance that the entity is being ethically managed according to prudently determined risk parameters in compliance with generally accepted corporate practices. Monitoring the entity's compliance with King IV forms part of the mandate of the audit committee. The entity has complied with the code in all respects during the year under review.

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

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

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

1. POLITICAL GOVERNANCE

INTRODUCTION TO POLITICAL GOVERNANCE

BOARD OF DIRECTORS

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

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

Responsibilities include:

(a) Setting strategic direction and goals of ERWAT and monitoring management's implementation of that strategy;

(b) Appointing such committees of ERWAT as may be appropriate to assist in the discharge of its responsibilities and to determine their responsibilities;

(c) Ensuring that procedures and practices are in place to protect ERWAT's assets and reputation;

(d) Monitoring financial outcomes and the integrity of reporting, in particular approving annual budgets and longer-term strategic and business plans;

(e) Ensuring that effective audit, and compliance systems are in place to protect ERWAT's assets and to minimise the possibility of ERWAT operating beyond legal requirements or beyond acceptable risk parameters; and

(f) Monitoring compliance with regulatory requirements and ethical standards.

The Board holds sufficient scheduled meetings to discharge all its duties, with a commitment of no less than four meetings per year.

Table 2.1: ERWAT Board of Directors

Board member capacity:	**Executive/ Non-executive Director**	**Race**	**Gender**	**Designation**
Mr CJ Cornish	Non-executive	Coloured	Male	Chairperson: Board of Directors
Mr LN Bokaba	Non-executive	Black	Male	Member: Remuneration and Ethics
Dr KC Wall	Non-executive	White	Male	Member: Operations committee Chairperson: Operations committee
Adv MM Mochatsi	Non-executive	Black	Male	Member: Governance Risk and Compliance Chairperson: Remuneration and Ethics
Ms EE Themba	Non-executive	Black	Female	Member: Operations committee Member: Governance Risk and Compliance
Ms N Sidondi	Non-executive	Black	Female	Member: Remuneration and Ethics Member: Operations committee
Mr D Coovadia	Non-executive	Indian	Male	Member: Governance Risk and Compliance Chairperson: Governance Risk and Compliance
Mr T Mdingi**	Non-executive	Black	Male	Member: Remuneration and Ethics Member: Governance Risk and Compliance
Mr T Gopane	Executive	Black	Male	Managing Director

*** Appointed 18 September 2017*

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

Appendix A sets out committees and committee purposes.

Mr Craig Cornish

(Non-executive Director)

Mr Craig Cornish has served on a number of boards in the public and private sectors.

He has vast experience in auditing and financial accounting including forensic audits supported by a long list of academic achievements.

He has a National Diploma in Accounting, Postgraduate Certificate: Senior Management Development, Postgraduate Certificate: Forensic and Investigative Auditing qualifications.

Adv Moferefere Mochatsi

(Non-executive Director)

In addition to his law degree Advocate Mochatsi has ventured into other disciplines including geography, human resources and education, achieving high qualifications in each.

Adding to his law credentials he completed a PGD: Drafting and Interpretation of Contracts, Curriculum Management, Financial Management, Master of Law degree.

He has extensive experience in law and education and is registered with the professional bodies and associations: IoDSA, CIGFARO, ASTD, SACE.

Dr Kevin Wall

(Non-executive Director)

He is a professionally registered engineer and a registered town and regional planner having completed a BSc (Eng), M Urban and Regional Planning, MSc (Eng) and PhD (Eng).

His engineering experience includes water and sanitation engineering and he has served on a number of boards in the public and private sectors.

He is also a senior member of professional bodies PrEng, TRP(SA), Eng and CPRP.

Ms Nompilo Sidondi

(Non-executive Director)

Ms Sidondi is an experienced legal advisor with more than 18 years in the field to her credit.

Her academic achievements include degrees in B. Proc, Postgraduate Dip: Income Tax Law, Certificate and Banking and Financial Markets.

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

Ms Esther Themba

(Non-executive Director)

A passionate social worker in her early career, Ms Esther Themba set out with a BA (Hons) Social Work, and Master of Management (Public and Development Management) degrees.

She branched out into an advisory role and has played her part in public-private partnership project structuring as well as contract management.

She has also held positions of deputy director and director in government institutions and currently serves as the risk committee chairperson.

Mr Dawood Coovadia

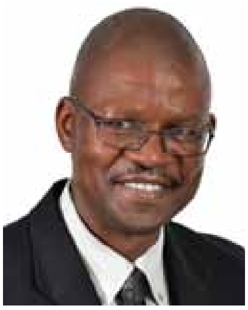
(Non-executive Director)

Justice of the Peace (JHB)

An experienced Auditing, Finance, Risk and Corporative Governance professional Mr Dawood Coovadia joined the profession with his BCompt Accounting Science Honours degree.

He has served on a number of boards in the public sector.

He continues to strive for excellence and is a member of no less than 10 professional bodies, among them FIAC, FCIS, CMC, CAT(UK) and IOD (SA).



Mr Lucky Bokaba

(Non-executive Director)

Mr Lucky Bokaba has committed himself to many business development, turnaround strategies yielding business operations improvements in cost savings, production, SHEQ, plant maintenance and pre-production product testing. He brings a wealth of international corporate experience and is competent in boiler, diesel and gas testing.

He has a BSc Mechanical Engineering degree and has credits in MBA courses. He also researched and developed proof of concept for an electricity generator.

Mr Mazengelonke Mdingi

(Non-executive Director)

Mr Mazengelonke Mdingi served as a director of independent schools and as chief specialist in Human Resource Management.

He has a BTech in Education Management degree, a Certificate in Advanced project management and an Advanced Diploma in Management.

Mr Tumelo Gopane

(Managing Director)

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

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

He held various roles in production, engineering and strategic sourcing at Eskom Ltd, Rio Tinto Plc, Anglo Platinum (Pty) Ltd and Anglo American Plc.

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

Ms Zimasa Socikwa

(Company Secretary)

A Chartered Secretary Ms Zimasa Socikwa holds a bachelor’s degree in Commerce from the University of Transkei, a Credit Diploma from the Institute of Bankers (IOB), and completed a Municipal Finance Management programme at Wits.

Ms Socikwa has notched up several years of experience in municipal entity governance oversight and compliance. She has worked for the City of Johannesburg and the City of Tshwane overseeing municipal entity governance.

Table 2.3: Board and sub-committee meetings 2017/18

Name	Board meeting	HR and Remuneration Committee**	Risk Committee*	Governance Risk and Compliance Committee	Remuneration and Ethics Committee	Operations Committee	Board Lekgotla	Total
Mr Craig Cornish	9	–	1	–	–	–	1	10
Mr Lucky Bokaba	9	1	–	–	3	3	1	17
Mr Dawood Coovadia	6	–	–	4	4	–	1	15
Adv. Moferefere Mochatsi	9	1	1	–	3	3	1	18
Ms Nompilo Sidondi	6	–	–	2	–	2	1	11
Dr Kevin Wall	8	–	1	4	–	4	1	18
Ms Esther Themba	9	–	1	3	3	–	1	17
Mr Mazengelonke Mdingi***	6	–		4	–	–	1	11

Table: Board and Board Committee meeting attendance

* *Committee was re-constituted into GRC from November 2017.*

** *Committee was re-constituted into Remuneration and Ethics committee.*

*** *Appointed 18 September 2017.*

BOARD SUB-COMMITTEES

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

A resolution was taken by the Board for board and board committee meetings to be held every two months

DECISION-TAKING

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

2. ADMINISTRATIVE GOVERNANCE

INTRODUCTION TO ADMINISTRATIVE GOVERNANCE

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

Directors' responsibility in relation to internal controls and financial controls

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

These controls are monitored in the form of quarterly reports, i.e. financial, operations, human resources and other reports submitted by management to the Board for review.

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

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

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

Table 2.4: Administrative structure

Name	Designation and function
First tier	
Tumelo Gopane	Managing Director
Second tier	
Zimasa Socikwa	Company secretary
Wim Louw	Chief financial officer
Rodney Barnes	Executive manager: Human resources
Alison Chapman	Executive manager: Scientific services
Fortune Mabunda	Executive manager: Operations
Mikgane Tsotetsi	Executive manager: Commercial business
Ella Mutyaba	Interim executive manager: Maintenance
Emmanuel Khomela	Interim executive manager: Development
Third tier	
Eden Botha	Financial manager
Johan Engelbrecht	Supply chain manager

COMPONENT B: INTERGOVERNMENTAL RELATIONS

Introduction to co-operative governance and intergovernmental relations

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

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

Other relations include Rand Water and other structures.

3. INTERGOVERNMENTAL RELATIONS

NATIONAL INTERGOVERNMENTAL STRUCTURES

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

ERWAThas a relationship with EWSETA for funding learnerships to train learners in wastewater treatment and management.

PROVINCIAL INTERGOVERNMENTAL STRUCTURE

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

RELATIONSHIPS WITH MUNICIPAL ENTITIES

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

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

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

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

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

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

For this financial year, the municipality has focused on strengthening board governance structure, board induction, and reviewing the entity's service delivery agreements and governance maturity.

The key focus areas of the service delivery agreement include:

- Establishment of effective municipal entities oversight/monitoring mechanisms
- Mandate and key performance areas/indicators
- Clear definition of roles and responsibilities
- Reporting channels
- Business plans
- Establishment of clear communication lines and effective stakeholder management processes

DISTRICT INTERGOVERNMENTAL STRUCTURES

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

COMPONENT C: PUBLIC ACCOUNTABILITY AND PARTICIPATION

Overview of public accountability and participation

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

4. PUBLIC MEETINGS

COMMUNICATION, PARTICIPATION AND FORUMS

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

COMMENT ON THE EFFECTIVENESS OF THE PUBLIC MEETINGS HELD

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

5. BUSINESS PLAN PARTICIPATION AND ALIGNMENT

Table 2.5: Business plan participation and alignment

Business plan participation and alignment criteria	Yes/No
Does the company have impact, outcome, input, output indicators?	Yes
Does the business plan have priorities, objectives, KPIs, development strategies?	Yes
Does the business plan have multi-year targets?	Yes
Are the above aligned and can they calculate into a score?	Yes
Does the budget align directly to the KPIs in the strategic plan?	No
Do the business plan KPIs align to those of the Executive Managers?	Yes
Do the business plan KPIs lead to functional area KPIs as per the SDBIP?	Yes
Do the strategic plan KPIs align with the provincial KPIs on the 12 outcomes?	Not applicable
Were the indicators communicated to the public?	Yes
Were the four quarter-aligned reports submitted within stipulated timeframes?	Yes

COMPONENT D: CORPORATE GOVERNANCE

Overview of corporate governance

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

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

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

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

Ethical leadership

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

Corporate Citizenship

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

Compliance with laws, rules, codes and standards

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

6. RISK MANAGEMENT

RISK MANAGEMENT

6.1 ERWAT risk management strategy

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

(a) That the resources of the entity are used effectively, efficiently, economically and transparently;

(b) That full and proper records of the financial affairs of the entity are kept;

(c) That the entity has and maintains effective, efficient and transparent systems

(i) Of financial and risk management and internal control; and

(ii) Of internal audit complying with and operating in accordance with any prescribed norms and standards;

(d) That irregular and fruitless and wasteful expenditure and other losses are prevented;

(e) That expenditure is in accordance with the operational policies of the entity; and

(f) That disciplinary or, when appropriate, criminal proceedings, are instituted against any official of the entity who has allegedly committed an act of financial misconduct or an offence in terms of Chapter 15.

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

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

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

RISK MANAGEMENT PROCESS

RISK MANAGEMENT PROCESS

6.2 ERWAT corporate risk profile 2017/18

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

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

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

6.3 Corporate risk profile

Reference	Risk title	Strategic objective
ERW1 Financial risk	Inability to spend capital budget.	• Undertaking a project to review internal business process mapping to ensure a systematic and seamless running of processes. This will decrease the Supply Chain Management lead time. • Formulating a strategy to reduce Supply Chain deviations by implementing Service Master Contracts for emergencies and critical services by extending the use of National Treasury existing Transversal Contracts. • Streamlining of company-wide reporting to ensure all the relevant stakeholders' reporting needs are met timeously and in the correct format.
ERW2 Financial risk	Inability to raise capital for projects and urbanisation requirements.	• Embarking on an exercise to determine the following: – Grant Ratio (ERWAT infrastructure asset register value vs EMM infrastructure asset register value) – Dividing EMM's revenue between IDP requirements and background infrastructure (60/40% or 70/30%) – Establishing the total income from sanitation vs ERWAT allocation • Establishing a formal Internal/External Audit Steering Committee that convenes fortnightly to ensure all critical audit matters are addressed within a reasonable timeframe. The committee members comprise the Executive Team and senior managers.
ERW3	Not realising full benefits from sludge beneficiation.	• Embarking on various research projects, prioritising a project to conduct a feasibility study to determine the benefits of sludge beneficiation for internal use and possible generation of revenue. • Strengthening of existing relationships, establishing new ones within the Agricultural sector and formerly registered ERWAT? with institutions like Agri-SA; South African Fertiliser Association in order to advance the interests of all parties involved. • Completing Heating and Mixing infrastructure project as part of the future Integrated Sludge Beneficiation Plant.

Reference	Risk title	Strategic objective
ERW4 Infrastructure risk	Inadequate infrastructure capacity to treat wastewater.	• Development of a Regionalisation Master Plan, to increase the infrastructure capacity in order to treat wastewater in a growing economy. • Monitoring of the implementation of the recommendations of Civil Structural Audits to improve the integrity of the civil structures. • Collaborations being formed on a continuous basis with organisations that are in the forefront of Research and Development to keep abreast with the latest technology, regular engagements with the ERWAT Research Chair and internal Continuous Improvement Programme through employees. • Implementation of the HYBACS technology at Tsakane Wastewater Care Works. • Construction work at Vlakplaats Wastewater Care Works for the modification to flow diversion, final effluent collection, maturation and retention pond.
ERW5 People risk	Ability to attract and retain key skills	• Human Resources is critical to the achievement of ERWAT strategy. With stiff competition in the water sector the organisation is in the process of rolling out the career planning framework to all departments, undertaking a benchmarking exercise of similar industries (water boards and other metros) and is reviewing the Human Resources processes and aligning with current best practices.
ERW6 Compliance risk	Changes in legislation with regards to National Water Act and Occupational Health and Safety	• Review the Compliance Risk Management Plans and further increase the scope of compliance to ERWAT in the National Water Act and the Occupational Health and Safety Act in order to meet the Green drop requirements and ensure the highest levels of employee safety.
ERW7 Business process risk	Inadequate Business Continuity Management processes	• Implement a formal Business Continuity Management System in line with the recognised Business Continuity Management best practice.
ERW8 Infrastructure risk	Possible collapse of infrastructure	• Geotechnical Investigation studies were conducted on Olifantsfontein and Hartebeestfontein during Quarter 3. It was found that a Primary Settling Tank (PST) is currently sinking due to dolomite and it was recommended that a new tank be constructed in a non-dolomitic area.
ERW9 Financial risk	Inadequate insurance coverage for ERWAT	• Regular Gap analysis audits conducted to ensure adequate coverage.

7. ANTI-CORRUPTION AND FRAUD

FRAUD AND ANTI-CORRUPTION STRATEGY

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

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

7.2 Anti-fraud strategies

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

Fraud risk assessment is conducted with an understanding that fraud is a major risk that threatens any business.

- Fraud risk training and awareness through an induction programme.
- Anti-fraud hotline.
- Declaration of interest.
- Declaration of gifts.
- Internal audit reviews.

Fraud risk profile

Reference	Risk title	Strategic objective
FR1	Possible abuse of ERWAT fleet	• Defensive Driving Plan and a continuous programme to assess individual drivers. • Vehicles fitted with a speed limit device and the monitoring of vehicle tracking device reports. • Develop a Fleet Safety Programme (31 March 2017).
FR2	Potential abuse of Supply Chain Management processes	• Consequence management for the violation of Supply Chain Management processes.
FR3	Leaking sensitive company (ERWAT)/(ERWAT client) information for personal gain (Intellectual Property)	• Awareness on the Protection of Personal Information Act. • Management to review internal processes to identify gaps in the current systems. • A document management process identified as critical and to be rolled out in the future. • Controlled access control to systems.

EFFECTIVENESS OF RISK MANAGEMENT SYSTEM AND REPORTING

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

8. SUPPLY CHAIN MANAGEMENT

OVERVIEW SUPPLY CHAIN MANAGEMENT

The entity has adopted SCM systems in compliance with the provisions of the MFMA and the National Treasury and Municipal Supply Chain Management Regulations, 2005.

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

The evaluation of bids is based firstly on functionality, then price and B-BBEE in accordance with National Treasury circulars.

The adjudication process is applied as per the MFMA and as per the SCM Policy.

Declaration of interest certificates are required for all parties registering on the supplier database.

B-BBEE is calculated and based on information received from the suppliers and verified by certificates confirming their B-BBEE status where possible.

The latest internal and external audit reports have identified areas for improvement which are being addressed. All procurement committee members are duly appointed by the accounting officer (managing director) as required by the SCM Policy.

These procurement committees are bid specification, bid evaluation and bid adjudication committees.

An SCM unit was established to monitor the implementation of the SCM policies in line with the regulations. The unit seeks to modernise financial governance and improve accountability and transparency in the entity's processes. These policies also provide for the exclusion of awards to persons in the service of the state subject to the exemptions and regulations issued by National Treasury from time to time.

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

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

9. BY-LAWS

COMMENT ON BY-LAWS

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

10. WEBSITES

COMMENT ON COMPANY WEBSITE CONTENT AND ACCESS

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

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

Table 2.8: Company website: content and currency of material

Documents published on the municipality/company's website	Yes/No	Publishing date
Current annual and adjustment and all budget-related documents	No	N/A
All current budget-related policies	No	N/A
The previous annual report (2017/18)	Yes	February 2018
The annual report (2017/18) published/to be published	Yes	February 2019
All current performance agreements required in terms of section 57(1)(b) of the Municipal Systems Act (2016/17) and resulting scorecards	No	N/A
All service delivery agreements (2017/18)	No	N/A
All long-term borrowing contracts (2017/18)	No	N/A
All SCM contracts above are prescribed values (give value) for 2017/18	Yes	Various dates
An information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14(2) or (4) during year 1	No	N/A
Contracts agreed in 2017/18 to which subsection (1) of section 33 applies, subject to subsection (3) of that section	No	N/A
Public-private partnership agreements referred to in section 120 made in 2017/18	No	N/A
All quarterly reports tabled in the council in terms of section 52(d) during 2017/18	No	N/A

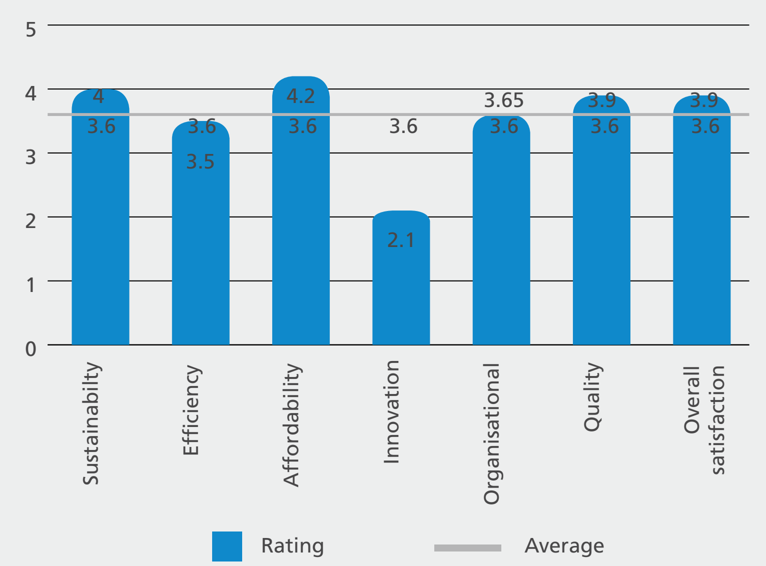
11. PUBLIC SATISFACTION ON COMPANY SERVICES

PUBLIC SATISFACTION LEVELS

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

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

CUSTOMER SATISFACTION INDEX SCORE ACROSS DIMENSIONS



COMMENT ON SATISFACTION LEVELS

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

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

CHAPTER 3
SERVICE DELIVERY PERFORMANCE

PERFORMANCE REPORT PART I

INTRODUCTION

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

ERWAT CORE BUSINESS

Pre-determined metro-wide objectives

The core business of the company is the purification of wastewater. ERWAT operates 19 wastewater treatment works. Each of these is issued with a water use licence and/or exemption by the DWS. Each water use licence and/or exemption contains the final effluent water quality standards with which the works must comply.

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

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

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

COMPONENT A: BASIC SERVICES

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

INTRODUCTION TO BASIC SERVICES

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

1. WASTEWATER (SANITATION) PROVISION

INTRODUCTION TO SANITATION PROVISION

The core business of the company is the purification of wastewater. ERWAT operates 19 wastewater treatment works and each works is issued with a Water Use Licence (WUL) by the Department of Water Affairs (DWA). Each WUL contains the final effluent water quality standards with which the works must comply.

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

Table 3.1: Pre-determined Metro-wide objectives

GDS 2055 imperative:					Imperative regenerate: to achieve environmental			
Strategic objective 4:					**To protect the natural environment and promote resource sustainability**			
							Quarter 1	
Responsible department	**Planning statements**	**Indicators**	**Portfolio of evidence**	**Five-year target**	**Baseline (2016/17)**	**Annual target 2017/18**	**Planned target**	**Performance achieved**
Direct outcome (Metro-wide SDBIP)	Improve the effluent quality compliance	% compliance with wastewater treatment works licence conditions and/or exemption standards	Dated and signed compliance reports drawn from LIMS (Laboratory information management system)	90%	89%	87%	86%	86%

KPI 1 – Metro-wide

Percentage compliance with wastewater treatment works licence conditions and/or exemption standards.

Method of measure

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

Evidence

Water Quality analysis reports per plant and per month.

Quarterly reports, showing the Water Use Licence standards and compliance calculations.

Annual target

87%

Annual actual

91%

Comment

Thirteen (13) out of nineteen (19) plants achieved the required levels of compliance, which exceeded the overall target of 87%. The following are the challenges that impacted the department during the 2017/18 financial year:

- Challenges and mitigations
- Industrial pollution
- Failure of critical equipment
- Hydraulic capacity
- Power disruptions
- Technology limitations and lack of infrastructure
- Storm water ingress
- Unstable ground conditions

1. Industrial pollution

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

2017/18								Progress on performance	Reason for variance	Mitigation plan	Year to date performance
Quarter 2		Quarter 3		Quarter 4		Annual					
Planned target	Performance achieved	Planned target	Performance achieved	Planned target	Performance achieved	Planned target	Performance achieved				
88%	89%	88%	93%	86%	94%	87%	91%	The performance has improved by 4% as compared to 2016/17	Target was exceeded by 4% due to the following reasons: 1. Improvement of Maintenance turnaround times; 2. ERWAT scientifically influenced the Regulator to amend the WUL Standards to be more realistic; 3. Newly installed HYBACS technology has contributed to an improved compliance.	No mitigation required	91%

Action taken

A steering committee has been established with the CoE to investigate how the impact of industrial effluent discharged to Wastewater Treatment Works can be managed and improved. The study will look into the development of an integrated model for the management of industrial effluent and review the CoE Schedule A of the tariff for industrial effluent. The Steering Committee has finalised the scope of work and CoE will proceed with the appointment of a consultant during Q1 of 2018/19.

2. Unavailability of critical equipment

In 2017/18 critical equipment failures occurred mostly at Ancor, Welgedacht and Olifantsfontein, which had an influence on the water quality discharged.

The replacement of the critical equipment during the months of April and May at Olifantsfontein took longer than anticipated as a result of the challenges experienced during commissioning.

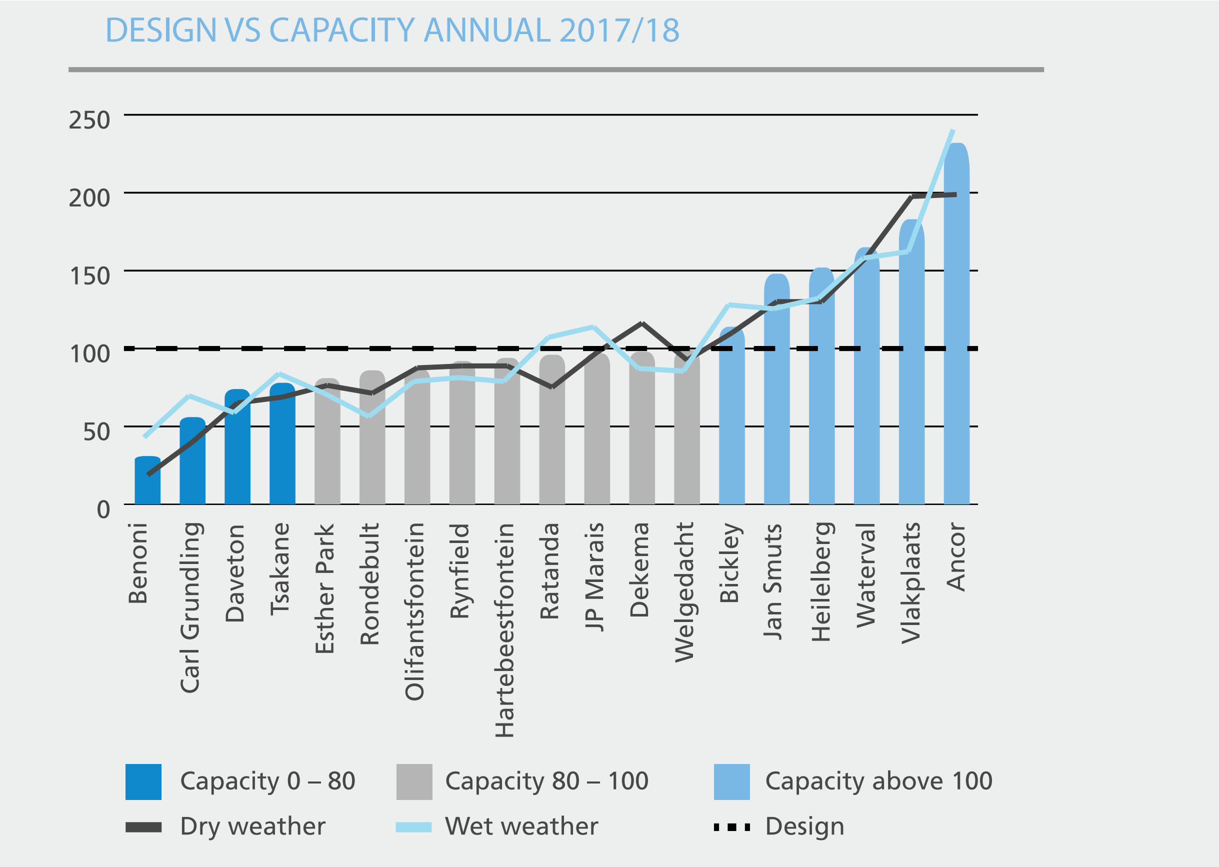
Action taken

ERWAT is in the process of developing and implementing an Asset Management Strategy, Policy and Processes in line with ISO 55000 (Asset Management world best practice). This will include the development of maintenance plans in line with industry best practice, where the focal point will be on planned/preventative plans.

3. Hydraulic capacity

Figure 3 below depicts a very gloomy picture of the ERWAT Wastewater Treatment Works with regard to treatment capacity. Six out of the 19 plants are operating above their design capacity, nine are operating between 80% and 100% (this is a trigger point for upgrade), with four operating below the 80% mark, which is the acceptable level. The plants' operating capacity was also affected by the heavy storms experienced during Q3 of the financial year 2017/18.

Figure 3: Flow vs Design



4. Power disruptions

Power disruptions were experienced at the plants as a result of faulty electricity supply cables, cable theft at the main substation and unscheduled HT maintenance of the Eskom main substation.

A total of two hundred and five (205) power outages occurred during 2017/18 lasting a total of one thousand three hundred and six (1 306) hours, which disrupted operations at the Wastewater Treatment Works, especially those with no standby power or where the stand-by generators only service the inlet works.

2017/18	Power outage	Total duration	Eskom number of outages	Eskom total duration	CoE number of outages	CoE total duration	Lesedi number of outages	Lesedi total duration
Q1	28	94	16	57	12	37	0	0
Q2	47	465	19	78	24	369	4	18
Q3	68	506	34	381	28	92	6	33
Q4	62	406	18	249	40	140	4	17
Average	51	368	22	191	26	159	4	17
Total	**205**	**1471**	**87**	**765**	**104**	**638**	**14**	**68**

Action taken

During 2017/18, stand-by generators for the following plants were procured: Daveyton, Ancor, Welgedacht (Mod.2) JP Marais and Tsakane. Only one generator was procured and installed at Vlakplaats during the financial year.

5. Technology limitations and lack of infrastructure

Trickling filters: Eight (8) of the nineteen (19) ERWAT Wastewater Treatment Works, have older trickling filter technology, which is not suitable to treat high strength sewerage containing industrial pollutants. This leads to non-compliances of the final effluent or reduced capacities of the Wastewater Treatment Works to treat incoming flows. The two (2) worst affected Wastewater Treatment Works are Ancor and Vlakplaats.

Chlorine contacts tanks and associated disinfection equipment: The lack of chlorine contact tanks, insufficient retention time in existing contact tanks or unreliable disinfection equipment lead to non-compliances of micro standards.

Actions taken

(a) Trickling filters: The project for the upgrade of the trickling filter technology at Ancor and Vlakplaats was placed on hold during Q4 due to lack of funds.

(b) Chlorine contact tanks: Disinfection capacity analysis was performed for all Wastewater Treatment Works to determine the disinfection requirements; however, the implementation will only be realised once funding is available.

6. Storm water ingress

Fourteen (14) of the ERWAT Wastewater Treatment Works, namely Carl Grundlingh, Herbert Bickley, Jan Smuts, JP Marais, Welgedacht, Dekema, Rondebult, Benoni, Heidelberg, Ratanda, Tsakane, Daveyton, Rynfield and Vlakplaats do not have emergency dams to assist during storms to prevent flooding of the Wastewater Treatment Works and potential environmental pollution.

Actions taken

(a) The wastewater conveyance and treatment systems regionalisation and 50-year master plan study has commenced. The scope of this study includes identifying storm water infiltration hotspots, condition assessments of the conveyance infrastructure and future sewage flow projections including peak wet weather flows and capacities of the Wastewater Treatment Works.

(b) The inception report for capacity upgrade of the inlet channel, emergency bypass and emergency dams to handle storm water flows at Ancor was completed during June 2018 and the project will continue during 2018/19, subject to availability of funding.

(c) Vlakplaats: The construction of the storm water bypass lines and emergency dam is in progress. The project is 74% complete.

(d) Emergency dams at Carl Grundlingh, Herbert Bickley, Jan Smuts, JP Marias, Welgedacht, Dekema, Rondebult, Benoni, Heidelberg, Ratanda, Tsakane, Daveyton and Rynfield will be constructed as per the five-year Capex plan, pending the availability of funds.

7. Unstable ground conditions

Following the formation of a sink hole at Olifantsfontein WWTW that resulted in the collapse of Module 3 feed pipeline, and the structural damage to Module 3 Primary Settling Tank (PST), the preliminary geotechnical and dolomite stability investigation around Module 3 was conducted to determine the extent of the instability. The investigation confirmed that the area where the PST is located is unstable and unsafe and recommended that further studies be carried out to reduce the extent of the instability in affected areas. This resulted in the PST 3 being decommissioned due to safety concerns.

With the PST decommissioned, the following is the impact on the operation of the plant:

(i) The biofilter plant is also not available which results in a capacity reduction of 15 Mℓ/day. This reduction is mitigated by feeding more flow to Module 1 and 2 which becomes a challenge during peak flows.

(ii) Module 3 struggles to remove phosphorus biologically; instead the process is facilitated chemically by the addition of Ferric Chloride which increases the operational costs.

Action taken

The Board of Directors at its recent sitting resolved that the construction of the new PST be expedited. The project is anticipated for completion in 2020/21 subject to availability of funding.

CAPITAL PROJECTS

In terms of approved capital expenditure for the 2017/18 financial year, ERWAT has planned to implement the following projects which are aligned to the strategic objective of the CoE and DWS.

MAJOR PROJECTS

Major projects are generally large-scale infrastructure multi-year projects in Civil, Electrical and Mechanical engineering. The projects involve large investment and Research and Development in accordance with the Facility Development Plan (FDP) and SDBIP/Business Plan.

PERFORMANCE
REPORT PART I continued

1. **Welgedacht (50 Mℓ/day) upgrade**

   The project entails the construction of a new module in Welgedacht WWTP to increase capacity of the 50 Mℓ/day. All works have been completed. The module is currently running at 100% capacity.

2. **Integrated sludge beneficiation plant**

   This project aims to provide the following infrastructure at Waterval WWTP:

   - The refurbishment and optimisation of sludge treatment and biogas production infrastructure.
   - Combined Heat and Power (CHP) installation for on-site generation of electricity utilising the biogas. Up to 60% of wastewater energy demand can be offset at Waterval WWTP.
   - Phosphorus recovery plant to reduce the effects of struvite build up in the pipes and to sell it as a product.
   - Enhanced drying of the mechanically dewatered sludge to produce a sealable end product that ensures the dry sludge is removed from site and generates a revenue stream.

   The Heating and Mixing infrastructure project is completed and currently in process of handover. The dewatering project has been awarded and the contractor has placed an order for the manufacturing of the filter belt presses with a lead time of seven months including shipment. The delivery of the dewatering equipment is expected to be at the end of 2018.

3. **Tsakane capacity 10 Mℓ/day upgrade**

   The project entails increasing the capacity of Tsakane WWTP by 10 Mℓ/day through retrofitting of the new technology that combines the HYBACS process and Smart Units technology. This will double the treatment capacity from 10.8 Mℓ/day to 21 Mℓ/day.

   The easy retrofit of conventional activated sludge with suspended biomass reduces power consumption associated with aeration by up to 30%.

   The HYBACS technology installation is now at 99.9% physical completion and from inception to date 99.9% of monetary value has been claimed. The civil, mechanical and electrical contract is at 99% physical completion and 94% claimed to date. The project is currently at pre-commissioning stage.

4. **Hartebeestfontein 5 Mℓ/day upgrade**

   The project entails increasing the capacity of Hartebeestfontein by 5 Mℓ/day.The project is 100% completed, including fibre connectivity and internet capabilities. RHDHV awaits signed documentation of the end-user agreement and process guarantee from ERWAT in order to switch on the remote monitoring of the Nereda Plant from Holland.

5. Vlakplaats emergency dam and related works

The project was experiencing delays due to long processes of obtaining an approval for EIA and Water Use Licence from the relevant departments. The EIA and Water Use Licence led to the delay of the construction of ponds 1, 2, 3 and 4. The Department of Water and Sanitation (DWS) has since granted partial permission for the contractor for go-ahead with removal of the sludge and cleaning while lining of the maturation ponds will only commence after the licence amendments by the department. The project is now progressing.

6. Waterval Module 2 and 3 New Aeration Blowers Upgrade

Aeration compressors at Waterval Wastewater Care Works (Modules 2 and 3) were originally installed with the construction of the new works in the 1990s and are now beyond their useful service life. Various modifications over the years have kept the system operational, but it would be counterproductive to keep on modifying the system.

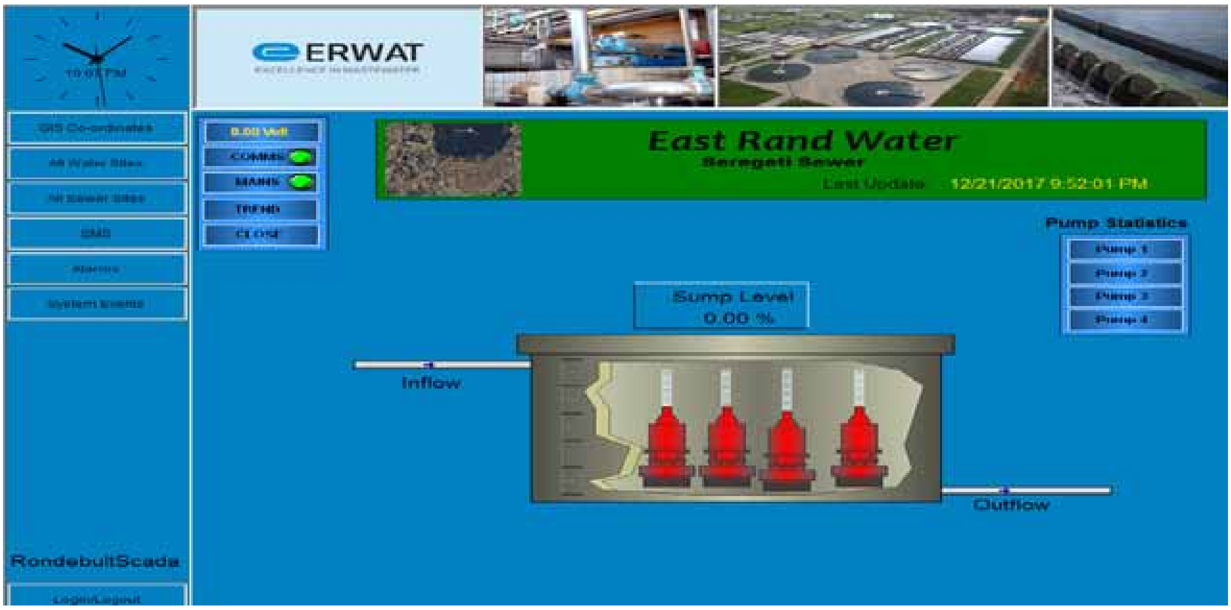
The project's main objective is to increase the ability of both Modules 2 and 3 to handle extra capacity, since the modules are receiving additional flow. Due to the existing blowers constantly breaking down it has become challenging to handle the increased flow. Hence, it is vital to install blowers with newer technology and the ability to handle more capacity.

The project is currently in design finalisation stages, i.e. certain designs have been approved and long lead time items have been ordered, while other designs are still under review and are being corrected.

7. Telemetry system upgrade

The telemetry system is defined as a highly automated communications process by which data is collected from instruments located at remote or inaccessible points and transmitted to receiving equipment for measurement, monitoring, display, and recording.

The Telemetry System has been configured to control various equipment and monitor the Ekurhuleni pump stations throughout the network process for both sewer and fresh water. The project's main objective is to provide an early warning signal to alert ERWAT Maintenance to breakdown incidents. This will allow ERWAT to prevent further reputational damages, environmental pollution and non-supply to potable water resulting from unattended breakdowns and flooding of pump stations. The project is currently at installation stage, 80% of the pump station sites are currently running as per picture below. The expected completion date is 30 August 2018.



COMMENT ON ERWAT BULK WASTEWATER TREATMENT SERVICES OVERALL PERFORMANCE

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

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

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

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

The plants that achieved a score of 90% or more are Benoni, Carl Grundlingh, Dekema, Daveyton, Esther Park, Heidelberg, Herbert Bickley, Jan Smuts, JP Marais, Ratanda, Rynfield, Vlakplaats and Waterval. The company received an overall performance average of 91% for the year.

COMPONENT B: CORPORATE AND OTHER SERVICES

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

INTRODUCTION TO CORPORATE AND OTHER SERVICES

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

Corporate and other services are structured in the following departments:

- Finance (including information and communication technology (ICT))
- Human Resources
- Governance legal and compliance

Corporate and other services are provided to:

- Operations
- Maintenance
- Commercial business
- Scientific services
- Development

2. BOARD OF DIRECTORS

INTRODUCTION TO EXECUTIVE AND BOARD

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

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

COMMENT ON THE PERFORMANCE OF THE BOARD

The Board is governed through the Board Charter. Meetings are convened as per the agreed annual calendar. The Board has delegated some of the functions to the established board committees and executive management. Some of the strategic responsibilities are reserved for the Board. Meetings are regularly attended.

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

3. FINANCIAL SERVICES

INTRODUCTION TO FINANCIAL SERVICES

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

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

Total revenue

ERWAT's revenue for the period under review consists mainly of rendering wastewater treatment services to the members of the company. This amounted to R719.9 million of a total income of R966.1 million.

Table 3.5: Revenue per source

Revenue source	2016/17 R'000	2017/18 R'000
Service charges	645 216	**719 935**
Development contribution	85 408	**79 914**
Other income	114 955	**109 478**
Interest received – investment	17 043	**6 714**
Dividends received	555	**66**
Government grants and subsidies	50 000	**50 000**
Total	913 177	**966 107**

The percentage debt collection for the financial year 2017/18 was 100% calculated by deducting bills raised from the total value of the year's revenue collected.

Table 3.7: Financial performance 2017/18

Details	2016/17 Actual R'000	2017/18 Original budget R'000	Adjustment budget R'000	Actual R'000	Variance to budget Percentage
Total operating revenue	777 769	**864 551**	**864 551**	**836 193**	**(3.28)**
Expenditure					
– Employee costs	257 359	**298 040**	**298 040**	**279 829**	**(6.1)**
– Repairs and maintenance	98 476	**127 922**	**127 922**	**124 674**	**(2.54)**
– Other	402 196	**438 589**	**438 589**	**470 751**	**7.33**
Total operating expenditure	758 031	**864 551**	**864 551**	**875 254**	**1.24**
Net operating surplus/(deficit)	19 738	**–**	**–**	**(39 061)**	

COMMENT ON THE PERFORMANCE OF FINANCIAL SERVICES OVERALL

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

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

4. HUMAN RESOURCE SERVICES

INTRODUCTION TO HUMAN RESOURCE SERVICES

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

In strengthening performance management in the company, a performance management system was developed and implemented by the Human Resources department. Key performance indicators were developed for executive management. These indicators were also introduced at lower levels.

The Human Resources department oversaw the implementation of learnerships and training for artisans funded by EWSETA.

COMMENT ON THE OVERALL PERFORMANCE OF HUMAN RESOURCE SERVICES

The HR department supports the seven departments within ERWAT in terms of recruitment, selection and appointment of staff. The department also assists with the alignment of the organisation's needs to the structure in order to achieve its objectives.

In order to fulfil our mandate the detail of ERWAT's personnel structure is shown in table 3.4.1

Table 3.10: Employees: Human Resource

	2016/2017		2017/2018		
Job level	Number of employees	Number of posts	Number of employees	Vacancies (full-time equivalent)	Vacancies %
F	1	1	**1**	**–**	**–**
E	6	8	**6**	**2**	**25**
D	38	53	**40**	**13**	**24.5**
C	153	186	**155**	**31**	**16.6**
B	256	256	**232**	**24**	**9.4**
A	167	245	**209**	**32**	**13.1**
Total	619	751	**643**	**104**	**13.8**

5. INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) SERVICES

INTRODUCTION TO INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) SERVICES

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

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

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

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

- Improved service availability through upgrade of the internet infrastructure.
- Improved collaboration/communication platform through the implementation of Outlook Anywhere, enabling the company to access e-mail anywhere in the world.
- Improved information security through implementation of a state-of-the-art firewall.
- Improved efficiency of business continuity management through the implementation of an online backup solution.

SERVICE STATISTICS FOR ICT SERVICES

The ICT department comprises four employees. The ERWAT ICT supports head office, laboratory services, 19 wastewater treatment works and is currently servicing 35 servers and 456 laptops.

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

Table 3.8: Employees: ERWAT ICT services

	2016/17	2017/18			
Job level	Number of employees	Number of posts	Number of employees	Number of vacancies	Vacancies as a % of total posts %
C5	1	1	1	–	–
C4	1	1	1	–	–
C3	1	1	1	–	–
C1	1	1	1	–	–

The financial performance of the ICT department for the 2017/18 financial year is included in the chapter on the finance department.

Table 3.9: Capital expenditure: ICT services

	2017/2018				
Capital projects	Budget	Adjustment budget	Actual expenditure	Variances from original budget	Total project value
Total all projects	**8 000 000**	**8 000 000**	**5 568 848**	**30.39%**	**6 394 000**
Computers	**4 100 000**	**4 100 000**	**3 991 105**	**2.66%**	**3 991 105**
Software	**1 100 000**	**1 100 000**	**1 016 113**	**7.69%**	**1 016 113**
Server and firewall	**196 000**	**196 000**	**192 086**	**2.0%**	**192 086**
Projects: Solar	**2 604 000**	**2 604 000**	**367 544**	**85%**	**367 544**

COMMENT ON THE OVERALL PERFORMANCE OF ICT SERVICES

Some of the ICT capital budget for the 2017/18 financial year could not be spent due to a number of delays on the additional project implementation and will be brought forward into the 2018/19 financial year. The Solar system for Finance and other projects like HR Central needed customisation to allow the system to cater for ERWAT's needs. These changes delayed the project, as some of the customisation was unplanned. The operational budget was utilised in full.

6. LEGAL; RISK MANAGEMENT AND PROCUREMENT SERVICES

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

INTRODUCTION TO LEGAL, RISK MANAGEMENT AND PROCUREMENT SERVICES

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

The main priorities in the 2017/18 financial year are as follows:

1. To adhere to the legal framework of contract management in order to curb potential litigations.
2. To conduct compliance risk assessments to strengthen the compliance environment within ERWAT.
3. To develop policies for fraud and ethics.
4. To develop risk framework, strategy and policy as well as compliance risk management.

SERVICE STATISTICS FOR LEGAL, RISK MANAGEMENT AND PROCUREMENT SERVICES

Table 3.10: Employees: Legal and risk management

	2016/17		2017/18		
Job level	Number of employees	Number of posts	Number of employees	Vacancies (full-time equivalent)	Vacancies %
B	1	2	3	1	–
D	1	–	1	–	–
E	1	–	1	–	–

COMMENT ON THE OVERALL PERFORMANCE OF SERVICES

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

COMPONENT C: ORGANISATIONAL PERFORMANCE SCORECARD

Table 3.11: Organisational performance scorecard

Level of planning	Planning statements	Indicators	Annual target 2017/18	Performance 2017/18	Comments
Direct	Improve the effluent quality compliance	% compliance with wastewater treatment works licence conditions and/ or exemption standards	87%	91%	**Target exceeded** Water Use Licence final effluent standards were successfully negotiated with DWS and amended (relaxed) for eleven (11) Wastewater Treatment Works discharging into the Blesbokspruit. The availability of critical equipment was higher during the 4th quarter, with the following Wastewater Treatment Works affected: Olifantsfontein, Ancor and Welgedacht. Newly installed HYBACS technology has contributed to an improved compliance of the Tsakane Wastewater Treatment Works.
Output	External revenue generated	Rand value of the revenue generated	R125 million	R107 million	**Not achieved** ERWAT is embarking on the process of finding ways to increase revenue from both state-owned entities and the private sector. This will be done through a process of the signing of memorandum of understanding (MoUs), joint venture agreements with different state entities and the private sector including capability presentations to potential customers and by responding to Request for Quotations (RFQs) and Request for Proposals (RFPs).
Output	Capital expenditure	% budget spent	95%	71.11%	**Not achieved** ERWAT has currently spent (71.11%) of its capital budget at the end of the fourth quarter. ERWAT has planned to spend 95% at the end of the fourth quarter, however, this was not achieved due to delays in other projects.

CHAPTER 4
ORGANISATIONAL DEVELOPMENT PERFORMANCE

PERFORMANCE
REPORT PART II

INTRODUCTION TO ORGANISATIONAL DEVELOPMENT PERFORMANCE

ERWAT employed a total of 626 employees as at 30 June 2018. During the financial year 2017/18 a total of 143 new employees was appointed, two permanent and 141 non-permanent employees.

A total of 41 employees left the company of whom 27 resigned including nine employees who opted for apprenticeship. Five contracts expired, six employees retired, two passed away, one employee absconded during the financial year 2017/18.

STRATEGIC OBJECTIVES OF THE HUMAN RESOURCES DEPARTMENT

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

The HR department is responsible for the following:

- Recruitment, terminations, resignations, retirement
- Performance management
- Training and development
- Movement/promotion of staff

INTRODUCTION TO ORGANISATIONAL DEVELOPMENT PERFORMANCE

The HR department is responsible for the following:

- Recruitment, terminations, resignations, retirement
- Performance management
- Training and development
- Movement/promotion of staff

COMPONENT A: INTRODUCTION TO THE COMPANY'S PERSONNEL

1. EMPLOYEE TOTALS, TURNOVER AND VACANCIES

Table 4.1: Employees

	2016/17	2017/18			
Department	**Number of employees**	**Number of approved posts**	**Number of employees**	**Number of vacancies**	**Vacancies %**
Company secretariat	5	**5**	**2**	**3**	**60**
Commercial business	11	**15**	**11**	**4**	**27**
Office of MD	1	**4**	**1**	**–**	**–**
Top structure	6	**7**	**6**	**1**	**14**
Infrastructure planning and projects	18	**20**	**18**	**1**	**5**
Maintenance	107	**128**	**99**	**25**	**20**
Scientific services	58	**60**	**58**	**3**	**5**
Finance and administration	19	**31**	**17**	**13**	**42**
Operations	396	**464**	**388**	**78**	**17**
Corporate services	22	**32**	**26**	**10**	**31**
Total	643	**766**	**626**	**138**	**18**

Employee and approved posts numbers are as at 30 June 2018, as per the approved organogram.

Table 4.2: Vacancy rate 2017/18

Department	Position	Date vacant	Comments
Laboratory services	Executive Secretary: Laboratory	30/04/2014	Currently filled by temporary personnel
Development	Executive Manager: Development	30/04/2016	Currently filled by an acting HOD
Admin and finance	Fixed Asset Accountant Fixed Asset Manager Creditors Clerk Creditors Clerk	N/A 04/11/2016 30/09/2016 30/12/2016	New position, currently being advertised Still vacant – currently being advertised Currently filled by temporary personnel Currently filled by temporary personnel
Operations	Regional Works Manager Works Manager Works Manager	30/06/2017 31/01/2017 31/03/2017	Currently vacant New employee started 01/08/2017 Recruitment process in progress
Technical services	Executive Manager: Technical Executive Secretary: Technical Engineering Manager Maintenance Manager	30/09/2015 18/11/2016 30/06/2016 03/09/2015	Currently occupied by an acting HOD. Currently filled by temporary personnel Currently vacant Currently vacant
Commercial business	Project Manager: New business	30/09/2016	Currently vacant

Positions are vacant due to the review of the structures; these positions have been budgeted for and will be filled in the 2018/19 financial year.

Table 4.3: Turn-over rate

Details	Total no of appointments as at the beginning of financial year	Number of terminations during the financial	Turn-over rate %
2016/17	91	59	9.85
2017/18	**107**	**23**	**3.72**

COMMENT ON VACANCIES AND TURNOVER

The overall organisational structure has been reviewed and approved. Priority will be given to the filling of critical vacancies identified and budgeted for in the 2018/19 financial year. The overall employee turnover remains low at 3.72%.

COMPONENT B: MANAGING THE COMPANY'S WORKFORCE

INTRODUCTION TO COMPANY'S WORKFORCE MANAGEMENT

The total number of employees for the year is 626 which is a slight decrease compared to the previous year. The organisation has undergone a complete restructuring including manpower requirements, to ensure that it can perform in accordance with its political, social and environmental mandate.

2. POLICIES

HR policies and plans

	Name of policy	Completed %	Reviewed %	Last reviewed
1	Acting Policy	100%	100%	12/02/2015
2	Affirmative Action Policy	100%	100%	12/02/2015
3	Career Planning and Succession Planning Policy	100%	100%	12/02/2015
4	Cellular Phone Allowance Policy	100%	100%	12/02/2015
5	Conflict of Interest Policy	100%	100%	09/04/2015
6	Employment Equity Policy	100%	100%	12/02/2015
7	Flexi-time Policy	100%	100%	12/02/2015
8	Gifts Policy	100%	100%	12/02/2015
9	HIV/AIDS Policy	100%	100%	12/02/2015
10	Induction Policy	100%	100%	12/02/2015
11	Job Evaluation Policy	100%	100%	12/02/2015
12	Leave Policy	100%	100%	01/08/2016
13	Long Service Awards Policy	100%	100%	12/02/2015
14	Long Service Leave Policy	100%	100%	12/02/2015
15	Medical Aid Subsidy Policy	100%	100%	12/02/2015
16	Performance Management Policy	100%	100%	12/02/2015
17	Personal Code of Conduct Policy	100%	100%	12/02/2015
18	Recruitment of Temporary Employees Policy	100%	100%	12/02/2015
19	Recruitment, Selection and Placement Policy	100%	100%	12/02/2015
20	Recruitment, Selection and Placement of Executives Policy	100%	100%	02/04/2015
21	Remuneration Policy	100%	100%	12/02/2015
22	Policy Guidelines on Retrenchment/Redundancy	100%	100%	12/02/2015
23	Sexual Harassment Policy	100%	100%	12/02/2015
24	Small Tools Scheme Policy	100%	100%	12/02/2015
25	Smoking Policy	100%	100%	12/02/2015
26	Stand-by Service Policy	100%	100%	12/02/2015
27	Substance Abuse Policy	100%	100%	12/02/2015
28	Tool of Trade Vehicle Scheme and Travel Allowance Policy	100%	100%	12/02/2015
29	Uniform Provision Policy	100%	100%	12/02/2015
30	Death and Funeral Claim Benefit Policy	100%	100%	09/04/2015
31	Home Ownership Scheme Policy	100%	100%	12/02/2015
32	Bursary Scheme Policy	100%	100%	12/02/2015
33	Capacity Building for Directors Policy	100%	100%	12/02/2015
34	In-service Training Policy	100%	100%	12/02/2015
35	Study Scheme Policy	100%	100%	12/02/2015
36	Travel and Subsistence Policy	100%	100%	11/05/2017
37	Medical Surveillance Policy	100%	100%	08/02/2018

COMMENT ON WORKFORCE POLICY DEVELOPMENT

All Human Resources policies are being reviewed biennially.

3. INJURIES, ILLNESS AND SUSPENSIONS

Table 4.5: Number and cost of injuries on duty

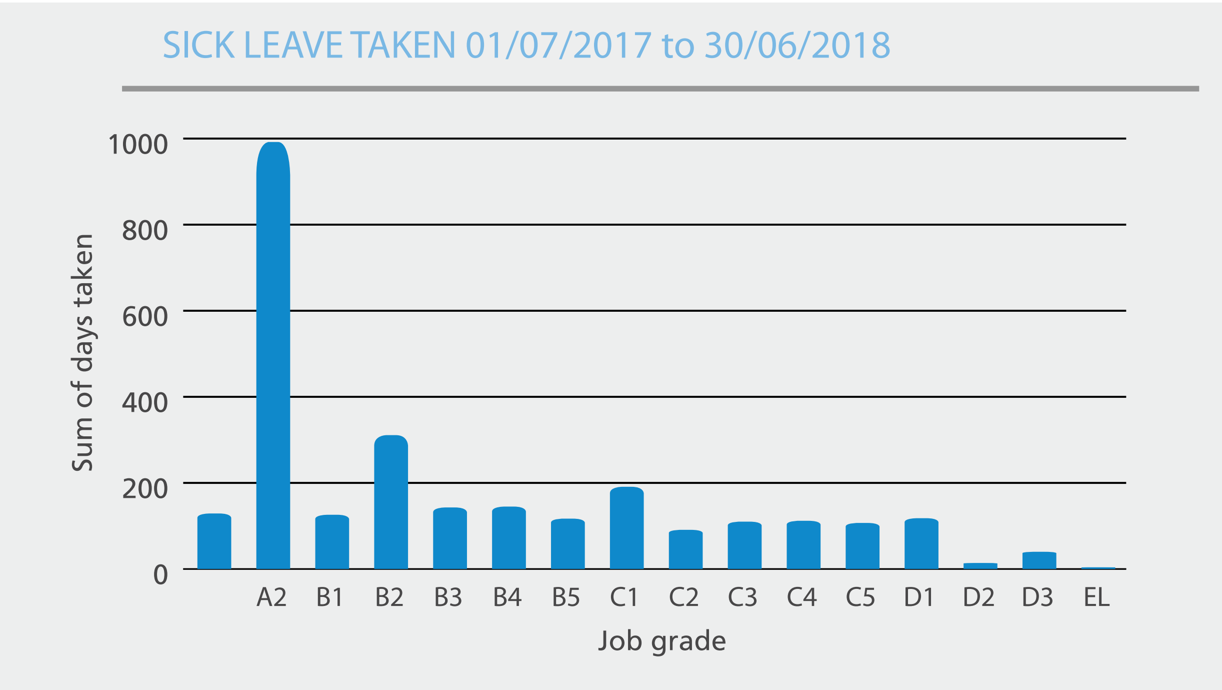
Type of injury	Injury leave taken days	Number of employees using injury leave	Proportion of employees using sick leave	Average number of days injury leave per employee
Injury on duty	104.75	24	4.12%	4.37
Permanent disability		1		
Temporary disability	N/A	0	N/A	N/A
Total		25		

Table 4.6: Number of days and cost of sick leave (excluding injuries on duty)

Patterson profile level	Total number of sick leave days	Total number of employees in post	Average number of sick leave days per employee
Non-permanent	129	120	1.07
A	992	209	4.75
B	842	232	3.63
C	611	155	3.94
D	172	40	4.3
Executives	4	7	0.57
Total	2 750	583	4.72

Sick leave taken

01/07/2017 to 30/06/2018



COMMENT ON INJURY AND SICK LEAVE

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

Table 4.7: Number and period of suspensions

Position	Nature of alleged misconduct	Date of suspension	Details of disciplinary action taken or status of case and reasons why not finalised	Date finalised
Buyer/SCM	Communication of confidential supplier information to competitor-one instance	28 May 2018	Disciplinary hearing pending	30 August 2018.

Table 4.8: Disciplinary action taken on cases of financial misconduct

Position	Nature of alleged misconduct and Rand value of any loss to the municipality	Disciplinary action taken	Date finalised
N/A	N/A	N/A	N/A

COMMENT ON SUSPENSIONS AND CASES OF FINANCIAL MISCONDUCT

No instances of financial misconduct were reported during the period under review.

4. PERFORMANCE REWARDS

COMMENT ON PERFORMANCE REWARDS

No performance rewards were awarded during the 2017/18 financial year.

COMPONENT C: CAPACITATING THE COMPANY'S WORKFORCE

INTRODUCTION TO WORKFORCE CAPACITY DEVELOPMENT

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

5. SKILLS DEVELOPMENT AND TRAINING

Table 4.9: Skills matrix

		Original budget and actual expenditure on skills development					
		Learnerships			Skills programmes and other short courses		
Gender	Number of employees in post as at 30 June 2018	Actual: End of 2016/17	Actual: End of 2017/18	Target 2017/18	Actual: End of 2016/17	Actual: End of 2017/18	Target 2017/18
Female	175	R398 869,37	R1 06 2000	R1 06 2000	R345 896,14	R467 000	R940 000
Male	460	R1 259 587	R398 000	R398 000	R716 408,86	R1 132 000	R2 275 000
Total	635	R1 658 456,86	R1 460 000	R1 460 000	R1 062 305	R1 599 000	R3 215 000

Table 4.10: Skills development expenditure

Original budget and actual expenditure on skills development 2017/18	Original budget	Actual
Total	**R4 675 281,00**	**R3 059 646,92**

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

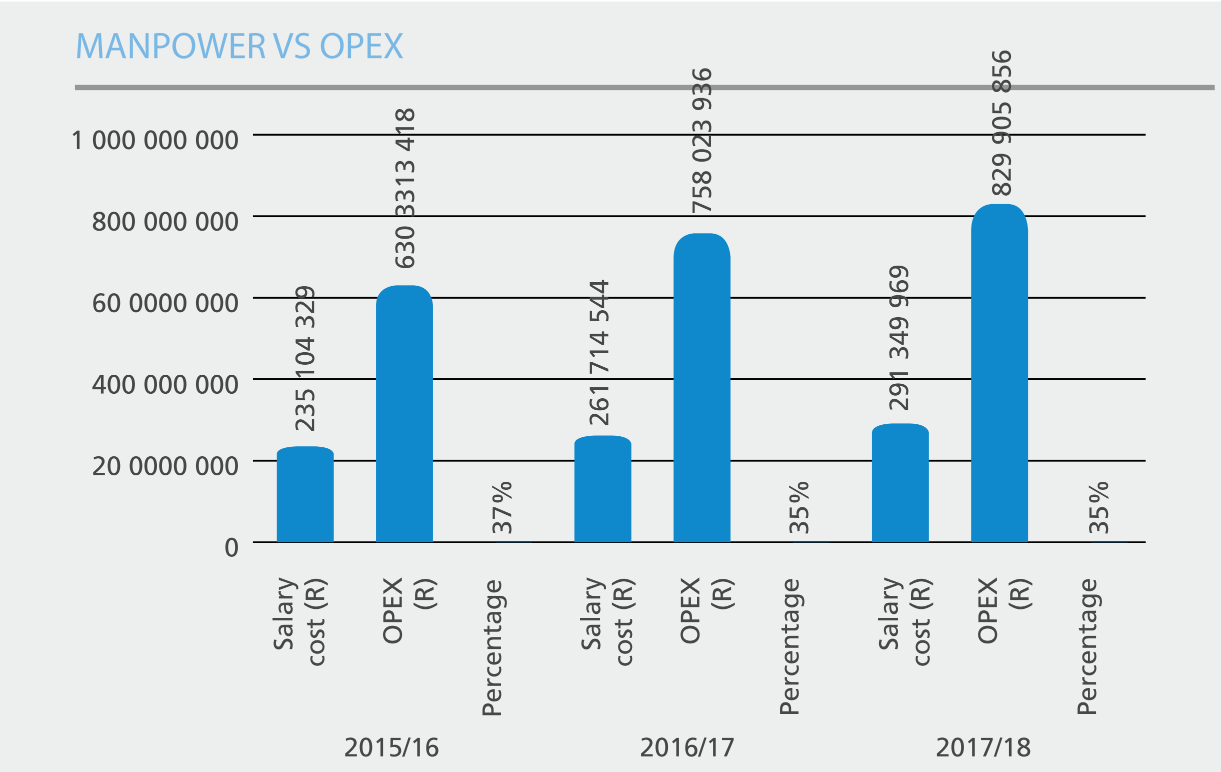
All senior managers as contemplated in the regulations, have completed the MFMA training as per the Minimum Competency Regulations; additional training has been planned for the 2018/19 financial year.

COMPONENT D: MANAGING THE WORKFORCE EXPENDITURE

INTRODUCTION TO WORKFORCE EXPENDITURE

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

6. EMPLOYEE EXPENDITURE



COMMENT ON WORKFORCE EXPENDITURE

Total employee-related cost as a percentage of total operational cost is 35%; this is in line with the guidelines of between 20% – 40% as set by National Treasury.

COMPONENT A: INTRODUCTION TO THE COMPANY'S PERSONNEL

DISCLOSURES OF FINANCIAL INTERESTS

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

Table 4.11: Disclosures of financial interests

Period 1 July to 30 June of 2017/18		
Position	**Name**	**Description of financial interests (Nil/or details)**
Chief Financial Officer	Wim Louw	Nil
Company Secretary	Zimasa Sockiwa	Nil
Executive Manager: Laboratory Services	Alison Chapman	Nil
Executive Manager: Operations	Fortune Mabunda	16 % shareholding in a private investment company.
Executive Manager: Human Resources	Rodney Barnes	Nil
Executive Manager: Commercial Business	Mikgane Tsotetsi	Nil
Acting Executive Manager: Development	Emmanuel Khomela	Nil
Acting Executive Manager: Technical	Ella Mutyaba	Nil

CHAPTER 5
FINANCIAL PERFORMANCE

FINANCIAL PERFORMANCE continued

INTRODUCTION

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

- Component A: Statements of financial performance
- Component B: Spending against capital budget
- Component C: Other financial matters

COMPONENT A: STATEMENTS OF FINANCIAL PERFORMANCE

INTRODUCTION TO FINANCIAL STATEMENTS

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

ERWAT performed reasonably well in the year under review. Operating income increased from R777.8 million in 2016/17 to R836.2 million in 2017/18. However, Operating expenditure increased from R756.05 million in 2016/17 to R875.25 million in 2017/18 due to a write-off of R40.5 million in respect of development contributions where two developments were terminated by the City.

1. STATEMENTS OF FINANCIAL PERFORMANCE

Table 5.1: Financial summary

		2015/16	2016/17	Current year 2017/18			Year 2017/18 variance	
Description	Ref	Actual R'000	Actual R'000	Original budget R'000	Adjustment budget R'000	Actual R'000	Original budget %	Adjustment budget %
Revenue by source	1							
Service charges – sanitation revenue		575 533	645 216	719 935	719 935	719 935	–	–
Interest earned – external investments		13 048	17 043	4 345	4 345	6 714	54.52	54.54
Dividends received		150	555	66	66	66	–	–
Other revenue		200 077	250 363	190 205	190 205	239 392	25.86	25.86
Total revenue (excluding capital transfers and contributions)		788 808	913 177	914 551	914 551	966 107	6.27	6.27
Expenditure by type								
Employee-related costs		227 993	257 359	298 040	298 040	279 829	(6.1)	(6.1)
Remuneration of Directors		2 562	2 710	2 858	2 858	2 714	(5.04)	(5.04)
Debt impairment		293	1274	1 500	1 500	40501	2600.07	2600.07
Depreciation and asset impairment		50 514	64 681	70 178	70178		(6.60)	(6.60)
Finance charges		54 491	66 605	63 125	63 125	61 185	(3.07)	(3.07)
Bulk purchases	2	161 483	189 362	202 296	202 296	203 755	0.72	0.72
Other expenditure		176 221	176 040	226 554	226 554	221 722	(2.13)	(2.13)
Total expenditure	3	673 556	758 031	864 551	864 551	875 254	1.24	1.24
Surplus/(deficit)		115 252	155 146	50 000	50 000	90 853	81.71	81.71
Transfers recognised – capital		(50 000)	(50 000)	(50 000)	(50 000)	(50 000)	100	100
Surplus/(deficit) before taxation		65 252	105145	–	–	40 853		
Taxation								
Surplus/(deficit) for the year		65 252	105145	–	–	40 853	–	–
Capital expenditure and funds sources	4, 6							
Capital expenditure		242 343	288 993	309 259	309 259	219 914	71	71
Funded by:								
National Government		50 000	50 000	50 000	50 000	50 000	100	100
Transfers recognised – capital		50 000	50 000	50 000	50 000	50 000	100	100
To be determined				–				
Borrowing	1	51 996	2 094	–	–			
Internally generated funds		140 347	236 890	259 259	259 259	169914	(34.46)	(34.46)
Total capital funding		242 343	288 993	309 259	309 259	219 633	71	71

Description	Ref	2015/16 Actual R'000	2016/17 Actual R'000	Current year 2017/18 Original budget R'000	Adjustment budget R'000	Actual R'000	Year 2017/18 variance Original budget %	Adjustment budget %
Financial position								
Total current assets		418 174	308 128	(186 151)	(186 151)	228 670		
Total non-current assets		1 733 935	1 957 207	2 244 143	2 244 143	2107 329		
Total current liabilities		174197	176 389	107 896	107 896	208 874		
Total non-current liabilities		628 392	584 282	643 103	643 103	528 680		
Equity		1 349 519	1 504 664	1 306 993	1 306 993	1598 444		
Cash flows								
Net cash from (used) operating		232171	168 155	111 170	111 170	198 947		
Net cash from (used) investing		(241 032)	(287 460)	(336 206)	(336 206)	(218 224)		
Net cash from (used) financing		226 949	28266	74 232	74 232	(51 559)		
Cash/cash equivalents at the year end		305 353	157 782	154 550	154 550	86 945		

COMMENT ON FINANCIAL PERFORMANCE

Material differences between budget and actual amounts

Total revenue – 107% achieved due to the following reasons:

- Investment revenue – 154% achieved
- Interest received – due to under spending on capital items ERWAT had a higher bank balance, which resulted in higher interest.

Other own revenue – 140% achieved

Development contribution – An amount of R79 914 197 relating to development contribution was received to which ERWAT could not budget as there is no information to calculate a budget.

Total operating expense – 101% achieved due to the following reasons:

Debt impairment – 2 700% incurred due to the small budget for impairment. An amount of R40.5 million relating to development contributions had to be written off due to two developments which had to be postponed indefinitely.

Depreciation and amortisation – 93% achieved.

Finance costs – 97% achieved due to the budgeted amount that was based on prime interest at the date of the preparation of the budget. Due to a decrease in the interest rate the finance costs decreased.

Other expenditure – 99% achieved. ERWAT has improved its budget process resulting in more accurate budgeting on most expenditure items.

2. GRANTS

Table 5.2: Grant performance

Description	2016/17 Actual R'000	2017/18 Budget R'000	Adjustment budget R'000	Actual R'000	Original budget R'000	Adjustment budget R'000
Other grant providers – the CoE capital grant	50 000	**50 000**	**50 000**	**50 000**	–	–
Total	50 000	**50 000**	**50 000**	**50 000**	–	–

COMMENT ON OPERATING TRANSFERS AND GRANTS

The parent municipality, CoE, allocates a portion of the infrastructure grants that they receive toward bulk sanitation services. This amounted to R50 million in the 2017/18 financial year. This is the only grant that ERWAT received from the CoE. Development contributions of R79.9 million were received in 2017/18 (R85.4 million in 2016/17). No other transfers were made by the CoE to ERWAT.

3. ASSET MANAGEMENT

INTRODUCTION TO ASSET MANAGEMENT

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

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

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

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

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

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

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

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

ASSET STRATEGY

The entity adopts an integrated approach to asset management as follows:

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

ASSET MANAGEMENT PLANS

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

During the process the asset manager should:

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

– A risk assessment across the whole life cycle of each option; and

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

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

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

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

ASSET LIFE CYCLE

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

(a) The planning phase deals with the planning for service delivery that drives the need for assets. This phase will include input into the budget and asset management plans. Various acquisition options should be considered during this phase.

(b) The acquisition phase deals with the purchase, construction or manufacture of new assets.

(c) The operation and maintenance phase deals with the operation of the assets, maintenance/refurbishment, enhancement/rehabilitation, depreciation and impairment. This phase includes activities of a capital and current nature.

(d) The disposal phase deals with the timing and disposal of the assets including the disposal costs and specific requirements for the assets, e.g. dismantling costs, etc.

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

(i) Asset life-cycle costs

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

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

These are typical asset life-cycle costs:

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

(ii) Planning, budgeting phase and funding

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

This phase requires clear answers to the following questions:

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

Table 5.3: Treatment of the three largest assets acquired in 2016/17

ASSET 1				
Name	Hartebeestfontein – Capacity extension			
Description	Capacity upgrade FST			
Asset type	Fixed (Infrastructure)			
Key staff involved	Development, Supply Chain and Finance			
Staff responsibilities	Engineering manager manages the project and ensures that quality work is performed			
Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Asset value	–	14 070 018	28 055 890	5 524 071
Capital implications				
Future purpose of asset	Asset built to meet plant capacity needs			
Describe key issues				
Policies in place to manage asset	Asset management policy			
ASSET 2				
Name	Waterval Mechanical and Electrical			
Description	Capacity upgrade			
Asset type	Fixed (Infrastructure)			
Key staff involved	Development, Supply Chain and Finance			
Staff responsibilities	Engineering manager manages the project and ensures that quality work is performed			
Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Asset value	–	12 492 231	45 677 577	2 768
Capital implications				
Future purpose of asset	Asset built to meet plant capacity needs			
Describe key issues				
Policies in place to manage asset	Asset management policy			

ASSET 3				
Name	Waterval Civil works			
Description	Capacity upgrade			
Asset type	Fixed (Infrastructure)			
Key staff involved	Development, Supply Chain and Finance			
Staff responsibilities	Engineering manager manages the project and ensures that quality work is performed			
Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**
Asset value	4 723 656	12 626 089	8 999 938	39 228 296
Capital implications				
Future purpose of asset	Asset built to meet plant capacity needs			
Describe key issues				
Policies in place to manage asset	Asset management policy			

COMMENT ON ASSET MANAGEMENT

The status of all the assets including assets at the plants was ascertained during the year. The need was identified to formalise the asset policy, strategy and plans. These issues will be addressed in the 2017/18 financial year.

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

Table 5.4: Repairs and maintenance expenditure 2017/18

Detail	Original budget R'000	Adjustment budget R'000	Actual R'000	Budget variance %
Repairs and maintenance expenditure	127 922	127 922	124 674	(2.54)

COMMENT ON REPAIR AND MAINTENANCE EXPENDITURE

The Technical department, led by an acting executive manager, is responsible for all repairs and maintenance work in the company.

Expenditure on maintenance, both planned and ad hoc maintenance are extremely important as it not only improves efficiencies on the plants but extends the useful lives of the infrastructure.

Repair and maintenance cost as a percentage of operating expenditure has increased from 12.91% in 2016/17 to 14.24% in 2017/18.

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

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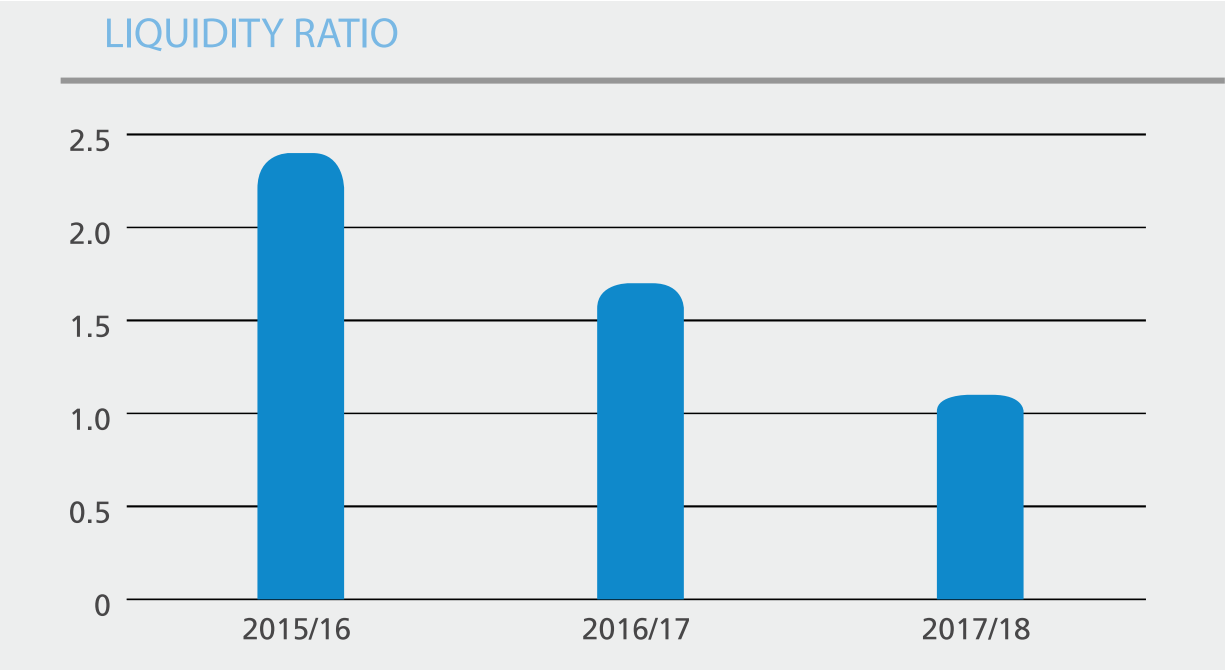
4. FINANCIAL RATIOS BASED ON KEY PERFORMANCE INDICATORS

Current ratio

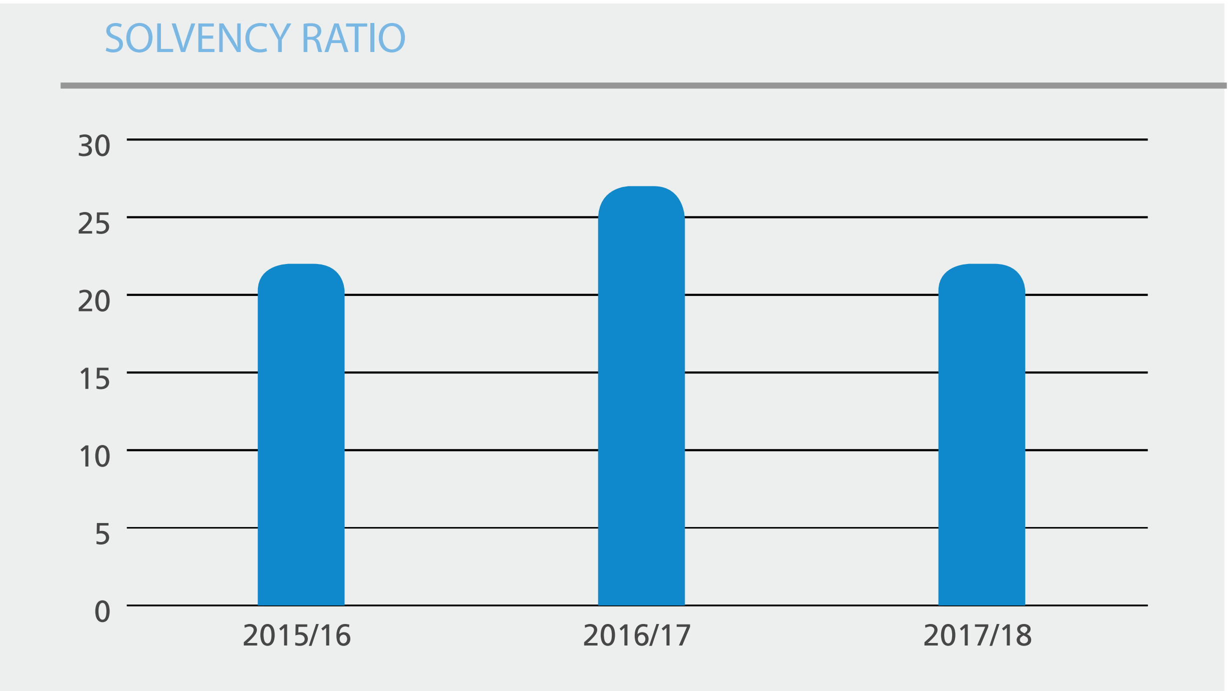
ERWAT's current ratio deteriorated from 1.75:1 in 2016/17 to 1.09:1 in the 2017/18 financial year. This was due to a decrease in receivables due to impairment of development contribution of R40.5 million.

Liquidity ratio



Solvency ratio

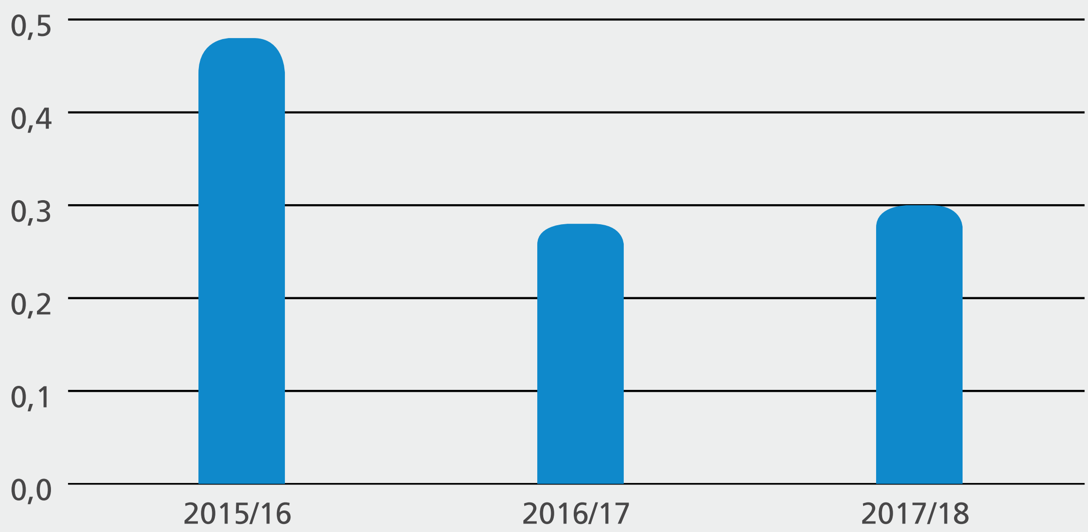
The company's solvency position reduced from a solvency ratio of 0.28 in 2016/17 to 0.21 in 2017/18. The solvency of ERWAT will continue to be problematic unless alternative funding sources to loan funding can be accessed.



Capital expenditure to operating expenditure ratio

This ratio has deteriorated from 0.38:1 in 2016/17 to 0.25:1 in 2017/18. Significant steps have been taken by the Board of Directors and management to improve the situation and address the issues of capacity and project management skills as well as improved planning.

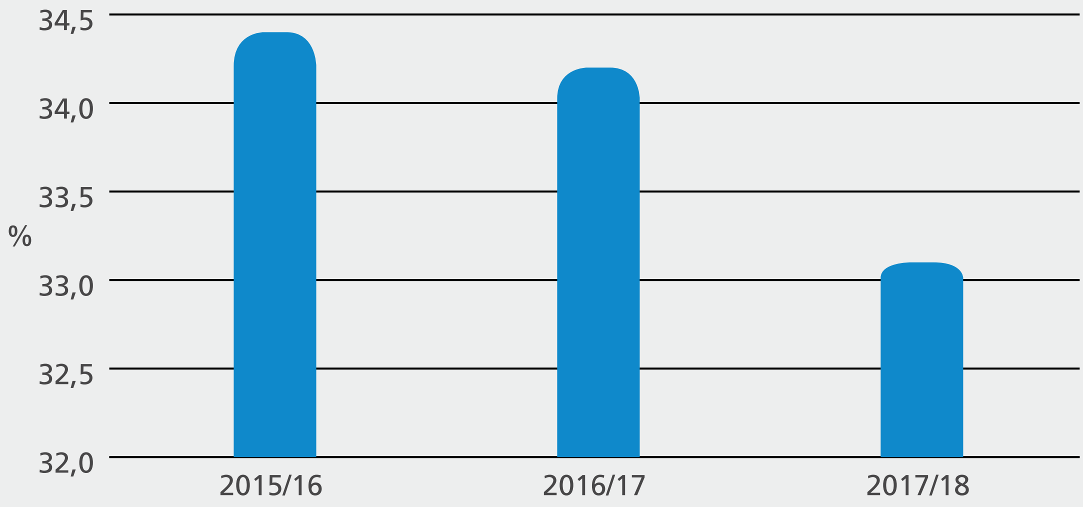
CAPITAL EXPENDITURE TO OPERATING EXPENDITURE



Employee cost ratio

Employee cost as a percentage of operating expenditure has decreased significantly from 34.08% in 2016/17 to 33.03% in 2017/18.

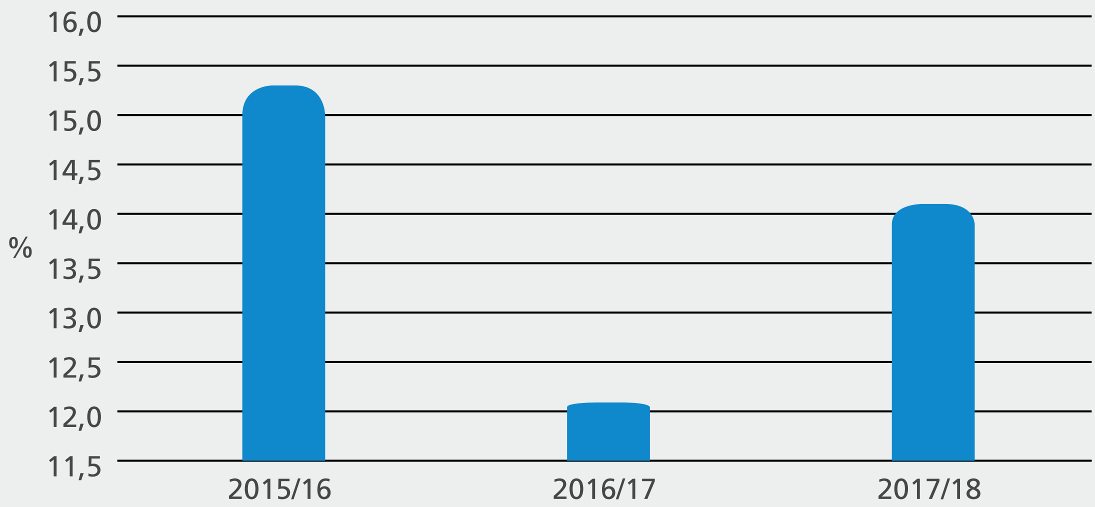
CAPITAL EXPENDITURE TO OPERATING EXPENDITURE



Repair and maintenance ratio

Repair and maintenance cost as a percentage of operating expenditure has increased from 12.91% in 2016/17 to 14.06% in 2017/18. Expenditure on maintenance, both planned and ad hoc maintenance, is extremely important as it not only improves efficiencies on the plants but extends the useful lives of the infrastructure.

REPAIRS AND MAINTENANCE RATIO



COMMENT ON FINANCIAL RATIOS

The financial health of the company is improving.

COMPONENT B: SPENDING AGAINST CAPITAL BUDGET

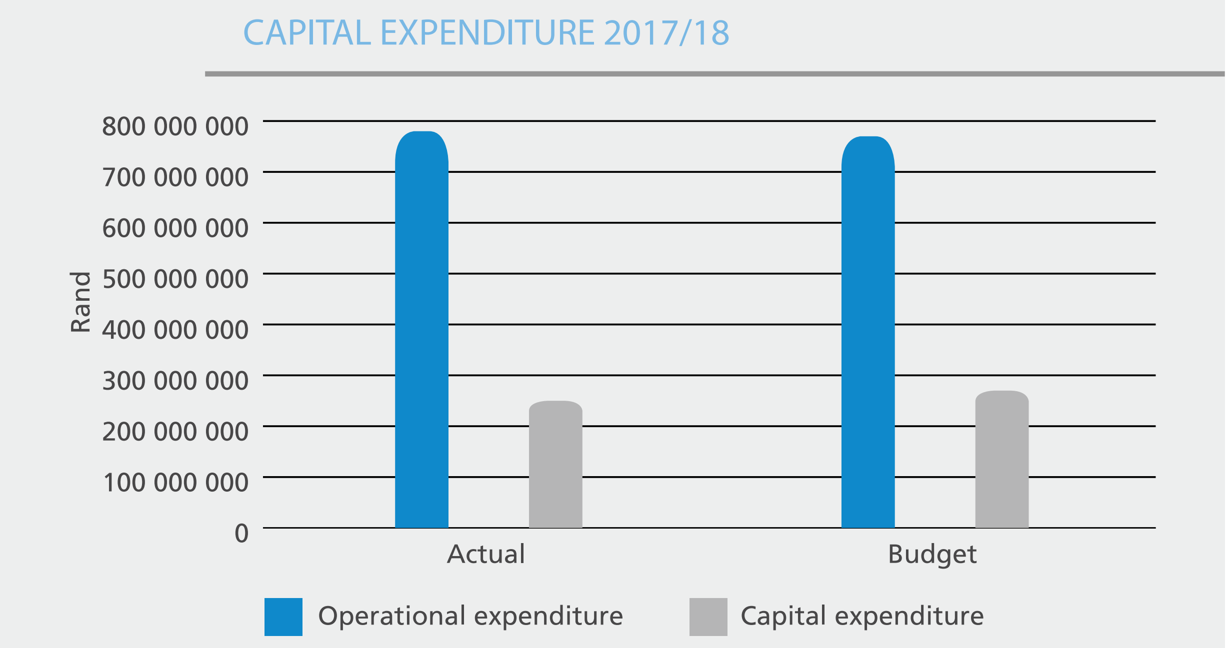
INTRODUCTION TO SPENDING AGAINST CAPITAL BUDGET

Capital expenditure for the year amounted to R219.9 million which is 70.11% of the budget of R309,2 million. This represents a significant decrease on the 2016/17 financial year.

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

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

5. CAPITAL EXPENDITURE



6. SOURCES OF FINANCE

Table 5.5: Source of capital funding

Source of finance	2016/17 Actual R'000	2017/18 Original budget R'000	Adjustment budget R'000	Actual R'000	Variance %
Grant	50 000	50 000	**50 000**	**50 000**	**0%**
Internally generated funding	263 333	259 259	**259 259**	**169 914**	**34.46**
External loan	2 094	–	**–**	**–**	**0%**
Total	315 427	309 259	**309 259**	**219 914**	**28.89**
Percentage of finance	**%**	**%**	**%**	**%**	**%**
Grant	15.85	16.16	**16.16**	**22.74**	**6.11**
Internally generated funding	83.48	83.84	**83.84**	**77.26**	**(6.61)**
External loan	0.66	–	**–**	**–**	**–**

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COMMENT ON SOURCES OF FUNDING

ERWAT had long-term loans from DBSA, Infrastructure Finance Corporation Ltd (INCA) and Nedbank. The loans are used specifically to fund long-term infrastructure projects such as the extension of existing wastewater treatment works and the construction of new wastewater treatment works. The other sources of funding are own funds, generated through savings and depreciation as well as R50 million grant funding received from the parent municipality on an annual basis.

7. CAPITAL SPENDING ON FIVE LARGEST PROJECTS

Table 5.6: Capital expenditure

	2017/18	Variance: 2017/18		
Name of project	**Original budget R'000**	**Actual expenditure R'000**	**Original budget variance %**	**Total project value R'000**
Total all projects	211 000	55 000	153%	602 000
Welgedacht 50 Mℓ/day Capacity Upgrade	R40 000 000.00	R8 001 915.75	100.00%	100.00%
Integrated Sludge Beneficiation Project	R40 000 000.00	R4 891 475.00	8.53%	12.23%
Tsakane 12 Mℓ/day Capacity Upgrade	R18 000 000.00	R1 507 368.00	3.87%	8.37%
Hartebeestfontein 5 Mℓ/day Capacity Upgrade	R25 754 935.04	R799 644.50	3.10%	3.10%
Vlakplaats Flow Distribution	R30 000 000.00	R 9 257 620.1	14.09%	30.86%
Waterval Module 2 & 3 New Aeration Blowers Upgrade	R25 302 871.14	R6 549 503.78	16.70%	25.88%
Pump Station Telemetry System	R33 679 000.00	R25 967 988.10	77.10%	77.10%

Project with highest capital expenditure in 2017/18	
Name of project	Waterval Module 2 & 3 New Aeration Blowers Upgrade
Objective of the project	Increase works capacity
Anticipated future benefits	Quality of effluent discharge will improve and will provide capacity development in the area

COMMENTS ON CAPITAL PROJECTS

Major projects

Major projects are generally large-scale infrastructure multi-year projects in Civil, Electrical and Mechanical engineering. The projects involve large investment and Research & Development in accordance with the Facility Development Plan (FDP) and SDBIP/Business Plan.

1. **Welgedacht (50 Mℓ/day) upgrade**

   The project entails the construction of a new module in Welgedacht WWTP to increase capacity of the 50 Mℓ/day. All works have been completed. The module is currently running at 100% capacity.

2. **Integrated Sludge Beneficiation Plant**

   This project aims to provide the following infrastructure at Waterval WWTP:

   - The refurbishment and optimisation of sludge treatment and biogas production infrastructure.
   - Combined Heat and Power (CHP) installation for on-site generation of electricity utilising the biogas. Up to 60% of wastewater energy demand can be offset at Waterval WWTP.
   - Phosphorus recovery plant to reduce the effects of struvite build-up in the pipes and to sell it as a product.
   - Enhanced drying of the mechanically dewatered sludge to produce a sealable end product that ensures the dry sludge is removed from site and generates a revenue stream.

   The Heating and Mixing infrastructure project is completed and currently in the process of handover. The dewatering project has been awarded and the contractor has placed an order for the manufacturing of the filter belt presses with a lead time of seven months including shipment. The delivery of the dewatering equipment is expected to be at the end of 2018.

3. Tsakane Capacity 10 Mℓ/day Upgrade

The project entails increasing the capacity of Tsakane WWTP by 10 Mℓ/day through retrofitting the new technology that combines the HYBACS process and Smart Units technology. This will double the treatment capacity from 10.8 Mℓ/day to 21 Mℓ/day.

The easy retrofit of conventional activated sludge with suspended biomass will reduce power consumption associated with aeration by up to 30%.

The HYBACS technology installation is now at 99.9% physical completion and from inception to date 99.9% of monetary value has been claimed. The civil, mechanical and electrical contract is at 99% physical completion and 94% claimed to date. The project is currently at the pre-commissioning stage.

4. Hartebeestfontein 5 Mℓ/day Upgrade

The project entails increasing the capacity of Hartebeestfontein by 5 Mℓ/day.The project is 100% completed, including fibre connectivity and internet capabilities. RHDHV awaits signed documentation of the end-user agreement and process guarantee from ERWAT in order to switch on the remote monitoring of the Nereda Plant from Holland.

5. Vlakplaats Emergency Dam and related works

The project was experiencing delays due to long processes of obtaining an approval for EIA and Water Use Licence from the relevant departments. The EIA and Water Use Licence led to the delay of the construction of ponds 1, 2, 3 and 4. The Department of Water and Sanitation (DWS) has since granted partial permission for the contractor for go-ahead with removal of the sludge and cleaning while lining of the maturation ponds will only commence after the licence amendments by the department. The project is now progressing.

6. Waterval Module 2 & 3 New Aeration Blowers Upgrade

Aeration compressors at Waterval Wastewater Care Works (Modules 2 and 3) were originally installed with the construction of the new works in the 1990s and are now beyond their useful service life. Various modifications over the years have kept the system operational, but it would be counterproductive to keep on modifying the system.

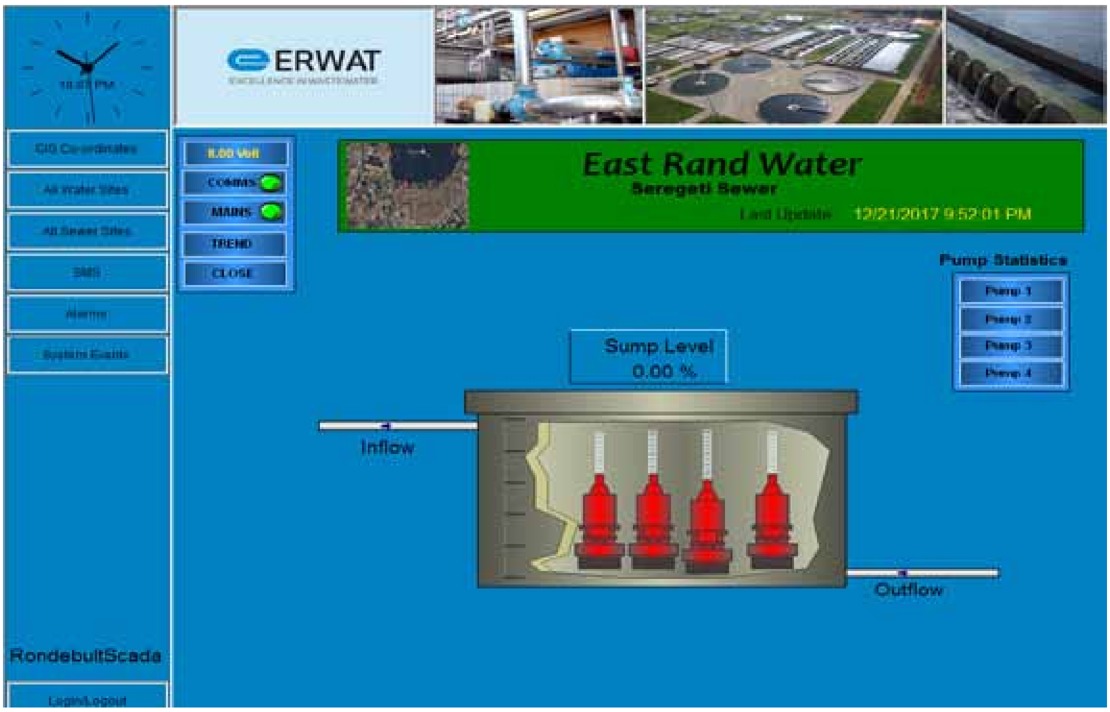
The project's main objective is to increase the ability of both Modules 2 and 3 to handle extra capacity, since the modules are receiving additional flow. Due to existing blowers constantly breaking down it has become challenging to handle the increased flow. Hence, it is vital to install blowers with newer technology and the ability to handle more capacity.

The project is currently in design finalisation stages, i.e. certain designs have been approved and long lead time items have been ordered, while other designs are still under review and are being corrected.

7. Telemetry System Upgrade

The Telemetry System is defined as a highly automated communications process by which data is collected from instruments located at remote or inaccessible points and transmitted to receiving equipment for measurement, monitoring, display, and recording.

The Telemetry System has been configured to control various equipment and monitor the Ekurhuleni pump stations throughout the network process for both sewer and fresh water. The project's main objective is to provide an early warning signal to alert ERWAT Maintenance to breakdown incidents. This will allow ERWAT to prevent further reputational damages, environmental pollution and non-supply to potable water resulting from unattended breakdowns and flooding of pump stations. The project is currently at installation stage; 80% of the pump station sites are currently running as illustrated below. The expected completion date is 30 August 2018.



8. BASIC SERVICE AND INFRASTRUCTURE BACKLOGS – OVERVIEW

INTRODUCTION TO BASIC SERVICE AND INFRASTRUCTURE BACKLOGS

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

Table 5.7: Service backlogs as at 30 June 2017*

	Service level above minimum standard		Service level below minimum standard	
Detail	**Number of households**	**% of households**	**Number of households**	**% of households**
Sanitation	979 651	90.34	104 713	9.66

* *June 2018 data was not available at the time of compiling the annual report.*

COMMENT ON BACKLOGS

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

COMPONENT C: CASH FLOW MANAGEMENT AND INVESTMENTS

INTRODUCTION TO CASH FLOW MANAGEMENT AND INVESTMENTS

Cash flow is the lifeblood of our business. Cash comes from sales and collections of accounts receivable. Cash outflows are used to meet all expenses and debt obligations of the business. The goal of good cash flow management is to have enough cash on hand when you need it.

ERWAT manages cash flow conservatively. ERWAT does not have any significant long-term investments and available cash consists of own funds used primarily for operating expenditure whereas grants and loans are used exclusively for the funding of larger capital projects. Minor capital is funded through savings in operating expenditure and depreciation.

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

9. CASH FLOW

Table 5.8: Cash flow outcomes

Description	2015/16 Audited outcome R'000	2016/17 Audited outcome R'000	Current year 2017/18 Original budget R'000	Adjusted budget R'000	Actual R'000
Cash flow from operating activities					
Receipts					
Ratepayers and other	720 933	806 222	**925 996**	**925 996**	**882 927**
Government – capital	50 000	50 000	**50 000**	**50 000**	**50 000**
Interest	13 048	16 312	**2 064**	**2 064**	**6 714**
Dividends	150	555	**–**	**–**	**66**
Payments					
Suppliers and employees	(497 469)	(637 717)	**(791 352)**	**(791 352)**	**(679 576)**
Finance charges	(54 491)	(66 350)	**(63 035)**	**(63 035)**	**(61 185)**
Net cash from/(used) operating activities	232 171	169 022	**123 674**	**123 674**	**198 946**
Cash flows from investing activities					
Payments					
Capital assets	(241 032)	(288 327)	**(336 206)**	**(336 206)**	**(218 224)**
Net cash from/(used) investing activities	(241 032)	(288 327)	**(336 206)**	**(336 206)**	**(218 224)**
Cash flows from financing activities					
Receipts					
Borrowing long-term/refinancing	226 949	(28 266)	**(29 577)**	**(29 577)**	**–**
Payments					
Repayment of borrowing					**(51559)**
Net cash from/(used) financing activities	226 949	(28 266)	**(29 577)**	**(29 577)**	**(51 559)**
Net increase/(decrease) in cash held	218 088	(147 572)	**(242 109)**	**(242 109)**	**(70 837)**
Opening cash/cash equivalents	87 265	305 353	**305 353**	**305 353**	**157 782**
Closing cash/cash equivalents	305 353	157 781	**63 244**	**63 244**	**86 945**

COMMENT ON CASH FLOW OUTCOMES

ERWAT's cash reserves declined from R157.8 million in 2016/17 to R86.9 million in 2017/18. This was mainly the result of improved capital spending in 2017/18 where ERWAT managed to spend 71% of the capital budget. (2016/17: 86%).

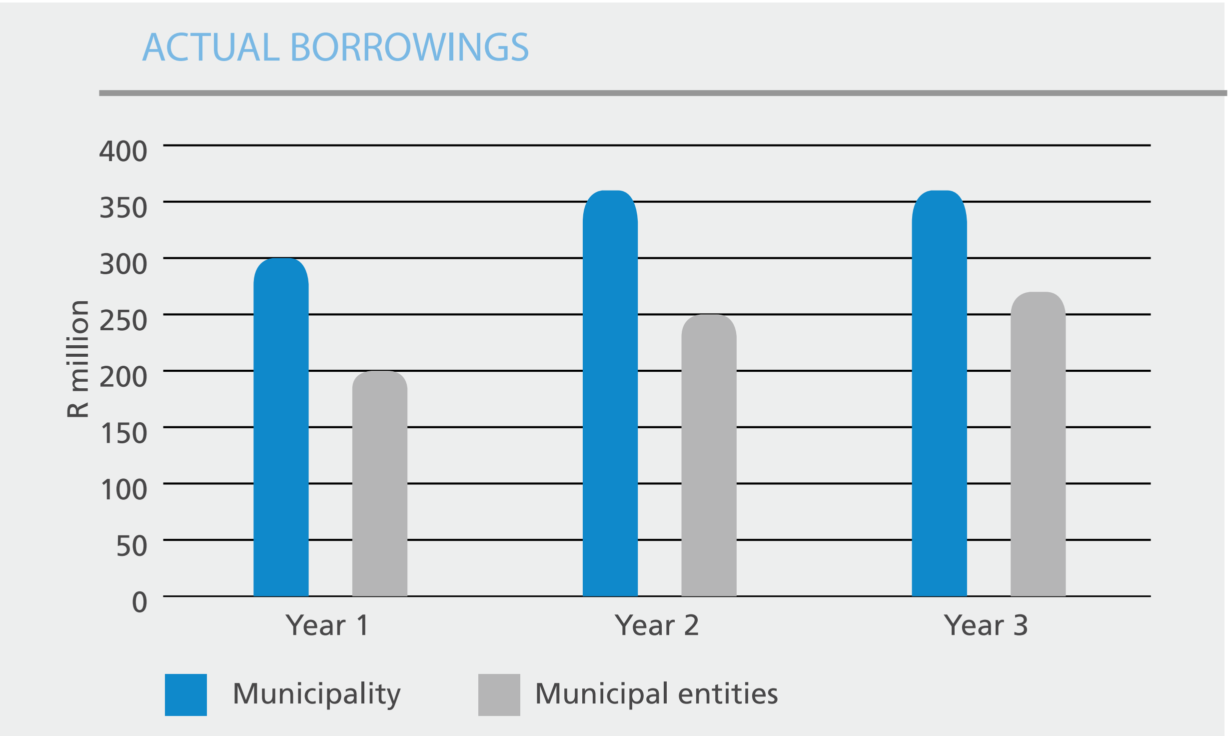
10. BORROWING AND INVESTMENTS

INTRODUCTION TO BORROWING AND INVESTMENTS

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

Table 5.9: Long-term loans from 2015/16 to 2017/18

	Outstanding balances as at 30 June		
Loan provider	2015/16	2016/17	**2017/18**
DBSA	15 378 339	11 946 072	**9 371 722**
INCA	64 779 763	59 777 571	**54 103 962**
Nedbank	552 553 867	533 281 072	**490 305 536**
Total loans	632 711 969	605 004 715	**553 781 220**



COMMENT ON BORROWING AND INVESTMENTS

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

No loans were extended or grants made by ERWAT in 2017/18.

11. PUBLIC-PRIVATE PARTNERSHIPS

PUBLIC-PRIVATE PARTNERSHIPS

ERWAT did not undertake any contracts or projects during the year through public-private partnerships.

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

COMPONENT D: OTHER FINANCIAL MATTERS

12. SUPPLY CHAIN MANAGEMENT

SUPPLY CHAIN MANAGEMENT

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

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

Remedial action taken for AG findings

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

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

Prescribed competency levels

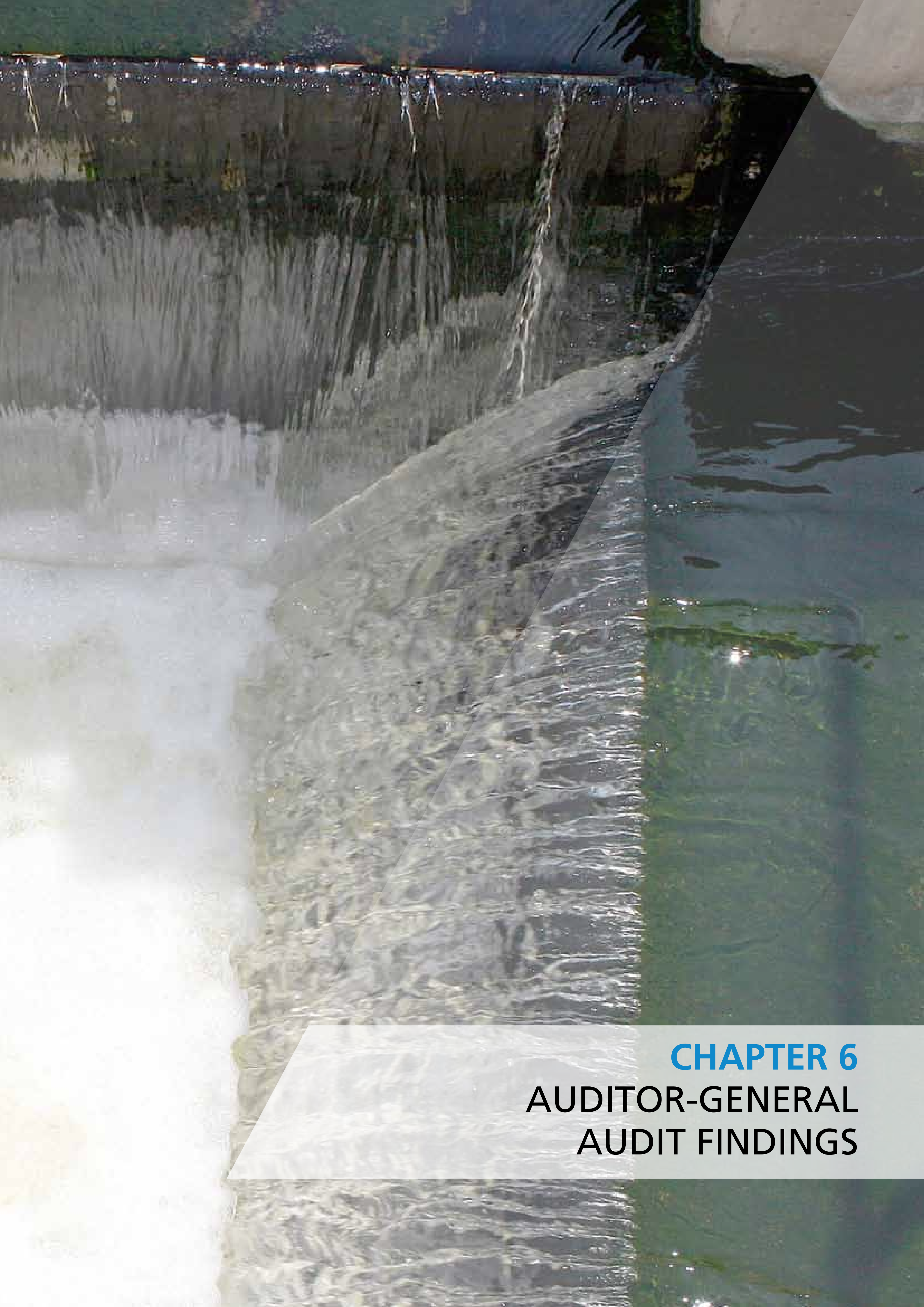
As at 30 June 2018, two supply chain officials have reached the prescribed levels required for their positions and one is currently in the process of completing the recognition of prior learning programme. An additional manager has been appointed, starting on 1 September 2018. This individual has reached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

13. GRAP COMPLIANCE

GRAP COMPLIANCE

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

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



CHAPTER 6
AUDITOR-GENERAL AUDIT FINDINGS

AUDIT FINDINGS continued

INTRODUCTION

The Constitution section 188(1)(b) states that the functions of the AG include the auditing and reporting on the accounts, financial statements and financial management of all municipalities. MSA section 45 states that the results of performance measurement must be audited annually by the AG.

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

The outcome of the audit was unqualified with matters of emphasis. Component A covers the AG's opinion for 2015/16; Component B covers the same for 2016/17.

COMPONENT A: AG OPINION OF FINANCIAL STATEMENTS 2015/16

1. AUDITOR-GENERAL REPORTS 2015/16 FINANCIAL YEAR

Table 6.1: Auditor-General report on financial performance 2015/16

Audit Report Status:	*Unqualified with other matters specified*
Non-compliance issues	**Remedial action taken**
Inappropriate deviations – SCM Regulation 36	Corrections have been made to Regulation 36 and Irregular expenditure disclosure notes. A procedure manual has been adopted for Regulation 36(1)(v) procurement which includes criteria for determining when the conditions for impracticality are met. Specific provisions were included for situations or conditions where comments must be obtained from National or Provincial Treasury prior to the approval of a Regulation 36(1)(v) deviation.

Auditor-General report on service delivery performance 2015/16

Audit Report Status:	*Unqualified with other matters specified*
Non-compliance issues	**Remedial action taken**
No material non-compliance affecting the audit report noted.	Not applicable

COMPONENT B: AUDITOR-GENERAL OPINION YEAR 2017/18

2. AUDITOR-GENERAL REPORT 2017/18 FINANCIAL YEAR

AG REPORT ON THE FINANCIAL STATEMENTS: YEAR 2017/18

N/A

Table 6.2: Auditor-General report on financial performance 2017/18

Audit Report Status:

Non-compliance issues	Remedial action taken
N/A	

Table 6.3: Auditor-General report on service delivery performance 2017/18

Audit Report Status:	**N/A**
Non-compliance issues	**Remedial action taken**
N/A	

COMMENTS ON AUDITOR-GENERAL'S OPINION 2017/18

N/A

COMMENTS ON MFMA SECTION 71 RESPONSIBILITIES

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

Wim Louw
Chief Financial Officer

31 January 2019

GLOSSARY

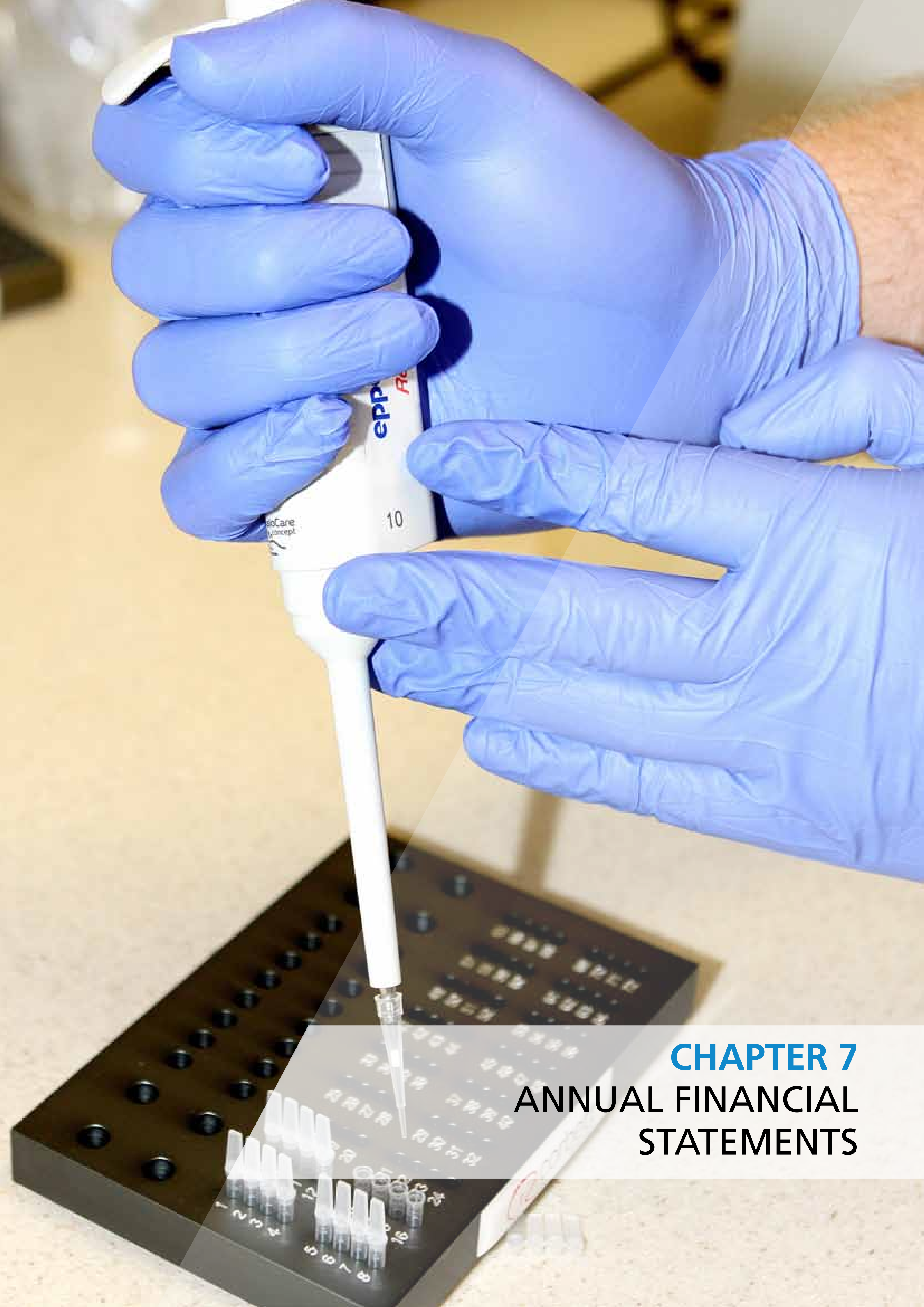
TERM	DESCRIPTION
Accessibility indicators	Explore whether the intended beneficiaries are able to access services or outputs.
Accountability documents	Documents used by executive authorities to give "full and regular" reports on the matters under their control to Parliament and provincial legislatures as prescribed by the Constitution. This includes plans, budgets, in-year and annual reports.
Activities	The processes or actions that use a range of inputs to produce the desired outputs and ultimately outcomes. In essence, activities describe "what we do".
Adequacy indicators	The quantity of input or output relative to the need or demand.
Annual Report	A report to be prepared and submitted annually based on the regulations set out in section 121 of the MFMA. Such a report must include annual financial statements as submitted to and approved by the AG.
Approved budget	The annual financial statements of a municipality as audited by the AG and approved by council or a provincial or national executive.
Baseline	Current level of performance that a municipality aims to improve when setting performance targets. The baseline relates to the level of performance recorded in a year prior to the planning period.
Basic municipal service	A municipal service that is necessary to ensure an acceptable and reasonable quality of life to citizens within that particular area. If not provided it may endanger the public health and safety or the environment.
Budget year	The financial year for which an annual budget is to be approved – means a year ending on 30 June.
Cost indicators	The overall cost or expenditure of producing a specified quantity of outputs.
Distribution indicators	The distribution of capacity to deliver services.
Financial statements	Includes at least a statement of financial position, statement of financial performance, cash-flow statement, notes to these statements and any other statements that may be prescribed.
General key performance indicators	After consultation with MECs for local government, the Minister may prescribe general key performance indicators that are appropriate and applicable to local government in general.
Impact	The results of achieving specific outcomes, such as reducing poverty and creating jobs.
Inputs	All the resources that contribute to the production and delivery of outputs. Inputs are "what we use to do the work". They include finances, personnel, equipment and buildings.
Integrated Development Plan (IDP)	Set out municipal goals and development plans.
National key performance areas	• Service delivery and infrastructure • Economic development • Municipal transformation and institutional development • Financial viability and management • Good governance and community participation
Outcomes	The medium-term results for specific beneficiaries that are the consequence of achieving specific outputs. Outcomes should relate clearly to an institution's strategic goals and objectives set out in its plans. Outcomes are "what we wish to achieve".
Outputs	The final products, or goods and services produced for delivery. Outputs may be defined as "what we produce or deliver". An output is a concrete achievement (i.e. a product such as a passport, an action such as a presentation or immunisation, or a service such as processing an application) that contributes to the achievement of a Key Result Area.

TERM	DESCRIPTION
Performance indicator	Indicators should be specified to measure performance in relation to input, activities, outputs, outcomes and impacts. An indicator is information used to gauge the extent to which an output has been achieved (policy developed, presentation delivered, service rendered).
Performance information	Generic term for non-financial information about municipal services and activities. Can also be used interchangeably with performance measure.
Performance standards	The minimum acceptable level of performance or the level of performance that is generally accepted. Standards are informed by legislative requirements and service-level agreements. Performance standards are mutually agreed criteria to describe how well work must be done in terms of quantity and / or quality and timeliness, to clarify the outputs and related activities of a job by describing what the required result should be. In this EPMDS performance standards are divided into indicators and the time factor.
Performance targets	The level of performance that municipalities and its employees strive to achieve. Performance targets relate to current baselines and express a specific level of performance that a municipality aims to achieve within a given time period.
Service Delivery Budget Implementation Plan	Detailed plan approved by the mayor for implementing the municipality's delivery of services; including projections of the revenue collected and operational and capital expenditure by vote for each month. Service delivery targets and performance indicators must also be included.
Vote	One of the main segments into which a budget of a municipality is divided for appropriation of money for the different departments or functional areas of the municipality. The vote specifies the total amount that is appropriated for the purpose of a specific department or functional area. Section 1 of the MFMA defines a "vote" as: a) *one of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and* b) *which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.*

APPENDIX A – COMMITTEES AND COMMITTEE PURPOSES

Committees (other than Executive Committee) and purposes of committees

Committees	Purpose of committee
Finance	The Finance Committee supports the Board of Directors in discharging its finance and audit oversight.
Risk Management	The Risk and Management Committee supports the Board of Directors in maintaining effective and transparent systems of risk management.
Remuneration and HR	The Remuneration and Ethics Committee has an independent role, operating as an overseer; making recommendations to the Board for its consideration and final approval about whether the company remunerates directors and executives fairly and responsibly and the disclosure of director remuneration is accurate, complete and transparent.
Operations	The Operations Committee supports the Board of Directors in overseeing operations of the entities.



CHAPTER 7
ANNUAL FINANCIAL STATEMENTS

CONTENTS

The reports and statements set out below comprise the annual financial statements presented to the AGSA for audit:

ACRONYMS

AGSA	Auditor-General South Africa
NPC	Non-Profit Company
DBSA	Development Bank of South Africa
HOD	Head of Department
GRAP	Generally Recognised Accounting Practice
JIBAR	Johannesburg Interbank Average Rate
INCA	Infrastructure Finance Corporate Limited
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
SCM	Supply Chain Management
MD	Managing Director
CEO	Chief Executive Officer
ERWAT	East Rand Water Care Company
PPE	Property, Plant and Equipment
CoE	City of Ekurhuleni Metropolitan Municipality
CFO	Chief Financial Officer

GENERAL INFORMATION

Legislation governing the municipal entity's operations	Municipal Finance Management Act (Act 56 of 2003), Municipal Systems Act, Structures Act, National Water Act and the Companies Act (Act No. 71 of 2008). The annual financial statements have been audited in compliance with the Companies Act and Municipal Finance Management Act.
Accounting Officer	T Gopane
Chief Finance Officer (CFO)	WI Louw
Directors	CJ Cornish (Chairperson of Board of Directors) LN Bokaba (Non-executive) D Coovadia (Non-executive) T Gopane (Executive) N Koni [Née Sidondi] (Non-executive) TM Mdingi (Non-executive) (Appointment date 16 November 2017) M Mochatsi (Non-executive) EE Themba (Non-executive) K Wall (Non-executive)
Registered office	Hartebeestfontein Office Park R25 (Bapsfontein/Bronkhorstspruit) Kempton Park 1619
Business address	Hartebeestfontein Office Park R25 (Bapsfontein/Bronkhorstspruit) Kempton Park 1619
Postal address	PO Box 13106 Norkem Park 1631
Controlling entity	City of Ekurhuleni Metropolitan Municipality incorporated in South Africa
Bankers	Absa Bank Corporate and Investment Banking 15 Alice Lane Sandton 2196
Auditors	Auditor-General South Africa 61 Central Street, Houghton
Company secretary	Z Socikwa
Company registration number	1992/005753/08
Preparer	The annual financial statements were prepared under the supervision of: WI Louw (B Compt Hons) Chief Financial Officer

BOARD'S RESPONSIBILITIES
AND APPROVAL

The directors are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the annual financial statements fairly present the state of affairs of ERWAT as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across ERWAT. While operating risk cannot be fully eliminated, ERWAT endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The directors have reviewed ERWAT's cash flow forecast for the year to 30 June 2019 and, in the light of this review and the current financial position, they are satisfied that ERWAT has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

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

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

The annual financial statements set out on pages 78 to 131, which have been prepared on a going concern basis, were approved by the board on 30 November 2018 and were signed on its behalf by:

CJ Cornish
(Chairperson of Board of Directors)
Non-executive Director

T Gopane
(Accounting Officer)
Managing Director

BOARD'S
REPORT

The directors submit their report for the year ended 30 June 2018.

1. REVIEW OF ACTIVITIES

Main business and operations

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

Net surplus of the entity was R139 840 846, (2017: surplus R113 554 030).

2. GOING CONCERN

We draw attention to the fact that at 30 June 2018, the entity had accumulated surplus of R1 602 913 544 and that the entity's total assets exceed its liabilities by R1 602 913 544.

The existence of ERWAT is dependent on the continued support of City of Ekurhuleni Metropolitan Municipality by way of service charges for treatment of waste water and the provision of related engineering services in terms of a service delivery agreement entered into between ERWAT and City of Ekurhuleni Metropolitan Municipality.

The annual financial statements has been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. SUBSEQUENT EVENTS

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

The calculation of the bad debts provision was calculated based on amounts received from debtors after 30 June 2018. The total amount received subsequent to year end from doubtful debtors amounted to R487 951, which was used when calculating bad debts provision.

At the meeting of the Board of Directors held on 26 September 2018 a decision was made by the Board of Directors that the bonuses will not be paid (totaling RR17 201 507). This decision taken in the period between the reporting date (30 June 2018) and the authorisation of the financial statements for issue (expected to be approved for issue to the municipal manager on 31 December 2018 and tabled to council on 31 January 2019).

The decision taken on 26 September 2018 provided additional evidence of conditions that existed at year end. The decision taken by the Board of Directors of ERWAT therefore represents an adjusting event after the reporting period. ERWAT have therefore adjusted the amounts recognised in its financial statements to reflect adjusting events after the reporting date.

Refer to note 12 for details regarding the reversal of the bonus provision.

4. SHARE CAPITAL/CONTRIBUTED CAPITAL

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

5. COMPANY SECRETARY

The company secretary of the entity is Z Socikwa

Business address	Hartebeestfontein Office Park R25 (Bapsfontein/Bronkhorstspruit) Kempton Park 0169
Postal address	PO Box 13106 Norkem Park 0169

STATEMENT OF
FINANCIAL POSITION
as at 30 June 2018

	Note(s)	2018 R	Restated* 2017 R
ASSETS			
Current assets			
Trade receivables from exchange transactions	3	70 447 511	38 127 604
Receivables from non-exchange transactions	4	23 491 624	34 707 677
Other receivables from exchange transactions	5	5 140 620	5 181 871
VAT receivable	6	35 498 785	24 056 510
Other financial assets	7	8 420 736	8 119 485
Cash and cash equivalents	8	86 945 000	157 781 702
		229 944 276	267 974 849
Non-current assets			
Property, plant and equipment	9	2 100 501 727	1 949 153 517
Intangible assets	10	6 532 811	6 615 575
		2 107 034 538	1 955 769 092
Total assets		2 336 978 814	2 223 743 941
LIABILITIES			
Current liabilities			
Payables from exchange transactions	11	128 613 774	87 373 876
Provisions	12	20 127 482	33 525 323
Current portion of long-term borrowings	13	56 404 629	55 250 765
Current portion of finance lease obligation	14	238 932	238 932
		205 384 817	176 388 896
Non-current liabilities			
Non-current portion of long-term borrowings	13	497 440 987	549 753 950
Non-current portion of finance lease obligation	14	119 466	358 398
Employee benefit obligation	15	31 120 000	34 170 000
		528 680 453	584 282 348
Total liabilities		734 065 270	760 671 244
Net assets		1 602 913 544	1 463 072 697
Accumulated surplus		1 602 913 544	1 463 072 697

STATEMENT OF **FINANCIAL PERFORMANCE**

for the year ended 30 June 2018

	Note(s)	2018 R	Restated* 2017 R
Revenue			
Service charges	17	**719 935 154**	645 216 446
Other income	18	**109 478 397**	114 955 315
Interest received	19	**6 713 655**	17 042 742
Dividends received	19	**65 985**	554 648
Development contribution	20	**79 914 197**	45 254 939
Government grants and subsidies	21	**50 000 000**	50 000 000
Total revenue (note 16)		**966 107 388**	873 024 090
Expenditure			
General expenses	22	**(224 435 235)**	(176 761 280)
Employee costs	23	**(276 063 797)**	(257 358 865)
Debt impairment	24	**(348 104)**	(1 274 174)
Depreciation and amortisation	25	**(65 880 139)**	(64 686 371)
Finance costs	26	**(61 249 257)**	(66 605 207)
Bulk purchases and materials	27	**(203 754 958)**	(189 361 598)
Total expenditure		**(831 731 490)**	(756 047 495)
Operating surplus		**134 375 898**	116 976 595
Loss on disposal of assets		**(1 078 340)**	(939 437)
Fair value adjustments – investments		**301 252**	(700 128)
Actuarial gains/(losses)	15	**6 242 036**	(1 783 000)
		5 464 948	(3 422 565)
Surplus for the period		**139 840 846**	113 554 030

STATEMENT OF
CHANGES IN NET ASSETS

for the year ended 30 June 2018

	Accumulated surplus R	Total net assets R
Balance at 1 July 2016		
Changes in net assets	1 349 518 667	1 349 518 667
Surplus for the year	113 554 030	113 554 030
Total changes	113 554 030	113 554 030
Opening balance as previously reported	1 427 126 881	1 427 126 881
Adjustments		
Prior year adjustments	35 945 817	35 945 817
Balance at 1 July 2017 as restated*	**1 463 072 698**	**1 463 072 698**
Changes in net assets		
Surplus for the year	**139 840 846**	**139 840 846**
Total changes	**139 840 846**	**139 840 846**
Balance at 30 June 2018	**1 602 913 544**	**1 602 913 544**

CASH FLOW **STATEMENT**

for the year ended 30 June 2018

	Note(s)	2018 R	Restated* 2017 R
Cash flows from operating activities			
Receipts			
Service charges		768 296 624	645 216 446
Development contribution		79 914 197	4 925 802
Grants received		50 000 000	50 000 000
Interest income		6 713 655	17 042 742
Dividends received		65 985	554 648
Other income		34 717 031	156 243 174
		939 707 492	873 982 812
Payments			
Employee costs		(292 511 638)	(245 269 579)
Suppliers		(387 161 341)	(393 902 528)
Finance costs		(61 249 257)	(66 350 037)
Other cash item		–	(305 678)
		(740 922 236)	(705 827 822)
Net cash flows from operating activities	28	198 785 256	168 154 990
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(218 898 385)	(282 669 279)
Proceeds from sale of property, plant and equipment	9	1 690 569	99 930
Purchase of other intangible assets	10	(1 016 113)	(4 890 888)
Net cash flows used in investing activities		(218 223 929)	(287 460 237)
Cash flows from financing activities			
Repayment of long-term borrowings		(51 159 098)	(29 800 834)
Long-term borrowings raised		–	2 093 580
Net finance lease payments		(238 932)	(559 128)
Net cash flows used in financing activities		(51 398 030)	(28 266 382)
Net decrease in cash and cash equivalents		(70 836 703)	(147 571 629)
Cash and cash equivalents at the beginning of the year		157 781 702	305 353 331
Cash and cash equivalents at the end of the year	8	86 944 999	157 781 702

Additions per the cash flow statement for 2017 was previously stated at R283 535 787 but has been restated to R282 669 279 due to prior period errors of R866 508 as detailed in note 34.

STATEMENT OF
COMPARISON OF BUDGET AND ACTUAL AMOUNTS

for the year ended 30 June 2018

	Original budget R	Budget adjustments (i.t.o. s28 and s31 of the MFMA) R	Final adjustments budget R	Shifting of funds (i.t.o. s31 of the MFMA) R
2018				
Financial performance				
Service charges	719 935 000	–	719 935 000	–
Investment revenue	4 411 000	–	4 411 000	–
Other own revenue	140 205 256	–	140 205 256	–
Total revenue (excluding capital transfers and contributions)	864 551 256	–	864 551 256	–
Employee costs	(298 040 000)	–	(298 040 000)	–
Debt impairment	(1 500 000)	–	(1 500 000)	–
Depreciation and amortisation	(70 178 000)	–	(70 178 000)	–
Finance charges	(63 125 000)	–	(63 125 000)	–
Bulk purchases and materials	(202 296 499)	–	(202 296 499)	–
Other expenditure	(229 411 757)	–	(229 411 757)	–
Total expenditure	(864 551 256)	–	(864 551 256)	–
Surplus	–	–	–	–
Transfers recognised – capital	50 000 000	–	50 000 000	–
Surplus after capital transfers and contributions	50 000 000	–	50 000 000	–
Surplus for the year	50 000 000	–	50 000 000	–
Capital expenditure and funds sources				
Total capital expenditure	309 259 071	–	309 259 071	–
Sources of capital funds				
Transfers recognised – capital	50 000 000	–	50 000 000	–
Internally generated funds	259 259 071	–	259 259 071	–
Total sources of capital funds	309 259 071	–	309 259 071	–
Cash flows				
Net cash from operating	123 673 693	–	123 673 693	–
Net cash used in investing	(336 206 441)	–	(336 206 441)	–
Net cash used in financing	(29 576 941)	–	(29 576 941)	–
Net decrease in cash and cash equivalents	(242 109 689)	–	(242 109 689)	–
Cash and cash equivalents at the beginning of the year	305 353 331	–	305 353 331	–
Cash and cash equivalents at year end	63 243 642	–	63 243 642	–

The budget is approved on an accrual basis by nature of classification. The approved budget covers the period from 1 July 2017 to 30 June 2018.

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

The variances between actual amounts versus budgeted amounts are explained in note 44 Budget differences.

Virement (i.t.o. council approved policy) R	Final budget R	Actual outcome R	Unauthorised expenditure R	Variance R	Actual outcome as % of final budget R	Actual outcome as % of original budget R
	719 935 000	719 935 154		154	100%	100%
	4 411 000	6 779 640		2 368 640	154%	154%
	140 205 256	195 935 882		55 730 626	140%	140%
	864 551 256	922 650 676		58 099 420	107%	107%
–	(298 040 000)	(276 063 797)	–	21 976 203	93%	93%
–	(1 500 000)	(348 104)	–	1 151 896	23%	23%
–	(70 178 000)	(65 880 139)	–	4 297 861	94%	94%
–	(63 125 000)	(61 249 257)	–	1 875 743	97%	97%
–	(202 296 499)	(203 754 958)	–	(1 458 459)	101%	101%
–	(229 411 757)	(225 513 575)	–	3 898 182	98%	98%
–	(864 551 256)	(832 809 830)	–	31 741 426	96%	96%
	–	89 840 846		89 840 846		
	50 000 000	50 000 000		–	100%	100%
	50 000 000	139 840 846		89 840 846	280%	280%
	50 000 000	139 840 846		89 840 846	280%	280%
–	309 259 071	219 914 498	–	(89 344 573)	71%	71%
	50 000 000	50 000 000		–	100%	100%
	259 259 071	169 914 498		(89 344 573)	66%	66%
	309 259 071	219 914 498		(89 344 573)	71%	71%
	123 673 693	198 785 256		75 111 563	161%	161%
	(336 206 441)	(218 223 929)		117 982 512	65%	65%
	(29 576 941)	(51 398 030)		(21 821 089)	174%	174%
	(242 109 689)	(70 836 703)		171 272 986	29%	29%
	305 353 331	157 781 702		(147 571 629)	52%	52%
	63 243 642	86 944 999		(23 701 357)	137%	137%

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

for the year ended 30 June 2018

	Reported unauthorised expenditure R	Expenditure authorised in terms of s.32 of MFMA R	Balance to be recovered R	Restated audited outcome R
2017				
Financial performance				
Service charges				645 216 446
Investment revenue				17 597 390
Other own revenue				160 210 254
Total revenue (excluding capital transfers and contributions)				823 024 090
Employee costs	–	–	–	(257 358 865)
Debt impairment	–	–	–	(1 274 174)
Depreciation and asset impairment	–	–	–	(64 686 371)
Finance charges	–	–	–	(66 605 207)
Bulk purchases and materials	–	–	–	(189 361 598)
Other expenditure	–	–	–	(180 183 845)
Total expenditure	–	–	–	(759 470 060)
Surplus				63 554 030
Transfers recognised – capital				50 000 000
Surplus after capital transfers and contributions				113 554 030
Surplus for the year				113 554 030
Capital expenditure and funds sources				
Total capital expenditure				288 426 675
Sources of capital funds				50 000 000
Transfers recognised – capital				
Borrowing				2 093 580
Internally generated funds				236 333 095
Total sources of capital funds				288 426 675
Cash flows				
Net cash from operating				168 154 990
Net cash used in investing				(287 460 237)
Net cash used in financing				(28 266 382)
Net decrease in cash and cash equivalents				(147 571 629)
Cash and cash equivalents at the beginning of the year				305 353 331
Cash and cash equivalents at year end				157 781 702

ACCOUNTING
POLICIES

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS

Basis of preparation

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

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

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

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

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

1.1 Significant judgments and sources of estimation uncertainty

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

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

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

Impairment of receivables

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

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

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

Impairment of other financial assets

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

Operating lease commitments – entity as lessor or lessee

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

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS (continued)

1.2 Significant judgments and sources of estimation uncertainty (continued)

Finance lease commitments – entity as a lessee

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

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

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

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

Post-employment benefits

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

Impairment of property, plant and equipment

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

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

Provisions, contingent liabilities and contingent assets

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

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

Useful lives of plant, property and equipment held at cost

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

Budget information

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

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

Fair value estimation

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

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

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

Impairment testing

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

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

1.2 Presentation and functional currency

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

1.3 Property, plant and equipment

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

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

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

Property, plant and equipment are initially measured at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. Cost also includes initial estimate of the costs of dismantling and removing the asset and restoring the site on which it is located. Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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

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

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

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS (continued)

1.3 Property, plant and equipment (continued)

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

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

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

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

Item	Estimated useful life (Range in years)
Land and buildings	
• Land	Indefinite
• Buildings	14 – 80
Infrastructure	
• Waste water purification works	03 – 82
• Electrical components	14- 68
• Mechanical components	02 – 68
• Perimeter protection	08 – 80
• Roads	25 – 68
• Leased plant	15 – 55
Furniture and fixtures	
• Furniture and fittings	05 – 80
• IT equipment	04 – 23
• Office equipment	05 – 41
• Leased equipment	03 – 04
Motor vehicles	06 – 34
Plant and machinery	05 – 30

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

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

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

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

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

1.4 Intangible assets

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

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

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

Intangible assets are initially recognised at cost. An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition. Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

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

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

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

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

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

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

Item	Estimated useful life (Range in years)
Computer software	05 – 23

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

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS (continued)

1.5 Financial instruments

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

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

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

(a) Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- (i) the entity designates at fair value at initial recognition or
- (ii) are held for trading.

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

(b) Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

(c) Financial instruments at fair value comprise financial assets or financial liabilities that are:

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

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

Class	Category
Trade debtors from exchange and non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange and non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

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

Class	Category
Long-term borrowings	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

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

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

(a) Financial assets measured at amortised cost:

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS (continued)

1.5 Financial instruments (continued)

Gains and losses (continued)

(b) Financial assets measured at cost:

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

Derecognition

(a) Financial assets

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

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

(b) Financial liabilities

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

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

Presentation

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

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

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

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

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

1.6 Employment benefits

Short-term employee benefits

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

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

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

Retirement funds

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

Defined contribution plans

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

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

Defined benefit plans

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

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

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

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

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

Medical Aid: Continued Members

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

1.7 Provisions and contingencies

A provision is recognised when the entity has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

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

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS (continued)

1.7 Provisions and contingencies (continued)

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

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

(a) Leave provision

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

(b) Incentive bonus provision

A provision for incentive bonuses is raised. The bonuses will only be approved by the board of directors if they are satisfied with ERWAT's performance at the end of the financial year.

1.8 Impairment of cash-generating assets and non-cash-generating assets

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

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

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

Identification

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

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

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

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

Value in use

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

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

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

Recognition and measurement

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

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Reversal of impairment loss

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

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

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

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

Redesignation

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

1.9 Revenue from exchange transactions

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

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

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

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

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS (continued)

1.9 Revenue from exchange transactions (continued)

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

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

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

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

Dividends are recognised when the municipality's right to receive payment is established.

- Revenue from the sale of goods is recognised when the following conditions have been satisfied:
- The municipality has transferred to the buyer the significant risks and rewards of ownership.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.10 Revenue from non-exchange transactions

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

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

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

Transfers, including grants and receipts

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

Gifts and donations, including goods in-kind

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

Services in-kind

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

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

1.11 Leases

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

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

Operating leases – lessor

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

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

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

Operating leases – lessee

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

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

Finance leases – lessee

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

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

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

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

1.12 Borrowing costs

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

1.13 Income Tax

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

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS (continued)

1.14 Unauthorised expenditure

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

1.15 Fruitless and wasteful expenditure

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

1.16 Irregular expenditure

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

1.17 Budget information

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

The approved budget covers the fiscal period from 1 July 2017 to 30 June 2018. These figures are those approved by Council both at the beginning and during the year, following a period of consultation with the public as part of the Integrated Development Plan (IDP). The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments to material differences are provided in the notes to the annual financial statements.

1.18 Related parties

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

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

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

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

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

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

1.19 Events after reporting date

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

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

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

1.20 Commitments

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

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

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

1.21 Going concern

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

1.22 Comparative figures

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

1.23 Change in accounting estimates

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

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

(a) the period of the change, if the change affects that period only; or

(b) the period of the change and future periods, if the change affects both.

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

1. PRESENTATION OF ANNUAL FINANCIAL STATEMENTS (continued)

1.23 Change in accounting estimates (continued)

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

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

1.24 Prior period error

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

(a) was available when financial statements for those periods were authorised for issue; and

(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

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

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

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

(a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or

(b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.

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

2. NEW STANDARDS AND INTERPRETATIONS

2.1 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 1 July 2018 or later periods:

Standard/Interpretation	Effective date: Years beginning on or after	Expected impact
IGRAP 19: Liabilities to Pay Levies	1 April 2019	Unlikely there will be a material impact
Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	Not yet set	Unlikely there will be a material impact
GRAP 34: Separate Financial Statements	Not yet set	Unlikely there will be a material impact
GRAP 35: Consolidated Financial Statements	Not yet set	Unlikely there will be a material impact
GRAP 36: Investments in Associates and Joint Ventures	Not yet set	Unlikely there will be a material impact
GRAP 37: Joint Arrangements	Not yet set	Unlikely there will be a material impact
GRAP 38: Disclosure of Interests in Other Entities	Not yet set	Unlikely there will be a material impact
GRAP 12 (as amended 2016): Inventories	1 April 2018	Unlikely there will be a material impact
GRAP 27 (as amended 2016): Agriculture	1 April 2018	Unlikely there will be a material impact
GRAP 31 (as amended 2016): Intangible Assets	1 April 2018	Unlikely there will be a material impact
GRAP 103 (as amended 2016): Heritage Assets	1 April 2018	Unlikely there will be a material impact
GRAP 110 (as amended 2016): Living and Non-living Resources	1 April 2018	Unlikely there will be a material impact
IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecogntion of Land	1 April 2019	Unlikely there will be a material impact
Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities	1 April 2018	Not applicable to entity
GRAP 20: Related parties	1 April 2019	Unlikely there will be a material impact
GRAP 26 (as amended 2016): Impairment of cash-generating assets	1 April 2018	Unlikely there will be a material impact
GRAP 109: Accounting by Principals and Agents	1 April 2019	Unlikely there will be a material impact
GRAP 21 (as amended 2016): Impairment of non-cash- generating assets	1 April 2018	Unlikely there will be a material impact
GRAP 18 (as amended 2016): Segment Reporting	1 April 2020	Unlikely there will be a material impact
GRAP 108: Statutory Receivables	1 April 2019	Unlikely there will be a material impact
GRAP 32: Service Concession Arrangements: Grantor	1 April 2019	Unlikely there will be a material impact
IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	1 April 2019	Unlikely there will be a material impact
GRAP 17 (as amended 2016): Property, Plant and Equipment	1 April 2018	Unlikely there will be a material impact
GRAP 16 (as amended 2016): Investment Property	1 April 2018	Unlikely there will be a material impact
GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	1 April 2018	Unlikely there will be a material impact

3. TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS

Gross trade receivables from exchange transactions

	2018 R	2017 R
Commercial business receivables	20 563 085	23 741 628
Related party debtors	54 455 806	18 609 252
	75 018 891	42 350 880
Less: Allowance for impairment		
Commercial business – Provision for bad debts	(4 571 380)	(4 223 276)
Net balance		
Commercial business receivables	15 991 705	19 518 352
Related party debtors	54 455 806	18 609 252
	70 447 511	38 127 604
Ageing of Commercial business – Trade receivables from exchange transactions		
Current (0 – 30 days)	6 246 891	5 814 434
31 – 60 days	2 304 088	2 544 633
61 – 90 days	1 082 189	3 595 582
91 – 120+ days	10 929 917	11 786 979
Less: Allowance for impairment	(4 571 380)	(4 223 276)
	15 991 705	19 518 352
Ageing of related party – Trade receivables from exchange transactions		
Current (0 -30 days)	1 896 687	1 878 709
31 – 60 days	834 733	523 932
61 – 90 days	18 224 971	–
91 – 120+ days	33 499 415	16 206 611
	54 455 806	18 609 252
Total		
Current (0 – 30 days)	8 143 578	7 693 143
31 – 60 days	3 138 821	3 068 565
61 – 90 days	19 307 160	3 595 582
91 – 120+ days	44 429 332	27 993 590
	75 018 891	42 350 880
Less: Allowance for impairment	(4 571 380)	(4 223 276)
	70 447 511	38 127 604
Less: Allowance for impairment		
61 – 90 days	–	(2 420)
91 – 120+ days	(4 571 380)	(4 220 856)
	(4 571 380)	(4 223 276)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(4 223 276)	(2 949 102)
Contributions to the Debt Impairment Allowance (Credit Losses)	(348 104)	(1 274 174)
	(4 571 380)	(4 223 276)
Trade receivables past due but not impaired		
Trade receivables which are less than three months past due are not considered to be impaired. At 30 June 2018, R61 815 983 (2017: R32 782 114) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
One month past due	3 138 821	2 896 469
Two months past due	19 307 160	2 202 073
Three months past due	39 370 002	27 683 572

Receivables from exchange transactions encumbered

Receivables with a carry value of R70 447 511 (2017: R38 127 604) are encumbered in respect of a long-term borrowing, as disclosed in the long-term borrowing note 13. ERWAT has agreed to cede to its controlling entity claims against it book debtors, in event of ERWAT defaulting on it's obligation in terms of the loan. ERWAT thereby cedes, assigns and transfers unto and in favour of City of Ekurhuleni Metropolitan Municipality all of ERWAT's rights, title and interest in and to all book debts, present and future, due and to become due to ERWAT, in the event that ERWAT defaults on it's obligation in terms of the loan of R550 million advanced by Nedbank Ltd. This cession shall endure for as long as ERWAT in indebted to Nedbank Ltd, and the guarantee provided by City of Ekurhuleni Metropolitan Municipality in favour of Nedbank Ltd and guarantee for the loan remains in effect.

4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2018 R	2017 R
Government grants and subsidies	23 491 624	34 707 677
Ageing of receivables from non-exchange transactions		
Current (0 – 30 days)	–	9 129 275
31 – 60 days	–	1 012 829
61 – 90 days	–	683 438
91 – 120+ days	23 491 624	23 882 135
	23 491 624	34 707 677

Receivables from non-exchange transactions encumbered

Receivables with a carry value of R23 491 624 (2017: R80 482 426) are encumbered in respect of a long-term borrowing, as disclosed in the long-term borrowing note 13. ERWAT has agreed to cede to its controlling entity claims against it book debtors, in event of ERWAT defaulting on it's obligation in terms of the loan. ERWAT thereby cedes, assigns and transfers unto and in favour of City of Ekurhuleni Metropolitan Municipality all of ERWAT's rights, title and interest in and to all book debts, present and future, due and to become due to ERWAT, in the event that ERWAT defaults on it's obligation in terms of the loan of R550 million advanced by Nedbank Ltd. This cession shall endure for as long as ERWAT in indebted to Nedbank Ltd, and the guarantee provided by City of Ekurhuleni Metropolitan Municipality in favour of Nedbank Ltd and guarantee for the loan remains in effect.

Receivables from non-exchange transactions past due but not impaired

Management does not consider any receivables from non-exchange transactions to be impaired, regardless of their age, as they relate soley to transactions with CoE which is the controlling entity of ERWAT. In addition, past experience has shown that all receivables from the controlling entity are recoverable. The disclosure below is included only in order to comply with the standards of GRAP.

Receivables from non-exchange transactions which are less than three months past due are not considered to be impaired. At 30 June 2018, R23 491 624 (2017: R71 489 745) were past due but not impaired.

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

	2018 R	2017 R
One month past due	–	52 410 069
Two months past due	–	1 012 829
Three months past due	23 491 624	18 066 847

5. OTHER RECEIVABLES FROM EXCHANGE TRANSACTIONS

	2018 R	2017 R
Deposits	**3 439 791**	3 235 843
Prepaid expenses	**1 700 829**	1 938 997
Medical aid	**–**	7 031
	5 140 620	5 181 871

6. VAT RECEIVABLE

	2018 R	2017 R
VAT	**35 498 785**	24 056 510

7. OTHER FINANCIAL ASSETS

Name of entity	Carrying amount 2018	Carrying amount 2017	Fair value 2018	Fair value 2017
Sanlam demutualisation shares	**1 244 898**	1 011 528	**1 244 898**	1 011 528
Old Mutual demutualisation shares	**1 062 590**	1 274 019	**1 062 590**	1 274 019
Old mutual unit trust	**6 113 248**	5 833 938	**6 113 248**	5 833 938
	8 420 736	8 119 485	**8 420 736**	8 119 485

Fair value

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

8. CASH AND CASH EQUIVALENTS

	2018 R	2017 R
Cash and cash equivalents consist of:		
Cash on hand	**23 400**	21 200
Bank balances	**85 354 252**	157 760 502
Interest accrued not yet received from the bank	**1 567 348**	–
	86 945 000	157 781 702

The entity has the following bank accounts

Account number/ description	Bank statement balances 30 June 2018	Bank statement balances 30 June 2017	Bank statement balances 30 June 2016	Cash book balances 30 June 2018	Cash book balances 30 June 2017	Cash book balances 30 June 2016
Absa Bank – Current account – 2-6017-0120	**58 941 557**	157 714 415	302 802 058	**60 508 905**	157 367 173	302 801 808
Absa Bank – Salary account – 2-6017-0139	**26 412 695**	393 329	2 531 423	**26 412 695**	393 329	2 531 423
Petty cash and floats	**–**	–	–	**23 400**	21 200	20 100
Total	**85 354 252**	158 107 744	305 333 481	**86 945 000**	157 781 702	305 353 331

9. PROPERTY, PLANT AND EQUIPMENT

	2018 Cost/ Valuation	2018 Accumulated depreciation and accumulated impairment	2018 Carrying value	2017 Cost/ Valuation	2017 Accumulated depreciation and accumulated impairment	2017 Carrying value
Land	13 017 283	–	13 017 283	13 017 283	–	13 017 283
Buildings	37 885 191	(6 315 393)	31 569 798	35 982 178	(5 372 822)	30 609 356
Buildings – Assets under construction	19 030 693	–	19 030 693	12 473 728	–	12 473 728
Plant and machinery	46 582 119	(16 631 556)	29 950 563	33 125 628	(14 845 818)	18 279 810
Furniture and fixtures, office and computer equipment	29 100 707	(10 064 469)	19 036 238	23 492 467	(8 863 230)	14 629 237
Motor vehicles	54 823 656	(16 010 421)	38 813 235	53 188 497	(12 579 191)	40 609 306
Infrastructure, waste water purification works – Assets under construction	952 960 307	–	952 960 307	816 654 356	–	816 654 356
Infrastructure, waste water purification works	1 395 898 200	(400 845 978)	995 052 222	1 351 295 613	(349 015 805)	1 002 279 808
Plant and machinery – Assets under construction	710 975	–	710 975	–	–	–
Leased assets	1 247 550	(887 137)	360 413	1 248 350	(647 717)	600 633
Total	2 551 256 681	(450 754 954)	2 100 501 727	2 340 478 100	(391 324 583)	1 949 153 517

Reconciliation of property, plant and equipment – 2018

Figures in Rand	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	13 017 283	–	–	–	–	13 017 283
Land and buildings	30 609 356	1 903 014	–	–	(942 572)	31 569 798
Land and buildings – Assets under construction	12 473 728	6 556 965	–	–	–	19 030 693
Plant and machinery	18 279 810	14 131 901	(73 442)	–	(2 387 704)	29 950 565
Furniture and fixtures, office and computer equipment	14 629 235	7 199 869	(269 658)	–	(2 523 208)	19 036 238
Motor vehicles	40 609 306	1 674 461	(2 563)	–	(3 467 969)	38 813 235
Infrastructure, waste water purification works	1 002 279 810	15 308 973	(2 423 244)	35 106 276	(55 219 590)	995 052 225
Infrastructure, waste water purification works – Assets under construction	816 654 356	171 412 227	–	(35 106 276)	–	952 960 307
Furniture and fixtures, office and computer equipment – Assets under construction	–	710 975	–	–	–	710 975
Leased assets	600 633	–	–	–	(240 219)	360 414
	1 949 153 517	218 898 385	(2 768 907)	–	(64 781 262)	2 100 501 733

9. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment – 2017

Figures in Rand	Opening balance	Additions	Disposals	Transfers (note 35)	Prior period errors	Depreciation	Total
Land	–	–	–	–	13 017 283	–	13 017 283
Land and buildings	44 155 843	385 663	–	–	(13 017 283)	(914 867)	30 609 356
Land and buildings – Assets under construction	4 491 714	7 023 452	–	–	958 562	–	12 473 728
Plant and machinery	17 913 046	2 309 885	(10 553)	–	221 978	(2 154 546)	18 279 810
Furniture and fixtures, office and computer equipment	14 572 390	2 270 399	(120 757)	–	72 450	(2 165 247)	14 629 235
Furniture and fixtures, office and computer equipment – Assets under construction	6 404	–	–	–	(6 404)	–	–
Motor vehicles	30 964 578	11 702 040	(371 685)	–	1 291 466	(2 977 093)	40 609 306
Infrastructure, waste water purification works	837 025 631	165 245 018	(536 372)	221 520 036	(165 582 110)	(55 392 393)	1 002 279 810
Infrastructure, waste water purification works – Assets under construction	781 627 484	94 599 330	–	(221 520 036)	161 947 578	–	816 654 356
Leased assets	905 527	–	–	–	118 307	(423 201)	600 633
	1 731 662 617	283 535 787	(1 039 367)	–	(978 173)	(64 027 347)	1 949 153 517

Depreciation per the income statement for 2017 was previously stated at R64 027 347 but has been restated to R64 032 536 due to prior period errors of R5 189 as detailed in note 34.

Reconciliation of work in progress 2018

	Included within infrastructure	Included within land and buildings	Included within furniture and fixtures, office and computer equipment	Total
Opening balance	**816 654 356**	**12 473 728**	**–**	**829 128 084**
Additions/capital expenditure	**171 412 227**	**6 556 965**	**710 975**	**178 680 167**
Transferred to completed items	**(35 106 276)**	**–**	**–**	**(35 106 276)**
	952 960 307	**19 030 693**	**710 975**	**972 701 975**

Reconciliation of work in progress 2017

	Included within infrastructure	Included within land and buildings	Included within furniture and fixtures, office and computer equipment	Total
Opening balance	781 627 484	4 491 714	6 404	786 125 602
Additions/capital expenditure	94 599 330	7 023 452	–	101 622 782
Transfers	(221 520 036)	–	–	(221 520 036)
Prior year adjustments	161 947 578	958 562	(6 404)	162 899 736
	816 654 356	12 473 728	–	829 128 084

Leased assets:

	Cost	Accumulated depreciation	Net book value
Benoni	437 677	(424 378)	13 299
Dekema	168 150	(55 915)	112 235
H Bickley	87 719	(28 301)	59 418
Rondebult	2 000 530	(846 844)	1 153 686
Rynfield	654 554	(159 596)	494 958
	3 348 630	(1 515 034)	1 833 596

Expenditure incurred to repair and maintain property, plant and equipment included in statement of financial performance

	2018 R	2017 R
Employee related costs	**34 050 297**	29 053 520
Contracted services	**124 674 221**	98 674 931
General expenses	**7 962 109**	1 531 395
	166 686 627	129 259 846

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

10. INTANGIBLE ASSETS

	2018			2017		
	Cost/ Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	Cost/ Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	**11 193 580**	**(4 660 769)**	**6 532 811**	10 177 460	(3 561 885)	6 615 575

Reconciliation of intangible assets – 2018

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software	**6 615 575**	**1 016 113**	**(1 098 877)**	**6 532 811**

Reconciliation of intangible assets – 2017

	Opening balance	Additions	Other changes, movements	Amortisation	Total
Computer software	2 272 046	4 890 888	106 476	(653 835)	6 615 575

11. PAYABLES FROM EXCHANGE TRANSACTIONS

	2018 R	2017 R
Trade payables	109 612 637	71 369 380
Payments received in advance – contracts in progress	–	773 688
Deposits	11 780	11 780
Accrued bonus	6 955 357	5 192 918
Accrued overtime	2 191 780	2 092 582
Payroll creditors	4 120 384	73 493
Related party payables	4 487 909	6 783 835
Retention	970 097	968 634
Debtors with credit balances	251 675	57 449
Other payables	3 655	5 545
Unidentified deposits	8 500	44 572
	128 613 774	87 373 876

12. PROVISIONS

Reconciliation of provisions – 2018

	Opening balance	Additions	Utilised during the year	Reversed during the year	Total
Incentive bonus provision	17 201 507	–	–	(17 201 507)	–
Leave pay provision	16 323 816	11 764 446	(7 960 780)	–	20 127 482
	33 525 323	11 764 446	(7 960 780)	(17 201 507)	20 127 482

Reconciliation of provisions – 2017

	Opening balance	Additions	Utilised during the year	Total
Incentive bonus provision	12 458 099	4 743 408	–	17 201 507
Leave pay provision	11 960 938	9 517 587	(5 154 709)	16 323 816
	24 419 037	14 260 995	(5 154 709)	33 525 323

Incentive bonus provision

A provision for incentive bonuses is estimated at year end. The incentive bonus will be paid out if the Board of Directors and the controlling entity are satisfied with ERWAT's performance. The amount will be determined by the Board in terms of ERWAT's policy and the date of payment will only be when the board approves the incentive bonuses.

Leave pay provision

The liability is based on the total accrued leave days at year end. The payment of the leave and the amount are uncertain as employees take their leave at different stages during the year or may choose to encash the leave days accumulated.

13. LONG-TERM BORROWINGS

	2018 R	2017 R
At amortised cost		
Bank loan – Nedbank (secured)	**490 435 435**	533 281 072
Six monthly Jibar plus 2.32% currently @ 2018: 10.028% (2017: 10.278%)		
Redeemable 30/11/2029		
The loan is repayable in bi-annual instalments with a capital repayment amount R21 153 846		
Bank loan – INCA (unsecured)		
INCA @ 2018: 8.25% (2017: 8.25%)		
Redeemable 28/06/2024		
The loan is repayable in bi-annual instalments, the last repayment amount for the 2018 financial year was R5 233 470 and the next repayment amount due is R5 249 417	**54 103 962**	59 777 571
Bank loans – DBSA (unsecured)		
DBSA – Loan 61001191 – R1 802 774		
Fixed rate of 15% @ 2018: (2017: 15%)		
Redeemable 30/09/2020		
The loan is repayable in fixed bi-annual instalments of R429 696	**9 306 220**	11 946 072
DBSA – Loan 61001192 – R7 568 948		
Three monthly Jibar plus 2.22% currently @ 2018: 10.54% (2017: 10.12%)		
Redeemable 30/09/2020		
The loan is repayable in quarterly instalments with a capital repayment amount of R737 425.		
	553 845 617	605 004 715
Total long-term borrowings	**553 845 617**	605 004 715
Refer to note 3 and 4 for information relating to debtors ceded against the Nedbank loan.		
Non-current liabilities		
At amortised cost	**497 440 987**	549 753 950
Current liabilities		
At amortised cost	**56 404 629**	55 250 765

14. FINANCIAL LEASE OBLIGATION

	2018 R	2017 R
Non-current liabilities		
Finance lease obligation	**119 466**	358 398
Current liabilities		
Finance lease obligation	**238 932**	238 932
Minimum lease payments due	**238 932**	238 932
– within one year		
– in second to fifth year inclusive	**119 466**	358 398
Present value of minimum lease payments	**358 398**	597 330
Non-current liabilities	**119 466**	358 398
Current liabilities	**238 932**	238 932
	358 398	597 330

Finance leases

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

15. EMPLOYEE BENEFIT OBLIGATIONS

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

Carrying value	2017/18	2016/17	2015/16	2014/15	2013/14
Opening balance	**34 170 000**	29 404 000	27 978 000	22 240 000	16 087 801
Benefit paid	**(1 445 964)**	(1 087 000)	(970 000)	(794 000)	(550 000)
Net (income)/expense recognised in the statement of financial performance	**(1 604 036)**	5 853 000	2 396 000	6 532 000	6 702 199
	31 120 000	34 170 000	29 404 000	27 978 000	22 240 000

The obligation is due to a post-retirement medical aid benefit offered by ERWAT. In the event that a medical aid contributing employee retires, ERWAT will continue to pay 66% of the medical aid contribution provided that the requirements of the policy are met by the employee.

The entity does not have any specific assets set aside to prefund for this liability, therefore no asset value is included in the valuation.

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

Carrying value	2017/18	2016/17	2015/16	2014/15	2013/14
Current service cost	**(1 238 000)**	(1 081 000)	(974 000)	(766 000)	(1 309 000)
Interest cost	**(3 400 000)**	(2 989 000)	(2 494 000)	(2 091 000)	(1 901 000)
Actuarial gains/(losses)	**6 242 036**	(1 783 000)	1 072 000	(3 675 000)	(3 492 199)
	1 604 036	(5 853 000)	(2 396 000)	(6 532 000)	(6 702 199)

Key assumptions used

An actuarial valuation has been performed by ARCH Actuarial Consulting CC as at 30 June 2018. Actuarial valuations were performed by IAC independent actuaries and consultants as at 30 June 2017, 30 June 2016 and 30 June 2015. Price Waterhouse Coopers performed the actuarial valuations as at 30 June 2014.

The key financial assumptions are as follows:

	2017/18	2016/17	2015/16	2014/15	2013/14
Discount rates used	**9.52%**	9.98	10.16%	8.91%	9.40%
Medical cost inflation rates	**7.33%**	8.89%	9.58%	8.42%	9.00%
Proportion of retiring members who are married	**90.00%**	90.00%	90.00%	90.00%	90.00%
Average retirement age	**63 years**	63 years	63 years	63 years	63 years
Number of children under the age of 21	**–**	–	–	–	–
	–	–	–	–	–

The discount rate of 9 52% was set with reference to the market yield on government bonds, by using the weighted average duration of the liability i.e. 16.94 years and the corresponding interest yield rate of 9 52%.

Other assumptions

The assumed discount rate had a significant effect on the amounts recognised in surplus or deficit. A one (1%) percentage point change in the assumed discount rate would have the following effects:

	One percentage point increase	One percentage point decrease
Defined benefit obligation at start of period (ended 30 June 2018)	**(27 362 000)**	**(35 821 000)**
Service costs	**(981 000)**	**(1 589 000)**
Interest cost	**(3 241 000)**	**(3 577 000)**

	2018	2017	2016	2015	2014
Defined benefit obligation	**32 120 000**	34 170 000	29 404 000	27 978 000	22 240 000
Surplus (deficit)	**6 242 036**	(1 783 000)	1 072 000	(3 675 000)	(3 492 199)
Experience adjustments on plan liabilities	**2 754 000**	(4 484 000)	680 000	(11 690 000)	(10 765 000)

16. REVENUE

	2018 R	2017 R
Service charges	**719 935 154**	645 216 446
Other income	**109 478 397**	114 955 315
Interest received – investment	**6 713 655**	17 042 742
Dividends received	**65 985**	554 648
Development contribution	**79 914 197**	45 254 939
Government grants and subsidies	**50 000 000**	50 000 000
	966 107 388	873 024 090
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	**719 935 154**	645 216 446
Other income	**109 478 397**	114 955 315
Interest received – investment	**6 713 655**	17 042 742
Dividends received	**65 985**	554 648
	836 193 191	777 769 151
The amount included in revenue arising from non-exchange transactions is as follows:		
Development contribution	**79 914 197**	45 254 939
Government grants and subsidies	**50 000 000**	50 000 000
	129 914 197	95 254 939

17. SERVICE CHARGES

Sewerage and sanitation charges	**719 935 154**	645 216 446

18. OTHER INCOME

Discount received	**21 520**	20 590
Other income from commercial business	**107 315 083**	112 935 473
Learnership income	**1 658 871**	1 624 002
Tender income	**482 923**	375 250
	109 478 397	114 955 315

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

19. INVESTMENT REVENUE

Dividend revenue		
Unit trusts – Local	**65 985**	554 648
Interest revenue		
Interest received: Bank	**6 519 417**	16 311 677
Interest received: Deposits	**194 238**	731 065
	6 713 655	17 042 742
	6 779 640	17 597 390

20. DEVELOPMENT CONTRIBUTIONS

	2018 R	2017 R
Development contributions	**79 914 197**	45 254 939

21. GOVERNMENT GRANTS AND SUBSIDIES

	2018 R	2017 R
	50 000 000	50 000 000

22. GENERAL EXPENSES

	2018 R	2017 R
Advertising	**655 286**	593 631
Assessment rates and municipal charges	**1 514 069**	2 193 401
Auditors remuneration	**1 579 678**	1 362 338
Bank charges	**426 560**	343 246
Computer expenses	**1 983 981**	1 670 794
Conferences and seminars	**2 225 145**	1 101 331
Consulting and professional fees	**16 765 878**	16 844 012
Donations	**81 400**	230 872
Entertainment	**2 788 909**	1 719 581
Flowers	**94 791**	34 327
Health, safety and protective clothing	**6 728 301**	2 019 169
Fuel and other fleet costs	**11 298 488**	10 489 846
Insurance	**4 194 112**	3 926 047
Laboratory charges	**3 757 017**	4 795 201
Lease rental	**1 126 316**	941 496
Marketing and public relations	**1 713 716**	1 376 527
Staff recruitment fees	**1 862 170**	1 840 913
Printing and stationery	**1 446 343**	961 524
Rental of equipment	**1 124 195**	1 705 996
Research and development costs	**652 728**	673 335
Repair and maintenance	**124 674 221**	98 674 931
Security	**20 189 529**	11 544 326
Sewerage and waste disposal	**20 772**	37 215
Subscriptions and membership fees	**735 766**	297 641
Telephone and fax	**2 170 581**	2 115 365
Training	**3 524 732**	2 924 663
Transport and freight	**5 339 729**	3 047 774
Travel	**5 760 822**	3 295 778
	224 435 235	176 761 280

23. EMPLOYEE COSTS

	2018 R	2017 R
Basic	**174 765 180**	152 470 264
Bonus	**13 648 634**	11 133 038
Bursary schemes	**94 326**	93 447
Car allowance	**5 495 058**	5 393 955
Cell phone and data card allowances	**3 682 139**	526 835
Company contributions	**49 116 330**	45 491 871
Housing benefits and allowances	**1 961 652**	1 508 253
Leave pay provision charge	**11 764 446**	9 517 587
Long service awards	**552 098**	297 069
Long-term benefits – incentive scheme	**(17 201 507)**	4 743 408
Overtime payments	**25 573 961**	19 814 086
Other short-term costs	**353 270**	244 480
Post-retirement – medical loss/(gain)	**1 238 000**	1 081 000
Remuneration of Non-executive Directors	**2 713 715**	2 709 737
Sanlam disability fund	**596 263**	559 432
Workmen's compensation	**1 710 232**	1 774 403
	276 063 797	257 358 865
Remuneration of the Chief Executive Officer/Managing Director		
Annual remuneration	**1 505 440**	1 377 288
Travel allowance	**–**	24 000
Contributions to UIF, medical and pension funds	**262 340**	247 044
Telephone and data card allowance	**52 800**	50 378
Long service award	**–**	22 931
Bonuses and performance related payments	**125 008**	–
	1 945 588	1 721 641

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

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

	2018 R	2017 R
Remuneration of Chief Finance Officer		
Annual remuneration	**1 049 431**	1 063 272
Travel allowance	**102 000**	102 000
Contributions to UIF, medical and pension funds	**341 111**	317 076
Cell phone and data card allowance	**40 800**	40 800
Long service award	**–**	32 560
Bonuses and performance related payments	**87 312**	–
Total	**1 620 654**	1 555 708

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

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

23. EMPLOYEE COSTS (continued)

	2018 R	2017 R
Remuneration of Executive Managers (excluding Chief Financial Officer)		
Annual remuneration	**6 732 745**	6 288 387
Travel allowance	**550 000**	487 000
Contributions to UIF, medical and pension funds	**1 667 278**	1 466 488
Cell phone and data card allowance	**292 400**	235 800
Bonuses and performance related payments	**542 371**	–
	9 784 794	8 477 675
Remuneration of Non-executive Directors		
Annual remuneration	**2 556 533**	2 479 861
Travel allowance	**9 982**	77 876
Cell phone and data card allowance	**147 200**	152 000
	2 713 715	2 709 737

In-kind benefits

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

24. DEBT IMPAIRMENT

	2018 R	2017 R
Reversal of impairment allowance	**(4 223 276)**	(2 949 102)
Contributions to the Debt Impairment Allowance (Credit Losses)	**4 571 380**	4 223 276
	348 104	1 274 174

Refer to note 3.

25. DEPRECIATION AND AMORTISATION

	2018 R	2017 R
Property, plant and equipment	**64 781 262**	64 032 536
Intangible assets	**1 098 877**	653 835
	65 880 139	64 686 371

Refer to note 9 and 10.

26. FINANCE COSTS

	2018 R	2017 R
Interest on long-term borrowings	**57 752 189**	63 361 037
Finance leases	**97 068**	255 170
Unwinding of discount – Employee benefit obligation	**3 400 000**	2 989 000
	61 249 257	66 605 207

27. BULK PURCHASES AND MATERIALS

	2018 R	2017 R
Electricity	**119 047 524**	125 658 849
Water	**4 977 590**	2 352 204
Sewer purification	**79 729 844**	61 350 545
	203 754 958	189 361 598

	2018 R	2017 R
28. CASH GENERATED FROM OPERATIONS		
Surplus	**139 840 846**	113 554 030
Adjustments for:		
Depreciation and amortisation	**65 880 139**	64 686 371
Loss on sale of assets	**1 078 340**	939 437
Actuarial gains/(losses)	**(6 242 036)**	1 783 000
Fair value adjustments	**(301 252)**	700 128
Finance costs – Finance leases	**–**	255 170
Debt impairment	**348 104**	1 274 174
Movements in retirement benefit liability	**3 192 036**	2 983 019
Movements in provisions	**(13 397 843)**	9 106 282
Changes in working capital:		
Other receivables from exchange transactions	**(32 319 907)**	38 101 600
Other receivables from non-exchange transactions	**11 216 053**	(34 707 677)
Other financial assets	**–**	394 450
Debt impairment	**(348 104)**	(1 274 174)
Movement in other financial assets due to fair value adjustments	**–**	(700 128)
Payables from exchange transactions	**41 281 155**	(27 779 666)
VAT	**(11 442 275)**	(1 161 026)
	198 785 256	168 154 990
29. AUDITORS' REMUNERATION		
Fees	**1 579 678**	1 362 338

30. FINANCIAL INSTRUMENTS DISCLOSURE

Categories of financial instruments

	At fair value	At amortised cost	Total
2018			
Financial assets			
Other financial assets	8 420 736	–	8 420 736
Trade receivables from exchange and receivables from non-exchange transactions	–	93 939 135	93 939 135
Other receivables from exchange transactions*	–	3 439 791	3 439 791
Cash and cash equivalents	–	86 945 000	86 945 000
	8 420 736	184 323 926	192 744 662
Financial liabilities			
Payables from exchange transactions**		128 613 774	128 613 774
Long-term borrowings – Current portion		56 404 629	56 404 629
Long-term borrowings – Non-current portion		497 440 987	497 440 987
Finance lease – Current portion		238 932	238 932
Finance lease – Non-current portion		119 466	119 466
		682 817 788	682 817 788

* *excluding prepayments*
** *excluding payments received in advance*

	At fair value	At amortised cost	Total
2017			
Financial assets			
Other financial assets	8 119 485	–	8 119 485
Trade receivables from exchange and receivables from non-exchange transactions	–	72 835 281	72 835 281
Other receivables from exchange transactions*	–	3 242 874	3 242 874
Cash and cash equivalents	–	157 781 702	157 781 702
	8 119 485	233 859 857	241 979 342
Financial liabilities			
Payables from exchange transactions**		86 600 188	86 600 188
Long-term borrowings – Current portion		55 250 765	55 250 765
Long-term borrowings – Non-current portion		549 753 950	549 753 950
Finance lease – Current portion		238 932	238 932
Finance lease – Non-current portion		358 398	358 398
		692 202 233	692 202 233

* *excluding prepayments*
** *excluding payments received in advance*

Financial instruments in statement of financial performance

	At amortised cost	Total
2018		
Interest income (calculated using effective interest method) for financial instruments at amortised cost	**6 713 655**	**6 713 655**
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	**(57 849 257)**	**(57 849 257)**
Debt impairment	**(348 104)**	**(348 104)**
Gain on fair value adjustment	**301 252**	**301 252**
	(51 182 454)	**(51 182 454)**
2017		
Interest income (calculated using effective interest method) for financial instruments at amortised cost	17 042 742	17 042 742
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(63 616 207)	(63 616 207)
Debt impairment	(1 274 174)	(1 274 174)
Loss on fair value adjustment	(700 128)	(700 128)
	(48 547 767)	(48 547 767)

31. CAPITAL COMMITMENTS

	2018 R	2017 R
Authorised capital expenditure		
Approved and contracted		
• Buildings	**2 689 279**	5 609 414
• Computer equipment	**–**	92 737
• Furniture and fittings	**537 979**	102 704
• Motor vehicles	**3 321 389**	–
• Intangibles	**130 655**	2 117 719
• Office equipment	**–**	265 734
• Waste water works	**231 222 038**	195 780 058
• Plant and machinery	**9 131 683**	–
	247 033 023	203 968 366
Total capital commitments		
Approved and contracted	**247 033 023**	203 968 366
This committed expenditure relates to all classes of assets as mentioned above and will be financed by available bank facilities, retained surpluses, existing cash resources and funds internally generated, etc.		
Operating leases – as lessee (expense)		
Minimum lease payments due		
– within one year	**298 266**	298 266

Operating lease payments represent rentals payable by the entity for certain of its office equipment. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

32. CONTINGENCIES

Contingencies are broken down into the following categories:

Category A – Contingencies relating to Eskom

Category B – Bank guarantees

Category C – Guarantees

Category D – Legal matters

Catagory A – Contingencies relating to Eskom:

Included in work in progress is an Eskom contract that stipulate that if Eskom over spends the quoted amount they will be entitled to recover the variance up to 15% of the initial quoted amount. Eskom will refund ERWAT should the cost be less than the quoted value.

	2018 R	2017 R
Category B – Bank guarantees		
Eskom Rand Limited	954 600	954 600
Eskom Rand Limited	950 000	950 000
Stadsraad van Springs	90 000	90 000
Stadsraad van Midrand	94 200	94 200
Stadsraad van Kempton Park	80 750	80 750
Eskom	61 400	61 400
Randwaterraad	15 750	15 750
Eskom	33 300	33 300
Eskom	46 500	46 500
Eskom	69 000	69 000
Town Council of Benoni	163 000	163 000
Stadsraad van Brakpan	22 000	22 000
Stadsraad van Heidelberg	87 100	87 100
Eskom	109 800	109 800
Stadsraad van Boksburg	145 000	145 000
	2 922 400	2 922 400
Category C – Guarantees		
Standard Bank – 216324009 MA Sathekge	14 000	14 000
Nedperm CP Mokgolobotho	3 800	3 800
	17 800	17 800
Category D – Legal Matters		
HM Eyethu Construction and Plant Hire CC	2 300 000	2 300 000
MS Khudu	570 000	570 000
Namston General Construction CC	4 923 358	–
	7 793 358	2 870 000
Total contingencies	10 733 558	10 733 558

Notes:

Category C – Legal matters

HM Eyethu Construction and Plant Hire CC:

HM Eyethu submitted an unsuccessful bid for the supply, delivery and installation of perimeter fences. HM Eyethu opened a case against ERWAT claiming loss of profit and out of pocket expenses related to the tender process.

Based on the assessment of ERWAT's attorneys, it is believed that HM Eyethu has no grounds to make the claim and that it is highly unlikely that their claim will be successful. The case had not been finalised as at 30 June 2018, and the outcome of the case is dependent on the court's decision.

MS Khudu

A transaction was entered into with KS Khudu for R5 million. Subsequently the supplier submitted a claim for an additional R500 000 as they claim to have made an error on the initial quotation submitted to ERWAT. ERWAT is of the opinion that the entity is not liable to pay the stipulated amount. This matter has not yet gone before the court.

The outcome of the claim is dependent on whether the matter is brought before the court and the outcome of the matter.

Namston General Construction t/a Nantos Waste

A contractual dispute regarding a 10% annual increase allegedly granted to the contractor. The contractor is claiming the 10% year-on-year increase on invoices issued to ERWAT which did not contain the increase. ERWAT is of the view that the 10% increase was not valid and therefore that the claim will not succeed. A potential liability, however, exists and therefore a contingent liability equal to value of the claim will be raised.

33. RELATED PARTIES

Relationships

Accounting officer	Mr T Gopane
Directors	Refer to general information section as well as directors and executive managers emoluments note 43.
Controlling entity	City of Ekurhuleni Metropolitan Municipality.
Fellow entities controlled by CoE	Brakpan Bus Company, Ekurhuleni Development Company, Pharoe Park Housing Company, Germiston Housing Company and Lethhabong Housing Institute.
Members of key management	Refer to general information section as well as directors and executive managers emoluments note 43.

	2018 R	2017 R
Related party balances		
Amounts included in payables from exchange transactions regarding related parties		
City of Ekurhuleni Metropolitan Municipality	4 487 909	6 783 835
Amounts included in trade receivables from exchange transactions		
City of Ekurhuleni Metropolitan Municipality	54 455 806	18 609 252
Amount included in receivables from non-exchange transactions		
City of Ekurhuleni Metropolitan Municipality	23 491 624	34 707 677
Related party transactions		
Prepayments received		
City of Ekurhuleni Metropolitan Municipality	–	773 688
Purchases from related parties		
City of Ekurhuleni Metropolitan Municipality	70 554 098	71 896 187
Sales to related parties		
City of Ekurhuleni Metropolitan Municipality	771 360 910	699 057 055
Grants and development contribution		
Grants – City of Ekurhuleni Metropolitan Municipality	50 000 000	50 000 000
Development contribution – City of Ekurhuleni Metropolitan Municipality	65 784 571	45 254 939

Guarantee and debtors ceded

The controlling entity guaranteed the Nedbank loan to ERWAT, with a carry value of R490 305 536 (2017: R533 281 072) as disclosed in the long-term borrowing note 13. The guarantee shall expire at 15:00, 10 calendar days after the full repayment or settlement of all amounts owed by ERWAT to Nedbank Ltd in terms of the contract. Refer to note 3 and 4.

Remuneration – Non-executive Directors and Executive Managers

The remuneration of the non-executive directors, the executive directors and executive managers are included in note 43.

33. RELATED PARTIES (continued)

Leased assets

The following works included under infrastructure, are leased assets from related parties (City of Ekurhuleni Metropolitan Municipality).

Leased assets	Cost	Accumulated depreciation	Net book value
Benoni	437 677	(424 537)	13 140
Dekema	168 150	(56 612)	111 538
H. Bickley	87 719	(28 433)	59 286
Rondebult	2 000 530	(855 317)	1 145 213
Rynfield	654 554	(161 729)	492 825
	3 348 630	(1 526 628)	1 822 002

Key management information

Class

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

34. PRIOR PERIOD ERRORS

Receivables from exchange transactions

During the current financial period it was established that deposits held by suppliers which accrued interest have not been recognised as interest-bearing and are still disclosed at their originally recognised value. Due to the impracticality thereof the accrued interest have been recognised proportionally in the current year (R193 988) as well as (2017: R731 065) which gave rise to the prior year error being recognised.

Receivables from non-exchange transactions

Development contribution to the value of R40 153 289 was erroneously recognised in the 2016/17 financial period. The error occurred in the comparative financial period and will be corrected in that financial period. This had an effect of a decrease of R5 621 460 on VAT payable.

VAT receivable

In addition to the change regarding the VAT receivable above, as at 30 June 2017 Vat receivable included VAT input incorrectly claimed on motor vehicles. During the current financial period SARS disallowed this claim which resulted in motor vehicles cost being understated by R894 017.

Payables from exchange transactions

Included in payables from exchange transactions was a credit note relating to the 2016/17 financial year which were incorrectly processed in the current financial period which resulted in the 2016/17 trade and other payables being overstated with R5 242 140. This related to an invoice for bulk purchases duplicated in error. In addition to this an amount of R321 216 have been incorrectly allocated to property, plant and equipment – Infrastructure assets under construction which were correctly allocated to accruals.

Property, plant and equipment

An amount of R106 476 has been incorrectly classified as property, plant and equipment during the 2016/17 financial period which related to Intangible assets. This amount has now been classified correctly as intangible assets.

An amount of R894 017 mentioned in the VAT receivable prior year error note above have been re-allocated to property, plant and equipment – motor vehicles as a result of the facts mentioned. This error resulted in an additional amount of R5 189 depreciation in the prior year.

During the 2016/17 financial period an amount of R6 155 was incorrectly capitalised to infrastructure work in progress instead of being expensed to Repairs and maintenance, cleaning and consumables. As stated in the payables from exchange transactions note above, property, plant and equipment was affected accordingly.

Land to the value of R13 017 283 was not previously disclosed separately from buildings. Land and buildings have now been separately disclosed on the note (refer to note 9).

Re-allocation of waterworks infrastructure to buildings under construction

An amount of R958 562 was incorrectly classified as work in progress relating to infrastructure-waterworks in the prior year. This amount has been re-allocated to work in progress relating to buildings in the current financial year.

Amounts incorrectly capitalised in the prior year

An amount of R1 754 273 was incorrectly capitalised to property, plant and equipment in the prior year. These amounts have been corrected.

Re-allocation of waterworks (completed assets) to work in progress

An amount of R163 971 884.49 was incorrectly classified as waterworks (completed assets) in the prior year financial statements. This amount has now been re-allocated and reflected correctly as work in progress. In addition to this amount, R218 was written off during clearing of accounts.

The cumulative effect of the abovementioned errors relating to property, plant and equipment was that additions increased by an amount of R866 508 and there was a net decrease in the carrying value of property, plant and equipment of R978 173.

Intangible assets

As stated above, intangible assets to the amount of R106 476 was incorrectly classified as property, plant and equipment.

The correction of the error(s) results in adjustments as follows:

Changes were made to the following expenses

General expenses as a result of;

- Consulting fees to the value of R1 234 063 erroniously capitalised as property, plant and equipment in the prior year.
- Repairs and maintenance to the value R205 118 erroniously capitalised as property, plant and equipment in the prior year.

Health, safety and protective clothing;

- An amount of R3 926 047 was re-mapped from health, safety and protective clothing to insurance.
- An amount of R869 990 was re-mapped from employee cost to health, safety and crotective clothing.

Actuarial gain;

- An amount of R1 783 000 was re-mapped from employee costs to actuarial gains and losses.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

(continued)

for the year ended 30 June 2018

33. PRIOR PERIOD ERRORS (continued)

	2018 R	2017 R
Statement of financial position		
Property, plant and equipment	–	(978 173)
VAT receivable	–	4 727 443
Other receivables from exchange transactions	–	731 065
Receivables from non-exchange transactions	–	(45 774 749)
Intangible assets	–	106 476
Payables from exchange transactions	–	5 242 140
Cummulative correction of rounding differences	–	(19)
Net assets	–	(35 945 817)
Statement of financial performance		
Interest received – Deposits	–	(731 065)
Development contribution	–	40 153 289
Bulk purchases	–	(4 920 810)
Repairs and maintenance, cleaning and consumables	–	205 118
Employee related costs	–	(2 652 990)
General expenditure	–	2 104 053
Depreciation and amortisation	–	5 189
Actuarial losses	–	1 783 000
Cummulative correction of rounding differences	–	33
Surplus for the year	–	35 945 817

35. PRIOR-YEAR ADJUSTMENTS

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

	Note	As previously reported	Correction of error	Restated
Statement of financial position				
2017				
Receivables from exchange transactions – Deposits	5	4 450 806	731 065	5 181 871
VAT receivable	6	19 329 066	4 727 443	24 056 509
Property, plant and equipment	9	1 950 131 690	(978 173)	1 949 153 517
Receivables from non-exchange transactions		80 482 426	(45 774 749)	34 707 677
Intangible assets	10	6 509 099	106 476	6 615 575
Payables from exchange transactions	11	(92 616 015)	5 242 140	(87 373 875)
Cummulative correction of rounding differences		–	(19)	(19)
		1 968 287 072	(35 945 817)	1 932 341 255
Statement of financial performance				
2017				
Interest received – Deposits	19	16 311 677	731 065	17 042 742
Employee related costs		(260 011 855)	2 652 990	(257 358 865)
Bulk purchases	27	(194 282 408)	4 920 810	(189 361 598)
Depreciation and amortisation		(64 681 182)	(5 189)	(64 686 371)
Repairs and maintenance		(98 469 813)	(205 118)	(98 674 931)
Development contribution		85 408 228	(40 153 289)	45 254 939
General expenditure		(75 982 296)	(2 104 053)	(78 086 349)
Actuarial gains/(losses)		–	(1 783 000)	(1 783 000)
Cummulative correction of rounding differences		–	(33)	(33)
		(591 707 649)	(35 945 817)	(627 653 466)

36. RISK MANAGEMENT

Capital

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

Liquidity risk

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

	Less than one year	Between one and two years	Between two and five years	Over five years
At 30 June 2018				
Borrowings	**56 404 628**	**53 995 207**	**156 371 439**	**287 074 342**
Trade and other payables*	**128 613 774**	**–**	**–**	**–**
At 30 June 2017				
Borrowings	55 250 765	52 312 962	157 411 538	340 029 450
Trade and other payables*	86 600 187	–	–	–

* *Excluded payments received in advance – contract in progress.*

Interest rate risk

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

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

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

Capital risk management

Credit risk

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

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

Price risk

The entity is exposed to equity securities price risks because of investments held by the entity and classified on the statement of financial position as other financial assets.

The entity's objectives when managing capital are to safeguard the entity's ability to continue as a going concern in order to provide returns for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the entity consists of debt, which includes the borrowings (excluding derivative financial liabilities) disclosed in note 13 cash and cash equivalents disclosed in note 8.

Consistent with others in the industry, the entity monitors capital on basis of the gearing. There are no externally imposed capital requirements.

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

36. RISK MANAGEMENT (continued)

Other financial assets

Short-term investments are not to be made with financial institutions with ratings lower than A1/F1 as defined in the National Rating Definitions. ERWAT's exposure to any one financial institution, for short-term investments is limited as follows:

- >A1+/F1+ Short-Term Rating: 5% of institution's total equity as published from time to time in the banking sector Credit Ratings Report.
- >A1/F1 Short-Term Rating: 4% of institution's total equity as published from time to time in the banking sector Credit Ratings Report.

Financial assets exposed to credit risk at 30 June 2018 were as follows:

Financial assets exposed to credit risk at year-end were as follows:

	2018 R	2017 R
Trade receivables from exchange and receivables from non-exchange transactions	93 727 468	72 835 281
Deposits	3 439 791	3 235 843
Cash and cash equivalents	86 945 000	157 781 702
Listed shares	8 420 736	8 119 485
	192 532 995	241 972 311
Total borrowings		
Other financial liabilities	(553 845 616)	(605 004 715)
Less: cash and cash equivalents	86 945 000	157 781 702
Net debt	(466 900 616)	(447 223 013)
Total net assets	1 602 913 544	1 463 072 698
Total capital	1 136 012 928	1 015 849 685

Market risk

Currency risk

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

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

37. GOING CONCERN

We draw attention to the fact that at 30 June 2018, the entity had an accumulated surplus of R1 602 913 544 and that the entity's total assets exceed its liabilities by R1 602 913 544.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the entity to continue as a going concern is dependent on the continued support of City of Ekurhuleni Metropolitan Municipality (parent municipality) by way of payment for service charges for the treatment of waste water and the provision of related engineering services. These are paid each year in terms of the service delivery agreement entered into between ERWAT and City of Ekurhuleni Metropolitan Municipality.

38. FRUITLESS AND WASTEFUL EXPENDITURE

	2018 R	2017 R
The expenditure, as listed hereunder have not been approved/condoned	–	–
Opening balance	**562 178**	562 178
	562 178	562 178
During the 2017/2018 financial year ERWAT did not incur and fruitless and wasteful expenditure.		

39. IRREGULAR EXPENDITURE

	2018 R	2017 R
Opening balance restated	**239 334 422**	183 958 180
Add: Irregular expenditure – current year	**19 421 404**	903 491
Add: Expenditure incurred in the current year relating to prior year	**16 636 099**	54 472 751
	275 391 925	239 334 422
Inappropriate disqualification of quotation with a value less than R30 000	–	158 478
Contract extensions beyond the allowed 15% allowed for professional services related contracts by Circular 62 to the MFMA	–	684 858
Less than three quotations obtain for transactions with a value less than R30 000	–	20 715
14 awards were made without inviting at least the minimum prescribed number of written quotations	**821 198**	–
Incorrect application of SCM regulation 36 (deviations)	**512 544**	–
One construction contracts was awarded to a contractor whose CIDB grading was below the required grading for the value of the particular contract	**2 410 570**	–
Variation of two tenders in excess of 20%	**14 223 975**	–
SCM regulation 12(3) on the aggregation of transactions for determination of the appropriate procurement process not fully adhered to	**1 453 117**	–
	19 421 404	864 051
Irregular expenditure arising from previous financial periods: Incidents currently under investigation		
Irregular expenditure arising from the 2015/16 financial period, incurred in the current and comparative financial periods. The irregular expenditure relates to contracts extended by a senior manager without the delegated authority to do so.	**9 122 184**	36 788 107
Irregular expenditure arising from the 2015/16 financial period, incurred in the 2016/17 financial period. The irregular expenditure relates to the incorrect use of SCM Regulation 36(1)(v)	**3 104 606**	6 712 587
Irregular expenditure arising from the 2016/17 financial period, incurred in the 2017/18 financial period. The irregular expenditure relates to the incorrect use of SCM Regulation 36(1)(v)	**2 892 864**	–
Irregular expenditure arising from the 2016/17 financial period, incurred in the current and comparative financial periods. This irregular expenditure relates to expenditure incurred on an expired contract	**1 375 446**	1 086 380
	16 495 100	44 587 074
Request for condonement by the accounting officer. Request for condonement has been submitted to National Treasury. Currently awaiting approval		
Irregular expenditure arising from the 2014/15 financial period, incurred in the 2016/17 financial period. The irregular expenditure relates to the incorrect composition of the Bid Adjudication Committee at the meeting held on 3 February 2015	–	9 885 676
	–	9 885 676

40. ADDITIONAL DISCLOSURE IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

	2018 R	2017 R
Audit fees		
Opening balance	–	7 665
Current year expense	1 579 678	1 362 338
Amount paid – current year	(1 579 678)	(1 370 003)
	–	–
PAYE, UIF and SDL		
Opening balance	2 980 618	20 990
Current year expense	47 041 118	36 342 039
Amount paid – current year	(45 901 352)	(33 382 411)
	4 120 384	2 980 618
Pension and medical aid deductions		
Opening balance	7 031	(22 997)
Current year deductions	65 855 121	60 783 598
Amount paid – current year	(65 902 160)	(60 753 570)
	(40 008)	7 031

41. UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION

	2018 R	2017 R
Outstanding long-term liabilities at the beginning of the year	605 004 715	632 711 970
Redemption of loans	(50 730 787)	(29 570 910)
Additional loans	–	2 093 580
Interest accrued	(492 708)	(229 925)
	553 781 220	605 004 715
Used to finance property, plant and equipment	(549 753 949)	(600 484 738)
Interest accrued	4 027 271	4 519 977

Long-term liabilities have been utilised in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

	2018 R	2017 R
Outstanding long-term liabilities		
Opening balance	605 004 715	632 711 970
Capital	(50 730 787)	(27 477 330)
Interest accrual	(492 708)	(229 925)
	553 781 220	605 004 715

	2018 R	2017 R

42. DEVIATION FROM SUPPLY CHAIN MANAGEMENT REGULATIONS

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

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

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

	2018 R	2017 R
The deviations incurred, as listed hereunder, have been approved		
Emergencies	988 163	5 204 820
Sole suppliers	866 762	1 254 300
Impracticability	8 046 141	14 334 687
	9 901 066	20 793 807

43. DIRECTORS AND EXECUTIVE MANAGERS EMOLUMENTS

	Salary or fee	Bonuses and performance related payments	Medical contributions
Non-executive Directors			
MM Mochatsi	318 231	–	–
N Koni	318 231	–	–
J Mojapelo – (Chairperson until 31 May 2017)	–	–	–
K Wall	318 231	–	–
L Bokaba	318 231	–	–
D Coovadia	318 231	–	–
EE Themba	318 231	–	–
CJ Cornish (Chairperson from 1 June 2017)	434 993	–	–
T Mdingi (Start date:16 November 2017)	212 154	–	–
Total	2 556 533	–	–
Chief Executive Officer			
FM Mabunda (Acting Managing Director until 31 August 2016)	–	–	–
T Gopane (Managing Director from 1 September 2016)	1 505 440	125 008	45 040
Subtotal	1 505 440	125 008	45 040
Executive Managers			
WI Louw – Chief Financial Officer	1 049 431	87 312	111 360
FM Mabunda – Executive Manager Operations	979 647	81 476	98 296
M Tsotetsi – Executive Manager Commercial Business	993 125	79 973	98 296
RW Barnes – Executive Manager Human Resources	1 079 402	89 723	75 512
A Chapman – Executive Manager Laboratory	901 939	75 023	90 808
ZZ Socikwa – Company Secretary	1 118 056	89 208	34 620
LT Roode – Acting Executive Manager Operations	–	–	–
K Nthethe – Interim Executive Manager Development	–	–	–
EM Khomela – Interim Executive Manager Development	864 147	65 452	37 052
E Mutyaba – Interim Executive Manager Technical	796 429	61 515	76 088
Total	7 782 176	629 682	622 032

Travel allowance/ claim	Telephone and data card	Retirement fund contribution	**Total package 2018**	Total package 2017
–	19 200	–	**337 431**	328 757
–	19 200	–	**337 431**	326 951
–	–	–	**–**	394 517
1 389	19 200	–	**338 820**	325 608
–	19 200	–	**337 431**	333 943
2 815	19 200	–	**340 246**	329 127
3 352	19 200	–	**340 783**	330 794
–	19 200	–	**454 193**	340 040
2 426	12 800	–	**227 380**	–
9 982	147 200	–	**2 713 715**	2 709 737
–	–	–	**–**	269 576
–	52 800	217 300	**1 945 588**	1 452 065
–	52 800	217 300	**1 945 588**	1 721 641
102 000	40 800	229 751	**1 620 654**	1 555 708
144 000	40 800	214 430	**1 558 649**	1 279 282
48 000	40 800	210 462	**1 470 656**	1 352 418
78 000	40 800	236 355	**1 599 792**	1 503 525
30 000	40 800	197 445	**1 336 015**	1 270 652
132 000	40 800	79 421	**1 494 105**	1 197 854
–	–	–	**–**	290 807
–	–	–	**–**	172 585
78 000	44 800	113 710	**1 203 161**	927 763
40 000	43 600	104 784	**1 122 416**	482 789
652 000	333 200	1 386 358	**11 405 448**	10 033 383

44. BUDGET DIFFERENCES

Material differences between budget and actual amounts

Total revenue – 107% achieved due to the following reasons:

Investment revenue – 154% achieved

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

Other own revenue – 140% achieved

As the receipt of development contributions is contingent on new developments within the Ekurhuleni area and ERWAT does not have control over income received in this regard. ERWAT therefore does not budget for development contributions and all income received will be a positive variance on other own income. An amount of R79 914 197 was received for development contribution. The development contribution received fully offset the R30 564 536 reduction in commercial revenue and resulted in a 44% positive variance on development contribution.

Total operating expense – 96% achieved due to the following reasons:

Debt impairment – 23% achieved

Trade receivables from exchange transactions were written off during the year.

Other expenditure – 98% achieved

Due to optimisations in the waste water treatment process bulk purchases were less than the budgeted figures for the period. This includes lower electricity usage, less chlorine utilised for disinfection and less ferric chloride utlised for the removal of phosphates.

Capital expenditure – 71% achieved

A conditional tender award that was made during May 2017 did not commence in July 2017 as planned. The reason for this was that the stipulated conditions could not be agreed to with the contractor. The value of this project was R69 245 030 and contributed 22.39% of the underperformance on capital expenditure. The remaining 6.61% under performance is attributed mainly to the reprioritisation of capital expenditure projects.

Net cash at the end of the year – 137%

Due to the under expenditure on capital items and the additional cash flows generated by development contributions to the value of R85 734 653 a positive variance of R23 332 379 was noted.

45. CHANGE IN ESTIMATE

Property, plant and equipment

The useful lives of certain assets were reassessed during the 2018 financial year. Management have revised the estimated remaining useful lives of the assets and the effect of this revision has decreased depreciation by an amount of R2 875 724.

	2018	2017
Depreciation prior to the change in useful lives	68 434 307	–
Effect of change in useful lives	(2 875 724)	–
Depreciation after change in useful lives	65 558 583	–

46. SUBSEQUENT EVENTS

The calculation of the bad debts provision was calculated based on amounts received from debtors after 30 June 2018. The total amount received subsequent to year end from doubtful debtors amounted to R487 951, which was used when calculating bad debts provision.

At the meeting of the Board of Directors held on 26 September 2018 a decision was made by the Board of Directors that the bonuses will not be paid (Totaling R17 201 507). This decision taken in the period between the reporting date (30 June 2018) and the authorisation of the financial statements for issue (expected to be approved for issue to the municipal manager on 31 December 2018 and tabled to council on 31 January 2019).

The decision taken on 26 September 2018 provided additional evidence of conditions that existed at year end. The decision taken by the Board of Directors of ERWAT therefore represents an adjusting event after the reporting period. ERWAT have therefore adjusted the amounts recognised in its financial statements to reflect adjusting events after the reporting date.

Refer to note 12 for details regarding the reversal of the bonus provision.

47. SERVICES IN KIND

The City of Ekurhuleni shares internal audit and audit committee services with ERWAT. These are paid by the City of Ekurhuleni on behalf of all entities that make use of it. ERWAT has determined these services received for free are not significant to our operations and therefore ERWAT does not recognise these services.

The audit committee sits both quarterly to process routine items as well on an ad-hoc basis to discuss the financial statements of ERWAT and the other entities of the City of Ekurhuleni Metropolitan Municipality.

The internal audit function is shared by ERWAT and the other entities with the City of Ekurhuleni Metropolitan Municipality. The areas covered by this shared internal audit includes quarterly and annual financial statement reviews, supply chain management, financial risk, maintenance, green drop compliance, fleet, adequacy of infrastructure, risk management and corporate governance and human resources.

NOTES

ERWAT
EXCELLENCE IN WASTEWATER