



**Amatola**  
Water • Amanzi

*bringing water to life*

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INTEGRATED  
**ANNUAL  
REPORT**  
2017/18



## VISION

TO BE A LEADER IN PROVIDING BULK WATER SERVICES IN THE EASTERN CAPE PROVINCE



## MISSION

AMATOLA WATER STRIVES TO CONTRIBUTE TO THE SOCIO-ECONOMIC DEVELOPMENT BY PROVIDING BULK WATER SERVICES IN THE EASTERN CAPE PROVINCE IN AN ETHICAL AND SUSTAINABLE MANNER



## VALUES

Amatola Water is inspired by an unwavering commitment to empower its stakeholders through the consistent demonstration of:

ACCOUNTABILITY

EXCELLENCE

INNOVATION

CUSTOMER-FOCUS

TEAM ORIENTATION

INTEGRITY

## GENERAL INFORMATION

### REGISTERED NAME

Amatola Water Board

### REGISTRATION

Established by the Honourable Minister of Water Affairs and Forestry, proclaimed in Government Gazette Number 18409 of 14 November 1997, as empowered by the Water Services Act 108 of 1997, as well as the Public Finance Management Act, 1999 (Act No 1 of 1999, as amended by Act No 29 of 1999). The organisation is a Schedule 3(B) national government business enterprise.

### REGISTERED OFFICE

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### EXTERNAL AUDITORS

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### BANKERS

Standard Bank and Nedbank

### COMPANY SECRETARY

Advocate Gulshan Singh

### STAKEHOLDER LIAISON OFFICER

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# FOREWORD BY MINISTER OF WATER AND SANITATION



The Department of Water and Sanitation (DWS), as the custodian of South Africa's water resources, is primarily responsible for the formulation and implementation of policy governing this sector.

While striving to ensure that all South Africans gain access to clean water and dignified sanitation, the Department also promotes effective and efficient water resources management to ensure sustainable economic and social development.

The Department has a mandate to ensure that there is equitable and sustainable water and sanitation access to support socio-economic growth and sustainable development of current and future generations.

The National Development Plan, the Medium-Term Strategic Framework and the National Water Resources Strategy's objectives have guided the Department's policy and planned development in conjunction with Amatola Water's strategy and implementation plans.

Amatola Water has experienced a series of challenges over this medium term, which has led to a decline in organisational performance. The challenges included:

- A decline in financial and operational performance
- The collapse of its project management capability
- Deficiencies in service delivery
- Declining stakeholder confidence
- Deficiencies in respect of supply chain management.

In response to some of the challenges, the Department deployed key staff resources to augment Amatola Water's capacity in project management, financial management and supply chain management.

**The interventions and support from the Department have been necessary for the implementation of the Amatola Water Turnaround Plan, which will bring stability and adequate organisational capacity to effectively deliver on the strategic mandate and service delivery imperatives.**

The King Sabata Dalindyebo Presidential Intervention project (KSDPI) is on track. The upgrade of the Thornhill Water Treatment Works from 60 to 80 million litres has been completed. The programme also includes the upgrade of the wastewater treatment works capacity from 12 million litres to 24 million

litres. These water and sanitation infrastructure developments, in turn, will unlock a 6,500 unit housing development in the Ngangelizwe location in Mthatha.

An extension of the bulk pipelines, which is to supply Libode, Ngqeleni and Mqanduli rural areas, is being implemented. The Thornhill water treatment works and the construction of a new treatment works in the Highbury area will augment the existing water treatment capacity in the five development corridors in Mthatha. Urgent interventions to address safety concerns at the Mthatha and Darlington dams are being implemented and the designs are scheduled to be completed during the 2018/19 financial year.

The Mzimvubu Water Scheme is one of the critical socio-economic transformation projects of the current administration. This is an intervention in a previously neglected part of our country where, through this development, the aim is to create no less than 6,700 employment opportunities in the construction phase and 3,700 in post-construction phase.

To ensure effective intergovernmental relations in delivering water and sanitation to our communities, a Provincial Joint Tactical Centre (PJTC) has been established in the Eastern Cape. The PJTC will enable collective identification of provincial service delivery priorities with regard to water and sanitation resources and services, effective coordination of planning implementation, monitoring and evaluation as well as reporting to improve service delivery.

This strategic partnership between, inter alia, DWS, provincial CoGTA, SALGA and Amatola Water aims to share resources and ideas to achieve maximum scale and impact at least cost.

As per my Budget Policy Speech, the implementation of the "EMERGING WATER RESOURCES AND SERVICES TRANSFORMATION AGENDA" and its associated five strategic pillars for the next Medium-Term Strategic Framework (2019-2024) will go a long way to addressing existing service delivery challenges and ensure the attainment of our constitutional obligations.

I am very pleased to present and attach my approval of the Integrated Annual Report 2017/18 as a true reflection of the work that Amatola Water has undertaken for improved service delivery to those communities we serve.



Mr Gugile Nkwinti, MP  
Minister of Water and Sanitation  
17 October 2018

# CHAIRPERSON'S STATEMENT

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It is with great pleasure that I present to our stakeholders the Integrated Annual Report for the 2017/18 financial year which outlines the key performance outcomes of Amatola Water from a strategic perspective.

The theme of this annual report is “access to quality water and sanitation for all”.

Amatola Water is committed to ensuring that the Eastern Cape communities have access to basic water services as this is a right enshrined in the Constitution of the Republic of South Africa.

We are cognisant of the fact that the realisation of this right cannot be achieved without effective and efficient bulk water services as a key part of the value chain.

As a bulk water service provider, we are committed to ensuring that we play a leading role as a water utility to the realisation of the constitutional rights and to the economic activity within our area of supply.

We are also committed to growing the business to service the entire Eastern Cape so that we could contribute meaningfully in the stimulation of the economy of the province.

Our focus during the period under review has been to stabilise the institution. We developed and started the implementation of the Turnaround Plan (TAP) which focused on the improvement of organisational capacity and effectiveness. This involved:

-  The appointment of the permanent CEO, Vuyo Zitumane who brings a wealth of experience in public administration to implement the adopted Turnaround Plan which has been endorsed by the shareholder
-  The appointment of other executives and key staff to be concluded in the first quarter of the 2018/19 financial year
-  The review of organisational policies to create an enabling and compliant environment for operational effectiveness in project management, supply chain management, financial management and human resources management
-  The review of a risk management framework which focuses on institutionalising effective risk management by establishing levels of risk tolerance and an appetite to halt unwarranted risk exposure
-  Exploring technologies that will ensure sustained access to water and sanitation in our area of operation.

## ORGANISATIONAL PERFORMANCE

The engagement on debt provisioning took place with the support of the Department of Water and Sanitation (DWS), National Treasury, South African Local Government Association (SALGA) and provincial Department of Cooperative Governance and Traditional Affairs (CoGTA).

The engagement was facilitated through the intergovernmental relations framework process to ensure there was no impact on service delivery and an amicable solution was found. This debt impairment has contributed negatively to the overall organisational performance from a financial perspective.

Amatola Water has maintained its performance against predetermined non-financial indicators despite the poor financial performance and position.

### The key bedrock performance indicators should be noted:

- All Amatola Water treatment works and distribution networks have complied with SANS 241: 2015 Part 1 and Part 2. Two plants have achieved a “good” water quality standard while seven plants have achieved an “excellent” water quality standard.
- A 99.95% assurance supply to customers from source was achieved with adequate pressure at reservoirs, reaching set targets and the highest reliability of supply standards for customers and consumers.
- 100% spending of the allocated the Regional Bulk Infrastructure Grant (RBIG) and Municipal Infrastructure Grant (MIG) on the King Sabata Dalindyebo Presidential Intervention in Mthatha.
- The secondary business – where Amatola Water is the implementing agent – created 638 temporary jobs.

The Board has intensified its efforts to improve organisational performance by inculcating the culture of monitoring and evaluating performance at an individual employee level which is facilitated through the implementation of the Performance Management Policy.

## STATE OF GOVERNANCE IN THE ORGANISATION

In six consecutive years, Amatola Water has achieved an unqualified audit outcome which is once indicative of a resilient organisation despite the prevailing operating conditions.

An Audit Intervention Plan has been endorsed by the Audit and Risk Committee which provides oversight on behalf of the Board with regards to audit, risk and compliance.

The Board is committed to zero tolerance to fraud and corruption, and has approved the revised Anti-Fraud and Corruption Strategy.

As evidence of the zero tolerance to fraud and corruption, the Board has implemented consequence management against individuals who have transgressed in this area.

## STAKEHOLDER COLLABORATION AND ENGAGEMENTS

Amatola Water places a great deal of emphasis on accountability to its communities, customers, employees, the Minister and Department of Water and Sanitation, National Treasury and other key stakeholders.

Stakeholder collaboration and engagement is, therefore, considered paramount to the advancement of service delivery and long-term sustainable value creation.

In the year under review, several engagements were conducted with various stakeholders to strengthen relations and fully understand the expectations and areas of dissatisfaction.

The Board immediately prioritised the internal environment by stabilising the organisation to deliver on the expectations of external stakeholders, particularly in project management.

Reconnecting with stakeholders, as part of the Amatola Water's Turnaround Plan initiatives, aims to improve the effectiveness of communication and rebuild stakeholder confidence.

## TOWARDS A SUSTAINABLE ORGANISATION

Sustainability is at the core of the priorities of Amatola Water as we strive to ensure that our operations are compliant with sustainable management of the environment and that we exceed the expectations of our stakeholders. We are looking at ways to be financial sustainable through our growth strategy and financial recovery plan. We believe that through effective implementation of our sustainability plan, we will be a resilient organisation.

One of the thrusts of our strategy is to develop an infrastructure plan for the entity. Work is progressing well in this area. Strategic infrastructure upgrades are underway to ensure that we realise our volume increases towards improving access whilst also growing our revenue base.

In conclusion, I want express my gratitude to the Chief Executive Officer, her executive team and the entire staff complement for their hard work and commitment to the entity during trying times.

To my fellow Board Members who showed their unwavering commitment to Amatola Water and the people of the Eastern Cape, I am appreciative of their support and collaboration.

On behalf of the Board, I thank the Portfolio Committee for the constructive engagements in playing its oversight role and thus holding us accountable in discharging our mandate.

We extend our word of appreciation to the Eastern Cape community for their faith in us and assure them that we will not rest until our constitutional mandate is fulfilled and their expectations are met.

We also thank the shareholder, Hon Minister Nkwinti and the departmental officials for the leadership and support they continue to provide to Amatola Water.



Ntombokuqala Nokulunga Mngqeta  
Chairperson  
22 October 2018

**SUSTAINABILITY IS AT THE CORE  
OF THE PRIORITIES OF AMATOLA  
WATER** AS WE STRIVE TO  
ENSURE THAT OUR OPERATIONS  
ARE COMPLIANT WITH  
SUSTAINABLE MANAGEMENT OF  
THE ENVIRONMENT AND THAT WE  
EXCEED THE EXPECTATIONS OF  
OUR STAKEHOLDERS.

- Ntombokuqala Nokulunga Mnqeta



# CHIEF EXECUTIVE OFFICER'S REPORT

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The Integrated Annual Report of 2017/18 is presented on behalf of the executive management team. Its purpose is to profile the overall organisational performance against the strategy of the Board which is contextualised from the interpretation of the mandate derived from Section 29 and 30 of the Water Services Act 108 of 1997.

## ORGANISATIONAL PERFORMANCE OVERVIEW

The overall organisational performance achieved in the 2017/18 financial year against pre-determined objectives and targets has been maintained at an average of 57% against an audited baseline of 57% in respect of 2016/17.

It is worth noting that the significant decline in the financial performance is attributable to the adverse achievement of financial targets as the organisation has recorded an unprecedented deficit of R105,624 million after providing for a bad debt of R120,038 million for the Amathole District Municipality old debt which continues to be unserviced.

## FINANCIAL VIABILITY

Amatola Water has experienced financial distress and overall decline in its financial performance and position which resulted in a 5% decrease in the revenue generated when compared to the prior year.

The biggest challenge is the collection of Amathole District Municipality's debt which necessitated a 300% increase in the impairment of debtors. It has also created a conundrum for Amatola Water's financial viability and sustainability.

In the financial year ahead, Amatola Water expects improvements in financial performance. The critical focus areas include:

-  Address the going concern risk by aggressively pursuing revenue-generating initiatives aligned to the strategic intent of growing volumes
-  Ensure optimal working capital and liquidity through stringent credit control and debt management processes
-  Facilitate stakeholder engagement activities with strategic customers to facilitate and increase co-operation and exploit potential opportunities for the sustainability of Amatola Water
-  Implement the revised SCM Policy by conducting workshops and targeted training to ensure that the policy is embedded in the organisation
-  Improve the control environment by assessing key control deficiencies
-  Improve the performance in delivering water infrastructure projects
-  Continue the process of instilling BBBEE initiatives that promote inclusive growth targeted at supporting SMMEs, qualifying emerging enterprises and black women-owned businesses.



## TURNAROUND PLAN

Amatola Water adopted a Turnaround Plan (TAP) which is intended to stabilise the organisation to ensure that the entity is sustainable, resilient and growing so that it can achieve its long-term objectives. The plan was adopted after conducting a diagnostic review of the organisation. The diagnostic review was completed in December 2017 and outlined key findings that informed turnaround interventions.

### The achievements from the implementation of the TAP are:

1. Appointment of the permanent Chief Executive Officer and key critical staff to strengthen leadership and organisational effectiveness.
2. A leadership change management programme is being implemented to create support and buy-in as well as leadership cohesion and team culture.
3. Stakeholder and client relations are being conducted in line with the approved Stakeholder Relations and Communication Policy. A stakeholder engagement plan has been developed and consultation is taking place with internal and external stakeholders. The relationship has improved with the stakeholders as two contracts have been renewed and there is also a concerted effort to improve labour relations. The Board and management have undertaken roadshows to build confidence and trust a variety of stakeholders.
4. An interim structure to rebuild and support the organisational stability has been developed and is awaiting consultation and Board approval.
5. The Amatola Water Infrastructure Master Plan is being developed and is expected to be completed in 2018/19.
6. The Infrastructure Procurement Policy, which is aimed at promoting operational efficiencies, improved turnaround times and compliance with procurement legislation, has been approved by the Board.
7. Planning and Development (P&D) war rooms have been established to focus on improving delivery for secondary projects.
8. Four professional registered and experienced engineers have been appointed to augment P&D's capacity to accelerate project implementation. One of these engineers is heading the Project Management Unit (PMU).
9. A Financial Recovery Plan has been developed to implement cost containment measures, and improve debt and credit management controls.
10. Supply Chain Management war rooms have been established to improve the effectiveness and efficiency of procurement processes and, in particular, those relating to secondary projects.

## KEY STRATEGIC PROJECT HIGHLIGHTS

- In the King Sabata Dalindyebo Presidential Intervention, 100% of the spend against the allocated budget has been realised for Regional Bulk Infrastructure Grant (RBIG) and Municipal Infrastructure Grant (MIG) which has created 1,800 job opportunities since its inception. This project will unlock the housing backlog in OR Tambo District. Once completed, it will benefit over one million people.
- The overall water quality compliance in line with SANS 241: 2015 Part 1 and 2 has consistently been achieved. Against this national water quality standard, seven plants have achieved the “excellent” water quality standard and two plants have achieved a “good” water quality standard.
- The assurance of supply achieved in 2017/18 was 99.5% against an annual target of 98% despite the water restrictions which were implemented for the Amathole District Municipality. Water losses in the distribution and network infrastructure have been maintained at 11.12% against a target of 14%.

## INFRASTRUCTURE STABILITY, OPERATIONAL RESILIENCE AND OPERATIONAL EFFECTIVENESS CHALLENGES

The overall project completion dates were not within the predetermined target of 80% as an average of 57% was achieved due to poor contractor performance, contractual disputes, land claims and the reprioritisation of budgets.

The target on the percentage progress against the ministerial directives implementation plan has not been achieved as a result of budget cuts on the original allocation by DWS. This has negatively affected the performance of the Nootgedagt/Coega Low-Level Scheme project.

The implementation of the Amatola Water plant upgrades have been affected negatively by poor performance of contractors and issues arising from land ownership. An accelerated implementation plan has been put forward to fast-track upgrades for the Binfield and Debe water supply schemes with a revised completion date for the 2019/20 financial year.

In conclusion, I am pleased to report that Amatola Water has achieved an unqualified audit outcome for six years. This is a demonstration of great resilience and a resourceful work force despite the challenges and difficulties. The continuous commitment of support and the strategic direction provided by the Board is worth noting and highly appreciated.

I thank the shareholder and all stakeholders for playing an important role in supporting the mandate of the water entity.

My sincere appreciation goes to the executive managers including the full staff complement for the team spirit demonstrated throughout the year. Together we will continue to make a positive impact on the growth of our province and improve the lives of the communities we serve.

“Together we will succeed”.



Vuyi Zitumane  
Chief Executive Officer  
22 October 2018



2017/18  
**KING SABATA  
 DALINYEBO  
 PRESIDENTIAL  
 INTERVENTION**

**100%**  
 SPEND  
 AGAINST BUDGET

**1,800**  
 JOBS CREATED  
 SINCE INCEPTION



# REFLECTING ON 2017/18



## FINANCIAL CAPITAL

### REVENUE

2017  
**R405m**  
2018  
**R385m**

## % CASH PAID

TO  
SUPPLIERS

2017  
**37%**  
R103m

2018  
**58%**  
R231m

TO  
EMPLOYEES

2017  
**63%**  
R173m

2018  
**43%**  
R167m



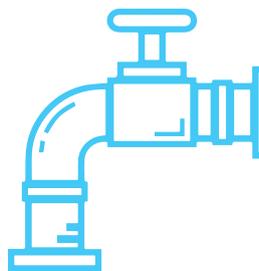
## MANUFACTURED CAPITAL

### CAPITAL INFRASTRUCTURE INVESTMENT

2017  
**R144m**  
2018  
**R29m**

### PUMP EFFICIENCY ENERGY PROGRAMME RESULTS

2017	2018
<b>0.838</b>	<b>0.856</b>
kWh/cubic metre	kWh/cubic metre



## NATURAL CAPITAL

### RAW WATER ABSTRACTION FROM SOURCE

2017  
**38,559 ki'000**  
↓  
2018  
**35,678 ki'000**



# SOCIAL & RELATIONSHIP CAPITAL

## % SPEND ON COMPANIES WITH MORE THAN 50% BLACK OWNERSHIP

2017	2018
105%	100%

## STAFF MEMBERS WHO ARE UNION MEMBERS

2017	2018
296	274

## EMPLOYMENT EQUITY



2017

TARGET: 49.2%

CURRENT RESULT:

64.87%



2017

TARGET: 47.8%

CURRENT RESULT:

30.18%

2018

TARGET: 49.3%

CURRENT RESULT:

67.90%

2018

TARGET: 47.7%

CURRENT RESULT:

32.00%



## HUMAN CAPITAL

### TEMPORARY JOBS CREATED

2017	2018
832	638

### DISABILITY INCIDENT FREQUENCY RATE

2017	2018
0.53	0.74
BENCHMARK: 0.8	

## INTELLECTUAL CAPITAL

### ICT SPEND ON CAPITAL & OPERATIONS

2017	2018
R14m	R15m





01

# INTRODUCTION

# INTRODUCTION

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This Integrated Annual Report outlines Amatola Water's legislative compliance and performance, as presented to the Minister of Water and Sanitation, for the financial year 1 July 2017 to 30 June 2018.

## REPORT PROFILE

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Amatola Water's third sustainability report and fourth Integrated Annual Report is part of the commitment to achieving ever higher standards in qualitative and quantitative reporting. It is guided by the International Integrated Reporting <IR> Framework of the International Integrated Reporting Council (IIRC) and is in accordance with the comprehensive option presented by the G4 guidelines of the Global Reporting Initiative (GRI).

Amatola Water has adopted seven basic principles in compiling this report:

- 1** STRATEGIC FOCUS AND FUTURE ORIENTATION: Insight into the organisation's strategy and how this relates to its ability to create value in the short, medium and long term
- 2** CONCISENESS: Succinct, comprehensive and transparent disclosures
- 3** CONNECTIVITY AND BALANCED PRESENTATION OF INFORMATION: A holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organisation's ability to create value over time
- 4** RELIABILITY, ACCURACY AND COMPLETENESS: All material matters, positive and negative, are presented in a balanced manner and without material error, particularly in the commitments stated by the Chief Executive Officer (CEO), Chairman of the Board, Chairman of Audit and Risk Committee as well as independent third party assurances
- 5** STAKEHOLDER RESPONSIVENESS/INCLUSIVENESS: The nature and quality of the organisation's relationships with its key stakeholders, including how and to what extent it understands, considers and responds to their legitimate needs and interests
- 6** CONSISTENCY AND COMPARABILITY: Information is presented consistently and in a way that enables comparison with other organisations to the extent that it is material to the organisation's ability to create value over time
- 7** MATERIALITY: Matters that substantively affect the organisation's ability to create value

# AMATOLA WATER ILLUSTRATES VALUE CREATION OVER TIME IN TERMS OF THE CAPITALS



## FINANCIAL

Funding by government and income from the sale of water (including water treatment services) to municipalities



## INTELLECTUAL

Organisational knowledge-based intangibles such as specific skills, software, servitudes including, systems, procedures and protocols



## MANUFACTURED

Treatment facilities owned and operated in the course of producing and distributing water



## HUMAN

Motivated and skilled people, at all levels, who deliver mandated services effectively



## SOCIAL & RELATIONSHIP

Socio-economic development, particularly within rural communities, through essential service provision



## NATURAL

Continuous monitoring of water resources (quantity and quality)

# ABOUT THIS REPORT



## VISION

To be a leader in providing bulk water services in the Eastern Cape Province



## MISSION

Amatola Water strives to contribute to the socio-economic development by providing bulk water services in the Eastern Cape Province in an ethical and sustainable manner



## VALUES

Amatola Water is inspired by an unwavering commitment to empower it's stakeholders through the consistent demonstration of:

ACCOUNTABILITY | EXCELLENCE | INNOVATION

CUSTOMER- FOCUS | TEAM ORIENTATION | INTEGRITY

Amatola Water recognises it is important to live out its core values when implementing its mission so that its vision can be realised.

This is done by assessing every decision and action based on these values since this is critical for Amatola Water's overall success, growth and financial strength, now and into the future.

Amatola Water is positioned to ensure economical, effective and efficient service delivery that best meets the needs of its strategic mandate.

## LEGISLATIVE AND OTHER MANDATES

The Amatola Water Board (Amatola Water), a listed Schedule 3B public entity in terms of the Public Finance Management Act, is a national government business enterprise, formed in terms of the Water Services Act by the Minister of Water and Sanitation (DWS) as the Executive Authority.

According to the Water Services Act, Amatola Water is an organ of state, established to perform, as its primary activity, a public function, of providing water services (water supply and sanitation services) to other water services institutions (water services authorities, water services providers, a water board and water services committee) within its service area.

The Water Services Act defines water supply services as the abstraction, conveyance, treatment and distribution of potable water as well as water intended for conversion to potable water and for commercial use but not for industrial use.

## SHAREHOLDER COMPACT

The shareholder compact has been entered into by Amatola Water and DWS.

## ORGANISATIONAL PROFILE

### WATER SERVICES PROVISION

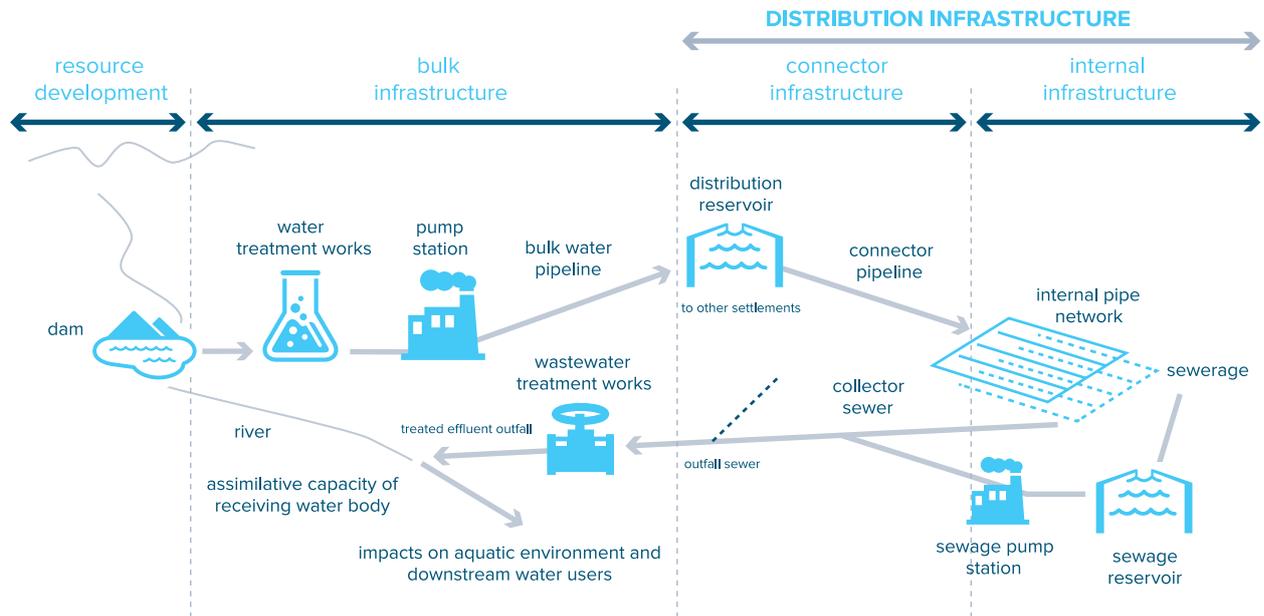


Figure 1.1 Water value chain

Amatola Water is designated to act within a prescribed area as proclaimed in the Government Gazette No 18409 of 14 November 1997 by the Minister, as empowered by the Water Services Act No. 108 of 1997.

The prescribed areas are Peddie, Mdantsane, East London, Komga, King William's Town, Zwelitsha, Stutterheim, Keiskammahoek, Middledrift and Victoria East within the Eastern Cape. The government extended the service area to include the municipality of Ndlambe, as proclaimed in Government Gazette No 188 of 12 March 2010.

In addition, Section 30 of the act provides for Amatola Water to operate beyond its mandate, only if it is unlikely to limit its capacity to perform its primary activity or financially prejudice the organisation, any water services institution, existing consumers or other users within its service area, in accordance with its policy statement and business plan.

The act confirms other activities may include but are not limited to:

- Providing management services, training and other support services to water services institutions to promote co-operation in the provision of water services
- Supplying untreated or non-potable water to end users who do not use the water for household purposes
- Providing catchment management services to or on behalf of the responsible authorities
- Approving the water services authority with jurisdiction in the area:
  - Supplying water directly for industrial use
  - Accepting industrial effluent
  - Acting as a water services provider to consumers
  - Providing water services in joint ventures with water services authorities
  - Performing water conservation functions.

In line with Section 30, Amatola Water acts as an implementation agency on behalf of the municipality in operating and upgrading water treatment works.

Amatola Water is further governed by all water and water board-related policy frameworks issued by DWS as well as directives from the Minister, to focus on key matters:

- On 31 March 2014, a directive to prepare a due diligence report was completed successfully.
- On 20 June 2015, Amatola Water was directed to implement Phase Three of the Nooitgedagt/Coega Low-Level Scheme with the Nelson Mandela Bay Metropolitan Municipality.
- On 19 April 2016, a directive requested intervention at the Amathole District Municipality with dry sanitation.

## AMATOLA WATER AREA OF OPERATION AND WATER SUPPLY SCHEMES

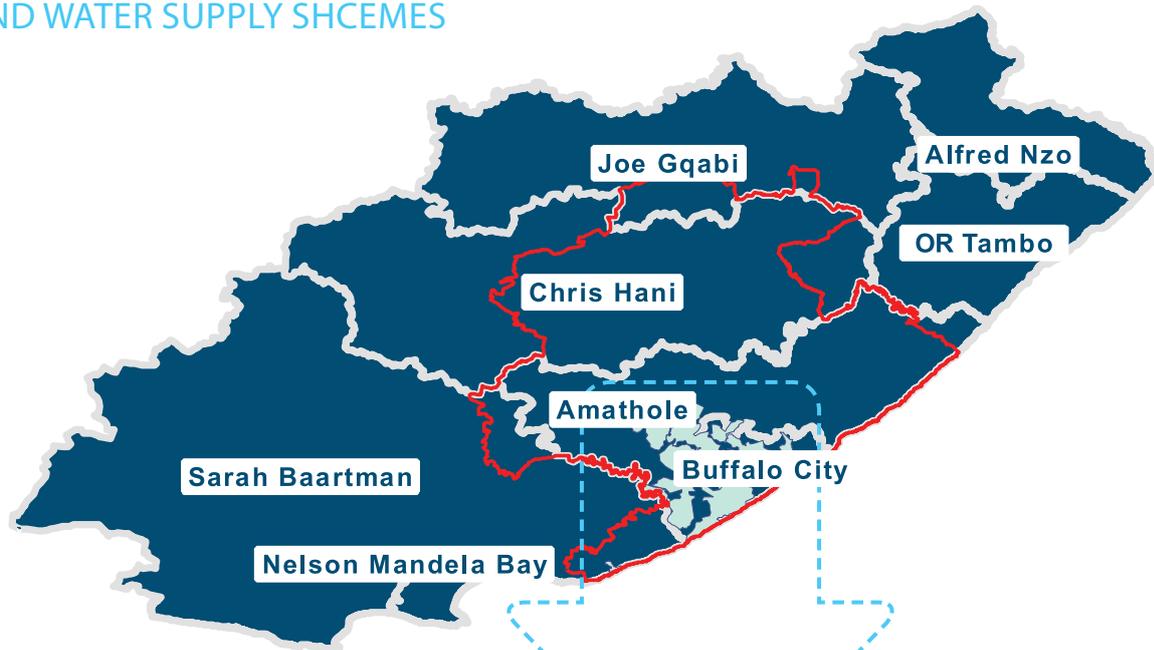


Figure 1.2 Amatola Water's gazetted area



Figure 1.3 Amatola Water supply scheme

## BUSINESS ENVIRONMENT AND DEVELOPING TRENDS

Amatola Water's business environment considers macro and micro factors that influence its ability to deliver on its mandate.

As an essential services utility based in the Eastern Cape, established in terms of the Water Services Act, Amatola Water is subject to numerous external impacts and as such, these need to be managed carefully through transparent and consistent engagement.

While Amatola Water has little influence over, for example, the allocation of funding and the performance of the national economy, and particularly, the local economy in which it participates, it can mitigate these risks through careful planning and strategic plans.

### Economy

The past year was characterised by a stagnant local economy due to the economy's persistent contraction and major droughts in certain parts of the country including the Eastern Cape.

### Water infrastructure

The South African water industry continues to suffer from ageing infrastructure and a large disparity in water infrastructure between rural and urban areas. As such, there is an opportunity for capital investment and expansion in the water sector when matched with the appropriate strategic goals and planning.

Amatola Water sees strong government support and pending legislation for improvements in the sector as a medium and long-term opportunity for improving the capacity and position of Amatola Water as a water services utility.

Amatola Water operates in an environment significantly different to most of its peer organisations in South Africa. Its environment is evidenced by a large geographical and infrastructure footprint relative to the volume of water it processes as well as a restricted value chain, and various upstream and downstream impacts that are outside of its control.



### Natural environment

Amatola Water is reliant on a stable and constant supply of water through the management of 21 dams within its area of supply. The environmental monitoring programmes assist Amatola Water with the evaluation of its impact on the natural environment and allow it to mitigate any impact as a result of its activities.

Amatola Water is cognisant that its business has an impact on the environment and takes its responsibility seriously. For more information, please refer to pages 71 - 74.

### Social environment

Amatola Water's impact on and responsibility to the communities of the areas in which it operates is taken into account at every step in the strategic planning and decision-making process.

Amatola Water believes that community involvement is crucial to long-term sustainability.

Please refer to stakeholder engagement on page 37, and community outreach and corporate social investment on page 39.

### Technology

Amatola Water's business is primarily physical in nature. However, the continued advancement of technology and associated improved efficiencies have resulted in a continued focus on IT which has been identified as a material matter.

## EFFECTIVE ENTERPRISE RISK MANAGEMENT INTEGRATED INTO BUSINESS

Effective enterprise management is embedded in Amatola Water's business processes and planning for the future. Amatola Water aims to reduce its risks to a sufficiently appropriate level through effective risk management.

Risk management is important for good business management and signifies good corporate governance.

The requirements of the Public Finance Management Act 1 of 1999, National Treasury Regulations of 2005, King IV on Corporate Governance and the Committee of Sponsoring Organisations Risk Management Framework have been incorporated into the enterprise-wide (integrated) framework and policy on risk management.

This risk is defined as "understanding the risks the organisation faces and their impact on the achievability of the organisation's objectives, and then mitigating those risks that would have an unacceptable impact on the organisation".

This definition highlights the relationship between risk, business strategy implementation and achievement of objectives.

Amatola Water, therefore, identifies its highest risks as those most likely to have a significant impact on the organisation's ability to achieve its key strategic business objectives.

The Accounting Authority of Amatola Water, that is, the Board, is ultimately responsible for ensuring good governance and oversight of risk management and mitigation.

The Board has delegated the operational oversight responsibility of risk to the Audit and Risk Committee. It, in turn, has established a Corporate Risk Committee and Fraud Committee which has appointed risk champions for each division.

These risk champions assist divisional directors to establish and monitor risk systems throughout the division.

Amatola Water categorises its risks into three categories:



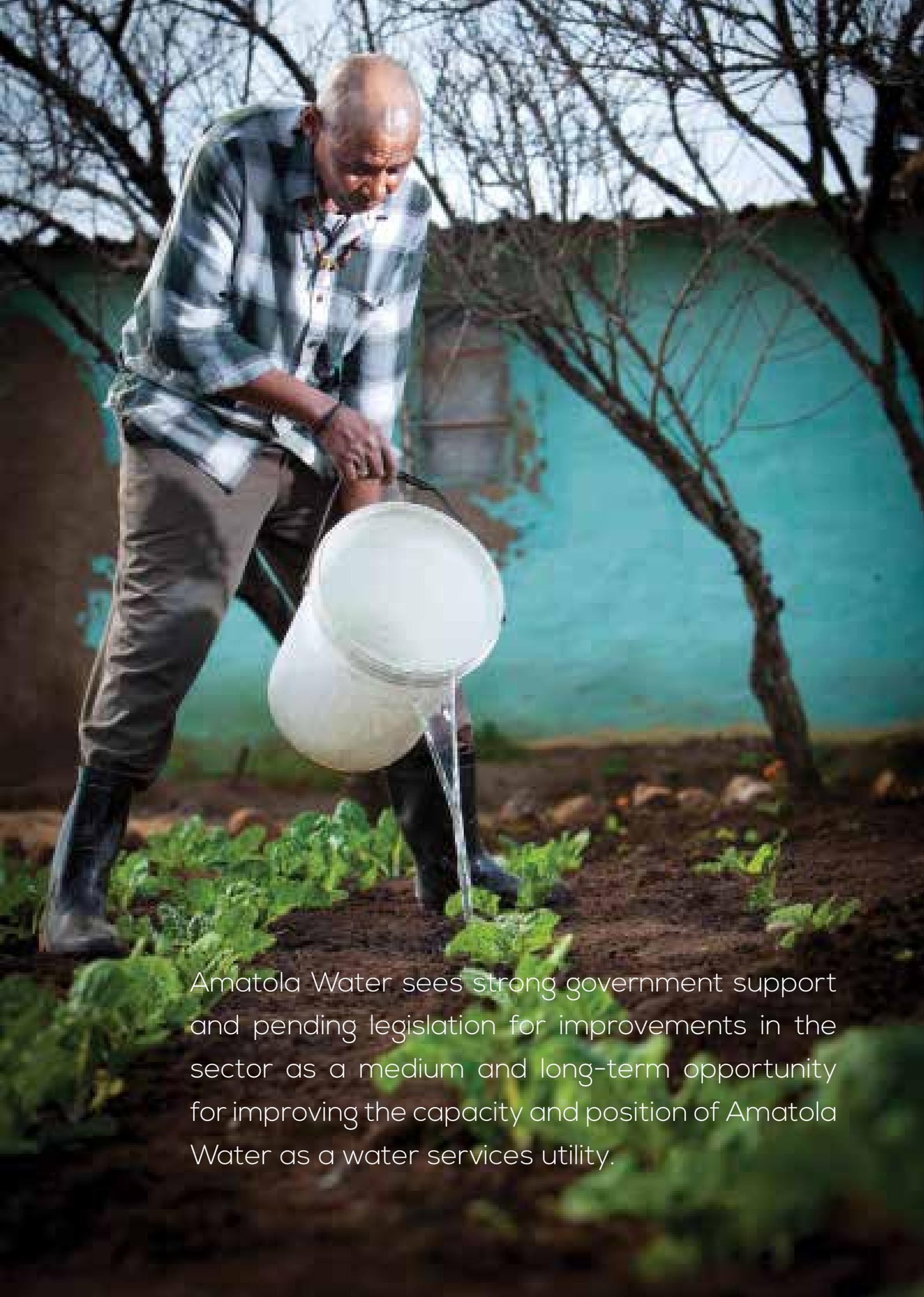
**01**  
STRATEGIC  
RISKS



**02**  
DIVISIONAL  
RISKS



**03**  
OPERATIONAL/  
PROCESS RISKS



Amatola Water sees strong government support and pending legislation for improvements in the sector as a medium and long-term opportunity for improving the capacity and position of Amatola Water as a water services utility.



# CONTEXT & STRATEGY

02



# STRATEGIC BUSINESS CONTEXT

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Amatola Water's strategy was revised under the guidance and direction of the Board while considering the expectations of the Minister of Water and Sanitation, developments in the water sector and macro socio-economic environment changes.

The revised strategic roadmap with 20-year goals is informed by a comprehensive strategic development agenda. Contributions have been made by key stakeholders and the challenges and opportunities to be exploited in the gazetted area are outlined.

Amatola Water believes the Institutional Reform and Realignment (IRR) process is an opportunity to establish a regional water utility. The focus of the regional water utility is a strategic effort to respond to provincial water and sanitation challenges in a sustainable manner.

Amatola Water has aligned its Strategic and Business Plans with its 20-year strategy and operational perspectives. The purpose of the alignment to re-position Amatola Water as a regional water utility in line with the Institutional Reform and Realignment (IRR) initiative.

To establish itself as a financially viable and sustainable regional water utility, Amatola Water has formulated a strategic mandate, which requires the organisation to achieve the following:



RETURN AMATOLA WATER TO ITS ORIGINAL STRATEGIC TRAJECTORY so that it can achieve its 20-year strategic objectives



STABILISE THE ORGANISATION by ending the current rate of performance decline and institutionalise the consolidated gains by improving the effectiveness of the organisation



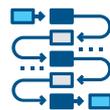
INCREASE THE PRODUCTION CAPACITY TO 150 MEGA LITRES OF WATER PER DAY which will lead to an increase in the annual turnover to R450m



INCREASE THE VALUE OF RESERVES (RETAINED EARNINGS) to R225m within the next five years



ENSURE THE ERADICATION OF ALL PERFORMANCE BACKLOGS



ENSURE THE ORGANISATION IS ON COURSE TO ACHIEVE ITS INTENDED 20-YEAR STRATEGIC TARGETS

# STRATEGIC APPROACH

For Amatola Water to achieve its strategic mandate, it is of paramount importance that the current rate of organisational decline be halted, institutional stability is achieved and operational effectiveness is enhanced to promote growth and financial sustainability.

This is to be achieved through the implementation of a strategy which consist of five phases. The first four phases will focus on addressing the current performance and restructuring requirements of the organisation. The fifth phase (which is a transversal phase running parallel to the first four phases) will focus on maintaining and executing operations at the same time, and will give effect to strategic and operational gains which are being made in Phases One to Four.



## 01 PREPARATION FOR CHANGE

### PLANNING

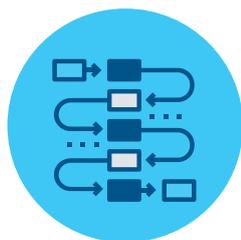
This phase will see the establishment of the appropriate technical and planning support capacity to ensure the effective and efficient implementation of the strategy.



## 02 STABILISE THE ORGANISATION

### PREVENT DECLINE

This phase will see the implementation of measures that will halt the decline in organisational performance and increase organisational stability.



## 03 CONSOLIDATION

### INSTITUTIONALISE GAINS

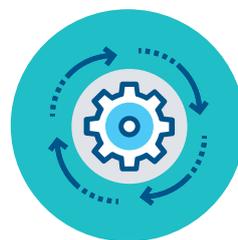
This phase will focus on restructuring the organisation, while developing and institutionalising systems, processes and capacity that will ensure an increase in effectiveness and efficiency. During this phase, organisational performance is projected to increase to 75%.



## 04 SUSTAINED GROWTH

### INCREASE GROWTH

This final phase will focus on ensuring exponential growth to mitigate backlogs and ensure that the organisation is placed on track in accordance with its 20-year strategic trajectory.



## 05 MAINTAIN OPERATIONS

Whilst strategic Phases One to Four are being implemented, current operations will be maintained and extended after Phase Three.

### CONTINUE WITH OPERATIONS

The Turnaround Plan underpins Phases One to Three. The objectives and outcomes of the Turnaround Plan are contained in the table below and operationalised in more detail in the Business Plan.



The key turnaround initiatives are:

## 1 STRENGTHEN LEADERSHIP AND ORGANISATIONAL EFFECTIVENESS

Appoint a capable executive and management team.  
Implement an organisation-wide change management programme.

## 2 STRENGTHEN STAKEHOLDER RELATIONS AND CLIENT RELATIONS

Develop an implementation plan for the Stakeholder Relations Policy.  
Undertake a targeted stakeholder roadshow to build trust.  
Rebrand Amatola Water.

## 3 REBUILD HRM CAPACITY

Review the organisational structure to strengthen the immediate capacity challenges.  
Develop and implement a Skills Development Plan.

## 4 INVEST IN CORE BUSINESS

Develop an Infrastructure Master Plan.  
P&D overhaul and project environment.  
Capitalise the infrastructure.  
Appoint a competent and experienced technical team.

## 5 STABILISE THE FINANCIAL ENVIRONMENT

Implement a Financial Recovery Plan.  
Improve Debtor Management Plan.  
Overhaul Supply Chain Management.

In addition to the Turnaround Plan, Amatola Water has initiated key interventions to improve operations:

- Develop a project charter to standardise and accelerate project implementation
- Enhance the organisation's safety intervention plan including the full and direct control over the safety agents
- Improve audit outcomes by addressing all audit (internal and external) findings
- Monitor and evaluate the temporary job opportunities created in the implementation of projects and ensure alignment with the EPWP initiative.

# 20-YEAR LONG-TERM STRATEGIC GOALS

01

## SATISFIED STAKEHOLDERS

**GOAL STATEMENT:** To improve stakeholder value in service delivery and support

### LINKS

Outcome 11 - Create a better South Africa and contribute to a better Africa and better world.  
Outcome 12 - An efficient, effective and development-orientated public service.

02

## ENVIRONMENTAL SUSTAINABILITY

**GOAL STATEMENT:** To ensure environmental sustainability is integrated in all the operations and business of Amatola Water

### LINKS

Outcome 10 - Protect and enhance our environmental assets and natural resources.

03

## FINANCIAL VIABILITY

**GOAL STATEMENT:** To improve the financial viability of the organisation

### LINKS

Outcome 9 - Responsive, accountable, effective and efficient local government.  
Outcome 12 - An efficient, effective and development-orientated public service.

04

## CONSISTENT WATER & WASTE WATER

**GOAL STATEMENT:** To achieve the water and wastewater quality that meets prescribed standards

### LINKS

Outcome 9 - Responsive, accountable, effective and efficient local government.  
Outcome 10 - Protect and enhance our environmental assets and natural resources.  
Outcome 12 - An efficient, effective and development-orientated public service.

05

## ACCESSIBLE WATER & SANITATION SERVICES

**GOAL STATEMENT:** To ensure availability and access to water and sanitation services

### LINKS

Outcome 5 - A skilled and capable workforce to support an inclusive growth path.  
Outcome 9 - Responsive, accountable, effective and efficient local government.  
Outcome 12 - An efficient, effective and development-orientated public service.

06

## ADEQUATE & MAINTAINED INFRASTRUCTURE

**GOAL STATEMENT:** Ensure bulk water infrastructure is maintained, improved and optimally operated

### LINKS

Outcome 5 - A skilled and capable workforce to support an inclusive growth path.  
Outcome 9 - Responsive, accountable, effective and efficient local government.  
Outcome 12 - An efficient, effective and development-orientated public service.

07

## ORGANISATIONAL OPTIMISATION

**GOAL STATEMENT:** To improve human capacity, optimisation of systems, policies and processes

### LINKS

Outcome 5 - A skilled and capable workforce to support an inclusive growth path.  
Outcome 12 - An efficient, effective and development-orientated public service.

# FIVE-YEAR MEDIUM-TERM STRATEGIC OBJECTIVES

Following is a list of the five-year objectives. These objectives set out what is to be achieved in the first five years, towards the 20-year goals. Also included is the alignment with the national government's 12 outcomes and the DWS strategic objectives (DWS APP 2018/19 - 2020/21), with numbers to show alignment and contribution therein.

BSC	10 WSU AREA	REVIEWED 20-YEAR GOAL	5 YEAR OBJECTIVES	OBJ NO	ALIGNMENT	
					GOV OUT	DWS OBJ
STAKEHOLDER & CUSTOMER PERSPECTIVE	Customer satisfaction/ stakeholder support	Satisfied stakeholders	To progressively obtain stakeholder satisfaction levels of at least 80% by 2022	1.1	11 & 12	5.2
			To ensure that 81% WSAs in the province are contracted as customers through ownership or ROU by 2036	1.2	11 & 12	4.1
	Customer and environmental sustainability	Environmental sustainability	To achieve accreditation with an integrated Environmental Management System by 2022	2.1	10	1.1, 1.3 & 1.5
			To implement at least five environmental monitoring programmes at AW supply schemes to reduce the environmental footprint by 2022	2.2	10	1.2 & 2.4
FINANCIAL	Financial viability	Financial viability	To establish and implement funding mechanisms and models to increase volumes to 170 Ml/day by 2022	3.1	9 & 12	4.3
			To establish one integrated and sustainable partnership to support financial sustainability	3.2	9 & 12	2.1
INTERNAL PROCESSES	Water and wastewater quality	Consistent water and wastewater quality	To achieve and maintain a "good" quality rating of SANS 241 at all water plants operated by AW	4.1	9, 10 & 12	4.1
			To achieve and maintain compliance to effluent discharge requirements as per the regulation at all wastewater plants operated by AW	4.2	9, 10 & 12	2.4 & 2.5
			To maintain a turnaround time of five days to report on all water quality tests performed	4.3	9, 10 & 12	2.4
	Water resource adequacy	Accessible water and sanitation services	To manage the water resources in an integrated manner to achieve 98% assurance of supply	5.1 & 5.2	5, 9 & 12	1.4, 2.2 & 3.1, 2.3, 2.4 & 2.5
Zero water supply interruptions which are greater than 24 hours						
INFRASTRUCTURE STABILITY	Infrastructure stability	Adequate and maintained infrastructure	To maintain water losses at a maximum of 12% per annum	6.1	5, 9 & 12	2.2
LEARNING AND GROWING	Operational resilience	Organisational optimisation	To achieve a Likert organisational effectiveness score of 4 out of 5 by 2022.	7.1	5 & 12	4.2, 4.3 & 4.4
	Leadership and employee development					

# MONITORING AND EVALUATION

To measure and manage the successful implementation of its strategy, Amatola Water has developed a Balanced Scorecard with clear monitoring criteria and targets for the next five years (see page 30).

A comprehensive corporate performance management system, which includes divisional and corporate reviews by management as well as oversight by Board Committees, is detailed in the governance section of this report (page 99).



Figure 2.1: Ten areas for a successful water utility as defined by the Water Research Foundation

## STRATEGY UNDERPINNED BY 10 OUTCOMES FOR SUSTAINABLE VALUE CREATION

### 1 WATER AND WASTEWATER PRODUCT QUALITY (WQ)

Amatola Water produces bulk potable water and treats wastewater in compliance with statutory requirements, consistent with customer needs, at Amatola Water-owned and ROU plants.

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### 2 CUSTOMER SATISFACTION (CS)

This indicator reflects the degree to which Amatola Water provides reliable, responsive and affordable products and services to water services authorities (customers) and meets or surpasses customer expectations. Timely feedback in terms of customer agreed service levels upholds responsiveness to customers' needs.

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### 3 STAKEHOLDER RELATIONSHIPS AND SUPPORT (SS)

As an organ of state, Amatola Water has a variety of different stakeholders, most notably the Department of Water and Sanitation. Relationships with various stakeholder groups have to be built and managed by aligning initiatives in support of key stakeholder programmes, informed by the intergovernmental framework, as well as influencing stakeholders to reach a common understanding of Amatola Water's role and catalytic initiatives within the sector.

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### 4 INFRASTRUCTURE STABILITY (IS)

Amatola Water's infrastructure should be consistent with customer service levels, as well as anticipated growth and system reliability goals.

---

### 5 FINANCIAL VIABILITY (FV)

Amatola Water needs to manage operating expenditures and increase revenues in a manner that strengthens the balance sheet sustainably. In addition, the organisation aims for a sustainable tariff that is consistent with customer expectations, recovers costs and provides for future expansion.

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### 6 WATER RESOURCE ADEQUACY (WA)

Amatola Water assesses the scarcity of freshwater resources, investigates sustainable alternatives, manages water abstractions assiduously and allows for access to stable raw water resources that meets current and future customer needs.

---

### 7 COMMUNITY/ENVIRONMENTAL SUSTAINABILITY (CE)

Amatola Water should be explicitly cognisant of and attentive to the impacts it has on current and future community sustainability, and support socioeconomic development, and manage its operations, infrastructure and investments to protect, restore and enhance the natural environment, while using energy and other natural resources efficiently.

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### 8 LEADERSHIP AND EMPLOYEE DEVELOPMENT (LG)

Amatola Water is dedicated to continuous learning and improvement, recruiting and retaining a workforce that is competent, motivated, adaptive and works safely, while ensuring that institutional knowledge is retained and improved, providing opportunities for professional and leadership development, led by an integrated senior leadership team.

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### 9 OPERATIONAL RESILIENCE (OR)

Amatola Water proactively and effectively manages business risks across all areas of the business in a manner that ensures sustainability of the organisation, even in times of challenge and difficulty.

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### 10 OPERATIONAL OPTIMISATION (OO)

Amatola Water aims for ongoing, timely, cost-effective, reliable and sustainable performance improvements in all facets of its operations, and a culture of accountability with every employee and department striving to improve systems and processes.

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# VALUE CREATION

Amatola Water's governance structure, processes and procedures underpin value creation, not only in reviewing and improving areas in need of attention, but through enforcing a structure that meets the strategic needs and is linked to its strategic focus.

## INPUTS

# 2016/17



**FINANCIAL CAPITAL**

REVENUE  
**R405m**

---

GRANT FUNDING FOR INFRASTRUCTURE UPGRADES  
**R0m**

---

CASH  
**R131m**



**INTELLECTUAL CAPITAL**

ICT OPERATIONAL EXPENDITURE  
**R11m**

---

ICT CAPITAL EXPENDITURE  
**R3m**

---

WATER RESEARCH LEVY  
**R3m**



**SOCIAL & RELATIONSHIP CAPITAL**

ASSURANCE OF SUPPLY  
**100%**

---

BBBEE SPEND  
**107%**

---

LOCAL JOBS CREATED  
**826**



**MANUFACTURED CAPITAL**

PROPERTY, PLANT AND EQUIPMENT  
**R531m**

---

CAPITAL EXPENDITURE (TREATMENT PLANT UPGRADES)  
**R107m**



**HUMAN CAPITAL**

STAFF TURNOVER (BENCHMARK: 6%)  
**1%**

---

STUDY ASSISTANCE  
**R0.6m**



**NATURAL CAPITAL**

WATER LOSS - POTABLE PRODUCTION & NETWORK (BENCHMARK: 9%)  
**14.2%**

---

RAW WATER ABSTRACTIONS K'000  
**35,678**

## BUSINESS ACTIVITIES

-  INFRASTRUCTURE DESIGN AND DEVELOPMENT
-  WATER SERVICES
-  INSTITUTIONAL AND SOCIAL DEVELOPMENT
-  TECHNICAL AND OPERATIONAL SERVICES
-  SCIENTIFIC SERVICES
-  PROCUREMENT SERVICES
-  FINANCIAL SERVICES
-  OPERATION AND MAINTENANCE
-  INSTITUTIONAL SUPPORT AND DEVELOPMENT
-  PROJECT MANAGEMENT



# STRATEGIC FOCUS

INPUTS  
2017/18

## THE 10 OUTCOMES FOR SUSTAINABLE VALUE CREATION

- 01 WATER AND WASTEWATER PRODUCT QUALITY
- 02 CUSTOMER SATISFACTION
- 03 STAKEHOLDER RELATIONSHIPS AND SUPPORT
- 04 INFRASTRUCTURE STABILITY
- 05 FINANCIAL VIABILITY
- 06 WATER RESOURCE ADEQUACY
- 07 COMMUNITY/ ENVIRONMENTAL SUSTAINABILITY
- 08 LEADERSHIP AND EMPLOYEE DEVELOPMENT
- 09 OPERATIONAL RESILIENCE
- 10 OPERATIONAL OPTIMISATION



**FINANCIAL CAPITAL**

REVENUE  
**R385m**

---

GRANT FUNDING FOR INFRASTRUCTURE UPGRADES  
**R89m**

---

CASH  
**R376m**



**INTELLECTUAL CAPITAL**

ICT OPERATIONAL EXPENDITURE  
**R14m**

---

ICT CAPITAL EXPENDITURE  
**R1m**

---

WATER RESEARCH LEVY  
**R3m**



**SOCIAL & RELATIONSHIP CAPITAL**

ASSURANCE OF SUPPLY  
**100%**

---

BBBEE SPEND  
**104%**

---

LOCAL JOBS CREATED  
**638**



**MANUFACTURED CAPITAL**

PROPERTY, PLANT AND EQUIPMENT  
**R540m**

---

CAPITAL EXPENDITURE (TREATMENT PLANT UPGRADES)  
**R27m**



**HUMAN CAPITAL**

STAFF TURNOVER (BENCHMARK: 6%)  
**1%**

---

STUDY ASSISTANCE  
**R0.6m**



**NATURAL CAPITAL**

WATER LOSS - POTABLE PRODUCTION & NETWORK (BENCHMARK: 9%)  
**11.1%**

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RAW WATER ABSTRACTIONS KI'000  
**35,678**

# MATERIAL ISSUES

## Defining materiality for Amatola Water

Amatola Water determines a material matter to be a risk or opportunity that can substantially affect its ability to deliver on its mandate, purpose and objective of delivering high-quality bulk water and sanitation services whilst maintaining a positive reputation with all its stakeholders in the Eastern Cape in the short, medium and long-term.

## Material matters classification

Amatola Water's underlying mandate is the continuity of service of its operations, that is, providing an uninterrupted supply of high-quality bulk water and sanitation services to its customers whilst maintaining a positive reputation with all stakeholders.

As such, Amatola Water has determined reputation and continuity of service to be overarching (pervasive) matters and to be the core material matters of the business, with all other material matters having a direct effect on these matters.

## Material matters table

The following table provides a more detailed account of the top 10 material matters and linkages with affected stakeholders, capitals and strategic responses, in order of importance:

RANKING	DESCRIPTION OF MATERIAL MATTER	CAPITAL IMPACTED	STRATEGIC RISK	STAKEHOLDER AFFECTED	AW STRATEGIC RESPONSE
1	<p>Economic</p> <ul style="list-style-type: none"> <li>As a public service utility, Amatola Water is highly geared to the performance of the local and national economy.</li> <li>The local and national economy are under pressure due to factors such as low GDP growth and SA's sovereign credit downgrades.</li> <li>The Eastern Cape lags behind the national economy in terms of productivity and employment growth and as such, this has a knock-on effect on Amatola Water's business.</li> </ul>	<p>FINANCIAL</p> 	<p>SRK 3: Financial sustainability risk</p>	<ul style="list-style-type: none"> <li>Statutory stakeholders</li> <li>Community stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>Financial viability</li> </ul>
2	<p>Governance</p> <ul style="list-style-type: none"> <li>Leadership is key to the effective and ethical operation of Amatola Water. This can pose a significant risk or an opportunity to the organisation.</li> <li>Amatola Water has suffered from a high turnover of key leadership.</li> </ul>	<p>HUMAN</p> 	<p>SRK7: Leadership and employee development</p>	<ul style="list-style-type: none"> <li>Statutory stakeholders</li> <li>Customers and clients stakeholder</li> </ul>	<ul style="list-style-type: none"> <li>Satisfied stakeholders</li> <li>Organisation optimisation</li> </ul>
3	<p>Access to funding (capex and growth)</p> <ul style="list-style-type: none"> <li>Amatola Water manages a significant infrastructure footprint in order to fulfil its mandate.</li> <li>Amatola Water requires significant capital expenditure to maintain as well as expand this infrastructure to ensure continuity of service as well as sustainable growth.</li> </ul>	<p>FINANCIAL</p> 	<p>SRK 3: Financial sustainability risk</p>	<ul style="list-style-type: none"> <li>Statutory stakeholders</li> <li>Customers and clients stakeholder</li> </ul>	<ul style="list-style-type: none"> <li>Satisfied stakeholders</li> <li>Financial viability</li> </ul>

RANKING	DESCRIPTION OF MATERIAL MATTER	CAPITAL IMPACTED	STRATEGIC RISK	STAKEHOLDER AFFECTED	AW STRATEGIC RESPONSE
4	<p>Infrastructure value chain</p> <ul style="list-style-type: none"> <li>• Amatola Water operates in a narrow portion of the potable water supply chain as well as in a limited closed market.</li> <li>• Amatola Water is reliant on both upstream and downstream infrastructure suppliers and customers for the delivery of high-quality bulk water and sanitation services.</li> </ul>	<p>MANUFACTURING</p> 	SRK5: Infrastructure stability	<ul style="list-style-type: none"> <li>• Community stakeholders</li> <li>• Customers and clients stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Satisfied stakeholders</li> <li>• Financial viability</li> <li>• Consistent water and wastewater quality</li> <li>• Accessible water and sanitation services</li> <li>• Adequate and maintained infrastructure</li> </ul>
5	<p>Financial viability</p> <ul style="list-style-type: none"> <li>• Many of Amatola Water's inputs and outputs are fixed in nature, such as the costs it is charged for purchasing raw water and what it may charge for services provided.</li> <li>• In addition, Amatola Water has a limited number of key customers that are subject to similar macro and micro-economic risks.</li> <li>• Amatola Water has limited options for obtaining raw water.</li> </ul>	<p>FINANCIAL</p> 	SRK 3: Financial sustainability risk	<ul style="list-style-type: none"> <li>• Customers and client stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Financial viability</li> </ul>
6	<p>Relationships with key stakeholders</p> <ul style="list-style-type: none"> <li>• Relationships with Amatola Water's key stakeholders have a major impact on Amatola Water's reputation, representing a significant risk and opportunity for Amatola Water.</li> </ul>	<p>SOCIAL</p> 	SRK1: Stakeholder relationships and support, and customer satisfaction	<ul style="list-style-type: none"> <li>• Community stakeholders</li> <li>• Customers and clients stakeholders</li> <li>• Statutory stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Satisfied stakeholders</li> </ul>
7	<p>Drought/weather</p> <ul style="list-style-type: none"> <li>• As with most parts of South Africa, the Eastern Cape is vulnerable to water shortages caused by a lack of rainfall.</li> </ul>	<p>NATURAL</p> 	SRK2: Environmental Sustainability	<ul style="list-style-type: none"> <li>• Community stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental sustainability</li> <li>• Adequate and maintained infrastructure</li> </ul>
8	<p>Economic regulation</p> <ul style="list-style-type: none"> <li>• Amatola Water is subject to tariff setting and regulatory lag.</li> </ul>	<p>FINANCIAL</p> 	SRK 3: Financial sustainability risk	<ul style="list-style-type: none"> <li>• Statutory stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Financial viability</li> </ul>
9	<p>Technology and communication</p> <ul style="list-style-type: none"> <li>• The current business environment is heavily dependent on technology for effective, efficient and streamlined operations.</li> </ul>	<p>INTELLECTUAL</p> 	SRK 6: Operational resilience	<ul style="list-style-type: none"> <li>• Customers and clients stakeholders</li> <li>• Statutory stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Adequate and maintained infrastructure</li> <li>• Organisational optimisation</li> </ul>
10	<p>People skills and development</p> <ul style="list-style-type: none"> <li>• Appropriately skilled and qualified staff are critical to ensuring effective and efficient operations.</li> </ul>	<p>HUMAN</p> 	SRK7: Leadership and employee development	<ul style="list-style-type: none"> <li>• Customers and clients stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• Organisational optimisation</li> </ul>

# STAKEHOLDER UNDERSTANDING AND SUPPORT

## STAKEHOLDER ENGAGEMENT, RESPONSE AND UNDERSTANDING

Amatola Water is committed to engaging with its stakeholders through formal and informal means and ensuring that the lines of communication are kept open at all times.

Its commitment to stakeholder engagement is evidenced by the inclusion of satisfied stakeholders as a material matter as well as the development of a Stakeholder Relations Policy.

Amatola Water understands that stakeholder engagement is key to its long-term goals and sustainability, and as such has identified customers and local communities as primary stakeholders while statutory stakeholders are also recognised as important.

Amatola Water's customers are defined as stakeholders who make it possible for Amatola Water to deliver on its legislated mandate internally and externally.

Its local communities are defined as stakeholders with a direct and an indirect interest in the operations of Amatola Water.

Its statutory stakeholders are defined as legislated stakeholders that directly and indirectly affect Amatola Water's operations.

Its employees, suppliers and investors are defined as stakeholders who provide the inputs required to deliver on its mandate.

AMATOLA WATER BELIEVES THAT THROUGH AN EFFECTIVE AND PROACTIVE STAKEHOLDER ENGAGEMENT PROCESS, IT CAN ACHIEVE:

Improved understanding of stakeholders' needs and concerns

Enhanced reputation

Open channels of communication with communities

Improved collaboration with the Department of Water and Sanitation

Uniformity and consistency to water and sanitation schemes

## AMATOLA WATER STAKEHOLDER MANAGEMENT MATRIX

### Community stakeholders



Community stakeholders have a direct and an indirect interest in the operation of Amatola Water. Amatola Water demonstrates value to the communities it serves as a socially responsible, effective and high-performing entity.

COMMUNITY STAKEHOLDER	STAKEHOLDER INTERESTS	AW INTERESTS	LEVEL/RESPONSIBLE PERSON
Special interest groups	Good governance and performance of AW	Network research	Divisional Directors
Civil society	Good governance and performance of AW	Network research	Office of the CEO
Media	Strategy, risk, good governance and performance of AW	Communication platform, influence, transparency and openness	CEO's office and Board Chairman
Business formations (formal and informal)	Strategy, risk, good governance and performance of AW	Networks, support and influence	CEO's office
Traditional leadership	Strategy and performance of AW	Networks, support and influence	CEO's office
Educational and research institutions	Strategy and performance of AW	Research	MANCO
South African Association of Water Utilities (SAWU)	Strategy	Strategic alliance	CEO and Board Chairman

### Customers and client stakeholders



Amatola Water enters into contracts for the provision of products, services and goods with customers, suppliers and investors, as well as employees and organised labour, through the provision of employment and accompanying benefits.

CUSTOMER/CLIENT STAKEHOLDER	STAKEHOLDER INTERESTS	AW INTERESTS	LEVEL/RESPONSIBLE PERSON
Employees	Risk, good governance and performance of AW	Act as ambassadors for the organisation, sustainability and viability of the institution	Employer (MANCO and Board)
SAAWU	Strategy, risk, good governance and performance of AW	Sound relations with organised labour, living conditions of the employees	Director Corporate Services and CEO
Organised labour	Strategy, risk, good governance and performance of AW	Buy-in and support with regards to living conditions of the employees, sustainability and viability of AW	Employer (MANCO and Board)
Internal and external audit	Risk, good governance, and performance of AW	Support and influence	MANCO and Board
Suppliers	Good governance and performance of AW	Quality products and services efficiency, good performance and productivity	MANCO
Investors (development finance institutions and private banks)	Risk, good governance, and performance of AW	Funding investment opportunities	MANCO

## Statutory stakeholders

STATUTORY STAKEHOLDER	STAKEHOLDER INTERESTS	AW INTERESTS	LEVEL/RESPONSIBLE PERSON
Executive Authority (DWS Minister)	Strategy, risk, good governance and performance of AW	Strategic direction and support	Office of the CEO and the AW Board
Portfolio Committee on Water and Sanitation	Strategy, risk, good governance and performance of AW	Influence; feedback and support	MANCO and Board Chairman
National Treasury	Strategy, risk, good governance and performance of AW	Support and decision-making	CFO and CEO
Provincial government (Premier's Office & CoGTA)	Strategy, risk, good governance and performance of AW	Collaboration	CEO and MANCO
Local government (Municipalities)	Strategy, risk, good governance and performance of AW	Long-term commitment and loyalty	CEO, CFO, Divisional Directors
South African Local Government Association	Strategy, risk, good governance and performance of AW	Collaboration	MANCO



### STATUTORY STAKEHOLDERS

Amatola Water is required to interact regularly with statutory stakeholders who regulate and oversee the activities as a state-owned entity. These stakeholders ensure that statutory requirements are met and that there is alignment with government objectives. Statutory stakeholders oversee governance, compliance, strategy, performance and risk. Legislated stakeholders with direct and indirect influence on Amatola Water's operations are included in this group.

## Community outreach and corporate social investment

Amatola Water is mandated to provide a vital service that enhances the quality of life for communities in the Eastern Cape and is a cornerstone for socio-economic development in the province.

Investment by Amatola Water in the communities it serves has an impact on the fulfilment of its business strategy and the long-term sustainability of the organisation. Amatola Water is acutely aware of and sensitive to this relationship. As such, Amatola Water continuously strives to support the advancement of all communities where its operations are located. This philosophy is embedded in its corporate social responsibility programmes.

A strong focus is placed on initiatives geared towards community sustainability such as education and awareness, sport, and community outreach programmes.

CATEGORY	STRATEGIC APPROACH	INITIATIVES
Education	Improve the level of education	Ongoing support and participation in platforms that promote maths and science subject choices and careers in the water sector
Public participation and awareness	Provide sustainable water solutions, raise environmental awareness and ensure access to safe and reliable water services to all communities in areas of operation, in support of government initiatives	Social and community engagement initiatives that promote awareness in the areas of sanitation, poverty alleviation, water conservation for example
Sport	Promote strong and healthy communities	Sponsorship of bottled water in support of various school and community sporting programmes
Community outreach	Invest in community upliftment programmes and realise meaningful transformation	Ongoing support of initiatives that benefit historically disadvantaged communities.



### COMMUNITY OUTREACH AND CORPORATE SOCIAL INVESTMENT

Amatola Water continuously strives to support the advancement of all communities where its operations are located.

## SCHOOL TOUR PROGRAMME

In this financial year, Amatola Water continued to host guided tours for various groups such as universities, TVET colleges, and primary and secondary school tours at the Bushman's RO Plant and Nahoon Dam Water Treatment Works.

These participating schools, institutions and communities were from East London, Butterworth, King William's Town and the Makana regions. A poster containing the steps for purifying water at the water treatment works was distributed through various platforms such as school tours and other events at which learners and students were hosted.

Amatola Water has been continuously praised by schools, institutions and communities as well as the Department of Water and Sanitation for the outstanding support in accommodating these stakeholders as well as the exceptional presentations made to these tours.

### Makana learnership programme students gained exposure at the Albany Coast RO plant

Water and wastewater learnership students from the Makana Local Municipality had the opportunity to experience how a reverse osmosis plant operates when they visited Amatola Water's Albany Coast Water Treatment Works on 11 September 2017.

This formed part of the learnership practical component. In light of the current water challenges experienced throughout the country, the focus of the site visit was to educate the learners about alternative water supply options by exposing them to the desalination process.



## Expanded Public Work Programme workers advance their training at the Albany Coast RO plant

As part of the Expanded Public Work Programme (EPWP), Coast workers from Sustainable Seas Trust (SST) visited Amatola Water's Albany Coast RO Plant as part of their practical component on 7 November 2017. This EPWP project falls under the Department of Environmental Affairs.

The aim of the visit was to provide advanced training in one module.



## Clear Rivers campaign at Mthatha during Mandela Month

On Mandela Day 2017, Amatola Water joined hands with the Department of Water and Sanitation, OR Tambo District Municipality, King Sabata Dalindyebo Local Municipality and Coca-Cola Beverages to clean the Mthatha River.

The clean-up formed part of the Clear Rivers Campaign, a month-long initiative driven by DWS held during Mandela Month.

The objective of the campaign was to create ongoing awareness and education on protecting the country's water resources including its rivers, streams, wetlands and other water ecosystems, given the drought that persists in large parts of the country.

Over 400 participants gathered for the clean-up.



**400+**  
PARTICIPATED  
IN THE CLEAN-UP

# 67 MINUTES FOR MADIBA

## Pefferville Primary Mandela Month outreach and donation drive

Along with many South Africans who observed the national Mandela Day in 2017, Amatola Water staff spent their 67 minutes at Pefferville Primary School.

The aim of the initiative was to paint the inside walls of the school's toilets.

Leading up to the day, Amatola Water ran an underwear drive for boys and girls. This also included a sanitary towel donation drive for the children at Pefferville Primary School where Amatola Water staff were encouraged to donate by buying these items. The initiative was a huge success with a lot of support from AW staff.



# 175+ WATER SECTOR EXPERTS, STAKEHOLDERS & PROCESS CONTROLLERS ATTENDED THE WORKSHOP

## Spotlight on best industry practice at the Water Process Controller Workshop

Amatola Water, in partnership with Wisa Eastern Cape, held the region's first-ever workshop which targeted local process controllers in December 2017.

The workshop was attended by over 175 water sector experts, stakeholders and process controllers from various water services authorities and water services providers based in the Eastern Cape. It was held in Somerset East.

The workshop was a result of a successful regional Wisa Open Day, which was held at the VW Pavilion in Uitenhage in December 2016.

The aim of the workshop was to equip process controllers with the knowledge and practical skills necessary for the efficient operation and maintenance of small water treatment plants and to ensure that they operate the treatment works in line with the industry best practice.

The discussions also focused on the operational and maintenance cost and downtime reduction as well as the importance of professional registration for process controllers and the need for a regulated sector. AW process controllers were amongst those who attended this important initiative.



## CAREER EXHIBITIONS

### National launch of the National Science Week (NSW) 2017

Former Minister of the Department of Science and Technology (DST) Naledi Pandor and the local government leaders launched the 2017 National Science Week at the Missionvale campus at Nelson Mandela University in Port Elizabeth in August 2017.

Through this initiative, DST promotes public awareness and engagement in science, technology and innovation.



The National Science Week 2017 was celebrated by “advancing science tourism” from 5 to 12 August 2017 throughout South Africa.

Amatola Water participated in this event with other public and private sector entities.

Four thousand people, comprising students, learners, science centres, government departments and the relevant non-governmental organisations, attended the launch.

**4000**  
PEOPLE  
ATTENDED THE  
LAUNCH

## Ngquza Hill Local Municipality Career Expo 2017

Amatola Water participated in the Ngquza Local Municipality Career Exhibition held at the Lusikisiki Teachers College.

The event was organised by the Breard Foundation in collaboration with the Ngquza Hill Local Municipality and the Department of Education to assist learners with career choices.

Over 2,000 learners from various townships and village high schools in and around Lusikisiki attended the career exhibition.

Amatola Water was amongst the 20 exhibitors from the Eastern Cape and KwaZulu-Natal.

**2000+**  
**LEARNERS**  
ATTENDED THE  
CAREER EXHIBITION



Various exhibitions ran throughout the week with one day being dedicated to maths and science exhibitors. Amatola Water's exhibition stand drew a lot of interest from learners and educators who wanted more information on careers in the water sector.

Amatola Water made presentations on the career opportunities in the water sector, targeting aspiring water control processors. Amatola Water also demonstrated how to produce clean and safe water at the water treatment works.

These presentations sent a message to learners that on completion of Grade 12, there were other careers that can be explored. AW was commended for continuously supporting the expo.



# PERFORMANCE INFORMATION

03



# STATEMENT OF RESPONSIBILITY FOR PERFORMANCE INFORMATION

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The CEO is responsible for the preparation of Amatola Water's performance information, for the judgements made in this information, and establishing and implementing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of performance information.

In her opinion, the performance information fairly reflects the actual achievements against planned objectives, indicators and targets as per the Stakeholder Compact, Annual Performance Plan and Corporate Scorecard of Amatola Water for the financial year ended 30 June 2018.

Amatola Water's performance information for the year ended 30 June 2018 has been examined by the external auditors (report on page 140) and is set out on pages 48 to 58, as approved by the Executive Authority.



Ntombokuqala Nokulunga Mngqeta  
Chairman  
22 October 2018



Vuyo Zitumane  
Chief Executive Officer  
22 October 2018

# PERFORMANCE AND OUTLOOK

The Annual Performance Plan and Shareholder Compact documents for the 2017/18 financial year including the five-year Business Plan remain the source documents for the compilation of the Annual Report on the performance information of Amatola Water.

Performance monitoring and evaluation of the implementation of the Amatola Water Five-Year Strategy and the Annual Performance Plan is done through a quarterly reporting system, where individual quarterly reports are compiled by management and shared with the Internal Audit to perform the audit function.

The reports are then submitted to the Audit and Risk Committee and further transmitted to the Board for approval. All four quarterly reports were then submitted to the shareholder (DWS). The Annual Report on performance information reflects all the performance indicators and targets as depicted in the Annual Performance Plan for the 2017/18 financial year.

The Annual Performance Plan contained 70 performance targets against which Amatola Water had to perform for the year under review. The Shareholder Compact contained 37 targets as approved by the Shareholder.

## PERFORMANCE OVERVIEW

The overall performance of the Shareholder Compact has declined to an average of 58% when compared to 63% achievement against predetermined targets in 2016/17.

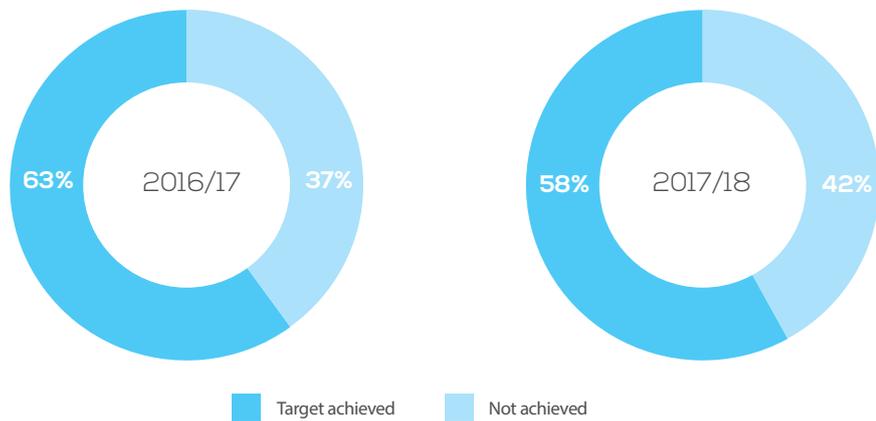


Figure 3.1: Overall shareholder compact performance objectives and targets

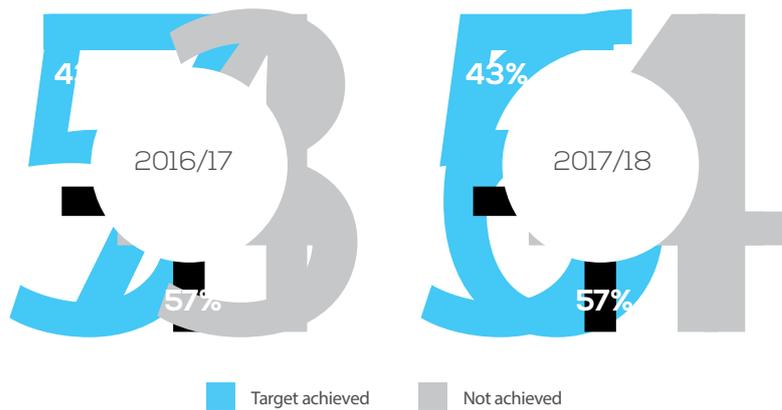


Figure 3.2: Overall corporate performance

The overall corporate performance of Amatola Water (AW) in 2017/2018 has been maintained at 57% (2016/17: 57%) when measured against the baseline of targets achieved.

The areas where there has been unsatisfactory performance from a financial perspective has been due to the unprecedented deficit of R105,624 million and challenges in collecting outstanding debt from clients which necessitated the impairment of long-outstanding debts.

Revenue from operations declined by 5% compared to the prior year and secondary revenue declined by 24% comparatively. Water sales were stagnant as restrictions were imposed on ADM. Consequently the tariff increase had no significant impact on water sales. The decrease in revenue from secondary business has been caused by the poor performance of contractors, contractual disputes and reprioritisation of allocated budgets.

OVERALL  
CORPORATE  
PERFORMANCE  
MAINTAINED AT

57%

REVENUE FROM  
OPERATIONS  
DECLINED BY

5%

## KEY SERVICE DELIVERY INDICATORS (PRIMARY MANDATE TO DELIVER BULK WATER)

**Water quality:** AW's water quality compliance in all its water treatment works and distribution network is in line with SANS 241:2015 Part 1 and 2. Two plants achieved a "good" water quality standard and seven plants achieved an "excellent" water quality standard.

**Assurance of supply:** Amatola Water achieved 98% assurance of supply to customers from source due to adequate pressure at the reservoirs, set targets being reached and the provision of the highest reliability of supply standards to customers and consumers.

**Minimised losses:** The combined production and distribution losses were 11.12% against a target of 14% and baseline of 11.98%. This crucially minimised the environmental, financial and social impacts of losses and unaccounted water.

**Temporary jobs created:** The target for creating temporary jobs was exceeded. Some 638 jobs were created against an annual target of 400 as project implementation intensified in King Sabata Dalindyebo Presidential Intervention (KSDPI), Nooitgedagt, Ndlambe and at Amatola Water's plant upgrades.

# PERFORMANCE AGAINST SHAREHOLDER COMPACT INDICATORS 2017/18

## PERFORMANCE PERSPECTIVE: ORGANISATIONAL EFFICIENCY AND EFFECTIVENESS

PERFORMANCE OBJECTIVE	MINISTERIAL OUTCOMES	DWS STRATEGIC GOALS	WB STRATEGIC OBJECTIVES	OUTCOME/IMPACT	INDICATORS/ CALCULATION	MEASURE	ACTUAL ACHIEVEMENT 2016/17	PROJECTED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	COMMENT ON PERFORMANCE ACHIEVEMENT
Bulk potable water quality compliance	9 & 12, 10	SO4.1	4,1	Water quality standards met	# of AW plants achieving "good" quality (SANS 241:2015 Edition 2 in Table 4)	Number	N/A	6	10	Target achieved
Management of avoidable water losses	6 & 10 5, 9, 12	SO2.2 & SO4.1 SO6.1	6,1	Reduced avoidable water losses in treatment and distribution systems	% total water losses on production and distribution	%	14,20%	14%	11,12%	Target achieved
Reliability of supply	5,1	5,1	5,1	No unplanned interruptions to bulk supply exceeding 24 hours	% assurance of potable water supply	%	99%	98%	99,97%	Target achieved
Increased access to services	6	SO2.1	1,2	Contribution to national objectives of extending services	% of actual capex budget spend on expansion related projects (initiatives by the Minister)	%	99%	98%	98%	Target achieved
								80%	124%	Target achieved

## PERFORMANCE PERSPECTIVE: FINANCIAL PERFORMANCE

PERFORMANCE OBJECTIVE	MINISTERIAL OUTCOMES	DWS STRATEGIC GOALS	WB STRATEGIC OBJECTIVES	OUTCOME/IMPACT	INDICATORS/ CALCULATION	MEASURE	ACTUAL ACHIEVEMENT 2016/17	PROJECTED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	COMMENT ON PERFORMANCE ACHIEVEMENT
Financial reporting compliance	9	SO1.2 & SO1.6	7.1	Unqualified audit report	External audit outcome	Unqualified report with no matters of emphasis (clean audit)	Unqualified	Unqualified	Unqualified	Target achieved
Improve key financial ratios	12	SO1.2 & SO1.6	3.1, 6.1 & 7.1	Improved viability and sustainability	Current ratio	Ratio	1.36	1,202	1,033	Target not achieved (Page 55 for explanatory note)
					Gross profit margin % (primary activity)	%	27.00%	24.20%	25.03%	Target achieved
					Gross profit margin (secondary activity)	%	29.00%	54.60%	17.50%	Target not achieved (Page 55 for explanatory note)
					Net profit margin (primary activity)	%	16%	-1.80%	-9.44%	Target not achieved (Page 56 for explanatory note)
					Net profit margin (secondary activity)	%	38%	10.30%	-99.92%	Target not achieved (Page 56 for explanatory note)
					Debt equity	Ratio	0%	0%	0%	Target achieved
					Return on assets	%	0.60%	0.40%	-24.72%	Target not achieved (Page 56 for explanatory note)
Debtor days	Number	88.07 days	42.7 days	73.91 days	Target not achieved (Page 56 for explanatory note)					

PERFORMANCE OBJECTIVE	MINISTERIAL OUTCOMES	DWS STRATEGIC GOALS	WB STRATEGIC OBJECTIVES	OUTCOME/ IMPACT	INDICATORS/ CALCULATION	MEASURE	ACTUAL ACHIEVEMENT 2016/17	PROJECTED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	COMMENT ON PERFORMANCE ACHIEVEMENT
					Repairs and maintenance as % of PPE and Investment Property (Carrying Value)	%	5,3%	2%	4,5%	Target achieved
					Staff remuneration as % of total operating expenditure	%	40%	43%	32,4%	Target achieved
Increase BBBEE expenditure in relation to operational projects	9	SO1.3	1,1	Spend increased and increased new entrants awarded contracts in the financial year	% BBBEE spend	%	100%	100%	104%	Target achieved
Manage costs within the approved budget	9	SO1.6 & SO2.1	3,1	Actual expenditure compared with budgeted expenditure for the quarter	New service providers awarded work (Number)	Number	N/A	N/A	N/A	N/A
Capital expenditure programme	6	SO2.1	7,1	Infrastructure available to meet demands	% variance on operating expenditure	% variance	N/A	0%	-15,04%	Target not achieved (Page 56 for explanatory note)
Engagement in secondary activities	12 & 6	SO1.6 & SO2.1	3,1	Growth in turnover from secondary activities	R-value overall project expenditure	Number ( R)	R907m	R640,50m	R482m	Target not achieved (Page 56 for explanatory note)
					Overall project completion dates within targets	%	81%	80%	57%	Target not achieved (Page 56 for explanatory note)
					% secondary revenue of total turnover	%	27,80%	27%	19,90%	Target not achieved (Page 56 for explanatory note)

## PERFORMANCE PERSPECTIVE: CUSTOMER/STAKEHOLDER INTERACTION

PERFORMANCE OBJECTIVE	MINISTERIAL OUTCOMES	DWS STRATEGIC GOALS	WB STRATEGIC OBJECTIVES	OUTCOME/IMPACT	INDICATORS/ CALCULATION	MEASURE	ACTUAL ACHIEVEMENT 2016/17	PROJECTED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	COMMENT ON PERFORMANCE ACHIEVEMENT
Bulk supply agreements concluded with municipalities/ other customers	12	SO2.1	1,2	Statutory and service level agreements in place	# of municipalities/ other customers with bulk supply agreements	Number	5,00	5	5	Target achieved
Implementation of ministerial directives	12	SO1.6 & SO2.1	1,2	New ministerial directives issued are implemented on time	% progress against ministerial directives implementation plan	%	48%	80%	37%	Target not achieved (Page 57 for explanatory note)
Support rural development	12	SO2.1	1,2	Total number of identified rural municipalities supported	# of signed contracts and MOUs	Number	5	3	5	Target achieved
Achieve statutory reporting compliance	12	SO1.6 & SO2.1	1,1	All statutory reports submitted on time	% submission dates met	%	100%	100%	100%	Target achieved

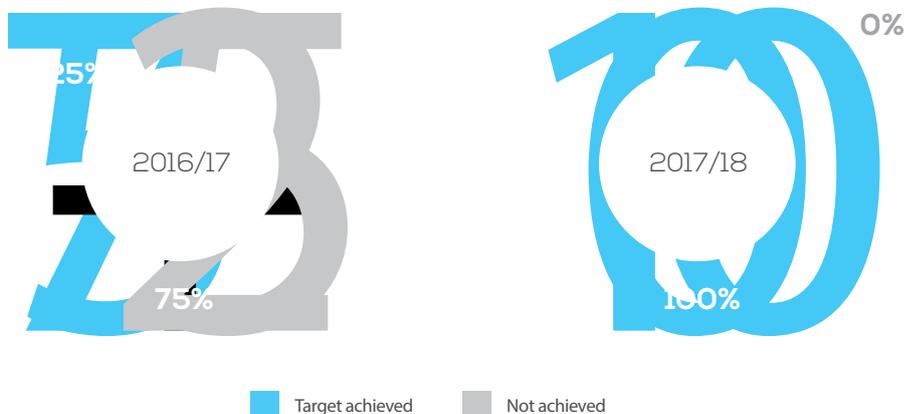
## PERFORMANCE PERSPECTIVE: ORGANISATIONAL CAPACITY

PERFORMANCE OBJECTIVE	MINISTERIAL OUTCOMES	DWS STRATEGIC GOALS	WB STRATEGIC OBJECTIVES	OUTCOME/IMPACT	INDICATORS/CALCULATION	MEASURE	ACTUAL ACHIEVEMENT 2016/17	PROJECTED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	COMMENT ON PERFORMANCE ACHIEVEMENT						
Staff levels	12	SO1.1 & SO4.3	7.1	Optimal staff retention	% Staff turnover	%	1.00%	1.00%	1.30%	Target not achieved (Page 57 for explanatory note)						
Training and skills development	12	SO1.1, SO1.3 & SO4.4	7.1	Skills and capacity building	# of learnerships	Number	N/A	10	10	Target achieved						
											# of bursaries employees	Number	N/A	25	28	Target achieved
Jobs created	4,12	SO2.1 & SO3.4	7.1	Permanent and contract (direct)	# of permanent jobs created	Number	405	437	432	Target not achieved (Page 57 for explanatory note)						
				# of temporary jobs created	Number	832	400	638	638	Target achieved						

## PERFORMANCE PERSPECTIVE: GENERAL PERFORMANCE

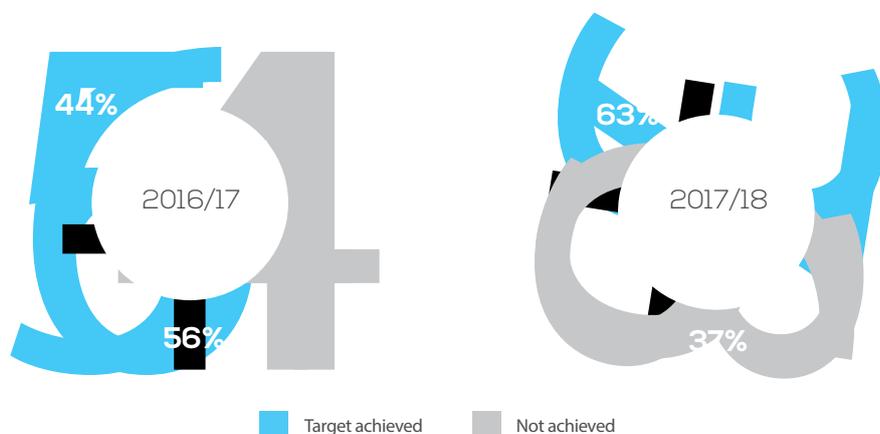
PERFORMANCE OBJECTIVE	MINISTERIAL OUTCOMES	DWS STRATEGIC GOALS	WB STRATEGIC OBJECTIVES	OUTCOME/IMPACT	INDICATORS/CALCULATION	MEASURE	ACTUAL ACHIEVEMENT 2016/17	PROJECTED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	COMMENT ON PERFORMANCE ACHIEVEMENT
Board effectiveness	9 & 12	SO1.2 & SO3.1	7.1	Improved performance of fiduciary duties/governance	% Board Member attendance of all Board/committee meetings	%	75%	100%	80%	Target not achieved (Page 58 for explanatory note)
Effective internal controls and risk management	12	SO1.2 & SO3.1	7.1	Internal audit findings dealt with	# of repeats internal audit findings	Number	9	10	0	Target achieved
Good governance	12	SO1.2 & SO3.1	7.1	Improved controls and risk mitigation	# of breaches of materiality and significance framework	Number	0	0	0	Target achieved
Corporate social responsibility initiatives	12	SO1.6	1.1	Good corporate citizenship	# of community/school initiatives undertaken	Number	10	4	10	Target achieved

# ORGANISATIONAL EFFICIENCY AND EFFECTIVENESS



## PERFORMANCE PERSPECTIVE

# FINANCIAL PERFORMANCE



INDICATOR NO	INDICATOR/ MEASURE	REASON FOR VARIANCE AND RECOVERY PLAN
<b>STRATEGIC OBJECTIVE: IMPROVE KEY FINANCIAL RATIOS</b>		
3.1.3	Current ratio	<ul style="list-style-type: none"> <li>Target was not achieved due to the impairment of R120 million for ADM and Makana LM debt which are long outstanding.</li> <li>A debtor profiling and an accelerated debt collection exercise is being implemented to address the current debt situation and to ensure collection of all outstanding debt.</li> </ul>
3.1.5	Gross profit margin (secondary activity)	<ul style="list-style-type: none"> <li>Target not achieved due to a decrease in the secondary business activity as a result of projects not being awarded as planned.</li> <li>The remedial action plan going forward will include the following:                             <ul style="list-style-type: none"> <li>- Improved implementation of secondary business projects to realise the revenue that will increase the gross profit.</li> <li>- Reduction of input costs to match the project implementation agent fee recovered.</li> </ul> </li> </ul>

INDICATOR NO	INDICATOR/ MEASURE	REASON FOR VARIANCE AND RECOVERY PLAN
3.1.6	Net profit margin (primary activity)	<ul style="list-style-type: none"> <li>Target was not achieved due the impairment of debtors such as ADM and Makana LM which have negatively impacted the net profit margin of the primary business activities.</li> <li>The remedial action going forward will prioritise accelerated implementation of Amatola Water plant upgrades to realise additional volumes to meet the current demand.</li> </ul>
3.1.7	Net profit margin (secondary activity)	<ul style="list-style-type: none"> <li>Target was not achieved due to a decrease in secondary revenue as a result of projects not being implemented on time.</li> <li>The plan going forward will focus on improving the implementation of secondary business projects with emphasis on project governance; stakeholder engagement; input costs reduction and review of project implementation agent fee.</li> </ul>
3.1.10	Return on assets	<ul style="list-style-type: none"> <li>Target was not achieved due to a decrease in secondary revenue and an increase in administrative costs.</li> <li>An accelerated plan to complete the Amatola Water plan upgrades is being implemented to realise the primary revenue.</li> <li>Secondary business activities going forward will focus on improving project implementation in order to realise additional secondary revenue which matches the secondary business costs.</li> </ul>
3.1.11	Debtors days	<ul style="list-style-type: none"> <li>Target was not achieved as the ADM and Makana LM debt are not being serviced as this was not an expectation at the time the targets were set. The poor performance on debtor days is also attributable to poor receipt of key customer payments.</li> <li>AW has entered into payment plans with the defaulters and is vigorously monitoring the payment terms conditions.</li> <li>The remedial action taken involves the discontinuation or restriction of services to non-paying customers.</li> </ul>

#### STRATEGIC OBJECTIVE: MANAGE COSTS WITHIN THE APPROVED BUDGET

3.1.12	% Variance on operating expenditure	<ul style="list-style-type: none"> <li>Target was not achieved due to the impairment of debt and escalation of general administrative costs.</li> <li>The remedial action plan going forward is to implement strict debt and credit management, costs containment measures, appropriate budget and project planning.</li> </ul>
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#### STRATEGIC OBJECTIVE: CAPITAL EXPENDITURE

3.1.13	% secondary revenue of total turnover	<ul style="list-style-type: none"> <li>Target was not achieved as secondary projects were not implemented timeously due to budget cuts, reprioritisation of funding and poor contractor performance negatively impacted secondary revenue.</li> <li>Secondary project implementation initiatives to improve performance going forward will focus mainly on: <ul style="list-style-type: none"> <li>Reviving stakeholder relations</li> <li>Reducing input costs</li> <li>Capacitating project and contract management units</li> <li>Providing adequate support with emphasis in capacitating supply chain management.</li> </ul> </li> </ul>
7.1.8	R-value overall project expenditure	<ul style="list-style-type: none"> <li>Target was not achieved due to project budget cuts and reprioritisation of budget allocations.</li> <li>An improvement in project planning and implementation is being facilitated through the introduction of project charters and the revised Project Management Policy.</li> <li>Project management activities going forward involve close monitoring and evaluation of performance against allocated budgets.</li> </ul>
7.1.9	Overall project completion dates within targets	<ul style="list-style-type: none"> <li>Target was not achieved due to poor contractor performance, lack of contract management, budget cuts and reprioritisation, and poor stakeholder relations.</li> <li>The remedial solution to halt the decline in performance of this indicator will include: <ul style="list-style-type: none"> <li>Reconnecting and interacting with key stakeholders</li> <li>Capacitating project planning and implementation including supply chain management</li> <li>Improving project performance monitoring and evaluation.</li> </ul> </li> </ul>

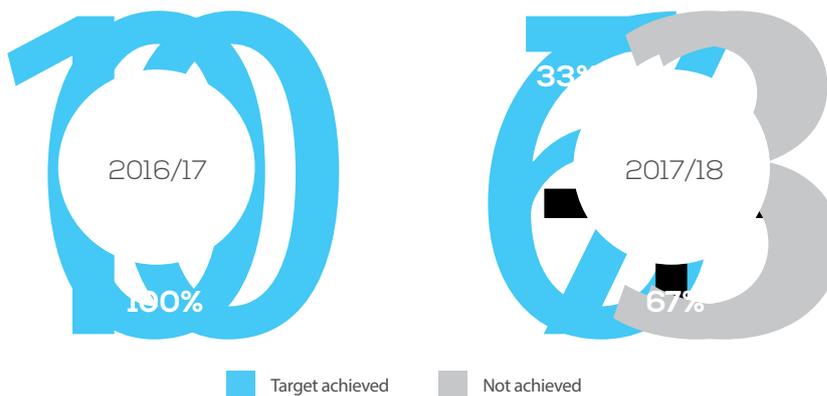
## PERFORMANCE PERSPECTIVE

# CUSTOMER/STAKEHOLDER INTERACTION



INDICATOR NO	INDICATOR/MEASURE	REASON FOR VARIANCE AND RECOVERY PLAN
<b>STRATEGIC OBJECTIVE: IMPLEMENTATION OF MINISTERIAL DIRECTIVES</b>		
1.2.3	% progress against ministerial directives implementation plan	<ul style="list-style-type: none"> <li>Target was not achieved due to budget cuts in the original allocation by DWS. As a result, AW and the contractor had to adjust the programme which also resulted in the suspension of work due to non-payment.</li> <li>AW's key project stakeholders are working closely to manage changes during implementation to ensure that the desired progress is achieved.</li> </ul>

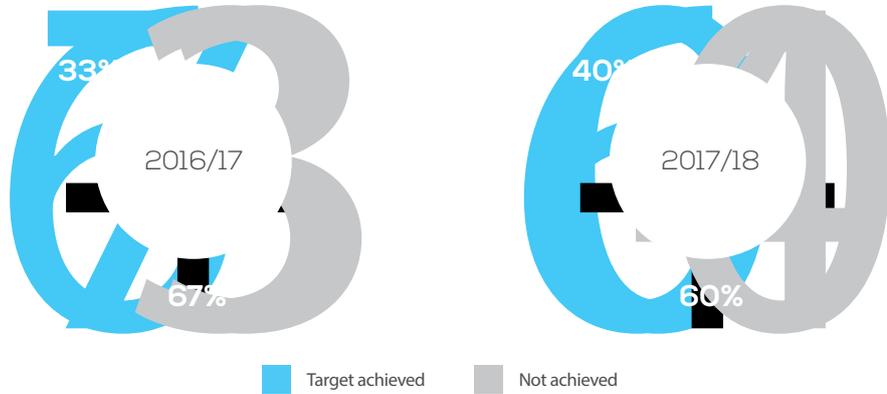
## ORGANISATIONAL CAPACITY



INDICATOR NO	INDICATOR/MEASURE	REASON FOR VARIANCE AND RECOVERY PLAN
<b>STRATEGIC OBJECTIVE: STAFF LEVELS</b>		
7.1.11	% staff turnover	<ul style="list-style-type: none"> <li>Target was not achieved due to an increase in the number of voluntary resignations.</li> <li>The remedial action plan going forward will mainly focus on:                             <ul style="list-style-type: none"> <li>- Developing and implementing a staff retention policy</li> <li>- Expediting the closure of vacant positions</li> <li>- Conducting exit interviews.</li> </ul> </li> </ul>
7.1.12	# of permanent jobs created	<ul style="list-style-type: none"> <li>Target was not achieved as the process of recruiting critical staff is underway and will remain a priority for the implementation of the AW Turnaround Plan to stabilise and grow the organisation.</li> </ul>

PERFORMANCE PERSPECTIVE

# GENERAL PERFORMANCE



INDICATOR NO	INDICATOR/ MEASURE	REASON FOR VARIANCE AND RECOVERY PLAN
<b>STRATEGIC OBJECTIVE: BOARD EFFECTIVENESS</b>		
7.1.16	% Board Member attendance of all Board/ committee meetings	<ul style="list-style-type: none"> <li>Target was not achieved:                             <ul style="list-style-type: none"> <li>- Some Board Members cannot make the meetings (attendance).</li> </ul> </li> <li>The remedial action plan will focus on:                             <ul style="list-style-type: none"> <li>- Timeous approval of the Board calendar and securing dates for approved board meetings using an electronic system such MS Outlook.</li> <li>- Encouraging and committing Board Members to attendance.</li> </ul> </li> </ul>
7.1.18	# of unresolved internal audit findings	<ul style="list-style-type: none"> <li>Target was not achieved due to inadequate organisational capacity and lack of resources to perform periodical reviews.</li> <li>The remedial action plan going forward will focus on:                             <ul style="list-style-type: none"> <li>- Ensuring that management perform regular follow-ups to address the unresolved internal audit findings as recommended.</li> </ul> </li> </ul>





# LEADERSHIP AND EMPLOYEE DEVELOPMENT

04

# LEADERSHIP AND EMPLOYEE DEVELOPMENT

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Leadership and employee development are optimised at Amatola Water through continuous learning and improvement, and the recruitment and retention of competent and skilled employees who are motivated, adaptable and adhere to safe working practices, institutional knowledge maintenance and sharing, providing opportunities for professional development and leadership by an integrated senior leadership team.

Leadership and employee development are part of the 10 outcomes for sustainable value creation (page 34). It focuses on labour and employment matters such as:



**HUMAN CAPITAL AND WORKFORCE MATTERS:** Recruitment and selection, occupational health, performance and accountability monitoring and corrective action, wellness programmes, and training and development



**SOCIO-ECONOMIC DEVELOPMENT:** Informed by goals and purpose of the Employment Equity Act, 1998 (Act No 55 of 1998) and Skills Development Act, 1998 (Act No 97 of 1998).

## LABOUR PRACTICES AND DECENT WORK

Amatola Water embraces the principle that its organisational goals and HR needs are mutually compatible and strongly interdependent. The entity's HR policies, therefore, seek to ensure a competent, motivated and engaged workforce for strategy implementation. The Department embarked on a comprehensive policy review process during the financial year. Progress is slow but will continue into the next financial year.

2017/18

**324**  
PERMANENT  
EMPLOYEES

**106**  
FIXED-TERM  
CONTRACT  
EMPLOYEES

## EMPLOYMENT PROFILE

Amatola Water seeks to maintain a workforce that enables it to deliver quality services to all stakeholders. The entity's 2017/18 workforce profile includes 324 permanent employees and 106 fixed-term contract employees (target 437) in various operational projects:

SALARY BAND/ OCCUPATION LEVELS	APPOINTMENTS	TERMINATIONS	EMPLOYEES AT THE END OF THE PERIOD
Top management	1	1	1
Senior management	1	1	2
Professionals and mid-management	3	5	23
Skilled technical workers and junior management	3	13	99
Semi-skilled	6	9	145
Unskilled	3	3	54
Total	12	32	324

Table 4.1: Staff movement and profile as at 30 June 2018

Vacancies are monitored against the organisation's approved organogram. The DWS moratorium on the filling of vacancies had to be applied and this resulted in permission request associated delays in filling critical vacancies. The moratorium was lifted in May 2018 but management continued to critically evaluate the necessity of vacancies to be filled on a permanent basis, given the financial situation of the organisation. This has resulted in a performance slightly below target.

2017/18

**64**  
VACANCIES

DIVISION (ORGANOGRAM)	DIVISION (LAST APPROVED ORGANOGRAM)	EMPLOYMENT AT END OF PERIOD	VACANCIES	% VACANCIES
CE Office	11	7	4	36.36%
Corporate Services	33	21	12	36.36%
Planning & Development	41	27	14	34.14%
Finance	44	35	9	20.45%
Operations	293	253	40	13.65%
Total	422	343	79	18.72%

Table 4.2: Staff vacancies as at 30 June 2018

The organisation adheres to the principles embodied in the Employment Equity Act. A representative Employment Equity Committee is in place and plays an active role in the recruitment and consideration is given to the regional population demographics benchmark as well as fairness in the workplace. Special focus has been given to black women in accordance with the organisation's Employment Equity Plan and turnover from the previous year.

	LEVEL	AFRICAN	COLOURED	INDIAN	WHITE
	% Target	43.2	5.9	0.1	3.0
	% Current	60	4.3	0.62	4.9
	Top management	0	0	0	0
	Senior management	0	0	0	0
	Professional qualification	10	0	1	4
	Skilled	48	8	1	11
	Semi-skilled	94	6	0	1
	Unskilled	43	0	0	0
	TOTAL	195	14	2	16

	LEVEL	AFRICAN	COLOURED	INDIAN	WHITE
	% Target	39.8	5.5	0.1	2.4
	% Current	24.38	3.1	0.3	2.7
	Top management	1	0	0	0
	Senior management	1	0	0	1
	Professional qualification	3	1	1	3
	Skilled	24	6	0	1
	Semi-skilled	39	3	0	2
	Unskilled	11	0	0	0
	TOTAL	79	10	1	7

	LEVEL	DISABLED
	% Target	2
	% Current	1.9
	Top management	0
	Senior management	0
	Professional qualification	0
	Skilled	2
	Semi-skilled	3
	Unskilled	1
	TOTAL	6

Table 4.3: Employment equity statistics as at 30 June 2018

CATEGORY	NUMBER	% OF TOTAL TERMINATIONS
Death	2	0.61
Resignation	17	5.22
Dismissal	6	1.84
Retirement	4	1.22
Ill health	2	0.61
Other	1	0.3
Total	32	9.8%

Table 4.4: Staff terminations for the period ending 30 June 2018

During the period under review, 26 employees left Amatola Water for reasons other than dismissal. Labour turnover increased from 4.7% in 2016/17 to 9.8% in 2017/18. The largest contributor was resignations. Exit interviews were conducted to understand and determine corrective action to prevent critical loss of skills. The Turnaround Plan will assist in creating an improved work environment in future.

DIVISION	TOTAL EXPENDITURE	PERSONNEL EXPENDITURE	PERSONNEL EXPENDITURE AS A % OF TOTAL	NO EMPLOYEES	AVERAGE PERSONNEL COST PER EMPLOYEE
CE Office	33 091 351	17 975 513	54%	16	1 123 470
Corporate Services	38 481 633	14 078 027	37%	25	563 121
Planning & Development	10 642 939	9 116 317	37%	30	303 877
Finance	29 981 854	13 311 019	44%	36	369 751
Operations	297 170 864	114 045 759	38%	232	491 577
Total	409 368 641	168 526 636	41%	339	497 129

Table 4.5: Personnel expenditure by division

2017/18

**274**  
UNION MEMBERS

**73%**

**405**  
EMPLOYEES

## LABOUR RELATIONS

Sound relations with organised labour, as a key social partner, is of paramount importance to the success of Amatola Water which has a collective agreement with the South African Municipal Workers Union (SAMWU).

Governed through a collective agreement and various forms of legislation, Amatola Water remains committed to sharing information regarding operational changes that may affect employees directly or indirectly, with organised labour.

Continuous engagement is deemed critical to the development and sustainability of the institution, which, in turn, provides opportunities for all employees. Management and organised labour, through a local Labour Forum, meet six times per annum.

All planned engagements were met during the year and significant focus was placed on the organisational Turnaround Plan, resolution of long-outstanding grievances and finalisation of the minimum services agreement required for essential service organisations in the event of industrial action.

The Amanzi Bargaining Council delegated salary negotiations to plant level. Negotiations deadlocked in October 2017. In December 2017, the employer was forced to withdraw its mandate due to the dire financial situation which resulted in organised labour referring the matter for mutual interest arbitration. This matter was unresolved at the end of the financial year.

Capacitation of line management in handling disciplinary cases has been undertaken during the year.

NATURE OF DISCIPLINARY ACTION	NUMBER
Verbal warning/Counselling	0
Written warning	0
Final written warning	4
Suspension	2
Dismissal	6

Table 4.6: Number of disciplinary actions

## EMPLOYEE WELLNESS

Amatola Water values employee health and recognises the role wellness can play in the workforce. Whether simple or complex, every wellness effort contributes towards a healthier and more productive work environment.

The entity's occupational health programme is in line with the Occupational Health and Safety Act (No. 85 of 1993) seeks to attain balance between the employee and job-fit as well as minimising workplace injuries and accidents.

Medical surveillance programmes are conducted annually with all employees exposed to high-risk work areas and hazardous substances. Hearing conservation remains one of the critical aspects of the programme, especially to employees exposed to noise.

Regular education on safe work practices and monitoring of compliance have contributed to the minimal workplace injuries and a small number of minor non-conformances as confirmed during the SABS Audit during the period.

The organisation's Employee Assistance Programme is not currently in full operation due to resource constraints. Counselling for employees faced with trauma took place during the financial year. A programme to assist employees with health education, and awareness and management of HIV/Aids-related cases as well as general guidance on primary health issues is due to be relaunched.

NATURE OF REFERRALS	NUMBER
Psycho-social (including family members)	11
Trauma (hijacking)	3
Pre-employment medicals (fit to work) (permanent employees)	12
Exit medicals	24

Table 4.7: Nature of referrals



## TRAINING AND DEVELOPMENT: LEGISLATIVE AND FUNCTIONAL TRAINING

Skills development is an essential enabler for employees to excel in their individual and team roles and functions, and deliver on the organisation's strategy. During the year, the organisation undertook a skills assessment to understand gaps in relation to employee skill and experience relative to job requirements. Areas identified of concern are supply chain and project management and have been elevated in terms of priority in the training plan.

Amatola Water submitted an annual workplace skills plan to the Energy, Water and Sanitation Sector Education and Training Authority (EWSETA), which sets out the skills requirements of the organisation. Relevant training reports were submitted to EWSETA and full opportunity has been taken of available grants.

Employee contributions to this plan were gathered during the performance management development process. These needs are aligned to organisational capacity and capability requirements as identified in the business planning process.

The training budget and expenditure per employee was reduced during the past financial year due to financial constraints. Training focused on compliance-related training and development critical to the organisational Turnaround Plan.



DESCRIPTION	MALE				FEMALE				TOTAL
	AFRICAN	COLOURED	INDIAN	WHITE	AFRICAN	COLOURED	INDIAN	WHITE	
Top management	0	0	0	0	1	0	0	0	0
Senior management	0	0	0	0	1	0	0	1	2
Professionals and mid-management	11	0	0	4	4	1	1	3	24
Skilled technical workers & junior management	34	4	1	6	16	2	0	1	64
Semi-skilled	59	2	0	1	26	1	0	1	89
Unskilled	32	0	0	0	3	0	0	0	35
Total permanent	136	6	1	11	51	4	1	5	215
Total temporary	6	1	0	0	1	0	0	1	9
TOTAL	142	7	1	11	52	4	1	6	224

Table 4.8: Training equity profile

## Management development and project management

The Management Development Programme and project management training provides training in the management skills necessary to enhance the efficiency of supervisors, administrators and operations staff, to deliver the highest level of service.

**3** SUPERVISORS  
COMPLETED THE PROGRAMME

## Qualified mechanical fitters

As part of Amatola Water's recognition for prior learning programme for Artisan Aids, six people qualified as Mechanical Fitters after passing a trade test.

**6** QUALIFIED  
AS MECHANICAL FITTERS

FINANCIAL  
ASSISTANCE  
PROVIDED TO

**28**  
EMPLOYEES

**16**  
FEMALE  
EMPLOYEES

## Financial study assistance

In line with Amatola Water's objectives to attract and retain employees and enhance productivity levels, Amatola Water provided financial assistance to 28 employees for tertiary education during the reporting period. The annual target (for bursaries) was 25 which was exceeded due to some graduations scheduled to take place early in the new financial year. In support of the entity's Employment Equity plan, 16 of the recipients were female.

## PERFORMANCE AND REMUNERATION

Amatola Water's performance management system is designed to ensure that all employees have the knowledge and awareness of their roles and performance requirements in relation to the corporate strategy.

The structured performance management system is the vehicle for the implementation of Amatola Water's strategic objectives.

Amatola Water has endured a challenging year, with the Auditor-General's Report confirming the organisation's percentage achievement of 57% (versus 57% for 2016-17) of the Corporate Scorecard targets, which is below the stipulated 70% requirement in terms of the policy for an annual performance bonus.

It is critical that Amatola Water Management continues to utilise the performance management system effectively as it provides a mechanism to improve performance through counselling and discipline. It also provides a justification for decisions related to performance-linked adjustments (such as remuneration and promotion) which are critical for improved organisational performance.

Ongoing management and employee support remains vital to ensure continued efficiency and effectiveness of the individual performance management system. The aim was for 100% of employee reviews to be performed bi-annually. This result was achieved but delays were experienced in relation to adherence to cycle times.

Management created awareness of the Performance Management Policy and process through roadshows and coaching during the financial year and will intensify efforts in 2018/19 with the introduction of formal quarterly reviews.

## ORGANISATIONAL CULTURE

Culture is an enabler of strategy and Amatola Water continues to strive to enhance organisational culture to create an enabling environment for successful strategy implementation and improved service delivery.

An employee perception survey was conducted in mid-2018 to elicit employee opinion on seven dimensions - ethics, job satisfaction and environment, accountability, customer satisfaction, people management, communication and teams, and engagement.

Participation was low with only 24% of Amatola Water employees completing the survey. A score of 3.25 (out of 5) was achieved which was deemed positive in relation to the target of 3.2 (out of 5).

Employee comments highlighted concerns regarding employee engagement in general which will be consolidated during the culture change and is required as part of the Turnaround Plan. This commenced in the last quarter of the financial year with a leadership session.

## INFORMATION TECHNOLOGY

Information and Communication Technology (ICT) is a business enabler which supports the corporate strategy by ensuring the availability of ICT services and resources as well as the implementation of enhanced services, based on evolving technology.

The focus for 2017/2018 was ICT governance, the management of risks and key ICT projects which are required to support business operations.

### ICT governance

As part of the implementation of new systems and services, and the enhancement of the current framework, the ICT department is required to adhere to prescribed governance procedures to ensure sound corporate governance.

One of the fundamental aspects of Amatola Water's ICT corporate governance principles is the oversight of all ICT investments, governance, risk management and key projects by the Information Management Steering Committee (ITSCM) and Audit and Risk Committee (ARC). These two committees are responsible for overseeing and obtaining independent assurance on the ICT environment as delegated by the Board.

Key governance drivers this year were the adoption and implementation of new and revised ICT Policies, together with a number of ICT procedures, aimed at fostering organisational awareness.

### Key projects

The focus for 2017/2018 has largely been on:

The enhancement of the current ICT security measures by:

- Initiating the implementation of cloud web security for internet access protection
- Encrypting end user machines to secure organisational information
- Configuring the server environment with audit software for monitoring and reporting.

Substantial progress has been made on the Enterprise Performance Management (EPM) System project which is 90% complete. EPM is a reporting tool used to assist executive management with improving the clarity and effectiveness of actual performance monitoring against planned items in the Corporate Scorecard.



Business continuity by means of:

- Replacing earmarked ICT infrastructure
- Initiating the consolidation of the ICT server environment with the aim of fully optimising current hardware resources to maximise cost saving
- Maintaining an average of 98.3% for infrastructure and system availability, meeting the annual target of 98.3%
- Reviewing and approving the annual Disaster Recovery Plan (DRP).

ICT audit compliance:

- An internal audit review was conducted. The majority of the findings were addressed with only two issues currently outstanding.

### Future plans

Projects planned for the ICT department for the 2018/2019 financial year, which have been aligned with the organisational strategy, are:

Corporate governance of ICT

- Approved ICT Strategy, ICT Governance Policy, ICT Governance Charter and ICT Governance Framework
- A reviewed DRP in line with best practice and industry standards.

ICT projects

- Finalisation of the EPM project
- Initiation and implementation of new in-house systems to improve internal stakeholder performance
- Implement the AW server infrastructure consolidation solution
- Implementation of additional ICT security enhancements
- Review of the data backup solution.

The graphical representation below (figure 4.9) indicates the reduction in capital expenditure between the financial years. In 2016/2017, the ITSCM approved capital investments to provide the EPM system and to replace old infrastructure to ensure that the department achieved its goal of providing an uptime of 98.3% for its systems and server infrastructure. The capital investments were also for addressing risks, thereby implementing security measures for the ICT environment. In the succeeding year (2017/2018), the focus was on optimising value of the capital investments by consolidating and maintaining the infrastructure, completing the EPM system and implementing controls to improve ICT security and audit outcomes in the organisation.

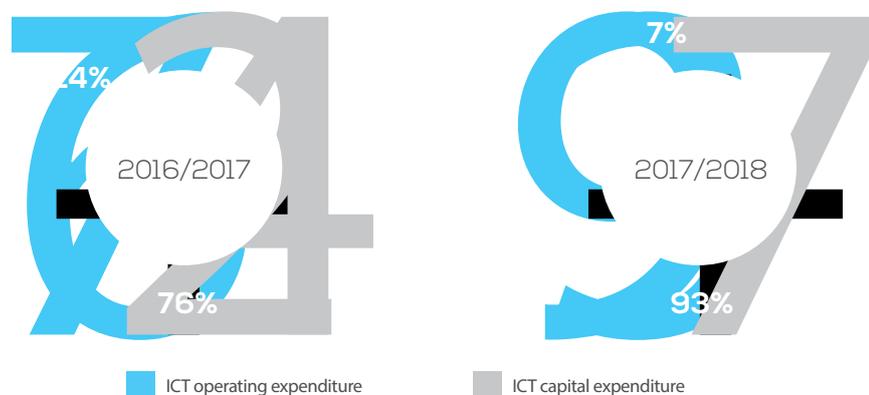


Figure 4.9: Comparison of ICT spend on capital and operations





# ENVIRONMENTAL SUSTAINABILITY

05



# ENVIRONMENTAL SUSTAINABILITY

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Amatola Water's Environmental Sustainability Strategy provides the organisational framework for environmental sustainability and governance. It is underpinned by the recognition that Amatola Water has a role to play in effecting the National Development Plan, particularly in the Eastern Cape.

The strategy recognises key interventions that are critical to support and achieve environmental sustainability, and acknowledges that Amatola Water has an impact on natural resources. In turn, it also understands that it can also be impacted by natural resources.

In general terms, the interventions relate to Amatola Water's environmental footprint and integrated environmental management, within the context of climate change uncertainty, application of relevant technologies and the service delivery imperative.

Key identified interventions to enhance organisational environmental sustainability are monitoring, assessing and evaluating the effect of and on organisational activities, managing and mitigating environmental impact, promoting environmental awareness, supporting cooperative environmental governance and participating in relevant environmental research.

Amatola Water considers the potential environmental impact of proposed activities such as new developments, refurbishments, upgrades or maintenance of existing infrastructure, ensuring timeous applications for necessary environmental authorisations and water-use licenses.

Ongoing involvement in environmental studies for the primary and secondary business developments remains important and ongoing in planning (securing relevant authorisations) and implementing projects (environmental monitoring and auditing).

The development of the Environmental Management System (EMS) requires accurate and up-to-date record-keeping and monitoring.

With this in mind, the development of a system to capture information and data on relevant authorisations (environmental and water uses, for example) for the various Amatola Water supply areas was started.

Continuous capturing of this information will significantly enhance environmental governance and monitoring within the organisation. This will ensure that the relevant authorisations are obtained timeously and that best environmental practice can be applied and monitored through suitable environmental management plans and specifications.

Figure 5.1 shows the value of such monitoring: The draft EMS for operations at the Nahoon WTW clearly shows that raw water abstraction is within the allowable license conditions.

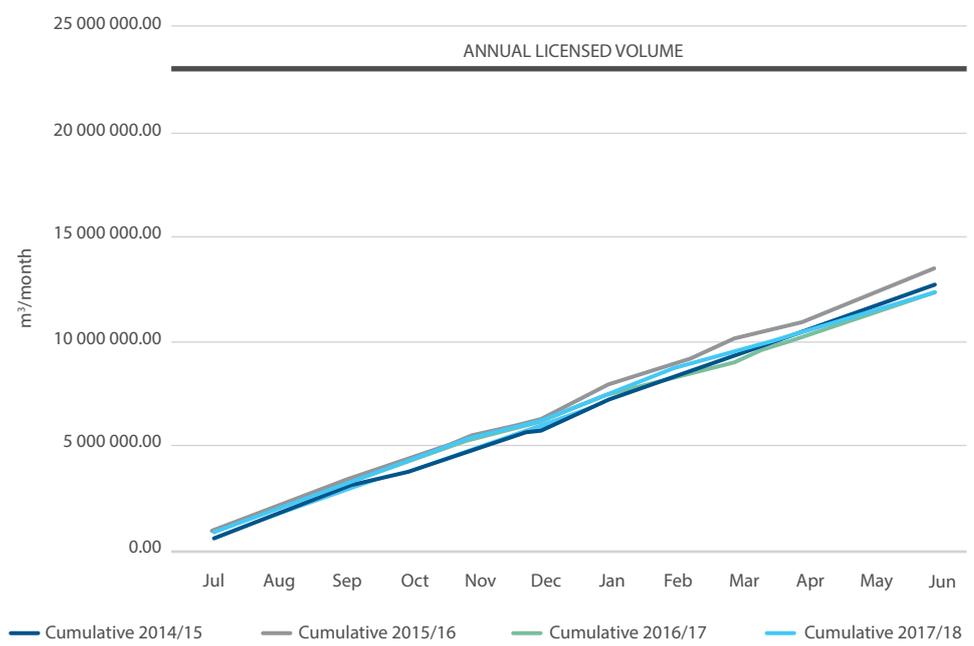


Figure 5.1: Cumulative annual raw water abstraction from Nahoon Dam relative to annual licensed volume

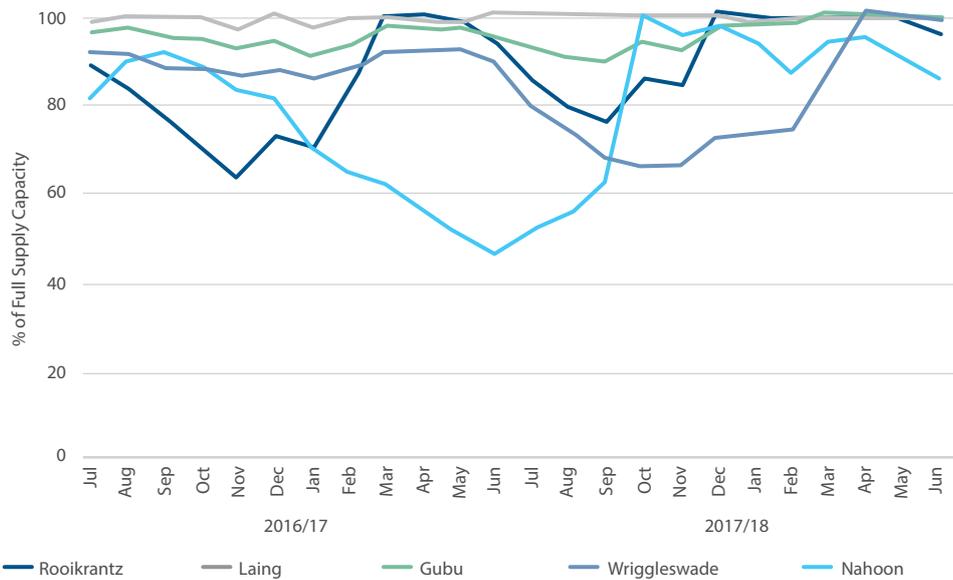


Figure 5.2: Dam levels of supply dams in the Amathole Water Supply System

A reduction in overall water losses is shown for the year (Figure 5.2), largely as a result of reduced water losses at the treatment works.

Appropriate indicators of environmental sustainability have been identified and monitoring the development of programmes are underway. It is clear that such monitoring programmes have the potential to contribute to improving environmental sustainability of the organisation's activities by allowing detection of areas of operation that warrant further assessment and mitigation of environmental impact.

For example, in Figure 5.4 and 5.5, the impact of the solar renewable energy installation at the Water Resources offices can be seen when comparing the electricity consumption over the two financial years.

The installation was commissioned in July 2017 (anomalies in the data are a result of interim meter readings provided by the municipality) and the visual representation clearly shows the reduction in electricity consumption from the municipal grid, which contributes towards environmental sustainability (reduced carbon footprint).

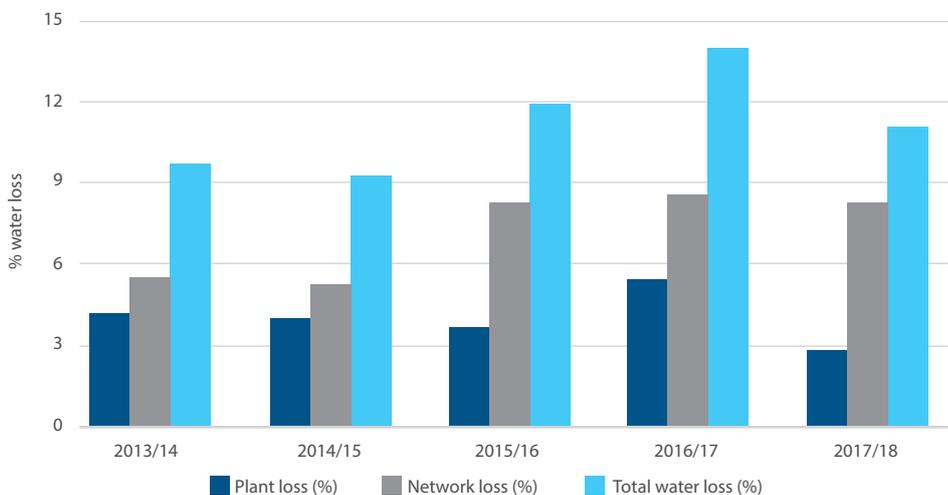


Figure 5.3: Amatola Water water losses (%) for the last five years

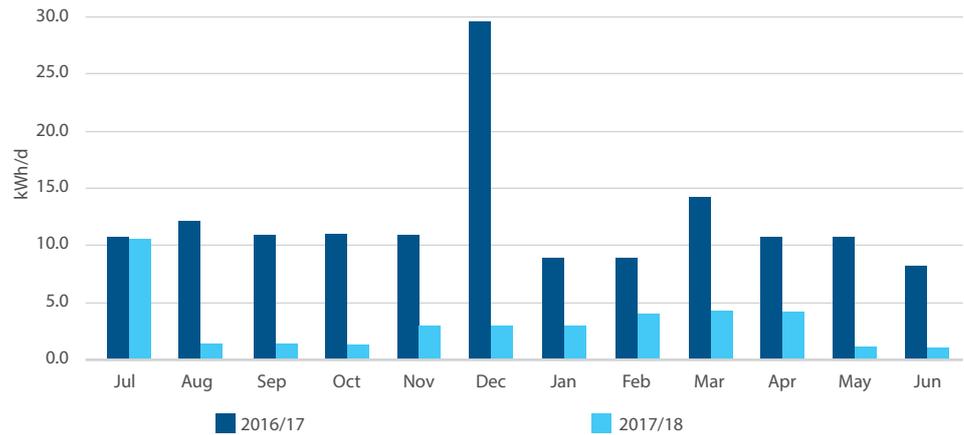


Figure 5.4: Average daily electricity consumption (kWh/d)

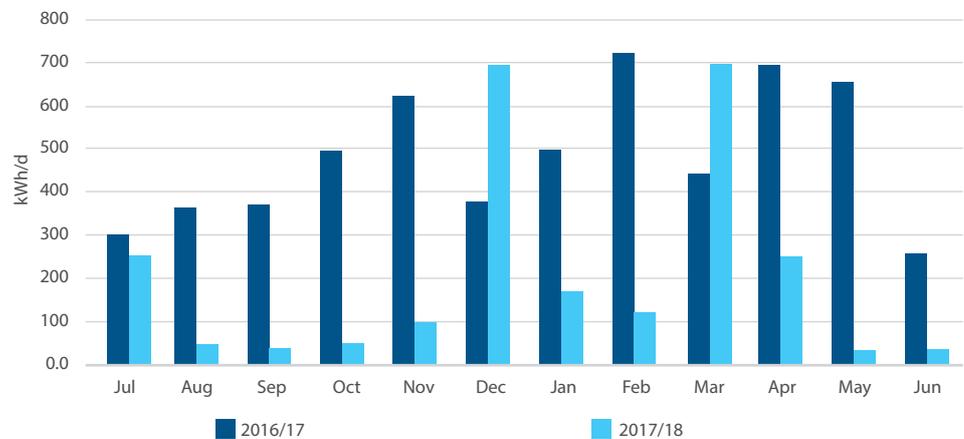


Figure 5.5: Monthly electricity consumption (kWh/d)

Figures 5.4 and 5.5 show electricity consumption from the municipal grid at the Amatola Water Resources offices over the past two financial years. A solar renewable energy system (PVC) was commissioned in July 2017.

It also shows an increase in electricity consumption from the municipal grid during the hot summer months. This is due to the air conditioners in the building not being connected to the solar system.

However, monitoring the daily electricity generation of the solar will indicate if and how many air conditioners can be connected to the solar system. This will help to further reduce electricity consumption from the municipal grid.

Further investigations of the improvement of data capture and management systems for improving environmental sustainability reporting are underway as part of the EMS.

**Amatola Water continues to be an active stakeholder in policy dialogues, projects and research that have a bearing on, or are relevant to, the organisation’s environmental sustainability strategy.**

Issues such as climate change, environmental monitoring and other regulatory and research activities have a bearing on environmental sustainability for Amatola Water.



06

## OPERATIONAL REVIEW

# INTRODUCTION

Amatola Water remains committed to meeting all its bulk supply agreement obligations and conducts regular proactive maintenance of all its assets as a fundamental part of continued operations management.

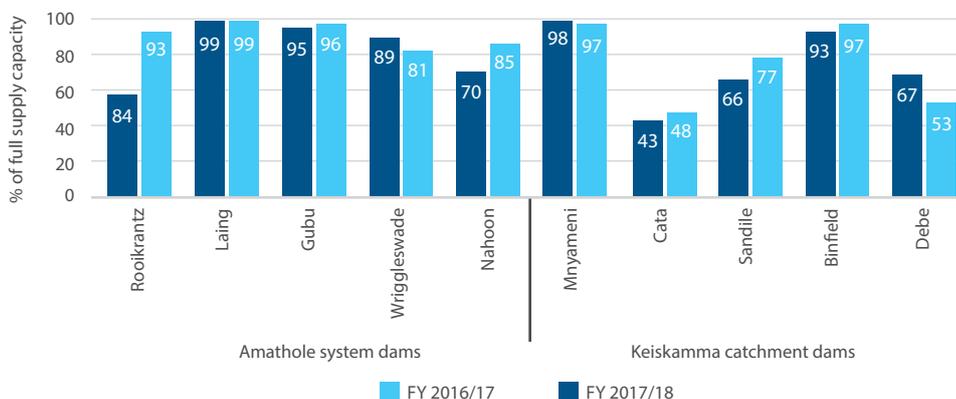
Amatola Water's participation in the Provincial Water Infrastructure Master Plan, as implementing agent (IA) of various projects in the Eastern Cape, is seen as a positive contribution to the elimination of the water supply and sanitation backlogs in the Eastern Cape.

## PRIMARY BUSINESS ACTIVITIES

### RAW WATER PRODUCTION

Amatola Water plants are all supplied from dams within the Amathole and Keiskamma Water Supply System, with the exception of Albany Coast that is abstracting sea water on the Boesmansriviermond and then blended with brackish water from the Diaz Cross sand dunes, within Ndlambe Local Municipality.

Below are the trends of the dam levels that supply Amatola Water plants, over two financial years:



Graph 6.1: Comparison of average annual supply levels of Amatola Water dams

## POTABLE WATER PRODUCTION

The water abstracted from various sources is treated at individual water treatment plants and is then distributed to the command reservoir to be channelled into the distribution points. The table below illustrates the capacity of AW plants, the respective raw water sources as well as the areas of supply per plant:

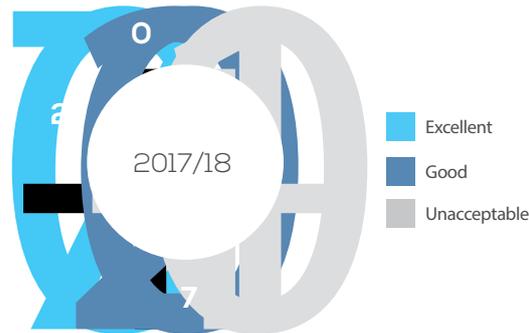
RAW WATER SOURCE	SCHEME	2017/18 WATERWORKS CAPACITY (Mℓ/day)	206/17 WATERWORKS CAPACITY (Mℓ/day)	SUPPLY AREA/NATURE OF AREA SERVED
Sandile Dam	Sandile	18	18	Dimbaza Town, Middledrift Town, Fort Cox College, Bulembu Airport and more than 128 surrounding villages (20% urban and 80% rural)
Sandile Dam pumping from Craighead Weir	Peddie	6.6	6.6	Peddie Town, Nompumelelo Hospital, peri-urban areas of Debe and Feni, surrounding villages (20% peri-urban and 80% rural)
Debe Dam	Debe	5	1.5	Rural
Mnyameni Dam	Mnyameni	0.2	0.2	Rural
	Masincedane	6	2	Rural (20% peri-urban and 80% rural): Keiskammahoek Town
Binfield Park Dam	Binfield Park	4.8	4.8	Urban areas of Alice, Kyaletu and Ntselamanzi, rural service centres of lower and upper Hopefield, 38 rural villages, Fort Hare University and Phandulwazi Agricultural College
Lower Fish GWSS from Glen Boyed Dam	Glenmore	0.5	0.5	Rural
Laing Dam	Laing	33	33	Bhisho, Balassi, Berlin, Llitha, Zwelitsha, Pakamisa, Ndevana, Potsdam, Mount Coke, Mdantsane (63% urban, 17% peri-urban and 20% rural)
Nahoon Dam	Nahoon	33.7	33.7	East London/Reeston/Mdantsane/Newlands/Macleantown (95% urban and 5% peri-urban)
Groundwater	Albany Coast reverse osmosis plants	3.8	2.41	Port Alfred, Bathurst, Kleinemonde, Kenton on Sea, Bushmans River, Boknes, Cannon Rocks and Alexandria
TOTAL		111.6	103.9	

Table 6.1: Potable water production

The increase in treatment capacity is mainly attributed to the ongoing plant upgrades especially in Debe and Masincedane. Although the combined capacity of the plants has increased to 111.6MI/day (40,734 MI/annum), the volume of potable water produced was 35,600 MI (97.53MI/day) over 2017/18 financial year, which is marginally lower than the 36,400 MI (99.73MI/d) for the 2016/2017 financial year. This is mainly due to the Water Conservation and Demand Management implemented on the reticulation side.

## PRODUCTION QUALITY

Amatola Water's water quality compliance in all its water treatment works and distribution network is in line with the SANS 241:2015 Part 1 & 2, which is a national standard used to measure water quality compliance. Amatola Water's achieved two plants of "good" water quality and seven plants with "excellent" water quality during the year against a set target of six plants achieving "good/better" water quality. The failures were mainly due to plant upgrade interruptions in the production process and high electric conductivity failures at the Albany Reverse Osmosis plant with the blending between Diaz Cross dune wells and the reverse osmosis product water.



Graph 6.2: Number of plants and water quality results achieved 2017/18

## WATER LOSSES

An average total plant production loss of 2.78% was experienced during the year, which is less than the SAAWU benchmark of 7%. Similarly, total network losses for treated water decreased to 8.34% against SAAWU benchmark of 12%. The total combined water loss of 11.12% against the annual target of 14% was achieved. This is significantly below the combined SAAWU benchmark of 19%.

The graph below gives a comparison for the water losses during the past year:

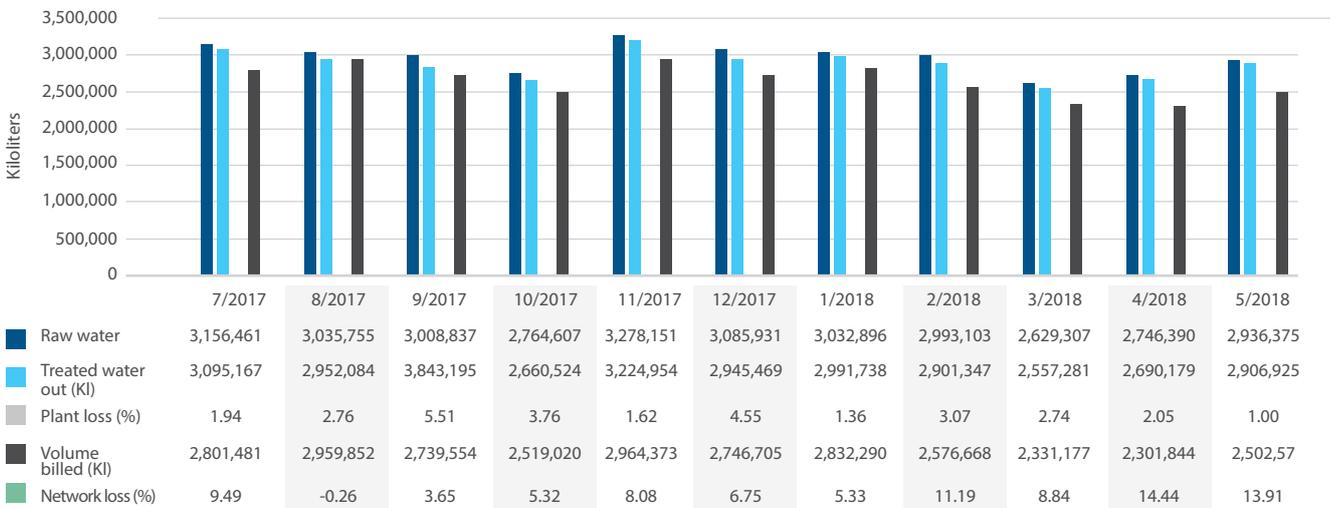


Table 6.3: Water losses

## PUMP EFFICIENCY MONITORING PROGRAMME

There has been an increase in the ratio of kWh/cubic metre of water produced from 0.838 in 2016/2017 to 0.856 in the 2017/2018 financial year, against a set target of 0.860. This is as a result of reduced demand from Buffalo City Metropolitan Municipality and the Amathole District Municipality.

WTW	CAPACITY (Mℓ/day)	KWH	M <sup>3</sup>	KWH/M <sup>3</sup>
Rooikrantz WTW	1,2	0	0	0,00
Masinedane WTW	6	2 9141	927 385	0,03
Glenmore WTW	0,5	191 350	219 733	0,87
Dabi WTW	closed	0	0	0,00
Peddie WTW	6,5	698 753	2 938 488	0,24
Mnyameni WTW	0,2	55 910	88 733	0,63
Nahoon WTW	33,7	8 974 028	11 279 001	0,80
Laing WTW	33	10 229 722	8 510 580	1,20
Sandile WTW	18	4 923 439	7 056 130	0,70
Debe WTW	5	1 288 700	829 457	1,55
Binfield Park WTW	4,8	1 120 371	1 974 581	0,57
Albany Coast	3,8	2 186 582	860 237	2,54
<b>TOTAL</b>	<b>111,6</b>	<b>29 697 996</b>	<b>34 684 325</b>	<b>0,856</b>

Table 6.4 Electrical consumption over water production 2017/18

WTW	CAPACITY (Mℓ/day)	KWH	M <sup>3</sup>	KWH/M <sup>3</sup>
Rooikrantz WTW	1,2	0	0	0,00
Masinedane WTW	2	56 898	944 094	0,06
Glenmore WTW	0,5	200 123	213 245	0,94
Dabi WTW	closed	0	0	0,00
Peddie WTW	6,56	795 413	2 891 951	0,28
Mnyameni WTW	0,29	76 684	88 222	0,87
Nahoon WTW	33,7	9 380 768	12 650 270	0,74
Laing WTW	33	10 461 963	8 848 430	1,18
Sandile WTW	18	5 056 804	7 068 627	0,72
Debe WTW	1,5	1 252 707	822 555	1,52
Binfield Park WTW	4,8	1 120 848	2 110 008	0,57
Albany Coast	2,41	2 039 397	817 355	2,50
<b>TOTAL</b>	<b>103,96</b>	<b>30 531 605</b>	<b>36 454 757</b>	<b>0,838</b>

Table 6.5 Electrical consumption over water production 2016/17

## AUTOMATED MONITORING SYSTEM (TELEMETRY)

The System Control and Data Acquisition (SCADA) System has grown extensively over the last year, in size and complexity.

Future SCADA projects include a more available online presence, allowing remote users to access the SCADA via the internet using laptops or mobile devices.

The largest and most consuming Telemetry Project of the year has been the dramatic expansion of the system by means of the installation of over 50 new reservoir based telemetry stations. These include installations at Laing, Peddie, Nahoon, Sandile, Glenmore and Binfield.

The addition of the quick reference (QR) code to the SCADA System has been adapted and fine-tuned for the needs of remote users. Process controllers and managers can now transfer vital information to those in the field with ease and accuracy via SMS, email and WhatsApp. Internet research reveals that this is the only SCADA System in the country offering this service.

The Governorskop Repeater was brought into service during this year. This has allowed for the inclusion of Glenmore and Albany Coast into the SCADA System.

# AMATOLA WATER CAPITAL UPGRADES

## PROJECT

### BINFIELD WATER SUPPLY SCHEME

September 2014 - March 2019

 Upgrading of Binfield Water Supply Scheme **PHASE 1**  
Extensions to water purification works from 4.8 mℓ/d – civil works to 12 mℓ/d and upgrading of bulk storage and reticulation.

 **IMPACT**  
For economic and social growth, as well as improving the quality of life, this minimum standard is proposed to be raised to 750l per household per day.

#### PROGRESS/STATUS

UPGRADE WTW:  
NEW RESERVOIR



MECHANICAL  
& ELECTRICAL



RISING MAIN &  
PUMPSTATION



## PROJECT

### MASINCEDANE BULK WATER SUPPLY SCHEME

September 2014 - March 2019

 Upgrade of Masincedane WTW to 6.5 Mℓ/d and associated upgrading of bulk storage and reticulation.

 **IMPACT**  
For economic and social growth, as well as improving the quality of life, this minimum standard is proposed to be raised to 750l per household per day.

#### PROGRESS/STATUS

UPGRADE WTW:  
NEW RESERVOIR



MECHANICAL  
& ELECTRICAL



RISING MAIN &  
PUMPSTATION



**PROJECT**

# DEBE BULK WATER SUPPLY SCHEME

June 2016 - June 2020



Upgrade of Debe WTW to 5 Mℓ/d and associated upgrading of bulk storage and reticulation.



**IMPACT**

For economic and social growth, as well as improving the quality of life, this minimum standard is to be raised to 750l per household per day.

## PROGRESS/STATUS

UPGRADE WTW & ELECTRICAL



UPGRADE BULK RETICULATION



BULK STORAGE



PUMP STATIONS AT TENDER STAGE

**PROJECT**

# SANDILE BULK WATER SUPPLY SCHEME

September 2014 - June 2021



Upgrade of Sandile WTW to 60 Mℓ/d and associated upgrading of bulk storage and reticulation – ASE 1



**IMPACT**

For economic and social growth, as well as improving the quality of life, this minimum standard is to be raised to 750l per household per day.

## PROGRESS/STATUS

NEW FILTER, REFURBISH OLD FILTER & CONSTRUCTION OF 2 x 16MI



RISING MAIN – 0% (LAND CLAIMS)



Upgrade of Sandile WTW from 18 Mℓ/d to 60 Mℓ/d and associated upgrading of bulk storage and reticulation – ASE 2



**IMPACT**

For economic and social growth, as well as improving the quality of life, this minimum standard is proposed to be raised to 750l per household per day.

## PROGRESS/STATUS

FINALISATION: MASTER PLAN, BUSINESS PLAN, TAKEOFF AGREEMENTS AND FUNDING APPLICATION



# SECONDARY BUSINESS ACTIVITIES

Amatola Water has undertaken some implementing agency work mainly for Department of Water and Sanitation, and in particular under the Regional Bulk Infrastructure Grant (RBIG) programme.

This mainly includes new infrastructure development, upgrades and major refurbishments. Work for other clients like National Department of Public Works and Eastern Cape Department of Education, has been undertaken, during the year under review.

## DEPARTMENT OF WATER AND SANITATION: DAM MANAGEMENT

The DWS Operations and Maintenance Agreement with Amatola Water is to manage the Department's 21 dams. The scope of works include rehabilitation and emergency interventions as a result of drought, floods, gross water quality negligence or the upgrade and refurbishment of dysfunctional infrastructure.

### PROJECT

## DEPARTMENT OF WATER AND SANITATION: DAM MANAGEMENT

Start: October 2001 (12 month's notice period for termination)



Operations and maintenance on 21 dams within the Eastern Cape province.



### IMPACT

Safety integrity of dams managed under this contract.

## PROGRESS/STATUS

DAM SAFETY INSPECTIONS DONE

DE-BUSHING AT VARIOUS SITES, ONGOING

WFW TEAM STARTED TO SPRAY WATER HYACINTHS

## NATIONAL DEPARTMENT OF PUBLIC WORKS

Amatola Water has entered into an O&M Contract with the DPW that is aimed at assisting the department with complying with the SANS 241 water quality and effluent discharge requirements. This included operations, maintenance and minor refurbishments of the water and sanitation infrastructure on identified properties, within the NDPW custodianship.

### PROJECT

## NATIONAL DEPARTMENT OF PUBLIC WORKS: OPERATIONS AND MAINTENANCE ON STATE-OWNED PROPERTIES

Start: January 2006



Operations and maintenance for the water care facilities on state-owned properties.



### IMPACT

- Assurance of potable water supply that complies with SANS 241 and the Blue Drop Standard.
- Safe and hygienic environment.
- Safe discharge of treated effluent that complies with SANS 241 and the Green Drop Standard.

## PROGRESS/STATUS

TREATMENT PROCESS ONGOING

INSTALLATION OF INFLOW AND OUTFLOW METERS

## EASTERN CAPE DEPARTMENT OF EDUCATION

Amatola Water has been appointed by provincial Department of Education (DoE) to provide bulk water and sanitation, and support operations and maintenance to allocated schools within the Eastern Cape Province. The contract is currently in progress in priority one schools identified by DoE. Phase One included the repair of the dilapidated infrastructure of special schools and hostels for water and sanitation. The next phase will concentrate on the maintenance at these schools.

Nineteen process controllers and 38 general workers have been appointed and placed at various schools, for operation and maintenance to ensure good water and effluent quality. The capital projects, which include the development of ponds, boreholes, storage reservoirs and control rooms, are at various stages of construction.

### PROJECT

## DEPARTMENT OF EDUCATION: EASTERN CAPE

Start: June 16 - indefinite



Assessment, refurbishment and/or upgrading of bulk water and sanitation infrastructure as well as provision of operations and maintenance services to the Eastern Cape schools, as identified from time to time (140 x schools; 223 x contracts).



### IMPACT

- Assurance of potable water supply that complies with SANS 241 and the Blue Drop Standard.
- Safe and hygienic environment.
- Safe discharge of treated effluent that complies with SANS 241 and the Green Drop Standard.

## PROGRESS/STATUS

<p><b>ELEVATED WATER TANKS</b></p> <p>20 UNDER CONSTRUCTION 17 AT PLANNING STAGE</p>	<p><b>REPAIRS TO THE OXIDATION PONDS, POND LINING &amp; FENCING</b></p> <p>1 UNDER CONSTRUCTION 10 AT PLANNING STAGE</p>	<p><b>CONSTRUCTION OF SEPTIC TANKS AND SOAK-AWAYS</b></p> <p>0 UNDER CONSTRUCTION 3 AT PLANNING STAGE</p>
<p><b>SUPPLY AND INSTALLATION OF PREFABRICATED CONTROL ROOMS</b></p> <p>18 UNDER CONSTRUCTION</p>	<p><b>RAINWATER HARVESTING</b></p> <p>51 PRACTICAL COMPLETION STAGE 55 AT PLANNING STAGE</p>	<p><b>EMERGENCY INTERVENTIONS/SPECIAL DIRECTIVES</b></p> <p>5 UNDER CONSTRUCTION 4 AT PLANNING STAGE</p>

## OR TAMBO DISTRICT MUNICIPALITY: MTHATHA PIPE REPLACEMENT

Amatola Water is providing support to the ORTDM as an implementing agent for the Mthatha pipe replacement project.

The Mthatha pipe replacement project is a MIG-funded project intended to replace the decrepit and decaying asbestos cement pipes around Mthatha. The Ncambedlana gravity mains, with associated valves, meters and fittings, has been completed. The contract for the Fort Gale to Police Camp pipe replacement programme is underway.

The information below depicts the status of other secondary business projects that AW is engaged in, which are largely operations and maintenance contracts:

### PROJECT

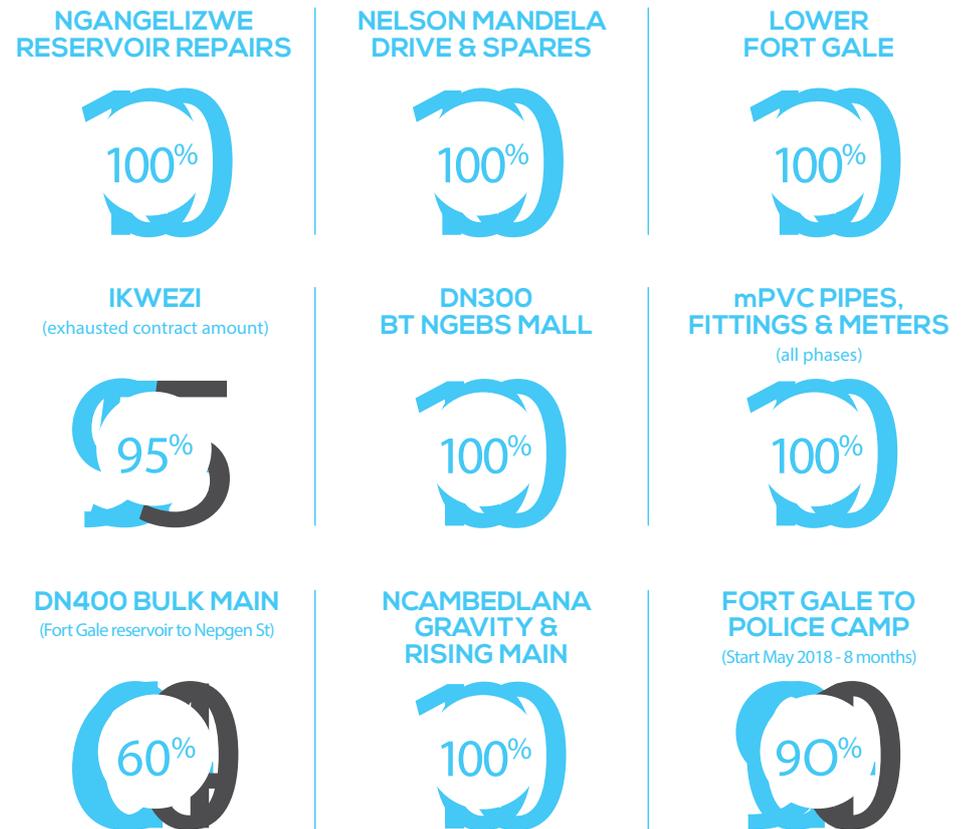
## KING SABATA DALINDYEBO: MTHATHA PIPE REPLACEMENT

May 2013 - Nov 18

 Replacement of failing old dilapidated pipes, associated monitoring mechanisms and rehabilitation of leaking reservoirs (10 x contracts).

 **IMPACT**  
Improve the level of service to the community. Reduce the number of pipe bursts.

### PROGRESS/STATUS



## MAKANA MUNICIPALITY

AW entered into a five-year Right of Use (RoU) contract with Makana Municipality on 1 October 2013. This contract aimed to capacitate the Makana bulk water infrastructure and the Waainek, James Kleynhans, Riebeeck East and Alicedale bulk water systems to meet the current needs of the municipality amidst serious failure in service delivery to the consumers in the municipal area. The RoU contract was cancelled in 31 August 2017 due to non-payment by the Makana Local Municipality. In November 2017, Makana has entered into a payment plan with AW and continues to honour it.

The following was achieved under this contract within the period under review:

- Installation and monitoring of telemetry to improve operational effectiveness of the bulk water system
- Reclamation of the fully designed capacities of James Kleynhans, Waainek, Riebeeck East and Alicedale WTW's to meet the growing demand
- Reduction in the bulk water supply interruptions to improve assurance of supply and increase the water quality compliance to meet SANS 241 standard
- Improvement of the planned versus unplanned maintenance ratio to within 80:20 to improve the integrity of the supply systems
- Increased process control skills at the plants to improve best practice of the water treatment processes at the plants.

The KSDPI Bulk Water Project aims to unlock housing and commercial development for the region as well as Mthatha.



## KSD PRESIDENTIAL INTERVENTION AND COFFEE BAY



### IMPACT

The primary focus is to expand Mthatha's existing bulk water supply system operated by the OR Tambo DM to create a regional scheme extending along five development "corridors" and serving just over one million people. The KSDPI Bulk Water Project aims to unlock housing and commercial development for the region rather than Mthatha only.

### PROJECT

## THORNHILL RAW WATER PIPES & WTW

September 2012 - August 2020

### CONSTRUCTION



Upgrading Mthatha Raw Water Supply to Thornhill WTW (7km), upgrading of Thornhill WTW(60Mℓ/d to 80Mℓ/d) and two pump stations.

### PROJECT

## MTHATHA SOUTH AND CENTRAL

May 2014 - January 2016

### CONSTRUCTION



Construction of 16.2km bulk conveyance, Five bulk reservoirs and one pumpstation.

### PROJECT

## AIRPORT CORRIDOR

May 2014 - January 2016

### CONSTRUCTION



Construction of 29.9km bulk conveyance and one bulk reservoir.

### PROJECT

## MQANDULI CORRIDOR

June 2012 - August 2019

### CONSTRUCTION



Construction of 53.8km bulk conveyance, 6 bulk reservoirs and two pump stations.

**PROJECT**

# LIBODE CORRIDOR

June 2012 - November 2019

CONSTRUCTION



Construction of 56km bulk conveyance,  
Six bulk reservoirs and three pump stations.

**PROJECT**

# NGQELENI CORRIDOR

July 2014 - April 2019

CONSTRUCTION



Construction of 23.4km bulk conveyance,  
Three bulk reservoirs and one pumpstation.

**PROJECT**

# ROSEDALE / MTHATHA NORTH

August 2016 - August 2020

CONSTRUCTION



Construction of 18.9km bulk conveyance,  
Six bulk reservoirs and two pump stations.

**PROJECT**

# NQADU CORRIDOR

Construction of 21km bulk conveyance,  
Three bulk reservoirs and two pump stations





### IMPACT

Enables the development of Mthatha which will lead to the decommissioning of nine sewage pump stations and reduce pollution to the Mthatha River.

#### PROJECT

## MTHATHA WASTEWATER TREATMENT WORKS UPGRADE

#### CONSTRUCTION



November 2012 - March 2018



**PHASE 2** Upgrade and Extension of the Mthatha WWTW from 12Mℓ/d to 24Mℓ/d. Construction of 17m deep sewage pump station and 100m long pipe bridge. Supply and installation of M&E equipment in main pump station.

#### PROJECT

## NORTHERN OUTFALL SEWERS

#### CONSTRUCTION



November 2011 - April 2019



Supply and laying of 7.4km of 1,200mm diameter concrete pipes, approximately 110 manholes and small structures (four contracts).

#### PROJECT

## SOUTHERN OUTFALL SEWERS

#### CONSTRUCTION



June 2014 - May 2018



Upgrade of Kuyasa and Southbridge Park bulk gravity sewers. Refurbishment and reconditioning of five sewage pump stations. New bulk gravity sewers, sewage pump stations and rising mains in support of BNG phase 1a: Maydene. Upgrade of Ngangelizwe outfall and associated gravity sewers in Mthatha. (20.6 km and 11 pump stations)

**PROJECT**

# WESTERN OUTFALL SEWERS

November 2011 - April 2019

CONSTRUCTION



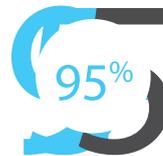
 Supply and laying of 31 km of 1,200mm pipeline.

**PROJECT**

# COFFEE BAY BULK WATER SUPPLY SCHEME WARD 23&24 UPGRADE PHASE 3A AND 3B

PHASE 3A: May 2014 - December 2018 | PHASE 3B: Design stage

PHASE 3



 Two booster pump stations, three command reservoirs, two rising main pipelines, eight bulk gravity main pipelines, seven village supply reservoirs, two elevated tanks, ten village reticulation networks, break pressure tanks, 286km of pipelines and 744 stand taps.

## STERKSPRUIT

**PROJECT**

# STERKSPRUIT: INFRASTRUCTURE UPGRADE PART 1

May 2017 - June 2020

CONSTRUCTION



BUDGET  
MAINTENANCE

 Water treatment works extension to 12Ml/d, Provide standby generator. Replace existing pressure filters, 8.97km x 200mm Herschel pipeline.

## NOOITGEDAGT/COEGA

### PROJECT

# NOOITGEDAGT/ COEGA LOW LEVEL SUPPLY SCHEME NCLLS

CONSTRUCTION



May 2017 - June 2020



Construction of WTW, 45Mℓ reservoir,  
and AC pipeline mitigation: **HASE 3**



### IMPACT

NMBM currently supplies 310MI/d of treated water to some 1.23 million consumers and smaller municipalities around the metropolitan boundaries. The new extension of the WTW will be upgraded from 70MI/d to an average capacity of 160MI/d (10MI/d peak), with new associated mechanical and electrical works.

## SARAH BAARTMAN DISTRICT MUNICIPALITY – WATER INFRASTRUCTURE PROJECTS

### PROJECT

# JAMES KLEYNHANS BULK WATER SUPPLY

PHASE 1  
CONSTRUCTION



September 2017 - to be confirmed



Augmentation of the WTW and Clear Water Pump Station.

### PROJECT

# NDLAMBE BWSS

PHASE 1  
CONSTRUCTION



April 2013 - March 2020



Bulk water supply.

**PROJECT**  
**MISGUND BWS**

**DESIGN**  
**100%**  
**AT TENDER**  
**STAGE**

 Borehole development, bulk pipeline and WTW.

**PROJECT**  
**KIRKWOOD BWS**

**DESIGN**  
**100%**  
**AT TENDER**  
**STAGE**

 Borehole development, bulk pipeline and two reservoirs.

**PROJECT**  
**IKWEZI**  
**(JANSENVILLE BWS)**

**DESIGN**  
**100%**  
**AT TENDER**  
**STAGE**

 Infrastructure refurbishment.

**PROJECT**  
**SRVLM: PATERSON BWS**  
**PART 1 - 6**

**PHASE 1 - 5**  
  
**PHASE 6:**  
**AT TENDER STAGE**

 Bulk water supply.



## LOOKING FORWARD

Amatola Water strives to balance continued provision of reliable bulk water supply in the Eastern Cape supporting economic growth while extending and increasing water and sanitation access to vulnerable municipalities and rural areas to reduce backlogs and improve local development.

Working closely with provincial stakeholders, municipalities that fall under supply area and communities, Amatola Water is in the process of developing an Infrastructure Master Plan that will be integrated with the Provincial Water Infrastructure Master Plan.

The past financial year has seen a steady trend toward a more proactive maintenance strategy and away from corrective maintenance.

Proactive maintenance, coupled with continuous plant and system improvements, has played a major role in production equipment availability and reliability. This is evident in the achievement of consistently high quality water results by most water treatment plants.

The BAAN Computerised Maintenance Management System is continuously improving. This allows faster and more accurate generation of timetables and eliminates the possibility of errors in predicting when equipment maintenance is due.

The primary business sector achieved a ratio of 79:21 for planned versus unplanned maintenance and narrowly missed the organisational benchmark target of 80:20. An impressive 89% of service orders for planned maintenance and 91% for unplanned maintenance were completed.



# CORPORATE GOVERNANCE

07



# CORPORATE GOVERNANCE

Amatola Water, as a custodian of the people’s water resources in the Eastern Cape, is committed to a corporate governance process that is underpinned by respect, trust and transparency.

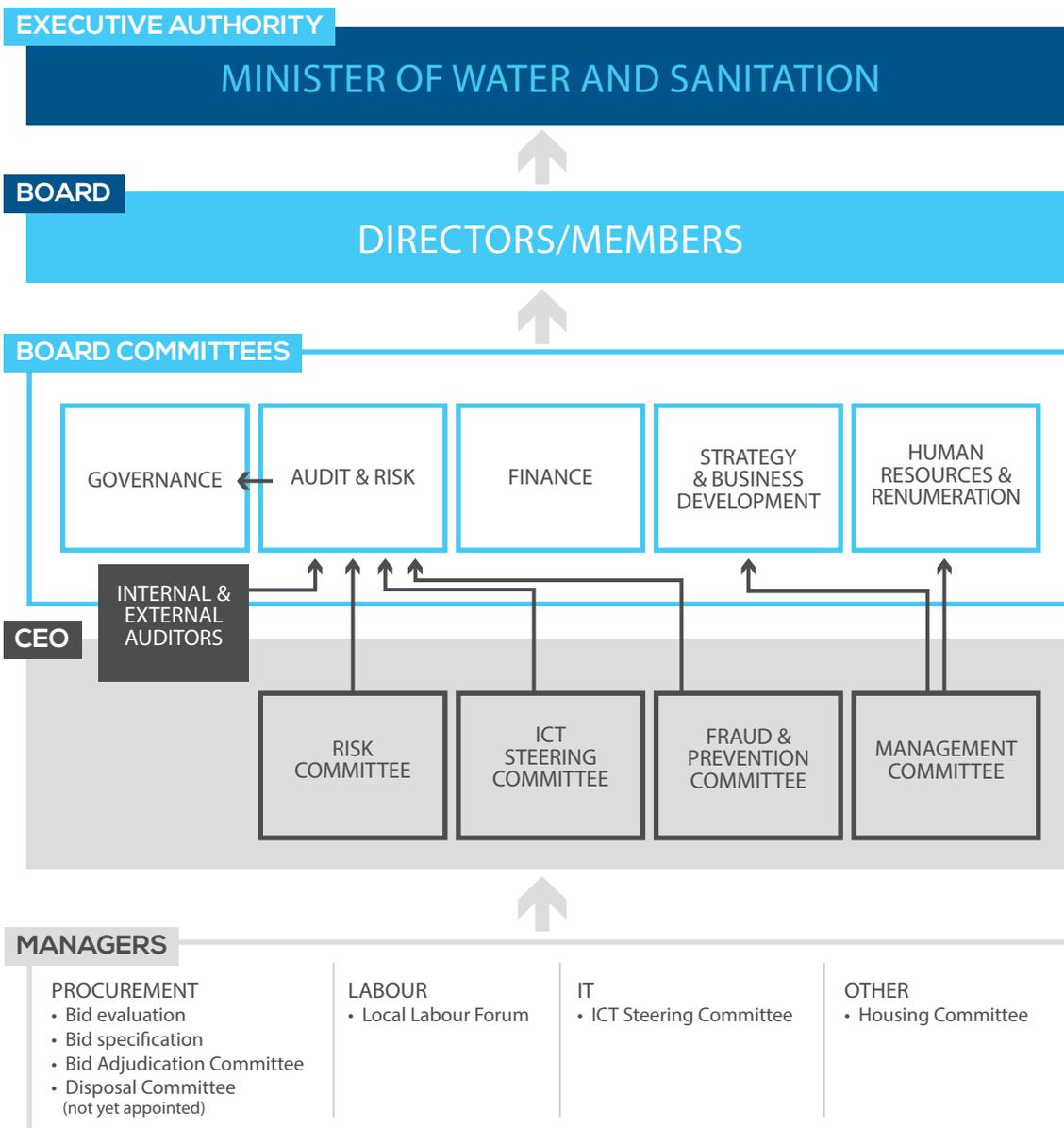


Figure 7.1: Governance structure

# CORPORATE GOVERNANCE AT STRATEGIC LEVEL

## PORTFOLIO COMMITTEE

The Water and Sanitation Portfolio Committee exercises oversight, through the Executive Authority, over the service delivery performance of Amatola Water and, as such, reviews the financial and non-financial information in the annual reports.

## EXECUTIVE AUTHORITY

Oversight by the Executive Authority, the Minister of Water and Sanitation, rests by and large on the precepts of the Public Finance Management Act. The Executive Authority has the power to appoint and dismiss the Board of a public entity.

In addition to the other powers set out in the act, the Executive Authority must ensure that the appropriate mix of executive and non-executive directors are appointed and that the directors have the necessary skills to guide the public entity.

The Executive Authority has met with the Board of Amatola Water on occasion and continuously engages with the public entity.

Strategic engagements are set out in the table below. Operationally, various other project steering committees oversee project implementation.

DATE	MEETINGS
21 November 2017	Meeting between the Minister and Chairpersons of the water sector entities
16 February 2018	Water and Sanitation Sector Leadership Group Meeting
6 March 2018	Parliament programme for Term One – Briefing by AW on its 2016/17 Annual Report
9 March 2018	Minister's briefing session with entities
23 April 2018	Meeting: Honourable Minister
8 May 2018	DWS acting DG Technical Meeting - Eastern Cape
22 May 2018	Budget Vote 2018
13 June 2018	Water Boards 2018/19 Business Plan appraisal session

Table 7.1: Strategic engagement with Executive Authority

# BOARD MEMBERS



**NOKULUNGA MNQETA**  
Chairperson of the Board

National Diploma in Forestry, BSc (Hons) (Agriculture), MSc (Agriculture)

Ms Mmqeta is the founder and Managing Director of Leaf Services. She has worked as an Executive for Statutory Operations at the Perishable Products Export Board where she championed the transformation of the industry while ensuring the competitiveness of South Africa's perishable exports. She is the founding CEO of the Eastern Cape Parks Board and former CEO of Aspire. She has also held senior positions with the Council for Scientific and Industrial Research, the Eastern Cape Department of Economic, Environmental Affairs and Tourism, the Agricultural Research Council and the former Department of Water Affairs and Forestry. She served on the Board of the South African Biodiversity Institute where she is Chairman of the Research, Development and Innovation Committee until the end of September 2018.

**PROF LYNETTE LOUW**



National Certificate: Secretarial, National Certificate: Tourism, BCom (Hons cum laude) (Business Economics), MCom (cum laude) (Business Economics), PhD (Business Management)

Prof Louw, appointed as the Raymond Ackerman Chair of Business Administration in the Department of Management at Rhodes University, is a Deputy Dean in the Faculty of Commerce. She boasts an assortment of credentials, including former Vice-President of Public Relations and Finance for the NEPAD Council, and former Chairman of the NEPAD Council's Commission of Socio-Economic Development and Trade.



**ABRAHAM LE ROUX**  
Human Resources and Remuneration

BA (Law), LLB

Mr Le Roux is a practising attorney, specialising in public and commercial law. His interest lies in regulatory compliance and finding solutions to the challenges faced by government. He serves on the Board of the Eastern Cape Rural Development Agency and is a member of the SANParks Honorary Rangers.

**CHUMA MBANDE**  
Finance

Higher Diploma in Civil Engineering, MSc (Financial Management), MSc (Engineering), MBL, Construction Management Programme, Business Leadership Programme

Mr Mbande is an Executive Manager at the Coega Development Corporation with over 21 years' experience in various management positions. His key experience includes the design and management of road infrastructure projects, rural water supply, solid waste disposal sites and the provision of services in urban areas as well as the development of infrastructure, institutional framework systems and processes, and the development and implementation of corporate strategy, business processes and organisational policies, among others.





**BRIAN HOLLINGWORTH**  
Strategy and Business Development

BSc (Civil Engineering), LLB,  
MSc (Hydraulics), MBA (Business  
Administration)

Mr Hollingworth is an independent water consultant and arbitrator, a registered Professional Engineer (ret) and a Fellow of the Association of Arbitrators. Until 2004, he worked at the Development Bank of Southern Africa where he gained experience in development finance institutions and approaches to key issues, such as environmental sustainability, economic justification of projects and public-private partnerships. He has served on the Regional Technical Committee of the Global Water Partnership, is a former Chairman of the South African Multi-stakeholder Initiative on the World Commission on Dams Report and former Deputy Chairman of the South African Water Tribunal.



**EUGENE JOOSTE**  
Audit and Risk and Governance

BCom (Acc), SAIPA, IoDSA, International  
Executive Development Programme (IeDP)

Mr Jooste is a seasoned management specialist with experience in the public and private sectors. He is a Non-Executive Board Member of national and provincial state-owned companies and a member or Chairman of a number of sub-committees in finance, procurement, governance, and audit and risk management. He has specialist expertise in procurement, financial management, budget management, governance, and audit and risk management. His sector experience covers, but is not limited to, health, roads and public works, agriculture, treasury, SMME and industrial development, higher education and training, and public private partnerships.

## EXTERNAL MEMBERS

### MR BRUCE

Mr Bruce is a Chartered Accountant with vast experience in external audit, business risk, taxation, financial statement analysis and management consulting.

### MR MANGQUKU

Mr Mangquku began his chartered accountancy career at Arthur Anderson. He later moved to the mining industry. His expertise ranges from finance and investment management, capital raising, deal structuring and project management to mergers and advisory services. His qualifications include a Masters in Business Leadership.

### MS SMITH

Ms Smith is a partner of Marais & Smith Chartered Accountants, with vast experience in financial management, human resources and training, risk management, asset management and accounting framework compliance. She is a member of the Institute for Internal Auditors.

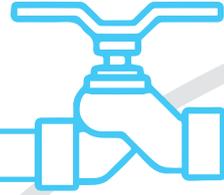
### MR RAVGEE

Mr Ravgee is a Chartered Accountant with 15 years of experience in the private and public sectors. He has extensive experience in managing the audit process including audit queries and related responses. He played numerous leadership roles in the finance sector.

### MS CUMMING

Ms Cumming is a Chartered Accountant who has close on 20 years of experience in auditing in the public and private sector including non-profit organisations. She played numerous leadership roles in finance, auditing and executive management.

# STRATEGIC OVERSIGHT



**+ VALUE ADDITION**

FOCUS OF STRATEGIC OUTPUT  
REPORTING VALUE HAS  
STREAMLINED AND INCREASED  
STRUCTURES ARE EFFECTIVE

**AMATOLA WATER BOARD**  
(ACCOUNTING AUTHORITY)

**ROLES & RESPONSIBILITIES**

- ✓ Absolute responsibility for performance
- ✓ Fully accountable to Executive Authority
- ✓ Provides strategic direction to AW
- ✓ Leads AW in pursuit of vision
- ✓ Assists to fulfil the mandate of water services
- ✓ Looks at risk, strategy and business plan

**STRATEGY & BUSINESS DEVELOPMENT**

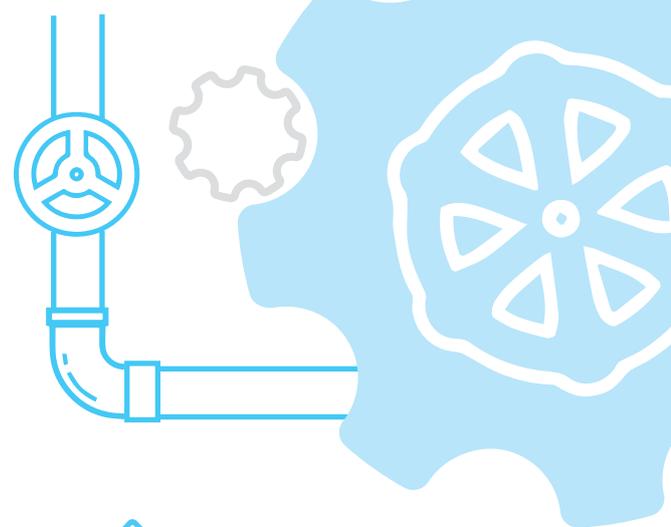
Terms of reference  
Reviewed biannually

**ROLE**

- + Strategic planning
- + Business planning
- + Business development
- + Corporate citizenship
- + Customer satisfaction
- + Product quality: water and wastewater
- Water resources adequacy
- Stakeholder relations



Brian Hollingworth



**AUDIT & RISK**

Terms of reference  
Reviewed biannually

**ROLE**

- + Audit and Risk Management
- + General financial reporting
- + Annual financial reporting
- + Audit oversight
- + Compliance and Code of Conduct
- + Fraud Prevention Strategy



Eugene Jooste

**GOVERNANCE**

Terms of reference  
Reviewed biannually

**ROLE**

- + Organisational development including but not limited to the turnaround plan, rebranding and restructuring
- + Delegation authority review
- + Matters fall into mandate of more than one committee to avoid duplication
- + Any other matter



Nokulunga Mnqeta  
Chairperson  
of the Board

### INDUCTION & TRAINING

- Expected to have background knowledge and skills - verified in the selection process
- During induction, receives training on governance by Executive Authority (2016/17 FY)
- Training on being a director and covering IT governance, risk and corporate governance (2017/18 FY)

### BOARD CHARTER

- Set by King IV
- Sets out its responsibilities
- Continued compliance
- Charter looks at the framework of Board

### REMUNERATION POLICY

- Set out by the Executive Authority
- Annual increment determined by Minister



### COMPANY SECRETARY

#### ROLE

- + Guides Board Members
- + Develops systems and processes for Board support
- + Inducts new Board Members
- + Guides Board Members in terms of ethics and good governance
- + Facilitates training



## LOOKING FORWARD

- REVIEW STRUCTURES
- AUGMENTING BOARD BY FILLING VACANCIES
- PERFORMANCE REVIEWS AND ASSESSMENTS

## TREND ANALYSIS

- MAJOR IMPROVEMENT IN MANAGEMENT FOCUS AS BOARD DISCHARGED THEIR DUTY OF OVERSIGHT
- MANAGEMENT'S ACCOUNTABILITY INCREASED



Chuma Mbande

## FINANCE

Terms of reference  
Reviewed biannually

#### ROLE

- + Ongoing strengthening of balance sheet to sustainable services
- + Build reserves and infrastructure investment with surplus peer financial year contribution
- + Explore funding alternatives for infrastructure development
- + Sustainable and affordable tariff
- + Reliable infrastructure
- + Upgrade plants to provide minimum five megas per day
- + Influence Provincial Water Infrastructure Sector Plan
- + Minimise production and distribution water losses



## HUMAN RESOURCES & REMUNERATION

Terms of reference  
Reviewed biannually

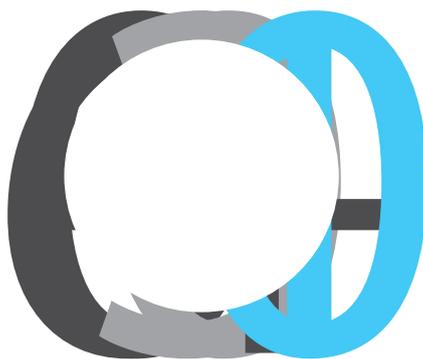
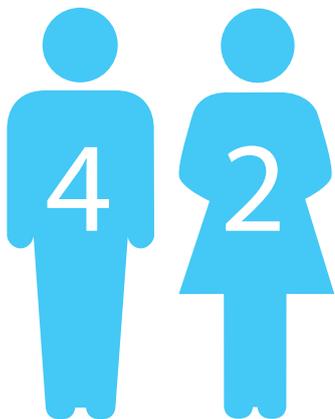
#### ROLE

- + Formulate HR strategy and policies
- + Guide and monitor implementation of HR transformation, performance management and remuneration strategies
- + Leadership and employee development



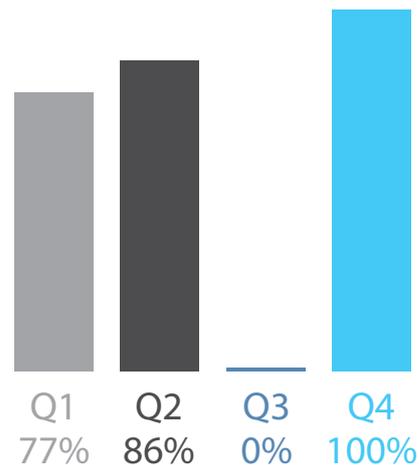
Abraham le Roux

# BOARD AND BOARD COMMITTEES



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## ATTENDANCE



BH	9/9
SH	4/9
NM	9/9
LL	6/9
ALR	8/9
EJ	9/9
MN	1/9
CM	7/9

## BOARD COMPOSITION/COMMITTEE MEMBERSHIP

### Resignations

M Nzimande (MN) 22 August 2017  
 S Hadebe (SH) 2 July 2018

### Vacancies

3 vacancies

### 2017/18 composition

N Mnqeta (NM)  
 E Jooste (EJ)  
 A le Roux (ALR)  
 C Mbande (CM)  
 L Louw (LL)  
 B Hollingworth (BH)  
 S Hadebe (SH)  
 M Nzimande (MN)

### External members

T Cumming (TC) Appointed 20 Aug 2017  
 N Ravjee (NR) Appointed 27 Oct 2017  
 L Smith (LS) Appointed 29 Aug 2017  
 S Bruce (SB) Term ended 30 Sep 2017  
 L Manquku (LM) Term ended 30 Sep 2017

**STRATEGY & BUSINESS DEVELOPMENT COMMITTEE**



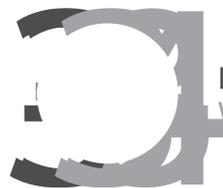
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**ATTENDANCE**

BH	4/4
LL	3/4
CM	2/4
SH	1/4

**HUMAN RESOURCES & REMUNERATION COMMITTEE**



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1  
2

**ATTENDANCE**

ALR	5/5
LL	5/5
CM	2/5

**AUDIT AND RISK COMMITTEE**



INDIAN  
WHITE  
COLOURED

1  
2  
1

**ATTENDANCE**

ES	7/7
LS	1/6
NR	1/3
SB	2/2
LM	0/2
BH	7/7
ES	7/7

**GOVERNANCE COMMITTEE**



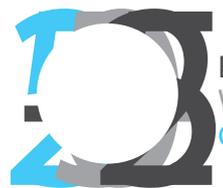
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**ATTENDANCE**

EJ	5/5
BH	5/5
SH	1/5
NM	3/5
ALR	5/5

**FINANCE COMMITTEE**



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1

**ATTENDANCE**

NM	2/2
TC	5/5
ALR	8/8
EJ	8/8

# MANAGEMENT



## VUYO ZITUMANE

Chief Executive Officer (Appointed 3 April 2018)

B Juris, BA Hons cum laude, MBA

Mrs Zitumane is an experienced turnaround specialist and has been instrumental in stabilising several municipalities in the Eastern Cape such as Sundays River, Mngquma, King Sabata Dalindyebo and Nelson Mandela Metropolitan Municipality. She was seconded to Nelson Mandela Metropolitan Municipality by the provincial Department of Cooperative Governance and Traditional Affairs as part of a Section 154 intervention which she successfully completed. She has served and chaired many boards including JSE-listed companies. Mrs Zitumane is also the recipient of a Business Women Association Regional Award Winner of Women in Government Awards in 2012.



## ASANDA GIDANA

Director: Operations

ND Civil Engineering, BTech in Civil Engineering (Urban Planning), Executive Leadership Programme, MBA

Ms Gidana has acquired a wealth of experience in infrastructural development in the public and private sector. She has played several leadership roles at provincial and municipal level and led various infrastructure and other government-related implementation programmes.



## KWANDIWE MVIKO

Chief Financial Officer (Acting)

BCom Honours (Accounting)

Mr Mviko is a graduate of the Nelson Mandela University and is an experienced Financial Manager associated with the South African Institute of Chartered Accountants. After completing his articles with leading international auditing firm, PwC, he spent another year with PwC, gaining audit experience in various industries. This was followed by six years of experience in senior management.



### SAZILE QWELEKA

Acting Director: Planning and Development

B Tech (Mechanical Engineering), MBA

Mr Qweleka joined Amatola Water in August 2010 as a Programmes Manager in the Operations Division. He has vast experience in the public and private sectors in the fields of programmes management, production systems, operations and engineering maintenance. He has worked for companies such as Namakwa Sands, SA Five Engineering, South African Breweries and the Ford Motor Company of SA.



### ADV GULSHAN SINGH

Company Secretary

LLB, LLM (Maritime Studies) E095

Advocate Singh practices at Amatola Water as Company Secretary and is responsible for governance, risk and compliance. She began her career in private practice, affiliated to the KwaZulu-Natal Society of Advocates. She has experience in commercial, civil and criminal matters. She expanded her horizons by working in national and provincial public entities. She has served as a Board Member and an Audit and Risk Committee Member at the Eastern Cape Information Technology Initiative, and has collectively supported 19 operational and oversight committees which has enhanced her experience and knowledge in governance, risk and compliance.



### JO DALBOCK

Director: Corporate Services

B Comm (Accounting & Economics), PG Dip (Human Resources Management), Diploma in Manufacturing Management

Mrs Dalbock has 27 years' experience in the human resources arena, servicing private and public sector organisations from the corporate and consulting perspective. She has operated at an executive level for 16 years where she has played an integral strategic and governance role. Her key skills are in leadership, employee relations, people development, performance management, change management and project management.

# STRATEGIC IMPLEMENTATION

## Delegations of authority

In accordance with the WSA, the Board may delegate any operational power to:

- a committee of the Board
- its Chief Executive Officer
- any of its employees.

This is done through the delegation of authority matrix. Even though the CEO is delegated responsibility to handle matters, the CEO is still responsible to report to the Board on all areas delegated.

The Delegation of Authority (DOA) through the 2016/17 financial year went through a review and was updated.

Due to the DOA being affected by the policy update, the DOA will be updated too.

## CHIEF EXECUTIVE OFFICER

The Chief Executive Officer consistently strives to achieve the organisation's financial and operational goals and objectives, and ensures that the day-to-day business affairs of the organisation are properly monitored and managed.

The incumbent ensures continuous improvement in quality and value of services provided by the organisation, and that it achieves and maintains a satisfactory position within the water industry.

The incumbent also fosters a corporate culture that promotes ethical practices, encourages individual integrity, and fulfils the social responsibility objectives and imperatives.

With respect to providing information and counsel to the Board, the CEO is duty bound to ensure that the Board is kept well informed at all times. Accordingly, the incumbent has the duty:

- to submit monitoring data required by the Board in a timely, accurate and understandable fashion so that Board is fully informed
- take steps to make the Board aware of relevant trends, anticipate adverse media coverage and contemplate significant external and internal changes, and particularly, changes in assumptions upon which any Board strategy has previously been established
- advise the Board that it is not in compliance with its own policies on governance and delegation of authority, particularly if, in the CEO's opinion, this is the case and especially in instances where such conduct of the Board is known to be detrimental to the working relationship between the Board and the CEO.

The CEO is contracted in terms of a performance agreement which is reviewed yearly and the incumbent's appointment is for a period of five years, subject to renewal for further terms.

## CORPORATE GOVERNANCE AT OPERATIONAL LEVEL



Figure 7.2: Corporate governance at operational level

# ETHICS

Amatola Water's Ethics Programme involves various steps including policy and system reviews, and awareness campaigns.

The Board reviewed the Anti-Fraud and Corruption Strategy, Policy Statement, Prevention and Response Plan and the Code of Ethics and Conduct for Board Members which adopted by the Board in December 2017.

Amatola Water's leadership has shown commitment by incorporating the values in all aspects of its business conduct.

All staff have access to governance officials and are invited to raise any ethical questions or concerns with them. The Board has entrenched a zero tolerance culture to fraud. The Board has taken consequence management in all instances of fraud and corruption, and shown its commitment to dealing with contraventions.



## VALUE ADDITION

- Increase stakeholder trust in the brand, reduce fraud and increase ethical decision-making.



## SUSTAINABILITY

- AW is committed to reporting on the organisation's ethics management and the implementation of a strong ethics management programme.
- The impact is measured in investigation reports, proving fraud and consequence management taken.



## TREND ANALYSIS

- The trend shows that the hotline was used often which gave credibility to the system.

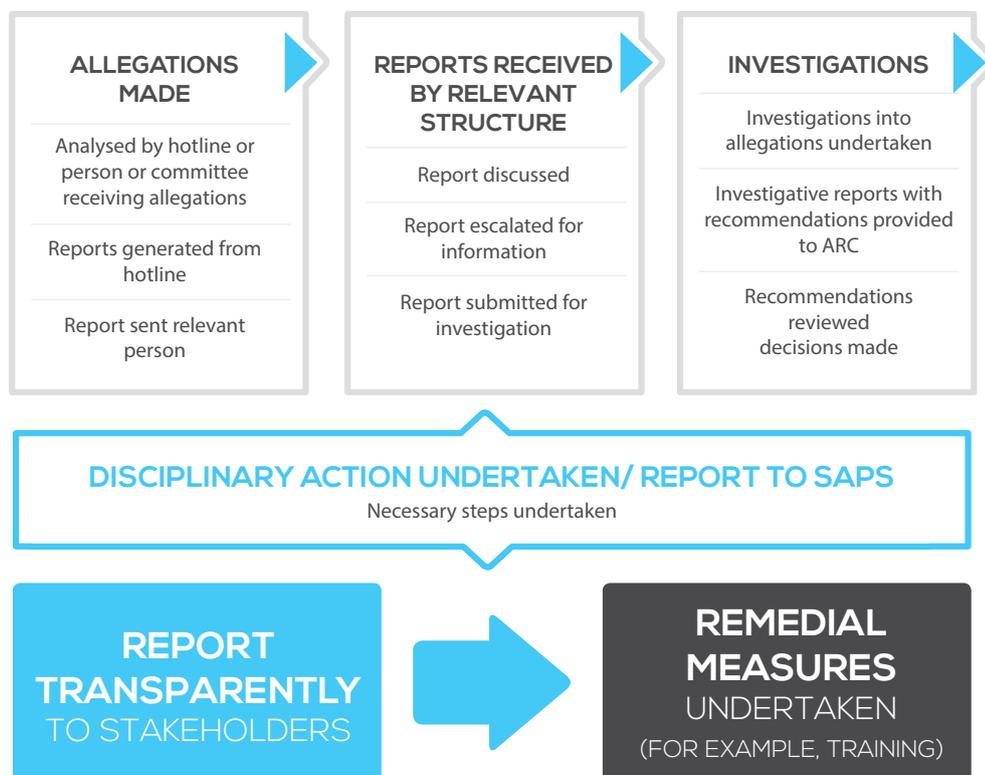


## LOOKING FORWARD

- Conduct a gap analysis.
- Implement the overarching ethics programme.
- Join an independent body for benchmarking and rolling out best practice.
- Conduct annual training and awareness.
- Assess the effectiveness of the ethics management and training.
- Test the overall impact of organisation's actions on stakeholder perception.

## ANTI-FRAUD AND CORRUPTION STRATEGY

The following diagram depicts the anti-fraud and corruption strategy environment and procedures:



YR	NO OF CALLS RECEIVED ON HOTLINE	NO OF REPORTS GENERATED	AREAS	ACTUAL FRAUD CONFIRMED	RESULTS
15/16	69	9	Computer crime (3) Human resources (3) Enquiry (1) Corruption (1)	No No No No	The Audit and Risk Committee did not find and evidence of fraud or tender irregularities. All allegations relating to management were escalated to the CEO and sent for external investigation, which ultimately led to dismissal of individuals.
16/17	48	11	Governance (2) Violent crime (1) Pollution and environmental (2) Other crime (security issues) (1) Human resources (4) Procurement irregularities (1)	No No No No No No	Matters at management level were escalated to the CEO level and the CEO reported to the Audit and Risk Committee. The other matters relating to tender irregularities had to be escalated for further investigation. Any potential fraud and actual fraud is reported to the Audit and Risk Committee to Board.
17/18	26	2	Governance (1) Unfair business practice (1)	No No	The Audit and Risk Committee has assessed and investigated these reports and found no evidence of fraud.

Table 7.2: Fraud hotline reports

All investigation reports were made available for the AGSA to peruse. All recommendations, arising from the reports, were carried out by the Board.

Two investigations, reported outside of the whistle-blower hotline process, are currently underway.

This shows the effectiveness of the reporting and the fraud hotline system. This can be confirmed by the handling of the reports and outcomes. Processes and procedures are put in place that are transparent and efficient.

## MINIMISING CONFLICT OF INTEREST AND GIFT REGISTERS

Reporting on potential conflicts of interest are done online and consolidated by an independent body where the details of the discloser (employee) is compared to the Companies and Intellectual Property Commission (CIPC).

Amatola Water is also implementing a system which compares supplier disclosures with that of the employees and Board members to generate an Integrated Annual Report that compares and highlights areas that need to be managed.

The effectiveness of these procedures is determined by adhering to the documented procedures, and real-time monitoring and reporting.

This creates a value-add service that is founded on interrogation, best-practice implementation and management of potential areas of conflicts. The goal of these procedures is to minimise and eliminate fraud, and potential fraud from occurring.

Although disclosures occur annually, any changes can be made during the year as the system is always live and available for any disclosure.

The onus is on the employees and Board members to ensure full disclosure and for the effective and proactive management of areas which have been flagged.

# RISK, COMPLIANCE AND ASSURANCE REPORTING

## INTEGRATED RISK MANAGEMENT

Amatola Water has an Integrated Enterprise Risk Management Policy. The policy was reviewed and remains relevant. Every year, the Board engages in a strategic risk review to identify risks that could hinder the implementation of the strategy.

The organisation has adopted an approach to identify and mitigate risks on three levels, that is, strategic, divisional and process risks.

The cause, consequence and risk owners are identified. Then the inherent risks and controls, together with the residual risks and control improvements and implementation dates, are calculated and confirmed by management.

Reporting is escalated from the divisions to the Corporate Risk Committee, up to the Audit and Risk Committee and ending with the Board.

## VALUE ADDITION

Effective risk management could be seen through the initiatives captured in the Turnaround Plan and also in the business continuity initiatives taken during the year. Without active implementation of those initiatives, AW would have not been a going concern.

## SUSTAINABILITY

The AW Board and management have thoroughly engaged with the risk identification process to ensure that it is all-encompassing and realistic.

## TREND ANALYSIS

The maturity of the risk reporting and analysis has improved over the years albeit there is no dedicated resource to assist with the process and management of risk. Emerging risks are managed effectively, for example, the strike.

## LOOKING FORWARD

In the new financial year, the AW Board has already taken the lead to review the policy and to fully engage on the strategic risks. Risk appetite and tolerance levels have been individually identified to assist with the monitoring of the risks.



The following is a list of strategic risks impacting on the organisation over the last financial year and the controls put in place to mitigate those risks.

### Risk appetite, risk tolerance and materiality

Given the public interest nature of the water board, the organisation is pursuing a residual risk appetite that is in the low-to-medium range.

The following strategic risks have impacted the organisation in 2017/18 and the controls that have been put in place to mitigate the risks.

RISK #	RISK TITLE	STRATEGIC RISKS IDENTIFIED FOR 2017/18 FINANCIAL YEAR	MITIGATION ACTION PLAN - INITIATIVES MANAGEMENT TOOK TO REDUCE THE RISK
SR1	Stakeholder relationships and support, and customer satisfaction	<ol style="list-style-type: none"> <li>1. Reputational damage</li> <li>2. Capacity constraints (human capital and skills shortage)</li> <li>3. Over dependence on shareholder support</li> <li>4. No clear strategy for business development/growth.</li> </ol>	<ol style="list-style-type: none"> <li>1. Ensure contract management and project execution is efficient and effective by improving internal capacity, and developing and approving a Contract Management Strategy.</li> </ol>
	Stakeholder interests		<ol style="list-style-type: none"> <li>2. Review the Stakeholder Management Strategy and meet with water service authorities.</li> <li>3. Develop a business plan for priority strategic projects.</li> <li>4. Integrate the Marketing and Branding Plans.</li> </ol>
	Stakeholder engagement and management	<ol style="list-style-type: none"> <li>1. Lack of adequate stakeholder engagement</li> <li>2. Lack of implementation of the stakeholder relations framework (reducing the gap between implementation and what is documented).</li> </ol>	<ol style="list-style-type: none"> <li>1. Develop a Stakeholder Relations Strategy.</li> </ol>

RISK #	RISK TITLE	STRATEGIC RISKS IDENTIFIED FOR 2017/18 FINANCIAL YEAR	MITIGATION ACTION PLAN - INITIATIVES MANAGEMENT TOOK TO REDUCE THE RISK
SR2	Environmental sustainability	<ol style="list-style-type: none"> <li>1. Environmental degradation</li> <li>2. Natural disasters (for example, floods and droughts).</li> </ol>	<ol style="list-style-type: none"> <li>1. Implement a pilot for the draft EMS for the water supply scheme.</li> </ol>
	Environmental factors		
	Non-compliance with legislation	<ol style="list-style-type: none"> <li>1. Non-compliance with laws and regulations</li> <li>2. Non-compliance with policies.</li> </ol>	<ol style="list-style-type: none"> <li>1. Review the Internal Audit Plan to incorporate the review on compliance with policies.</li> <li>2. Workshop and conduct road shows for Enterprise-Wide Legislative Compliance Policy.</li> </ol>
SR3	Financial sustainability risk	<ol style="list-style-type: none"> <li>1. Secondary and primary business risks: <ul style="list-style-type: none"> <li>- non-payment by customers</li> <li>- inefficiencies of services</li> <li>- lack of direct payments by the national government to water boards that are implementing agents</li> <li>- ownership issues in respect of assets</li> </ul> </li> <li>2. Debtor collection days (delayed payments)</li> <li>3. Commitment to unfunded projects (undertaking emergency interventions without funding)</li> <li>4. Unsustainable salary bill</li> <li>5. Inability to negotiate market-related and affordable remuneration</li> <li>6. The Amatola Water-designated area as legislated by the gazette (not fully operational in the gazetted area)</li> <li>7. Socio-economic conditions in the Eastern Cape (small revenue base and non-affording clients)</li> <li>8. Budget cuts and tariff increases which have resulted in weak economic conditions (intergovernmental relations not properly managed)</li> <li>9. Inadequate contract management.</li> </ol>	<ol style="list-style-type: none"> <li>1. Augment the Stakeholder Management Strategy.</li> <li>2. Review the Debt Recovery Strategies and Policy.</li> <li>3. Ensure that formal written agreements are in place.</li> <li>6. Develop a business case for the expansion to the areas where Amatola Water does not operate.</li> <li>8.1 Ensure accurate cash flow forecasting and continuous progress reporting.</li> <li>8.2 Influence the Raw Water Pricing Strategy of the Department.</li> <li>9. Ensure contract management and project execution is efficient and effective by improving internal capacity, and developing and approving a Contract Management Strategy.</li> </ol>
	Funding of operations		
	Non-compliance SCM processes	<ol style="list-style-type: none"> <li>1. Non-compliance with transformation requirements</li> <li>2. Lack of service delivery</li> <li>3. Inadequate document management systems</li> <li>4. Capacity constraints (human capital and skills shortage)</li> <li>5. Inadequate demand management process</li> <li>6. Non-compliance with regulations resulting in irregular and/or fruitless and wasteful expenditure</li> <li>7. SCM process deficiencies.</li> </ol>	<ol style="list-style-type: none"> <li>1. Review the terms of reference for the establishment of a Technical Advisory Committee.</li> <li>2.1. Ensure the review of the SCM Policy and its alignment with legislation, and monitor the adherence by regular reporting on all SCM processes.</li> <li>2.2. Capacitate SCM human resources to ensure they are right-skilled for the role.</li> <li>3. A second tier of PSPs has been introduced to build capacity that enables the successful delivery of strategic projects.</li> </ol>
	Internal control failure	<ol style="list-style-type: none"> <li>1. Potential collusion and fraud.</li> </ol>	<ol style="list-style-type: none"> <li>1. Implement firewalls for protection against external parties.</li> <li>2. Implement Fraud Awareness, Detection and Prevention Campaigns.</li> <li>3. Review the Fraud Prevention Plan including the Conflict of Interest Policy.</li> <li>4. Develop the Ethics Strategy.</li> </ol>
SR4	Water and wastewater quality	<ol style="list-style-type: none"> <li>1. Inadequate infrastructure</li> <li>2. Capacity constraints (human capital and skills shortage)</li> <li>3. Inadequate strategic integrated asset management.</li> </ol>	<ol style="list-style-type: none"> <li>1. Develop the 20-year Capex Plan Strategy.</li> </ol>

RISK #	RISK TITLE	STRATEGIC RISKS IDENTIFIED FOR 2017/18 FINANCIAL YEAR	MITIGATION ACTION PLAN - INITIATIVES MANAGEMENT TOOK TO REDUCE THE RISK
SR5	Infrastructure stability	<ol style="list-style-type: none"> <li>1. Inadequate stakeholder support</li> <li>2. Inadequate resource management planning to ensure the optimal use of current resources</li> <li>3. Lack of an appropriate business model (as a result of external and internal circumstances).</li> </ol>	<ol style="list-style-type: none"> <li>1. Continuous monitoring and evaluation of the implementation of the Business Plan and Strategy.</li> <li>2. Implement IRR/bolstered by legislation road map of IRR.</li> </ol>
SR6	Operational resilience	<ol style="list-style-type: none"> <li>1. Inadequate team work and congruence to achieve stated objectives (across the water value chain)</li> <li>2. Weak corporate culture</li> <li>3. Capacity constraints (human capital and skills shortage)</li> <li>4. Lack of funding to maintain infrastructure</li> <li>5. Lack of accountability in management</li> <li>6. Inadequate performance management systems</li> <li>7. Lack of appropriate contracts management (quality and value for money considerations).</li> </ol>	<ol style="list-style-type: none"> <li>1. Review and implement the Communication Strategy.</li> <li>2. Develop a Communication Policy.</li> <li>3. Enforce the implementation of the improvement plan.</li> <li>4. 1. Review the Performance Management Policy and conduct training on the policies.</li> <li>4.2. Review the Remuneration Policy and conduct training on the policies.</li> <li>5. Enforce consequence management.</li> </ol>
SR 7	Leadership and employee development  Lack of service delivery	<ol style="list-style-type: none"> <li>1. Capacity constraints (human capital and skills shortage)</li> <li>2. Inadequate collaboration between stakeholders.</li> </ol>	<ol style="list-style-type: none"> <li>1. Review the Integrated Provincial Master Plan for water and sanitation.</li> <li>2. Implement the stakeholder relations framework.</li> <li>3. Update the current AW Master Plan which is in progress.</li> <li>4. In terms of the Amatola Water Master Plan, AW has appointed a PSP to execute the project of integrating the Provincial Water Infrastructure Masterplan with the AW Infrastructure Master Plan.</li> </ol>
	Poor corporate culture	<ol style="list-style-type: none"> <li>1. Inappropriate enabling of the organisational culture</li> <li>2. Lack of participation by employees in satisfaction surveys</li> <li>3. Inadequate implementation of the Performance Management Systems</li> <li>4. Lack of accountability in management and leadership</li> <li>5. Lack of coherent direction to follow</li> <li>6. Working in silos.</li> </ol>	<ol style="list-style-type: none"> <li>1. Enforce the implementation of the Improvement Plan.</li> <li>2.1 Review the Performance Management Policy and conduct training on the policies.</li> <li>2.2. Review the Remuneration Policy and conduct training on the policies.</li> <li>3. Enforce consequence management.</li> </ol>

## Effectiveness of risk management

The litmus test for the risk management system is to test the effectiveness of the system.

To date, Amatola Water is still formulating and entrenching the processes, and integrating the approach throughout the operations.

Management acknowledges that documenting and reporting is only one aspect of risk management and, therefore, a strategy has to be implemented and inculcated into the organisation.

Operationally, MANCO, when dealing with matters, reviewing policies and undertaking general business, investigates the risks associated with recommendations made and these are considered prior to the resolutions being made. It should be noted that a template for internal memorandums tabled at Board and committees has been developed. These include the policies for risk, compliance to laws and disclosure.

# COMPLIANCE WITH LAWS AND REGULATIONS

The Enterprise-Wide Legislative Compliance Policy defines the fundamental principles, roles and responsibilities of the compliance function within Amatola Water Board with its Board of Directors, General Managers and the business and operational functions.

The Enterprise-Wide Legislative Compliance Policy is currently under review. The universal regulatory environment for the financial year was reviewed and finalised in the first quarter of the 2018/19 financial year.

The Safety and Health units within Amatola Water also ensure compliance with legislation. This follows the ISO standard audit. Reporting on the audit findings and remedial actions are facilitated through the compliance function.

Compliance is reported through the Risk Committee to the Audit and Risk Committee.

The autonomy of the compliance function and the allowance to report breaches directly to the ARC is fundamental to the independence of the function and is ingrained in the policy.



## VALUE ADDITION

The value addition of the new programme for compliance is still to be experienced but it is anticipated that with proactive compliance-thinking, the awareness would be created to manage and prevent breaches in legislative compliance.



## SUSTAINABILITY

The impact of the programme is still to be determined. Shortfalls had been identified and are articulated in the external audit reports.



## TREND ANALYSIS

Due to the programme being new, there is no trend analysis to note. However, last year's external audit report makes mention of compliance with legislation issues and matters arising from the Annual Financial Statements and Annual Report, revenue management, audit committee, consequence management, internal audit and expenditure management. Legislative compliance with the PFMA and SCM legislation would be prioritised as part of the universal legal register.



## LOOKING FORWARD

Going forward, the following will be achieved under the area of compliance:

1. Roll-out and development of the compliance plan
2. Implementation of a training calendar for specific legislation
3. Monitoring and reporting on breaches and mitigation strategies
4. Cascading compliance into individual performance scorecards.

## KING CODE ON CORPORATE GOVERNANCE COMPLIANCE

The Amatola Water Board, as a custodian and promoter of good corporate governance is committed to compliance and the implementation of the provisions and recommendations of the King code of Corporate Governance IV.

The Board had adopted an independent system of assessing compliance with the King IV principles and the PFMA. The instrument assists Amatola Water with monitoring and reporting on its compliance to the King IV principles.

Furthermore, the system aids the Board in enhancing compliance with these principles.

## SAFETY, HEALTH AND ENVIRONMENT

AW continues to ensure the occupational health and safety (OHS) environment of all Amatola Water’s employees, stakeholders as well as the public, within its areas of operation.

Arising from the SHE inspections and audits, an action plan was developed to provide a framework that will focus on standardising and improving occupational health and safety performance.

This action plan has enhanced the organisation’s capability in providing health and safety services and oversight, focusing on:

- Monitoring and maintenance of Amatola Water’s compliance with the OHSAS 18001:2007 Management System and other statutory obligations
- Achievement of the Amatola Water Integrated Management Policy and other strategic imperatives.

### OHSAS 18001 SABS re-certification audit

Amatola Water has continued with the implementation and improvement of the Amatola Water OHSAS 18001:2007 Management System. As part of its commitment, a recertification assessment in terms of OHSAS 18001:20017 was held from 14 to 17 May 2018 and results were extremely positive.

All the non-conformances that were raised by SABS during their audit have now been closed and Amatola Water has retained its OHSAS 18001 certification.

### SHE compliance audits

The objective of the SHE compliance audit is to assess the extent of SHE compliance with respect to the products, services and facilities within AW operations. The graph below reflects the achievement of the organisation’s SHE compliance with the legislative and regulatory framework.

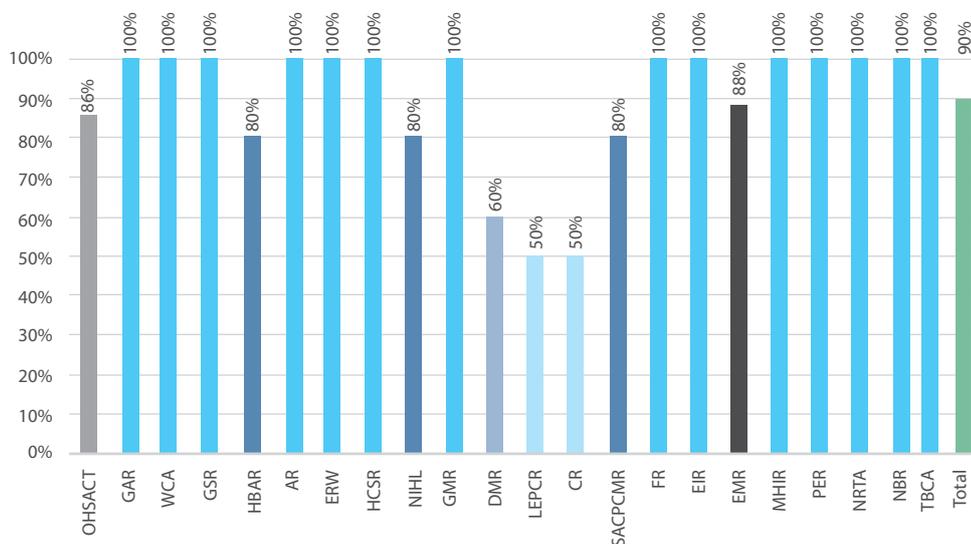


Figure 7.4: SHE legal compliance audit outcome

**FORMULA:  
DISABLING INJURY  
FREQUENCY RATE (DIFR)**

$$\frac{\text{(NUMBER OF CASES)}}{200\,000} \times \text{NUMBER OF HOURS WORKED OVER 12 MONTHS} = \text{DIFR}$$

(Sourced from Nosa SHE Qualifying Criteria)

Disabling Injury (DI) or Loss Time injury (LTI) is considered as an injury or occupational disease where the injured/ill person misses the next shift because of the injury/illness or has suffered some bone (for example, a fracture)

## Disabling injury frequency rate

The DIFR is a key indicator of the organisation's SHE performance as it measures the extent of potential disabling injuries and incidents to which the personnel are exposed. Amatola Water has maintained (DIFR) at 0.74, which is below the benchmark of 0.8.

The graphical information below shows the 2017/18 DIFR rating including medical cases, first aid cases, as well as irreversible diagnostic cases, as assessed by Federated Employers' Mutual Assurance (FEMA) and within the organisation.

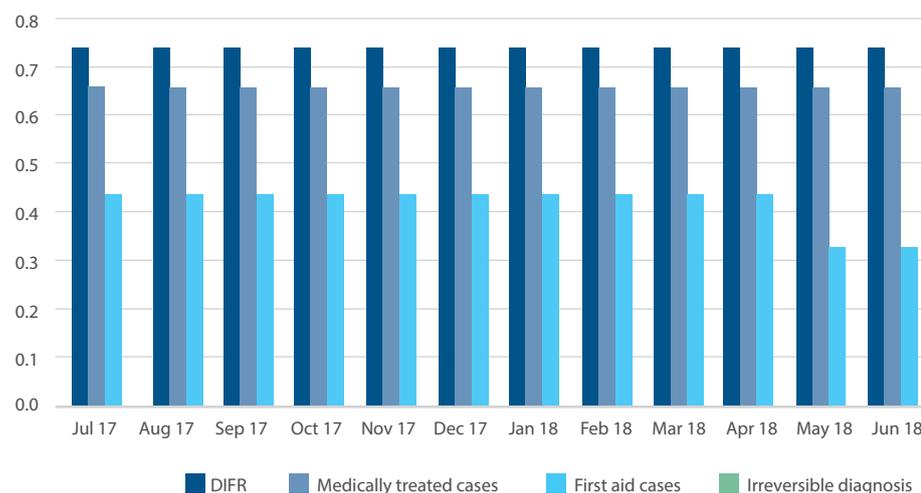


Figure 7.5: Disabling injury frequency rate (DIFR)

## Significant incidents within the year under review

Amatola Water experienced an incident in which three lives were lost due to drowning from one incident at the KSD project.

Whilst the matter is still under investigation, AW has intensified its safety mitigation by taking full control by monitoring safety agents, appointed by other stakeholders, working within AW implemented projects, as well as by directly appointing accredited safety agents on new projects, to mitigate any potential recurrence.

In addition, an Incident Intervention Plan has been developed to:

- Standardise the approach and provide the framework of managing the critical incidents within construction works
- Preserve public trust by improving and maintaining the organisational excellence through advocacy and outreach
- Outline the processes that will support the efficient management of the various phases of a critical incident, including related documents
- Define the roles and responsibilities relevant to key role-players within the value chain
- Ensure responsiveness on health and safety findings and recommendations
- Advocate public awareness to the communities, with regard to the potential risks and hazards, within the construction sites.

A safety awareness programme has also been developed to educate the local communities including children in areas where construction is taking place. This was done in collaboration with schools and community leadership.

# ASSURANCE PROVIDERS

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The Amatola Water Board has an internal and external auditor. The co-sourced internal auditors are PwC. The external auditor is the Auditor-General of South Africa (AGSA).

It should be noted that management also undertakes internal audits in terms of certification, be it to test OHSA or ISO compliance prior to applying to obtain certification and accreditation.

The independence of assurance providers is considered very important for the protection of management and the Board. After the audits have been undertaken, reports are submitted to the Amatola Water through the ARC.

Management monitors any findings and improvements which have been put in place to mitigate and prevent the finding from re-occurring in line with the Audit Non-Conformance Report. This report is tabled at MANCO, ARC and FINCO.

The advantages of assurance reports is two-fold: It enhances the validation of information, and ensures verification and accuracy of the underpinning processes and controls for providing quality water and service delivery.

## VALUE ADDITION

Assurance reports provide value to shareholders and management by ensuring quality operations are undertaken. Assurance also assists in ensuring that controls are put in place to mitigate risks, be these operational, financial or fraudulent in nature.

## SUSTAINABILITY

Assurance planning and reporting is very critical and has an impact on the organisation and indirectly on society at large. It can affect the organisation's reputation and credibility. The better the assurance report, the better the reputation of Amatola Water will be.

Assurance reporting is required legislatively and there are future intentions to host internally, an Internal Audit function to ensure ongoing value addition and monitoring of controls.

## TREND ANALYSIS

The trend analysis for assurance reporting can be gathered from various internal and external audit reports. It should be noted that in the year 2016/17, the Amatola Water Board achieved an unqualified external audit report.

In this year 2017/18, the Amatola Water Board achieved an unqualified external audit report with an emphasis on areas of going concern, restatement of corresponding figures, and irregular and fruitless and wasteful expenditure.

## LOOKING FORWARD

All assurance reporting findings are captured in a report called the Non-Conformance Report, managed and monitored by management and the Audit and Risk Committee, to ensure that all recommendations are implemented.



## INTERNAL AUDIT

There is a PFMA and King IV requirement to appoint Internal Auditors.

Furthermore, the assurance internal audit gives, assists the organisation from a reputational focus as it creates shareholder value and stakeholder appreciation of the organisation.

Internal audit is currently a co-sourced function. Internal audit plays a critical role in Amatola Water's corporate governance.

The internal audit function reports directly to the Audit and Risk Committee. Towards the end of the financial year, the active engagement of internal audit was noted by its presence at each Audit and Risk Committee meeting.

The internal audit is primarily guided by the Internal Audit Plan which is agreed annually for the ambit of the internal audit scope of work.

Internal audit seeks to provide an independent, professional service.

This objective is achieved through compliance with:

- The Statement of Responsibilities of Internal Auditing
- The Code of Ethics for Internal Auditing
- The International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors.

The standards for internal auditing govern the work of the auditing profession and form a basis for measuring the performance or quality of internal audit.

Compliance with the standards address:

- The independence of internal audit from the activities audited and the objectivity of Internal Auditors
- The proficiency of Internal Auditors and the professional care they should exercise
- The scope of internal auditing work
- The performance of internal audit assignments
- The management of internal audit.

Internal audit is tasked by the Audit and Risk Committee to develop with Management, for approval at the Audit and Risk Committee, the Amatola Water Board Internal Audit Plan which is developed against the backdrop of the Strategic Risk Register.

The Internal Audit Plan for the financial year 17/18 included:

1. Auditing of the following areas:
  - Project management: Compliance with revenue policy, review controls to ensure appropriateness and alignment with policy and standards, review of policy to ensure alignment with standards, revenue recognition – stage of completion and agency fees
  - Human resources management: High-level review of the HR Policy, review a sample of transactions for compliance with the policies and procedures, and follow-up on addressed audit findings
  - Supply chain management: Review systems to detect, monitor, record and report unauthorised, irregular, fruitless and wasteful expenditure, review controls and systems over SCM contract management, supplier database management, review of a sample of transactions for compliance with SCM policies and processes, and follow-up on SCM findings with AGSA and internal audit
  - Asset management: Review adequacy and effectiveness of additions, maintenance of the Fixed Assets Register, existence and completeness of assets, and movement of assets and asset accounts
  - Information technology: Review and assess the current status of information technology governance policies and standards in alignment with the DPSA's Corporate Governance of ICT Policy Framework readiness - Phase One, desktop review, general computer controls review including IT governance and IT security, and application control review
  - Bulk water infrastructure maintenance: Review integrated planning, budgeting and implementation, review processes for the enhancement of monitoring and evaluation through project verification and reporting, review of maintenance schedules and periodic reports and review useful life of infrastructure.

2. Undertaking follow-up reviews: Populate tracking template with internal audit findings from 2014 to 2018, follow up on items addressed by management and key external audit findings (which are not covered in plan) and populate the tracking template with the internal audit findings from 2014 to 2018.
3. Conducting fraud investigations.
4. Conducting annual high-level risk reviews.
5. Updating charters.
6. Reviewing performance information: Q1 to Q4 report submitted to Department of Water and Sanitation.

The Audit and Risk Committee reports regularly to the Board of Directors.

## Going forward

It should be noted that the organisation, in striving to achieve combined assurance and ultimately, control-based auditing practices in the future, intends to internalise the internal audit function.



## Performance of internal audit

The international professional practices framework (IPPF), which guides the work of internal auditors, defines internal auditing as an assurance and consulting activity (without providing more consulting services over auditing) which provides a value-add service to the organisation by evaluating the effectiveness of risk management, internal control and governance processes within an organisation.

The ARC has confirmed that the internal auditors have provided a balance between the consulting and auditing services and that the independence of the internal audit over the financial year 2017/18 has not been compromised.

## EXTERNAL AUDIT

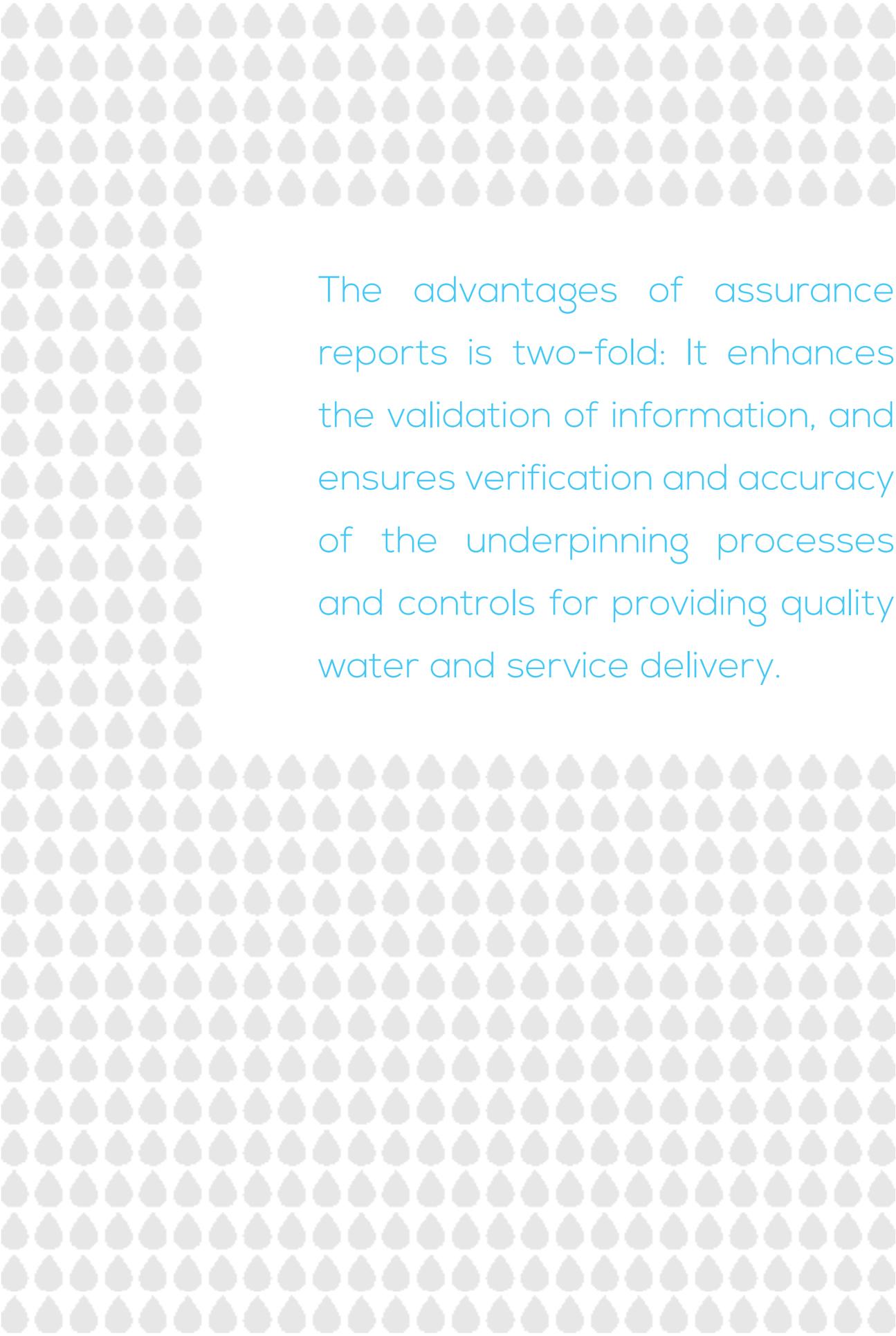
The external auditor for 2017/18 is the Auditor-General of South Africa.

## OTHER ASSURANCE REPORTS

There are various other forms of external auditing that occur throughout the operations.

One such is the SHE compliance auditing prior to verification and achieving ISO accreditation or Blue and Green Drop Certification and the OHSA audits.

More detail of these reports can be found on page 117 of the SHE Report.



The advantages of assurance reports is two-fold: It enhances the validation of information, and ensures verification and accuracy of the underpinning processes and controls for providing quality water and service delivery.



# FINANCIAL SUSTAINABILITY REPORT

08

# INTRODUCTION

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Amatola Water has undergone a financially woeful experience in the financial year 2017/18. Both revenue streams of primary and secondary business have felt the impact of the macro-economic environment, coupled with a number of internal challenges which arose during the year.

The biggest challenge has been revenue collection from key customers, with Amathole District Municipality causing the greatest difficulty, which has led the Amatola Water Board to introduce stringent measures during the financial year to sustain the entity.

Amatola Water Board, its Board, management and staff have shown great resilience and resourcefulness in continuing to provide essential water and sanitation services to stakeholders who depend on them as well as continuing to create jobs, directly and indirectly, in the sector.

The economic outlook and financial sustainability of Amatola Water for the future is grounded in infrastructure development at the water treatment works, and forging partnerships and alliances with water service authorities.

## FINANCIAL SUSTAINABILITY AND VALUE CREATION

Revenue from operations decreased in relation to the prior year by 5%. Revenue generated came from water sales which were stagnant as the restrictions implemented on Amathole District Municipality reduced volumes sold and negated the increase from the approved tariff.

Secondary business revenue from the dam management programme for the DWS, operation and maintenance programmes for NDPW and DOE, project implementing agent arrangements at Nooitgedagt scheme for the Nelson Mandela Bay Metro and the King Sabata Dalindyebo Presidential Intervention Programme in the OR Tambo region, decreased by 24% in the financial year.

The major cause of not meeting the revenue targets on secondary business was the poor performance on the contracts due to delays in procurement, litigations on awarded bidders and the liquidation of a strategic supplier for the provision of pipes on the projects.

2017/18

EMPLOYEE COSTS  
INCREASED BY

1.7%

OPERATING & ADMIN  
COSTS INCREASED BY

80%



GROSS PROFIT  
MARGIN  
DECREASED TO

23.5%

IMPAIRMENT OF DEBT  
INCREASED BY

300%

AVAILABLE CASH  
RESOURCES  
INCREASED TO

108m



PRIMARY  
REVENUE  
INCREASED BY

6.1%

The Amatola Water Board instituted cost containment measures during the financial year which resulted in:

- Employee costs increased by 1.7% versus an expected 5% increase; the limited increase was due to payroll costs being held at the same level as at the prior year, and the introduction of stringent control measures for discretionary costs such as overtime and other claimable allowances.
- Operating and administrative costs increased by 80% in the current year, driven primarily by the impairment of Amathole District Municipality's outstanding debt. Other than the significant accounting impairment, all operating and administrative costs were held in check by management.

This has resulted in the gross profit margin of Amatola Water Board decreasing from 28.6% to 23.5%.

Amatola Water has continued to refurbish its infrastructure assets to be able to increase productivity and capacity in the future to meet the demand for water. Improving and growing the capital base also provides for a stronger Statement of Financial Position where financing needs to be sought for expansion projects in the future.

Amatola Water also had to consider cash flow constraints due to the non-payment by the Amathole District Municipality in settling their debt that had to be impaired this year. Amatola Water's impairment of debts has increased by 300% and this has had a detrimental effect on the ability of Amatola Water to build cash reserves to maintain and build infrastructure.

Available cash resources for Amatola Water's operations increased from R68 million as at the end of the prior year to R108 million at the end of the current year. Cash and cash equivalents available for utilisation have improved from Quarter 1 to Quarter 4 of the financial year 2017/2018. This is due to concerted cost containment and implementation of interventions. It is evident that there is a progressive increase in available cash reserves as the interventions have been applied over Quarter 1 to Quarter 4.

As part of the Turnaround Plan implementation the Amatola Water revised the entity's budget to reduce costs in line with lower than anticipated revenue from secondary business and overall cost containment measures were implemented. The Amatola Water Board is committed to ensuring that this plan is successful to ensure future viability and sustainability of the organisation.

## PRIMARY AND SECONDARY REVENUE

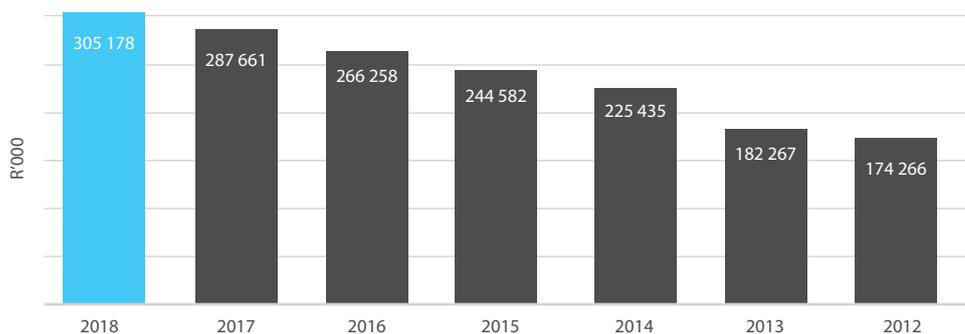
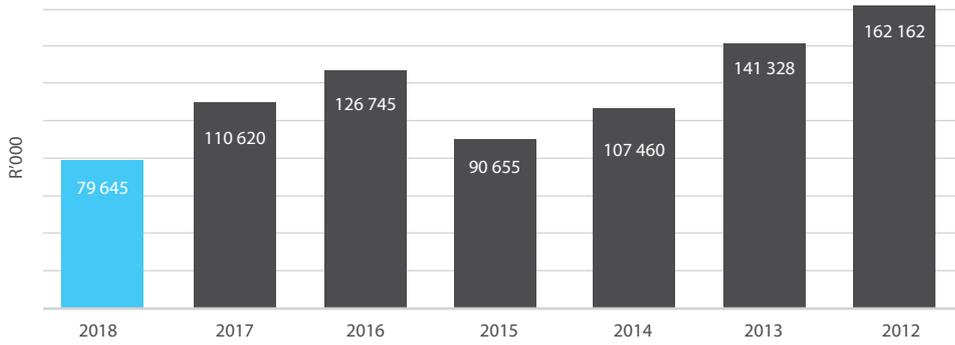


Figure 8.1: Primary revenue (2012 -2018)

Revenue from the primary business of water sales has increased in relation to the prior year by 6.1%, due to a 10% increase in the tariff which negated the volume decrease of 4.9% in raw water volume sold and 4.5% in treated water volume sold for the financial year 2017/2018.

The increase in revenue has been increasing on the back of tariff increases. However, the Amatola Water Board requires substantial volumetric increases to ensure the sustainability of the organisation.



  
**SECONDARY REVENUE DECREASED BY**  
**28%**

Figure 8.2: Secondary revenue (2012-2018)

Secondary business revenue decreased by 28% due to delays experienced as a result of challenges around the delivery of pipes as well as the slow provision of funding by project owners where Amatola Water is the implementing agent. The largest project still underway is the Presidential Intervention in the King Sabata Dalindyebo Local Municipality.

Secondary business is based on the delivery of infrastructure per the agreed timelines and any deviation from this timeline affects Amatola Water's ability to meet its revenue targets.

## COST OF SALES AND OPERATING COSTS

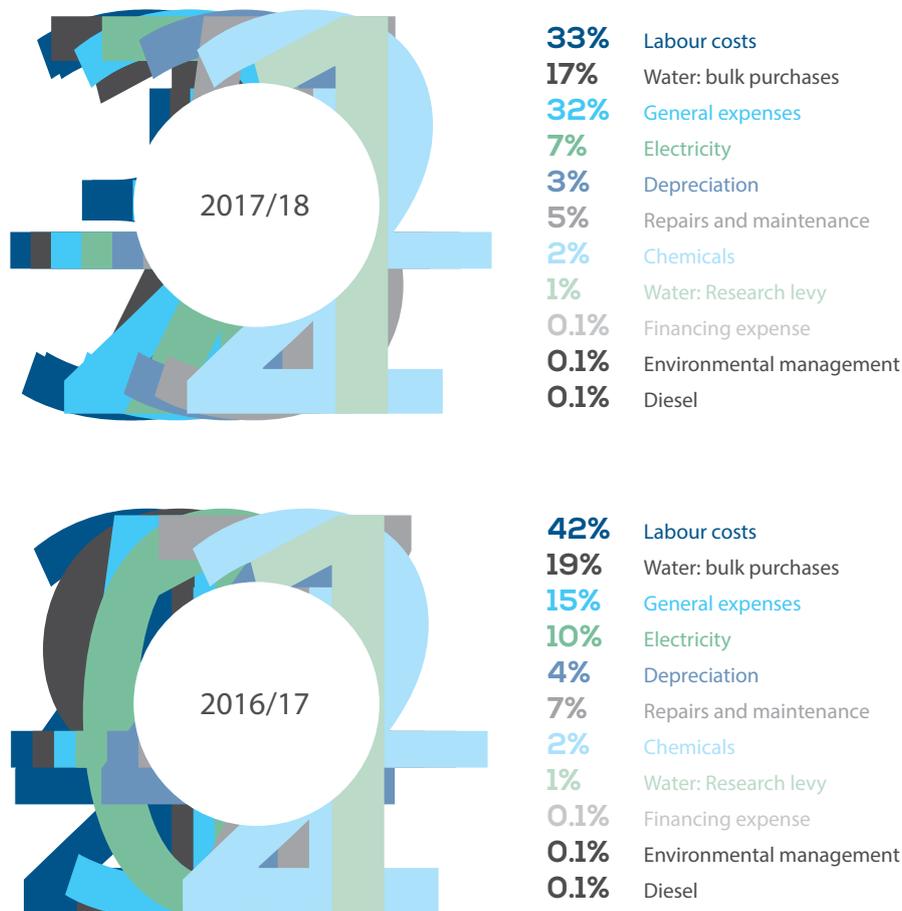


Figure 8.3: Ranking of input costs

**COST OF SALES INCREASED BY 3.2%**

As noted in the prior year, Amatola Water strongly recommended a review of the raw water pricing strategy and the need for amendments in raw water pricing, especially in the rural Eastern Cape where poverty is rife. It was requested that some of the schemes should be treated as social schemes, thereby capping the raw water increase to ensure access to affordable water for end users. Amatola Water will endeavour to be cost-effective in the supply of water.

Cost of sales have increased year-on-year by 3.2%, driven by higher water purchases of 19%, higher chemical costs of 10.46%, and slightly higher employee costs of 3.81%. These increases have been offset by a decrease in repairs and maintenance in the secondary business of 34.94% as a result of a budget cut on dam management for DWS, Makana ROU and NDPW Mthatha contracts that ended.

Support and administrative costs at Amatola Water comprise head office support services costs. Employee costs were lower this year by 4% due to reduced overtime and delays in filling vacancies. Overall cost containment measures saw a decrease in general expenditure.

However, the impairment of debtors increased in the current year, primarily due to non-payment by the Amathole District Municipality of R120m. This matter has been escalated to national level for intervention.

There has been an 28% increase year-on-year for operating and administrative expenses. This is due to an increase of 960.7% in the impairment of debtors which has been included in operating and administrative expenses. This has led to a change in the contribution of costs to the total cost mix of the organisation.

## FINANCE INCOME

Finance income from cash and cash-on-hand has increased by 73.3% from 2017 to 2018. Cash-on-hand was invested in short-term deposits to maximise interest-earning potential whilst observing liquidity requirements and the interest being charged on outstanding debtors invoices. Finance costs have increased significantly by 217.3% from the 2017 financial year as a result of the late payment of invoices.

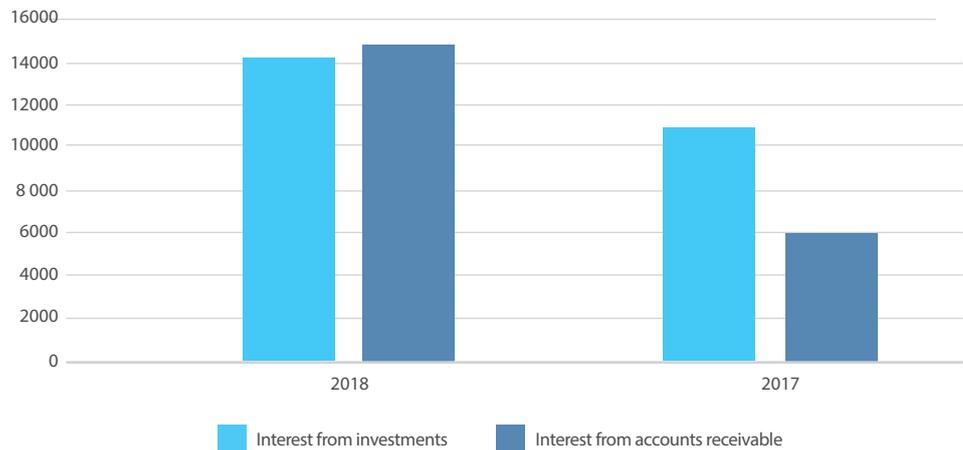


Figure 8.4: Finance income

## MARGIN ANALYSIS

The margin analysis of Amatola Water portrays a relatively stable operating business with a gross profit margin of 28.4%, averaged over the last five years. The volatility of the net margin is largely attributed to the annual provision of doubtful debt.



Figure 8.5: Profit margin analysis

## KEY FINANCIAL RATIO ANALYSIS

The ratio analysis depicted in the graphic below indicates that even in the tough and volatile South African economy, Amatola Water has been able to improve its performance in some instances and keep its performance constant in others, despite the challenges which arose during the 2017/2018 financial year. This is a testimony to the resilience and determination that exists within the organisation to continue delivering high-quality water and sanitation services to the Eastern Cape.

RATIOS	FY2018	FY2017	FY2016	FY2015
Current ratio	1,03	1,36	1,24	1,20
Trade debtors (days)	73,91	88,07	160,9	342,8
Return on assets	-19,46%	1,78%	2%	-0,00
Debt-equity ratio	-	-	-	-
Acid-test ratio	1,03	1,35	1,23	1,00
Cost of sales (R/kl)	5,22	4,62	4,72	4,08
Electricity costs (R/kl)	0,98	0,92	0,88	0,81
Chemical costs (R/kl)	0,25	0,18	0,20	0,24
Raw water purchases (k/l)	2,16	1,83	1,94	1,63
Water research levies (k/l)	0,07	0,07	0,06	0,05
PRODUCTIVITY	FY2018	FY2017	FY2016	FY2015
Number of employees	432	405	343	375
Average revenue per employee (R'000)	794	1 067	1 162	894

Table 8.1: Key financial ratios

## SUPPLY CHAIN MANAGEMENT

Supply chain management (SCM) at Amatola Water has been transformed and is on a trajectory of continuous improvement through the observance of compliance in the implementation of policies and procedures and efforts to keep them current and updated. This has contributed positively to the progress that has been achieved under challenging circumstances similar to the prior financial year. The SCM Policy is at an advanced stage of review as it is now undergoing a legal review as the final stage before it can be submitted for Board approval.

The implementation of the policy will go a long way in making the organisation responsive and better positioned to execute its mandate. The policy will also take cognisance of the amended Preferential Procurement Regulations of 2017 and which form the basis for targeted programmes to uplift the designated groups.

Momentum is being maintained on being transparent with efforts to actively reduce fruitless and wasteful as well as irregular expenditure and to identify and disclose such expenditure accordingly. A more robust enterprise resource planning system is required to address the shortcomings of the current system to ensure efficiency and reliability in reporting. It must be noted that great strides have been made in improving the current system so that it assists the organisation with delivery on its mandate.

Amatola Water strives to spend most of its procurement budget on suppliers with a BBBEE rating of level 1 to 4, which includes previously disadvantaged individuals and SMMEs. BBBEE spend for 2017/18 was 100% (2016/17: 108%); which reflects a slight decrease from last year but Amatola Water has exceeded the performance target for the year.

Contract participation goals (CPGs) are now monitored as part of the effort to expand and improve BBBEE spend. CPGs require a certain percentage of the tender scope to be committed to targeted enterprises through the provision of meaningful economic opportunities. A mandatory 30% sub-contracting is now a the standard requirement for all high-value construction tenders, where applicable, above R30m in value as per the Preferential Procurement Regulations of 2017.

The key positions of the lead Demand Specialist and Lead Acquisition Specialist have been filled which have helped stabilise the middle management team in SCM.

## LOOKING AHEAD

In the coming financial year, the organisation expects further improvements in financial performance. Some of the critical focus areas include:

- Address the going concern risk by aggressively pursuing revenue-generating initiatives aligned to the strategic intent of growing volumes
- Apply stringent credit control and debt management processes to ensure optimal working capital and liquidity
- Improve stakeholder engagement activities with strategic customers to facilitate and increase co-operation and exploit potential opportunities for the sustainability of Amatola Water
- Implement the revised SCM Policy by conducting workshops and targeted training to ensure that the policy is embedded in the organisation
- Improve the control environment by assessing key control deficiencies and implementing solutions
- Improve the delivery of water infrastructure projects
- Continue the process of instilling BBBEE initiatives that promote inclusive growth and the support of SMMEs, qualifying emerging enterprises and black women-owned businesses.





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# ACCOUNTING BASIS

## FOR THE YEAR ENDED 30 JUNE 2018

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The annual financial statements that follow on pages 145 to 170 summarise the financial performance and standing of Amatola Water Board for the year ended June 30, 2018.

The annual financial statements have been compiled and are presented in accordance with South African Statements of Generally Accepted Accounting Practice (SA GAAP) and comply with the Water Services Act (Act 108 of 1997) and the Public Finance Management Act (Act 1 of 1999, as amended by Act 29 of 1999). At the date of authorisation of these annual financial statements, the Accounting Standards Board (ASB) had revoked SA GAAP effective for years ending 1 December 2012. The ASB has indicated that Government Business Enterprises (GBE) should continue applying the accounting frameworks that were applicable prior to 1 December 2012 until a new framework has been issued.

As such, there are no new standards of SA GAAP that will become effective for Amatola Water Board. Publication of Amatola Water Board's annual financial statements is undertaken to create public awareness and understanding of the financial management and policies that have been used within Amatola Water Board's organisation to regulate the financial affairs of the business and to safeguard it from excessive or avoidable risk.

# AUDIT AND RISK COMMITTEE REPORT FOR THE YEAR ENDED 30 JUNE 2018

We are pleased to present our report for the financial year ended 30 June 2018.

## 1. BACKGROUND

The Audit and Risk Committee is established as a statutory committee in terms of section 38(1) (a) (ii) of the Public Finance Management Act and Treasury Regulation 3.1.13.

The committee has adopted a formal terms of reference as its Audit and Risk Committee Charter and has fulfilled its responsibilities for the year, in compliance with the Audit and Risk Committee Charter.

## 2. MEMBERSHIP AND ATTENDANCE

- The committee consists solely of independent members who are financially literate and have appropriate experience.
- The committee met seven times during the year.
- The following is a list of the members, their qualifications and a record of their attendance.

ARC MEMBERS	ARC	TOTAL NUMBER OF MEETINGS	NUMBER OF MEETINGS ATTENDED	ARC MEETINGS	SPECIAL MEETING
E. Jooste	Committee Chairman	7	7	4	3
B. Hollingworth	Member	7	7	4	3
L. Mangquku	Member	2	0	0	0
S. Bruce	Member	2	2	1	1
N. Ravgee	Member	4	3	2	1
L. Smith	Member	6	6	5	1

NAME	QUALIFICATIONS	INDEPENDENT EXTERNAL MEMBER OR BOARD MEMBER	RACE	DATE APPOINTED	GENDER	NUMBER OF MEETINGS TOTAL	NUMBER OF MEETINGS ATTENDED	TERM END DATE
E. Jooste	BCom (Acc), SAIPA, IoDSA, International Executive Development Programme (leDP)	Board Member	Coloured	11 Mar 2016	M	7	7	30 Jan 2020
B. Hollingworth	BSc (Civil Engineering), LLB, MSc (Hydraulics), MBA (Business Administration)	Board Member	White	11 Mar 2016	M	7	7	30 Jan 2020
L. Mangquku	Honours, Bachelor of Accounting Science; Honours, Bachelor of Commerce; Qualified Chartered Accountant, CA (SA); Masters in Business Leadership; Advanced Company Law I & II (Witwatersrand University)	Independent External Member	Black	1 July 2013	M	2	0	30 Sep 2017
S. Bruce	Chartered Accountant, CA (SA)	Independent External Member	White	1 Nov 2014	M	2	2	30 Sep 2017
N. Ravgee	B.Sc (Info: Proc); H. Diploma Accounts, Chartered Accountant, CA (SA)	Independent External Member		27 Oct 2017	M	3	3	30 Jan 2020
L. Smith	Chartered Accountant, CA (SA); Registered Auditor with South African Independent Regulatory Board for Auditors	Independent External Member	White	29 Aug 2017	F	6	6	30 Jan 2020

### 3. THE AUDIT AND RISK COMMITTEE'S RESPONSIBILITIES:

The Audit and Risk Committee is satisfied that it has discharged its oversight responsibilities in respect of:

#### 3.1 Internal Controls

- The safeguarding of assets, the operation of adequate systems, control and reporting processes, and the preparation of accurate reports and financial statements in compliance with the applicable legal requirements and accounting standards.
- Overseeing the activities and ensuring coordination between, the activities of internal and external audit.
- Providing a forum for identifying and reviewing enterprise-wide risks relating to financial, performance and regulatory exposures, and monitoring controls designed to minimise these risks.
- Reviewing AW Board's quarterly financial and performance information, annual report, including the annual performance information and annual financial statements, and any other public reports or announcements containing financial and non - financial information.
- Receiving and dealing with any complaints concerning the accounting practices, internal and external audit or the content and audit of its financial statements and performance reports, or related matters.
- Annually reviewing the Committee's work and charter and making recommendations to the AW Board to ensure the Committee's effectiveness.

#### 3.2 Risk Management

- Management is responsible for the establishment and maintenance of an effective system of governance, risk management, the prevention and detection of fraud and internal controls.
- Internal audit was guided by the consolidated risk profile, critical audit areas and management's inputs in the formulation of its three-year strategic and annual plans.
- AW has a Risk Committee which is chaired by the Chief Risk Officer (CRO) who reports directly to the Audit and Risk Committee.
- Due to internal challenges which are in the process of being addressed, the risk committee met three times and is currently in a process of properly setting up its governance structures to ensure that it functions effectively.
- A risk register is updated and reviewed at each risk committee meeting and updated with emerging risks. This is to ensure that all the major risks, including the emerging risks facing AW Board are effectively managed. The Committee participates extensively in the Annual Risk Assessment Workshops of AW.

#### 3.3 Internal Audit

The Committee approved a risk-based three year rolling strategic internal audit plan and an annual audit coverage plan for the period 01 July 2017 to 30 June 2018 covering the following key audit activities:

PLANNED AUDITS	NUMBER OF AUDITS
Performance Information Review	4
Revenue Management Review	1
Human Resources Management Review	1
Supply Chain Management Review	1
Fixed Assets Management Review	1
Information Technology General Controls Review	1
Bulk Water Infrastructure Management Review	1
TOTAL PLANNED AND PERFORMED AUDITS	10

The Committee reviewed all the Internal Audit reports and is satisfied:

- With the activities of the Internal Audit function, including its annual work programme, the reports of significant investigations and the responses of management to specific recommendations.
- That Internal Audit conducted its work in accordance with the standards set by the Institute of Internal Auditors.

### 3.4 Accounting and Auditing Concerns Identified by Internal Audit

There are no accounting concerns that have been noted and brought to our attention; and all the significant auditing concerns which were brought to our attention were satisfactorily resolved by management and the Chief Executive Officer.

### 3.5 Other Identified Concerns

The Committee has the following concerns related to:

- The entity continuing as a going concern including it being financially sustainable.
- Control weaknesses in the project management environment.
- Significant challenges within the department's IT environment in terms of capacity and capability.
- The lack of an approved Infrastructure Master Plan.
- Processes for recovery of outstanding Debtors balances were not always completely followed.
- Critical vacancies at executive level not filled.

Other than these matters, nothing significant has come to our attention to indicate any material breakdown in the functioning of controls, procedures and systems. The Committee is therefore of the opinion that Internal Audit is independent, provided objective assurance and consulting activities that were designed to add value and improve AW's operations.

### 3.6 The Adequacy, Reliability and Accuracy of the Financial and Performance Information

The Committee is of the opinion, based on the information and explanations provided by management, as well as the results of audits performed by Internal Audit and the Office of the Auditor - General, that the financial and performance information provided by management to users of such information is adequate, reliable and accurate, except for the one area of performance information related to "Support Rural Development Indicator – Number of signed contracts and MOUs" on usefulness as reported by the Office of the Auditor-General.

## 4. EXTERNAL AUDIT

- The Office of the Auditor General attended 6 meetings of the Committee.
- The Committee holds in-committee meetings at every session it meets based on requests from the Committee members, management, Internal and External Audit. The Committee has had various sessions with the parties independently and confirms that they are satisfied that there are no unresolved issues of concern.
- The Committee reviewed and accepted the External Audit Report and all the accounting and auditing concerns were discussed with management.

The Committee concludes that the Office of the Auditor General is independent and objective.

## 5. THE EFFECTIVENESS OF INTERNAL CONTROLS

The Committee:

- Considered all the reports issued by the various assurance providers internal and external.
- Noted management's actions in addressing identified control weaknesses and are satisfied with the following achievements reported during the year:

ASSURANCE PROVIDER	TOTAL FINDINGS	RESOLVED FINDINGS	PARTIALLY RESOLVED FINDINGS	NOT RESOLVED
Internal audit	55	24	31	0
External audit	28	21	7	0
SHE compliance audit	15	6	4	5
OHSA audit	8	8	0	10
<b>Total</b>	<b>106</b>	<b>59</b>	<b>42</b>	<b>5</b>

\* Included in the 106 are 47 findings that have not reached the agreed due date for Management's implementation of remedial action.

- We also noted findings raised by both internal Audit and Office of the Auditor General around performance information which management is addressing.
- In light of the above, we report that the system of internal control for the period under review is considered to have been generally effective.

## 6. COMPLIANCE WITH LEGAL AND REGULATORY PROVISIONS

The Committee has:

- Reviewed the in-year management and quarterly reports submitted in terms of the PFMA and is satisfied that no material deviations were noted.
- Reviewed management's policies and procedures to ensure compliance with applicable laws and regulations.
- Raised concerns with the AW's non-compliance to some of the legislative requirements as reflected in the audit report of the Office of the Auditor - General.

## 7. EVALUATION OF FINANCIAL STATEMENTS AND ANNUAL REPORT

The Committee has evaluated the annual financial statements and performance information for the year ended 30 June 2018 and duly recommended them for the approval of the Members of the Board of Amatola Water.

The Committee reviewed the Auditor-General's audit adjustments, management and audit reports and concurs with their conclusions. The Committee therefore accepts the audit opinion and conclusion expressed by the Office of the Auditor-General on the annual financial statements, annual performance report and annual report.

We would like to express our sincere appreciation to the Management team for their leadership and commitment, in maintaining an unqualified audit opinion during a very challenging period.



Eugene Jooste  
Chairman: Audit and Risk Committee  
17 October 2018

# APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

The Board is responsible for the preparation and fair presentation of the annual financial statements of Amatola Water Board, comprising the statement of financial position as at 30 June 2018, and the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to the annual financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Water Services Act 108 of 1997 and sub-section 55(1)(b) of the Public Finance Management Act of 1999, as set out on pages 145 to 170.

The Board's responsibility includes: overseeing the implementing and maintaining of internal control relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Board's responsibility also includes ensuring adequate accounting records and that an effective system of risk management is adopted, as well as the preparation of the supplementary schedules included in these annual financial statements.

The Board has made an assessment of the entity's ability to continue as a going concern and is satisfied that Amatola Water Board has adequate resources to remain operational for the foreseeable future. The Board is aware of material uncertainty due to the non-payment for provision of water services to Amathole District Municipality, the going concern risk is increased due to this. The Board has mandated management to address this risk as a matter of urgency to ensure that the going concern is not at risk.

The auditors are responsible for reporting on whether the financial statements are fairly presented in all material respects in accordance with the applicable financial reporting framework.

## Approval of the Annual Financial Statements

The annual financial statements of Amatola Water Board, as identified in the first paragraph, which have been prepared on the going concern basis, were approved by the board on 28 September 2018 and were signed on its behalf by:



Ntombokuqala Nokulunga Mngqeta  
Chairperson



Vuyo Zitumane  
Chief Executive Officer

# REPORT OF THE AUDITOR-GENERAL TO THE PARLIAMENT ON AMATOLA WATER BOARD

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

1. I have audited the financial statements of Amatola Water Board set out on pages 145 to 170, which comprise the statement of financial position as at 30 June 2018, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of Amatola Water Board as at 30 June 2018, and its financial performance and cash flows for the year then ended in accordance with the South African Statements of Generally Accepted Accounting Practice (SA GAAP) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

### Basis for opinion

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

### Material uncertainty relating to going concern/ financial sustainability

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. As disclosed in note 19 to the financial statements, uncertainties exist pertaining to the ability of one of its key customers to settle its invoices as they become due. This condition indicates that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.

### Emphasis of matters

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

### Restatement of corresponding figures

9. As disclosed in note 16 to the financial statements, the corresponding figures for 30 June 2017 were restated as a result of errors in the financial statements of the entity identified at, and for the year ended, 30 June 2018.

## Material impairments - Trade and other receivables

10. As disclosed in note 3 to the financial statements, a material loss of R120 million was incurred as a result of an impairment of doubtful debtors.

## Fruitless and wasteful expenditure

11. As disclosed in note 20 to the financial statements, the entity incurred fruitless and wasteful expenditure of R1 million, for interest on late payments and payments for advertisements on cancelled bids.

## Irregular expenditure

12. As disclosed in note 21 to the financial statements, the entity incurred irregular expenditure of R18,7 million, for transgressions to various procurement processes and spending on expired contracts.

## RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY FOR THE FINANCIAL STATEMENTS

13. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the financial statements in accordance with SA GAAP and the requirements of the PFMA, and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
14. In preparing the financial statements, the accounting authority is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate entity or to cease operations, or has no realistic alternative but to do so.

## AUDITOR-GENERAL'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

## INTRODUCTION AND SCOPE

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. My procedures address the reported performance information, which must be based on the approved performance planning documents of the entity. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents.

My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

19. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the entity for the year ended 30 June 2018.

OBJECTIVES	PAGES IN THE ANNUAL PERFORMANCE REPORT
Objective 1 - Customer/ Stakeholder Interaction	53
Objective 3 - Organisation efficiency and effectiveness	50

20. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

21. I did not raise findings on the usefulness and reliability of objective 3 - Organisation efficiency and effectiveness or the reliability of objective 1 - Customer / Stakeholder Interactions.

22. The material finding in respect of the usefulness of objective 1 - Customer/ Stakeholder Interactions is follows:

## Objective 1 - Customer | Stakeholder Interaction

Support to rural development

23. The indicator used to measure support provided to rural municipalities is not specific as it does not identify the nature and level of support to be provided.

## Other matters

24. I draw attention to the matters below.

## Achievement of planned targets

25. Refer to the annual performance report on pages 48 to 58 for information on the achievement of planned targets for the year and explanations provided for the under/over achievement of a significant number of targets. This information should be considered in the context of the material finding on the usefulness of the reported performance information in paragraph 23 of this report.

## Adjustment of material misstatements

26. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of customer stakeholder interactions and organisational efficiency and effectiveness. As management subsequently corrected only some of the misstatements, I raised a material finding on the usefulness of the reported performance information of objective 1 - Customer/ Stakeholder Interactions.

# REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

## Introduction and scope

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

28. The material findings on compliance with specific matters in key legislations are as follows:

## Annual financial statements and annual reports

29. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records as required by section 55(1) (a) and (b) of the PFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statement were corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

## Expenditure management

30. Effective and appropriate steps were not taken to prevent irregular expenditure of R 18,7 million disclosed in note 21 to the annual financial statements, as required by section 51 (1) (b) (ii) of the PFMA. The majority of the irregular expenditure disclosed in the financial statements was caused by not following the required supply chain management processes.

31. Effective steps were not taken to prevent fruitless and wasteful expenditure of R1 million, disclosed in note 20 to the annual financial statements, as required by section 51 (1) (b) (ii) of the PFMA. The majority of the fruitless and wasteful expenditure was caused by interest on late payments.

## Procurement

32. Some of the goods, works or service were not procured through a procurement process that is fair, equitable, transparent and competitive, as required by section 51 (1)(a)(iii) of the PFMA.

33. The preference point system was not applied to some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act (PPPFA).

34. Sufficient appropriate audit evidence could not be obtained that quotations were awarded to bidders that scored the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act's Preferential Procurement Regulations.

## OTHER INFORMATION

35. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.

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

37. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

38. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

## INTERNAL CONTROL DEFICIENCIES

39. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the findings on the annual performance report and the findings on compliance with legislation included in this report.
40. Monitoring activities are established within the board's structures to ensure oversight within the entity. These were only partially effective as material non-compliance with laws and regulations and the entity's supply chain management policies occurred in the current year.
41. The non-compliance is mainly due to a lack of proper review and monitoring of compliance within the entity. The internal policies have not been properly reviewed to ensure that they are aligned to the processes of the entity. Non-compliance with the policies could have been prevented had compliance been properly reviewed and monitored.
42. The entity does not have sufficient monitoring controls to ensure adherence to the internal policies and procedures relating to procurement and contract management for purposes of taking corrective action. The lack of adequate oversight resulted in the recurrence of noncompliance with the entity's policies relating to supply chain management.
43. There are also no processes in place to ensure that performance indicators are described in a clear unambiguous manner.

## OTHER REPORTS

44. I draw attention to the following engagement conducted by an independent consultant that had, or could have, an impact on the matters reported in the entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. This report did not form part of my opinion on the financial statements or my finding on the reported performance information or compliance with legislation.
45. The entity requested an independent consultant to investigate the processes followed in appointing a supplier, covering the period December 2015 to February 2016. At the date of this report, this investigation was still in progress.

*Auditor-General*

East London  
30 September 2018



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

# STATEMENT OF COMPREHENSIVE INCOME

## FOR THE YEAR ENDED 30 JUNE 2018

	Note(s)	2018 R'000	2017 Restated R'000
Revenue	2	384 833	405 272
Cost of sales	3	(294 278)	(289 166)
Gross profit		90 555	116 106
Other income	2	4 516	4 065
Operating and administrative expenses	3	(229 258)	(127 259)
Operating loss		(134 187)	(7 088)
Finance income	4	29 045	16 761
Finance costs	25	(482)	(152)
Profit for the year		(105 624)	9 521
Total comprehensive income for the year		(105 624)	9 521

# STATEMENT OF FINANCIAL POSITION

## AS AT 30 JUNE 2018

	Note(s)	2018 R'000	2017 Restated R'000
<b>Assets</b>			
<b>Non-Current Assets</b>			
Property, plant and equipment	5	540 617	531 004
Intangible assets	23	2 109	2 712
Total non-current assets		542 726	533 716
<b>Current Assets</b>			
Inventories	6	2 768	3 170
Trade and other receivables	7	197 450	256 056
Cash and cash equivalents	8	376 331	130 858
Total current assets		576 549	390 084
Total Assets		1 119 275	923 800
<b>Equity and Liabilities</b>			
<b>Equity</b>			
Capital contribution		274 557	274 557
Accumulated profit		(14 239)	91 385
Total capital and reserves		260 318	365 942
<b>Liabilities</b>			
<b>Non-Current Liabilities</b>			
Deferred income liability	24	301 060	275 050
<b>Current Liabilities</b>			
Trade and other payables	9	447 040	234 350
Provisions	11	6 035	3 615
Grant funding liability	10	103 696	41 351
Current portion of deferred income liability	24	1 126	3492
Total current liabilities		557 897	282 808
Total Liabilities		858 957	557 858
Total Equity and Liabilities		1 119 275	923 800

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2018

	Note(s)	Capital Contribution R'000	Accumulated Profit R'000	Total R'000
Balance at 01 July 2016		274 557	81 862	356 419
Profit and other comprehensive income for the year		-	5 523	5 523
Opening balance as previously reported		274 557	87 385	361 942
Adjustments				
Prior period errors		-	3 999	3 999
Balance at 01 July 2017		274 557	91 385	365 942
Profit and other comprehensive income for the year		-	(105 624)	(105 624)
Balance at 30 June 2018		274 557	(14 239)	260 318

# STATEMENT OF CASH FLOWS

## FOR THE YEAR ENDED 30 JUNE 2018

	Note(s)	2018 R'000	2017 Restated R'000
<b>Cash flows from operating activities</b>			
Cash receipts from customers		447 955	329 052
Cash paid to suppliers and employees		(275 238)	(397 729)
Cash generated/ (utilised in) from operations	14	172 717	(68 677)
Interest income	4	14 173	10 928
Finance costs	25	(482)	(152)
Net cash generated from /(utilised) in operating activities		186 408	(57 901)
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(29 256)	(110 165)
Purchase of other intangible assets	23	(233)	(1 772)
Grant funding received	10	88 554	-
Net cash from investing activities		59 065	(111 937)
<b>Cash flows from financing activities</b>			
Repayment of long term borrowings		-	(15)
Total cash and cash equivalents movement for the year		245 473	(169 853)
Cash and cash equivalents at the beginning of the year		130 858	300 711
Total cash and cash equivalents at end of the year	8	376 331	130 858

# 1. ACCOUNTING POLICIES

## BASIS OF PREPARATION

The annual financial statements are prepared on the historical costs basis, unless stated otherwise, and incorporate the following principal accounting policies which conform to SA GAAP, the Public Finance Management Act (Act 1 of 1999, as amended by Act 29 of 1999) and the Water Services Act 108 of 1997. These principal accounting policies are consistent with the previous year.

## FUNCTIONAL CURRENCY

The functional and presentational currency of Amatola Water Board is the South African Rand (ZAR). The financial statements are presented in Rand thousands (R'000).

## CAPITAL CONTRIBUTION

Capital contribution comprises of inventory and property, plant and equipment that was transferred from the Department of Water and Sanitation (DWS). Refer to the property, plant and equipment accounting policy for further information.

## PROPERTY, PLANT AND EQUIPMENT

The cost of an item of property, plant and equipment is recognised as an asset when: it is probable that future economic benefits associated with the item will flow to the entity; and the cost of the item can be measured reliably.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it if these costs meet the recognition criteria. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised. The initial estimate of the present value of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

## COST MODEL

Property, plant and equipment held for use in the production or supply of goods or services or for administrative purposes are stated at cost less accumulated depreciation and any accumulated impairment losses.

Property, plant and equipment which were transferred to Amatola Water Board at no cost from Department of Water and Sanitation are recorded at depreciated replacement cost of the assets on the date of transfer, with the resultant credit being recorded as a Capital Contribution. These items are subsequently carried at this cost less accumulated depreciation and any accumulated impairment losses.

Depreciation commences when assets are capable of operating in the manner intended by management. Depreciation is provided on all property, plant and equipment other than freehold land, to write down the cost, less residual value, on a straight line basis over their useful lives as follows:

Item	Average useful life in years
Buildings	20
Pipelines	30
Reservoirs	35
Pumpstations	
Building and civil works	35
Electrical	15
Mechanical	20
Water treatment works	
Building and civil works	50
Electrical	15
Mechanical	20
Other equipment	5 - 12
Furniture and fittings	
Implements, Electronic equipment and Office equipment	
Computer equipment	
Plant and machinery	
Scientific equipment	
Motor vehicles	

The residual value, useful life and depreciation method of each asset are reviewed at each financial year end.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item and which has a different useful life than the asset as a whole is depreciated separately. The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another qualifying asset.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets where it is reasonably certain that ownership will transfer at the end of the lease term. Where it is not reasonably certain that ownership will transfer at the end of the lease term, the asset held under a finance lease is depreciated over the shorter of its useful life and the lease term.

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

Movable assets below R3,000 are expensed in the year of purchase.

## INTANGIBLE ASSETS

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

Amatola Water Board's intangible comprise of packaged software which is carried at cost less accumulated amortisation and impairment. Packaged software and the direct costs associated with the development and installation thereof are capitalised. Costs related to the renewal of licences are treated as an expense in the period that they acquired.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end. Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	5

## INVENTORIES

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

Inventory is valued at the lower of the weighted average cost and estimated net realisable value. Inventory comprises plant spares and stores, chemicals, fuel and water stock held in reservoirs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

## IMPAIRMENT

The carrying amounts of the entity's assets, other than inventories and trade receivables, which are separately assessed and provided against where necessary, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. The recoverable amount is the higher of the asset's fair value less cost of disposal, or the asset's value in use. Value in use is estimated taking into account future cash flows per managements budgets, forecast market conditions and the expected useful lives of the assets.

Such cash flows are discounted using a rate that reflects the current market value of money and the risks associated with the specific asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised immediately in profit or loss.

## REVENUE RECOGNITION

Revenue, which excludes Value Added Tax, is measured at the fair value of the consideration received or receivable and represents water sales to customers and management services rendered to principals in project implementation agent contracts.

Revenue from the sale of water and management services rendered is recognised when all the following conditions have been satisfied:

- the significant risks and rewards of ownership have been transferred to the consumer;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

## PROJECT REVENUE

Project revenue is recognised in the accounting records of Amatola Water Board on the agency basis for implementing agents contracts and on the stage of completion basis for projects conducted on the principal basis. The agency basis is where management fees revenue is recognised into the profit or loss in the statement of comprehensive income whilst the principal basis is where the costs of the project and the related revenue are both recognised into the statement of comprehensive income.

For revenue arising from the rendering of services, provided that all of the following criteria are met, revenue should be recognised by reference to the stage of completion of the transaction at the reporting date:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits will flow to the seller;
- the stage of completion at the reporting date can be measured reliably; and the costs incurred, or to be incurred, in respect of the transaction can be measured reliably.

The stage of completion is based on the approved amounts invoiced and paid to contractors against the budgeted costs of each project.

## INTEREST INCOME

Interest is recognised on a time proportionate basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to Amatola Water Board.

## PROVISIONS

Provisions are recognised when Amatola Water Board has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation.

The expense relating to a provision is included in profit or loss. If the effect of the time value of money is material, provisions are discounted using a rate that reflects the current market value of money and the risks associated with the specific liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

## LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

## FINANCE LEASES

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

## IN THE CAPACITY AS A LESSEE

Assets held under finance leases are recognised as assets of Amatola Water Board at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

The corresponding rental obligations and net finance charges are included in other short term and other long term borrowings respectively. The interest element/finance cost is charged to profit or loss within finance cost over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Finance charges are recognised in finance costs in the statement of comprehensive income. A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that Amatola Water Board will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Finance lease liabilities are derecognised in accordance with the derecognition requirements for financial liabilities.

## OPERATING LEASES

Rentals payable under operating leases with fixed escalation clauses are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

## FINANCIAL INSTRUMENTS

### INITIAL RECOGNITION AND MEASUREMENT

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are initially measured at fair value. Subsequent to initial recognition, these instruments are measured as set out below:

The Amatola Water Board classifies its financial instruments in terms of loans and receivables.

The classification depends on the nature and purpose of the financial assets and liabilities and is determined at the time of initial recognition. Management re-evaluates such designation at least at each reporting date.

### TRADE AND OTHER RECEIVABLES

Trade and other receivables classified as loans and receivables and are stated at amortised cost, less impairment losses.

Trade and other receivables are assessed, at each reporting date, to determine whether there is objective evidence that one or more receivable is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset, has an impact on the estimated future cash flows of the assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is recognised as income in the statement of comprehensive income.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents are measured at amortised cost.

Cash and cash equivalents in the statement of financial position comprise of cash at banks and on hand and short-term deposits with a maturity of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

## TRADE AND OTHER PAYABLES

Short-term payables are carried at amortised cost with no stated interest rate and are measured at the original invoice amount as the effect of discounting is considered to be immaterial.

## INTEREST BEARING LONG TERM BORROWINGS

Interest-bearing borrowings are reflected at amortised cost, applying the yield-to-maturity basis, which is the rate of return to be earned should the borrowing be held until maturity.

## EMPLOYEE BENEFITS

### SHORT-TERM EMPLOYEE BENEFITS

The undiscounted cost of all short term employee benefits is recognised during the period in which the employee renders the related service.

Accruals for employee entitlements to salaries, wages, performance bonuses and annual leave represent the amount which the entity has a present obligation to pay as a result of the employees' services provided at the reporting date. The accruals have been calculated based on current salary and wage rates.

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

### DEFINED CONTRIBUTION PLANS

The entity's policy is to provide retirement benefits for employees. Obligations for contributions to defined contribution pension and provident plans are recognised as an expense in profit or loss as incurred.

## RELATED PARTIES

The entity is wholly owned by its shareholder, the Department of Water and Sanitation. Amatola Water Board is a schedule 3B public entity in terms of the Public Finance Management Act.

Government related parties include national departments (including the shareholder), constitutional institutions (schedule 1 of the Public Finance Management Act), public entities (schedule 2 and 3 of the Public Finance Management Act) and local government (including municipalities). The list of public entities in the national sphere of government is provided by National Treasury on its website [www.treasury.gov.za](http://www.treasury.gov.za). It also provides the names of subsidiaries of public entities.

IAS 24 Related Party Disclosures provides government related entities an exemption in respect of its relationship with government related entities at national, provincial and local levels of government.

## COMMITMENTS

A commitment arises when a decision is made to incur a liability in the form of a purchase contract or similar documentation. Such a contractual commitment would be accompanied by, but not limited

to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate and conditions to be satisfied to establish an obligation.

Commitments are not disclosed as liabilities on the statement of financial position, they are disclosed in the notes to the annual financial statements.

## IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Public Finance Management Act (PFMA) or is in contravention of the entity's supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of comprehensive income and where recovered, it is subsequently accounted for as revenue in the statement of comprehensive income.

## 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 comprehensive Income and where recovered, it is subsequently accounted for as revenue in the statement of comprehensive Income.

## SIGNIFICANT JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

Amatola Water Board applies significant judgements and sources of estimation uncertainty relating to the following:

Useful life of property, plant and equipment: The method applied for useful life assessment is the historical basis of use and longevity of use in Amatola Water Board's care.

- Impairment of assets: Impairment of assets are assessed for indicators of impairment as described in IAS 36; however, not limited to them. Other indicators assessed include:
  - Management's future plans with regards to rationalisation of supply schemes; and
  - Availability of water resources within the supply scheme of each asset.
- Provision for doubtful debts: Provision for doubtful debts has been assessed on a debtor by debtor basis and reasons for considering the debtors as doubtful are interrogated by management.
- Contingent liabilities: Contingent liabilities are assessed by management and are recognised into the annual financial statements based on the strength of the legal case and the reasonable expectation of the outcome of the court cases.

No further key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date exist, that management may have assessed as having a significant risk of causing material adjustment to the carrying amounts of the assets and liabilities within the next financial year.

## CAPITAL AND OPERATIONAL GRANT FUNDING

Government capital grants for infrastructure are recognised as deferred income in the statement of financial position. On capitalisation of the infrastructure asset, the deferred income relating to the grant is set-off against the depreciation expense of the asset in statement of comprehensive income over the remaining useful life of the depreciable asset.

Government operational grants are recognised as income in the statement of comprehensive income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

## DEFERRED INCOME

Deferred income is recognised in line with IAS 20: Accounting for Government Grants and Disclosure of Government Assistance. Amatola Water Board received government grants to upgrade its existing water infrastructure and thus accounts for deferred income relating to assets under IAS 20. The deferred income is recognised into a current or non-current liability with the intention to recognise and match the income against the useful life of the related asset.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## 2. REVENUE

	2018 Kl'000	2017 Kl'000
Revenue comprises:		
Treated water volume sold	31 708	33 208
Raw water volume sold	8 026	8 438
	2018 R'000	2017 R'000
Section 29		
Raw water sales	18 614	17 067
Treated water sales	286 564	270 593
Right of use	3 055	17 293
	<u>308 233</u>	<u>304 953</u>
Section 30		
PIA fees - agent and principal	22 929	38 762
Operations and maintenance agreement	38 942	55 702
Project cost recoveries	14 729	5 855
	<u>76 600</u>	<u>100 319</u>
Total revenue	<u>384 833</u>	<u>405 272</u>
Other income		
Other Income	364	432
Sundry income	4 152	3 633
	<u>4 516</u>	<u>4065</u>

A significant portion of PIA fees are related to agency transactions where Amatola Water Board acts as an implementing agent on projects, Amatola Water Board acts as a principal on once off special projects where required.

Other income relates to income to prescribed advances received for closed projects in the current year and from over provision of debts or over-estimation of accruals in the prior year.

Sundry income relates to income from incidental activities provided by Amatola Water Board to customers such as permits for dam entrance, scientific services on behalf of water users, profit on disposal of assets, etc.

### 3. OPERATING EXPENSES

	2018 R'000	2017 R'000
Cost by function		
Cost of sales	294 278	289 166
Operating and administrative expenses	229 258	127 258
	<u>523 536</u>	<u>416 424</u>

The net operating profit is stated after taking the following into account:

Cost of sales - Section 29 (Primary Business)		
Raw water purchases	85 990	76 262
Water research levies	2 835	2 854
Electricity	38 889	39 408
Chemicals	9 852	7 690
Employee benefit costs	78 927	76 955
Depreciation and impairment	14 591	14 537
	<u>231 081</u>	<u>217 706</u>
Cost of sales - Section 30 (Secondary Business)		
Chemicals	1 068	2 196
Employee benefit costs	48 927	46 207
Repairs & maintenance	8 672	13 376
Diesel	-	22
Project costs	4 527	9 659
	<u>63 194</u>	<u>71 460</u>
Total Cost of sales	<u>294 275</u>	<u>289 166</u>

Auditors' remuneration and other material expenses:

External audit fees	-	-
Statutory audit fees	2 084	1 498
Agreed upon procedures	-	24
Internal audit fee	534	571
Bad debts provision	120 038	11 317
Consulting and professional fees	4 500	8 290
Depreciation and amortisation	2 923	2 903
Employee costs - salaried staff	38 301	38 139
Non-executive board member emoluments (i)		
Board fees	3 251	2 884
Travel disbursements	29	32
Executive management emoluments (i)	5 236	7 302
Other general expenses (ii)	21 093	19 743
Accommodation	1 756	2 295
Security	2 034	2 426
Insurance	1 557	1 031
Training	1 685	3 120
Lease rentals on operating lease (refer to note 13)	7 471	7 818
Repairs and maintenance	15 704	15 117
Technical service fees	343	1 346
Profit and loss on sale of assets	69	-
Impairment loss	650	1 402
	<u>229 258</u>	<u>127 258</u>

(i) Refer to note 26 for executive and board members emoluments.

(ii) Refer to note 28 for the detailed general expenses breakdown.

### 4. FINANCE INCOME

	2018 R'000	2017 R'000
Income from financial assets - cash and cash on hand	14 173	10 928
Interest income relating to trade and other receivables	14 872	5 833
	<u>29 045</u>	<u>16 761</u>

## 5. PROPERTY, PLANT AND EQUIPMENT

	2018			2017		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Land	5 410	-	5 410	5 410	-	5 410
Buildings	29 168	(15 371)	13 797	28 715	(13 958)	14 757
Buildings and civil works	89 777	(28 067)	61 710	82 139	(26 460)	55 679
Water treatment works	82 033	(24 412)	57 621	74 395	(23 033)	51 362
Pumpstations	7 744	(3 656)	4 088	7 744	(3 427)	4 317
Pipelines	185 650	(95 924)	89 726	155 936	(89 866)	66 070
Reservoirs	104 541	(37 048)	67 493	105 055	(34 118)	70 937
Pumpstations	8 994	(5 474)	3 520	8 857	(5 132)	3 725
Electrical	2 235	(1 467)	768	2 269	(1 410)	859
Mechanical	6 759	4 007	2 752	6 588	(3 722)	2 866
Treatment works	55 235	(19 707)	35 528	49 592	(17 044)	32 548
Electrical	11 241	(5 137)	6 104	9 681	(4 517)	5 164
Mechanical	43 994	(14 570)	29 424	39 911	(12 527)	27 384
Furniture and fittings	1 236	(965)	271	1 215	(917)	298
Machinery, plant and equipment	43 473	(31 789)	11 684	39 945	(29 132)	10 813
Computer hardware	8 882	(5 302)	3 580	8 059	(3 891)	4 168
Electronic equipment	7 338	(3 002)	4 336	4 679	(2 725)	1 954
Implements	1 312	(919)	393 1	318	(906)	412
Office equipment	803	(576)	227	818	(572)	246
Plant and machinery	17 452	(16 350)	1 102	17 525	(15 922)	1 603
Scientific equipment	7 686	5 640	2 046	7 546	(5 116)	2 430
Motor vehicles	5 560	(4 728)	832	5 560	(4 467)	1 093
Capital - Work in progress	250 646	-	250 646	269 674	-	269 674
Total	779 690	(239 073)	540 617	752 098	(221 094)	531 004

### Reconciliation of property, plant and equipment - 2018

	Opening balance R'000	Additions R'000	Impairment/ Disposals R'000	Transfers R'000	Depreciation R'000	Total R'000
Land	5 410	-	-	-	-	5 410
Buildings	14 757	486	(13)	-	(1 433)	13 797
Buildings and civil works	55 679	8 242	(391)	-	(1 820)	61 710
Water treatment works	51 362	8 242	(391)	-	(1 591)	57 621
Pumpstations	4 317	-	-	-	(229)	4 088
Pipelines	66 070	29 714	-	-	(6 058)	89 726
Reservoirs	70 937	-	(249)	-	(3 195)	67 493
Pumpstations	3 725	260	(41)	-	(424)	3 520
Electrical	858	-	-	-	(91)	768
Mechanical	2 866	260	(41)	-	(333)	2 752
Treatment works	32 548	5 714	-	-	(2 733)	35 529
Electrical	5 164	1 593	-	-	(654)	6 103
Mechanical	27 383	4 121	-	-	(2 079)	29 425
Furniture and fittings	298	20	-	-	(47)	271
Machinery, plant and equipment	10 813	3 848	(19)	-	(2 958)	11 684
Computer hardware	4 168	824	1	-	(1 416)	3 577
Electronic equipment	1 954	2 776	(1)	-	(393)	4 336
Implements	412	71	(18)	-	(74)	391
Office equipment	246	25	(40)	-	(43)	188
Plant and machinery	1 603	13	(8)	-	(506)	1 102
Scientific equipment	2 430	140	1	-	(526)	2 045
Motor vehicles	1 093	-	-	-	(261)	832
Capital - Work in progress	269 674	27 388	-	(46 416)	-	250 646
Total	531 004	75 672	(713)	(46 416)	(18 929)	540 618

## Reconciliation of property, plant and equipment - 2017

	Opening balance R'000	Additions R'000	Transfers R'000	Other changes, movements R'000	Depreciation R'000	Impairment loss R'000	Total R'000
Land	5 410	-	-	-	-	-	5 410
Buildings	11 760	4 403	-	1	(1 406)	(1)	14 757
Buildings and civil works	56 255	1 880	-	-	(1 772)	(684)	55 679
Water treatment works	51 709	1 880	-	-	(1 543)	(684)	51 362
Pumpstations	4 546	-	-	-	(229)	-	4 317
Pipelines	69 768	1 776	-	-	(5 474)	-	66 070
Reservoirs	64 899	9 185	-	-	(3 147)	-7	0 937
Pumpstations	2 725	1 397	-	(1)	(396)	-	3 725
Electrical	132	815	-	(3)	(86)	-	858
Mechanical	2 593	582	-	2	(311)	-	2 866
Treatment works	19 965	15 218	-	-	(2 576)	(59)	32 548
Electrical	4 822	949	-	-	(606)	(1)	5 164
Mechanical	15 143	14 268	-	-	(1 971)	(57)	27 383
Furniture and fittings	226	121	-	-	(42)	(7)	298
Machinery, plant and equipment	10 845	3 443	-	-	(2 977)	(498)	10 813
Computer hardware	4 523	1 636	-	28	(1 584)	(435)	4 168
Electronic equipment	948	1 292	-	-	(254)	(32)	1 954
Implements	264	258	-	(21)	(71)	(18)	412
Office equipment	214	75	-	(1)	(41)	(1)	246
Plant and machinery	2 129	-	-	(7)	(512)	(7)	1 603
Scientific equipment	2 767	182	-	-	(514)	(5)	2 430
Motor vehicles	1 358	-	-	-	(262)	(3)	1 093
Capital - Work in progress	196 931	106 738	(33 995)	-	-	-	269 674
	440 142	144 161	(33 995)	-	(18 052)	(1 252)	531 004

GAAP requires that the annual financial statements should reflect the economic substance of events and transactions and not merely the legal form. Amatola Water Board recognises and records those assets which are resources controlled by the enterprise and result in receipt of economic benefits or rewards and in incurring risks incidental to ownership, even though legal ownership has not passed. The Transfer Agreement between Amatola Water Board and the Department of Water and Sanitation was concluded with effect from 1 July 1998. In terms of Section 63(1)(c) of the National Water Act, powers and responsibility for the control, operation, administration and maintenance of immovable assets were delegated to Amatola Water Board by the Minister of Water and Sanitation.

In terms of the Transfer Agreement, the Department of Water and Sanitation has agreed to transfer the major water services works to Amatola Water Board. These works comprise pipelines, reservoirs, pump stations and water treatment works in Amatola Water Board's designated area. In terms of Section 73(2) (a) of the Water Services Act, legal ownership will be transferred with the written approval of the Minister of Water And Sanitation and on registration of the properties in the name of Amatola Water Board by the Registrar of Deeds.

Internally funded capital work-in-progress is included in the above note, assets under construction that are not yet available for use are accounted for in this section. These assets are not depreciated and are transferred to their respective asset categories when they become available for use for Amatola Water Board.

After the conclusion of the annual asset verification process, assets which were no longer in use, were impaired pending their disposal in accordance with Amatola Water Board disposal policy and delegations of authority.

Assets with a cost price of R21 million and had an opening net book value R767 958 came to the end of their useful life. On review of the useful life of assets individually and per asset class, Amatola Water Board did not find reasons to change the useful life of the assets individually and the asset classes in aggregate as the assets were not representative the asset class. Management shall undertake a comprehensive assessment of all assets individually and in their asset class to ensure that the useful life of assets is adequate.

#### Reconciliation of amortisation and depreciation expense

Amortisation (refer to Note 23)	836	725
Depreciation expense (refer to Note 5)	18 929	18 052
Release of deferred income to income statement	(2 251)	(1 337)
Amortisation and Depreciation as disclosed in note 3	17 514	17 440

#### Reconciliation of property plant and equipment for cashflow purposes

Additions from purchase of new assets	4 852	5 198
Additions to Capital work in progress	24 404	104 967

## 6. INVENTORIES

	2018 R'000	2017 R'000
Plant spares and stores	2 082	2 348
Chemicals	93	154
Water	593	668
	2 768	3 170

## 7. TRADE AND OTHER RECEIVABLES

	2018 R'000	2017 R'000
Trade receivables	152 158	110 371
Less: Provision for doubtful debts	(114 553)	(739)
	37 605	109 632
Sundry receivables	150 530	118 400
Less: Provision for doubtful debts	(45 592)	(39 367)
	104 938	79 033
Other Assets - Lejamo Trust Account	7 503	-
Accrued Income	46 307	66 065
Other receivables	1 097	910
VAT	-	416
	197 450	256 056

Trade and other receivables payment terms are 30 days from invoice date. Interest has been charged on these debtors in the year under review.

Sundry receivables consist of mostly project receivables that have been invoiced to the principal funders of the projects under the project implementing agent contracts.

Other receivables relate to prepaid expenses, rental deposit and employee receivables that occur during the course of business.

Accrued income relates to project costs received after the reporting date that relate to the financial year under review. These costs will be billed to the principal funders in the forthcoming financial period and will be recognised to profit or loss as per other project implementing agent contract costs.

Refer to Note 17: Financial instruments for further details on the impairment of debtors.

## 8. CASH AND CASH EQUIVALENTS

	2018 R'000	2017 R'000
Bank balances	180 826	62 978
Short-term deposits	195 505	67 880
	<u>376 331</u>	<u>130 858</u>

Cash at banks earns interest at daily bank deposit rates.

Short-term deposits are made for varying periods, depending on the immediate cash requirements of the entity and earn interest at the respective short-term deposit rate. The following cash balances related to specific expenditure requirements and is not available for the daily operations of the entity:

Cash and cash equivalents held by the entity related to grant funding	53 825	-
Cash and cash equivalents held by the entity related to project implementation	210 971	60 277

### Guarantees

Guarantees are in the normal course of business from which it is anticipated that no material liabilities will arise. The guarantee is issued against short term deposits. The guarantee is security provided for the supply of electricity by Eskom to Amatola Water Board water treatment works plant. Eskom has the right to call on the guarantee should Amatola Water Board fail to honour its electricity invoices.

Eskom	1 000	1 000
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## 9. TRADE AND OTHER PAYABLES

	2018 R'000	2017 R'000
Trade payables	132 257	103 362
Amounts received in advance	210 971	60 277
VAT	15 141	-
Project Payables	58 628	46 432
Other payables	14 822	8 185
Accrued leave pay	12 781	13 456
Accrued bonus	2 440	2 638
	<u>447 040</u>	<u>234 350</u>

Trade and other payables terms are 30 days from invoice date unless stated otherwise based on a valid contract between Amatola Water Board and the service provider concerned.

Other payables relate to payroll related balances (PAYE, SDL and UIF payable, etc), Water research levy and other liabilities which are individually not significant.

## 10. GRANT FUNDING LIABILITY

	Opening balance R'000	Grant funding received R'000	Grand funding recognised as deferred income R'000	Grand funding liability R'000
2018 Reconciliation				
National Treasury Grant	38 996	88 554	(26 209)	101 341
DBSA Jobs Fund Grant	2 355	-	-	2 355
	<u>41 351</u>	<u>88 554</u>	<u>(26 209)</u>	<u>103 696</u>
2017 - Reconciliation				
National Treasury Grant	140 105	-	(101 109)	38 996
DBSA Jobs Fund Grant	2 355	-	-	2 355
	<u>142 460</u>	<u>-</u>	<u>(101 109)</u>	<u>41 351</u>

Amatola Water Board had two grants during the current financial period:

A capital grant was received for the upgrade of Amatola Water Board's treatment works plants. R24 million has been spent or committed for payment at year end. This amount spent is recognised as deferred income until the completion of the upgrades, when the deferred income will be expensed at the same rate as the depreciation of the asset.

Amatola Water Board had received R2,5 million grant from the Jobs Fund (previously administered by DBSA) in respect of the learning academy in the 2015 financial year. Amatola Water Board has not spent any money in the current financial year as the moratorium on spending of the monies by the Jobs Fund had not been lifted at year end. This grant is recognised as an operational grant and the grant is utilised to match the expenditure incurred. Due to Amatola Water Board not achieving the grant funding conditions, this amount has been recalled by the Jobs Fund.

Grant funding not spent for the specific use it has been provided for will be required to be refunded to the funders when these funds are called. No grants have been spent outside their specific use at year end.

## 11. PROVISIONS

	Opening balance R'000	Arising during the year R'000	Utilised during the year R'000	Reversed during the year R'000	Total R'000
Reconciliation of provisions - 2018					
Provision for employee benefits	3 001	5 379	(3 001)	-	5 379
Long service award	614	90	(48)	-	656
	<u>3 615</u>	<u>5 469</u>	<u>(3 049)</u>	<u>-</u>	<u>6 035</u>
Reconciliation of provisions - 2017					
Provision for employee benefits	6 106	-	-	(3 105)	3 001
Provision for litigation	550	-	-	(550)	-
Long service award	553	123	(62)	-	614
	<u>7 209</u>	<u>123</u>	<u>(62)</u>	<u>(3 655)</u>	<u>3 615</u>

The provision for employee benefits (ex-gratia payment) is based on a constructive obligation that has been created over the preceding financial years in terms of payment of ex-gratia payment to employees. The vesting conditions of the exgratia payment are uncertain as they are at the sole discretion of the Amatola Water Board's Board. The employee benefits were paid in the current financial year al year. The provision for back pay is made due to the labour case at the CCMA where employee representatives are requesting the CCMA to arbitrate the wage negotiation process related to the 2017/18 financial year. The Accounting Authority of Amatola Water Board had mandated a no increase of salaries for the financial year.

Long service awards vest with the employees on completion of an uninterrupted 5 years of service, and thereafter every 5 years of uninterrupted service or when the employee retires whilst in the employ of Amatola Water Board. The vesting conditions are uncertain as employees may leave the employment at any given moment. The total liability has increased by the fact that there are 31 more eligible employees than at the last valuation.

## 12. COMMITMENTS

	2017 R'000	2018 R'000
Capital commitments contracted for	136 642	150 434
Capital commitments authorised but not contracted for	89 965	97 439

Capital commitments authorised but not contracted for are commitments relating to the infrastructure upgrades and approved capital expenditure budget. These will be contracted for in the next financial year.

The proposed capital expenditure will be funded by grant funding of R410 million (2017: R321 million) and internally generated funds of R30 million (2017: R27,9 million).

### Operating lease commitments - motor vehicles

Ninety-two (2017: Ninety-four) motor vehicles are leased under month to month operating leases. The lease payments include a maintenance portion for the duration of the lease term. The leases were for an initial period of five years, these lease have expired and are on a month-to-month extension. The future minimum lease payments under the month-to-month operating leases are as follows:

Less than 1 year	520	569
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No escalation clauses exist in the operating lease agreements.

### Operating lease commitments - office equipment

Amatola Water Board rents office machinery for use for normal business purposes. The lease payments include service agreements and monthly rental amounts. These leases are over a variable period ranging between 1 month and 3 years.

	2018 R'000	2017 R'000
Less than 1 year	172	220
More than 1 year and less than 5 years	168	90
	<u>340</u>	<u>310</u>

No escalation clauses exist in the operating lease agreements.

### Operating lease commitments - Rental of office space

Amatola Water Board entered into various lease rental agreements for office space use. The last lease term expires on the 30th of June 2018, thereafter the lease agreements continue on a month to month basis.

	2018 R'000	2017 R'000
Less than 1 year	88	215
More than 1 year less than 5 years	-	117
	<u>88</u>	<u>332</u>

## 13. CONTINGENT LIABILITIES

	2018 R'000	2017 R'000
<b>Litigation contingent liabilities</b>		
Other Matters	15 000	5 000
Amatola Water currently is defending two personal liability matters and the outcome is uncertain.		
Labour Matters	2 700	-
Amatola Water currently is defending three labour matters in the CCMA and the outcome is uncertain.		
Applications	28 405	23 304
Amatola Water is currently defending five (5) applications for outstanding debt and the outcome is uncertain.		

## 14. CASH GENERATED FROM / (USED IN) OPERATIONS

	2018 R'000	2017 R'000
(Loss) / Profit for the year	(105 624)	9 521
Adjustments for:		
Finance income	(29 045)	(16 761)
Finance costs	482	152
Operating loss before interest	(134 187)	(7 088)
Depreciation and amortisation	19 765	18 776
Net loss on disposal of property, plant and equipment	69	-
Impairment loss	650	1 402
Movements in provisions	2 420	(3 594)
Other non-cash items	14 867	5 833
Changes in working capital:		
Inventories	402	(557)
Trade and other receivables	58 606	(80 285)
Trade and other payables	212 690	(1 642)
Deferred income	(2 565)	(1 522)
	<u>172 717</u>	<u>(68 677)</u>

## 15. RELATED PARTIES

The Department of Water and Sanitation is considered a related party entity as it exercises control and significant influence on Amatola Water Board.

Amatola Water Board has entered into various purchase and service transactions with Department of Water and Sanitation (DWS), in the ordinary course of business. These transactions were at arm's length:

Key management personnel are the members of the board and its sub-committees and the management of Amatola Water delegated to run the entity on a day to day basis. The list of key management personnel is disclosed in note 26.

A number of key management personnel positions were vacant during the period under review, uncompensated acting arrangements were entered into with various employees of Amatola Water Board. These acting arrangements are considered as key management in decision making, however no related party transactions occurred from a compensation perspective.

CEO acting arrangements: Kevin Govindsamy Acting CEO (1 July 2017 - 1 August 2017), Asanda Gidana - Acting CEO (1 August 2017 - 28 February 2018), Sybert Liebenberg Interim CEO (1 March 2018 - 1 April 2018)

CFO acting arrangements: D Contell Acting CFO (1 July 2017 - 29 August 2017), K Mviko Acting CFO (29 August 2017 - 30 June 2018)

Director Planning and Development acting arrangements: Sieg Rousseau Acting Director: P and D (1 July 2017 - 1 October 2017 ), Simon Mqamelo Acting Director: P and D (2 October 2017 - 7 January 2018 ), Sybert Liebenberg Acting Director: P and D (8 January 2018 - 28 February 2018 ), Sazile Qweleka (1 March 2018 - 30 June 2018)

	2018 R'000	2017 R'000
<b>Statement of Comprehensive Income</b>		
Dam management fees paid by DWS to Amatola Water Board	9 704	11 505
Project revenue - DWS	7 724	5 190
Raw water purchases from DWS (Refer to note 3)	(85 990)	(76 262)
Interest on outstanding Debt	(381)	-
Water research levy	(2 835)	(2 854)
Reversal of Bad debt provision / (Bad debt expense)	(5 387)	1 654
<b>Statement of Financial Position</b>		
DWS receivable	53 345	8 553
DWS payable	(53 274)	(7 875)
Provision for water research levy	5 639	(5 258)
Bad debt provision	(5 635)	(1 777)
<b>Key Management Personnel</b>		
Key Management Personnel compensation comprised of the following:		
Executive Directors		
Short-term employee benefits	5 236	(7 302)
Non-Executive Directors		
Short-term employee benefits	(3 257)	(2 916)

## 16. PRIOR PERIOD ERRORS

In the prior year, Amatola Water Board had recorded raw water purchases per the Department of Water and Sanitation submitted invoices, on further inspection, AW lodged a claim on the raw water meter readings as the incorrect factor was applied to the readings. Department of Water and Sanitation accepted the claim and credited Amatola Water Board with over billing for prior period water purchases.

The effects of the prior period errors are as follows:

### Statement of financial performance effect

	Cost of Sales
Previously reported 30 June 2016	293 165
	-
Incorrect water readings billed to Amatola Water Board by Department of Water and Sanitation	(3 999)
	-
Restated balance as at 30 June 2017	<u>289 166</u>

### Statement of financial position effect

	Trade and other payables
Previously reported 30 June 2016	238 350
Incorrect water readings billed to Amatola Water Board by Department of Water and Sanitation	<u>(3 999)</u>
Restated balance as at 30 June 2017	<u>234 350</u>
	Accumulated Surplus
Previously reported	87 385
Incorrect water readings billed to Amatola Water Board by Department of Water and Sanitation	<u>3 999</u>
	<u>91 385</u>

In the prior periods, irregular expenditure and fruitless and wasteful expenditure incurred by Amatola Water Board as an implementing agent was disclosed in the annual financial statements of Amatola Water Board. These expenditure amounts should not be disclosed in the annual financial statement of the implementing agent and have been removed. This has the effect of decreasing the irregular expenditure in the prior period by R70 million and the opening balance of the prior period by R4,8 million.

## 17. FINANCIAL INSTRUMENTS

Amatola Water Board adheres to a management strategy that makes explicit provision for ongoing review and active management of the organisation's exposure to financial risks.

Exposure to interest rate and credit risk arises in the normal course of the entity's business.

The financial assets and financial liabilities of Amatola Water Board approximate the fair value of the assets and liabilities.

### Maturity profile of financial instruments

Maturity profiles of the financial assets and liabilities are summarised as follows (Held-at-amortised cost financial liabilities exclude monies received in advance):

2018	Current interest rate	0 - 12 months	Total
Financial assets			
Loans and receivables			
Cash and cash equivalents	7,6 %	376 331	376 331
Trade and other receivables	10,0 %	197 450	197 450
Financial liabilities			
Held-at-amortised cost			
Trade and other payables	10,0 %	(236 067)	(236 067)
Grant funding liability	10,0 %	<u>(2 355)</u>	<u>(2 355)</u>
		<u>335 359</u>	<u>335 359</u>
2018	Current interest rate	0 - 12 months	Total
Financial assets			
Loans and receivables			
Cash and cash equivalents	8,0 %	130 858	130 858
Trade and other receivables	10,5 %	256 056	256 056
Financial liabilities			
Held-at-amortised costs			
Trade and other payables	10,5 %	(174 073)	(174 073)
Grant funding liability	10,5 %	<u>(2 355)</u>	<u>(2 355)</u>
		<u>210 486</u>	<u>210 486</u>

## Credit risk

Financial assets, which potentially subject the entity to credit risk, consist principally of cash and trade receivables.

The entity's cash equivalents are placed with high credit quality financial institutions.

Credit risk with respect to trade receivables is high, as trade receivables mainly comprise (87 percent) bulk consumers, namely Local and District Municipalities. The remainder relates to water supply to domestic and industrial consumers.

Credit risk with respect to sundry receivables is also high, as sundry receivables mainly comprise of DWS, Local and District Municipalities in relation to MIG, RBIG and other capital funding.

Ongoing credit evaluations are performed on the financial condition of receivables. Trade receivables are presented net of impairment losses.

The carrying amounts of financial assets represent the maximum exposure to credit risk. Amatola Water Board's maximum exposure to credit risk at year end is as follows:

	2018 R'000	2017 R'000
Cash and cash equivalents (excluding petty cash)	376 331	130 858
Trade and other receivables (excluding provision for impairment)	357 595	296 162

### Ageing and impairment losses

The ageing of trade receivables at the reporting date was:

	Gross 2018 R'000	Impairment 2018 R'000	Gross 2017 R'000	Impairment 2017 R'000
Not past due date	28 949 7	532	32 453	27
One month past due date	8 946	7 740	9 385	23
Two months past due date	8 725	7 561	8 188	10
Three months past due date	8 530	7 410	8 574	26
More than four months past due date	97 008	84 309	51 771	653
	152 158	114 553	110 371	739

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2018 R'000	2017 R'000
Balance as at 1 July	739	818
Impairment provision reversed	(203)	(381)
Impairment provision increased	114 016	302
Balance at 30 June	114 553	739

The ageing of sundry receivables at the reporting date was:

	Gross 2018 R'000	Impairment 2018 R'000	Gross 2017 R'000	Impairment 2016 R'000
Not past due date	35 507	483	49 161	5 931
One month past due date	37 157	502	21 755	3 150
Two months past due date	15 335	510	3 344	3 186
Three months past due date	4 462	578	7 909	2 772
More than four months past due date	58 069	43 519	36 231	24 328
	150 530	45 592	118 400	39 367

The movement in the allowance for impairment in respect of sundry receivables during the year was as follows:

	2018 R'000	2017 R'000
Balance as at 1 July	39 367	24 259
Impairment provision increased	12 353	18 621
impairment provision reversed	(6 128)	(3 513)
Balance at 30 June	45 592	39 367

Other receivables for Amatola Water Board at reporting date were:

	Gross 2018 R'000	Gross 2017 R'000
Other Assets - Lejamo Trust Account	7 503	-
Accrued income	46 307	66 065
Other receivables	1 097	910
VAT	-	416
	<u>54 907</u>	<u>67 391</u>

These receivables are not aged as there are no payment terms attached to them and are impaired based on the probability of recoverability.

## Interest rate risk

As Amatola Water Board has significant interest-bearing assets, the Amatola Water Board's income and operating cash flows are substantially affected by changes in market interest rates.

The entity generally adopts a policy of ensuring that its exposure to changes in the interest rates is on a floating rate basis.

### Sensitivity analysis

In order to calculate the cash flow sensitivity analysis for variable rate instruments, the average long term loans and borrowings for the period was determined. A change of 100 basis points in interest rates at the reporting date would have no impact on the profit for the year as Amatola Water Board does not have interest bearing borrowings.

## Liquidity risk

Liquidity risk is the risk that Amatola Water Board will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Amatola Water Board's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the entity's reputation.

The entity manages liquidity risk through proper management of working capital, capital expenditure and actual versus forecasted cash flows. Adequate reserves and liquid resources are also maintained.

### Financial liabilities

Trade and other payables	236 069	174 073
Grant funding liability	2 355	2 355
	<u>238 424</u>	<u>176 428</u>

2018	On demand R'000	1>3 months R'000	Total R'000
Trade and other payables	-	236 069	236 069
Grant funding liability	2 355	-	2 355
	<u>2 355</u>	<u>236 069</u>	<u>238 424</u>

2017	On demand R'000	1>3 months R'000	Total R'000
Trade and other payables	-	174 073	174 073
Grant funding liability	2 355	-	2 355
	<u>2 355</u>	<u>174 073</u>	<u>176 428</u>

## Capital risk management

Amatola Water Board's objective for managing capital is to enhance shareholder (The Executive Authority) value by providing an efficient and reliable water services to customers at the lowest economic cost while reducing debt, remaining financially self sufficient and generating sufficient profit to meet the required capital expenditure programme and thus sustaining future development of the business and its ability to continue as a going concern. This objective has remained consistent with the prior years.

As a government business enterprise, Amatola Water Board strives towards a target optimal capital structure, which is made up of a combination of financial liabilities, capital and reserves as disclosed in the statement of changes in equity.

This structure is agreed annually between Amatola Water Board and its Executive Authority (The Department of Water and Sanitation) in the shareholders compact and is managed in terms of the targeted debt to equity ratio.

	2018 R'000	2017 R'000
Capital contribution	274 557	274 557
Accumulated (Loss)/Surplus	(14 237)	91 385
	<u>260 320</u>	<u>365 942</u>

## 18. EMPLOYEE BENEFITS

The entity provides retirement benefits for all permanent employees by making contributions to a defined contribution provident and pension fund. The fund, Orion, is administered by Old Mutual and is subject to the Pension Funds Act, 1956 as amended.

	2018 Number of staff	2018 R'000	2017 Number of staff	2017 R'000
Provident fund contributions	263	8 762	277	8 789
Pension fund contributions	67	2 566	68	2 774

An actuarial valuation has been performed of Amatola Water Board's unfunded liability in respect of the entitlement of employees to Long Service Awards and Retirement Gifts. The effective date of this valuation is 30 June 2018.

Amatola Water Board provides long service awards and retirement entitlements which are defined as other long service awards in terms of IAS 19. In the current financial year, management assumed that all actuarial assumptions occurred and the actuarial valuation held true. It is management's intention to value the employee benefits every year. These are reconciled as follows:

	Long service awards R'000	Retirement gifts R'000
Balance as at 01 July 2016	484	69
Current Service costs recognised to statement of comprehensive income	108	15
Retirement gifts/Long Service Awards paid	(55)	(8)
Balance as at 30 June 2017	<u>537</u>	<u>76</u>
Current service costs recognised to statement of comprehensive income	83	5
Retirement gifts/Long service awards paid	(43)	(5)
Balance as at 30 June 2018	<u>577</u>	<u>76</u>

## 19. GOING CONCERN UNCERTAINTY

There are no further key assumptions concerning the future and other key sources of estimation uncertainty as at the reporting date, other than the ones identified and disclosed in the accounting policy note, that management have assessed as having a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year.

### Going concern

Management of Amatola Water Board has noted a material uncertainty exists pertaining to Amathole District Municipality's ability to settle its invoices as they become due. This has raised the going concern risk as evidenced by the impairment of the receivables in the current financial year. Management is committed to mitigating the risk of going concern in this regard. Management has undertaken legal action towards the customer in order to recover the impaired debt and has initiated restrictions to limit the supply to Amathole District Municipality in order to limit exposure to the debt of Amathole District Municipality.

Management of Amatola Water Board has considered the going concern ability of the entity and concluded that the going concern assumption is valid due to the following:

- Amatola Water Board is contracted to provide bulk water to its three municipal bulk clients in the region for a period of more than 12 months.
- Amatola Water Board has Section 30 contracts of more than R1 billion and is the DWS preferred implementing agent for water infrastructure in the Eastern Cape.
- The provision of water is an essential supply and thus it is expected that this provision will not be compromised by national government.
- Amatola Water Board has submitted and has an approved 5 year business plan and corporate plan approved by the executive authority which encompasses Amatola Water Boards financial viability plans as well as future operational cashflow forecasts.
- Amatola Water Board's assets exceed its liabilities and Amatola Water Board does not possess significant borrowings which encumber its assets.
- Amatola Water Board is in the process of reviewing its service level agreements to ensure that it is able to implement credit control measures and penalties timeously and effectively to recover its debts.

## 20. FRUITLESS AND WASTEFUL EXPENDITURE

### Reconciliation of fruitless and wasteful expenditure

	2018 R'000	2017 R'000
Opening balance	1 895	1 653
Fruitless and wasteful expenditure - current year	969	254
Transfer to receivables for recovery	-	(12)
	<u>2 864</u>	<u>1 895</u>

### Analysis of current year fruitless and wasteful expenditure

Incident	Value R'000	Fruitless and wasteful expenditure investigation outcome (causes)
Interest on late payment of invoices	927	Relates to interest on late payment of invoices and other interest costs from court judgements.
Court judgement for 3rd party car accident	12	Payment on court order to prevent AW assets being attached due to the non-response on summons issued and served at the Mthatha office.
Payment for adverts on cancelled bids	30	Payment on adverts on cancelled bids due to delayed procurement and flawed specifications that resulted in the inability to evaluate the submitted bids.
Prior year fruitless and wasteful expenditure	1 895	Prior year fruitless and wasteful expenditure relates to SARS payment of interim CEO PAYE, interest on late payment of invoices and payments on expired contracts.

## 21. IRREGULAR EXPENDITURE

### Reconciliation of irregular expenditure

	2018 R'000	2017 R'000
Opening balance	114 054	104 607
Irregular expenditure		
- Current year:	-	-
- Overspending on contracts awarded	7 249	7 434
- Other irregular expenditure	9 633	2 013
Irregular expenditure - incurred in prior year but identified in current year	1 774	-
	<u>132 710</u>	<u>114 054</u>

In addition to the disclosure above, Amatola Water Board is investigating suspected irregular expenditure identified during the current year. The investigation is currently still in progress and any irregular expenditure confirmed will be recognised in the financial year in which it is confirmed in line with the Guideline on Irregular Expenditure issued by National Treasury. The total value of the contract is R7,429,610.

## Analysis of current year irregular expenditure

Amatola Water Board has investigated the causes of the irregular expenditure, and where investigations have been finalised, appropriate disciplinary and criminal charges have been laid against the respective individuals.

Incident	Value R'000	Irregular expenditure investigation outcome (causes)
Spending on contracts in which where there is no evidence of SCM procurement processes being followed	655	Irregular expenditure relates to historical contracts that have not been renewed by Amatola Water Board that are paid via the debit order facility in place with Standard Bank. These contracts have expired although the entity is utilising the services
Spending on expired contracts	6 594	Irregular expenditure relates to residual contracts for the fleet management and these transactions will continue to be irregular until new contracts have been entered into through SCM procuring the services through the correct processes.
SCM Processes not followed	11 407	Various procurement processes where the SCM processes was not followed.
Prior year irregular expenditure	114 054	The irregular expenditure report for the prior year is currently being investigated and as and when investigations are finalised, these will be submitted to the Accounting Authority for consideration of condonement.

## 22. TAXATION

Amatola Water Board is exempt from income taxation in terms of section 10(1)(t)(ix) of the Income Tax Act.

## 23. INTANGIBLE ASSETS

	Cost/ Valuation	2018 Accumulated ammortisation	Carrying value	Cost/ Valuation	2017 Accumulated amortisation	Carrying value
Computer software	4 225	(2 116)	2 109	3 992	(1 280)	2 712

### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software	2 712	233	(836)	2 109

### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Impairment loss	Total
Computer software	1 815	1 772	(725)	(150)	2 712

## 24. DEFERRED INCOME LIABILITY

Amatola Water Board is receiving government grant for the upgrade of 6 of its water treatment plants and associated infrastructure. Grant utilised in these upgrades are recognised as deferred income in the accounting records until the asset is available for use. The deferred income is set-off against the related depreciation expense, over a period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

	2018 R'000	2017 R'000
Non-current portion of deferred income liability	301 060	275 050
Current portion of deferred income liability	1 126	3 492
	<u>302 186</u>	<u>278 542</u>

Deferred income was previously reported as part of the trade and other payables, however, due to the significant value and to ensure proper understanding for the users of the financial statements, management has separately disclosed the deferred income balance on the face of the statement of financial position and in the notes to the annual financial statements.

## 25. FINANCE COSTS

Other interest paid	482	152
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## 26. EXECUTIVE MANAGEMENT AND BOARD MEMBERS EMOLUMENTS

### Executive

2018	Cash Component	Back pay & leave payout	Re-imbursive & other allowances	Vehicle allowance	Pension/ Provident Package	Family cover Disability & Group Life	Medical Aid Package	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
L Makibinyane	519	-	-	30	66	5	5	625
K Govindsamy	471	76	-	60	-	19	9	635
A Gidana	1 086	146	24	120	111	46	21	1 554
D Contell	424	-	-	-	-	-	-	424
J Dalbock	1 158	121	6	60	45	24	-	1 414
V Zitumane	410	-	37	137	-	-	-	584
	<u>4 068</u>	<u>343</u>	<u>67</u>	<u>407</u>	<u>222</u>	<u>94</u>	<u>35</u>	<u>5 236</u>

2017	Cash Component	Back pay & leave payout	Re-imbursive & other allowances	Vehicle allowance	Pension/ Provident Package	Family cover Disability & Group Life	Medical Aid Package	Total
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
L Makibinyane	2 192	-	-	120	276	21	21	2 630
K Govindsamy	1 092	-	2	144	-	44	21	1 303
A Gidana	1 037	-	19	120	107	45	21	1 349
Y Roboji	690	210	-	80	93	30	16 1	1 19
D Contell	125	-	-	-	-	-	-	125
T Mokgoshi	741	-	35	-	-	-	-	776
	<u>5 877</u>	<u>210</u>	<u>56</u>	<u>464</u>	<u>476</u>	<u>140</u>	<u>79</u>	<u>7 302</u>

## Non-executive

2018	Board Stipend R'000	Board meeting fees R'000	Travel and other re-imbusement R'000	Total R'000
N Mnqeta	214	538	2	754
L Louw	155	185	13	341
AS Hadebe	175	77	-	252
EV Jooste	155	221	-	376
BE Hollingworth	155	312	15	482
M Nzimande	39	66	-	105
AP Le Roux	155	293	9	457
C Mbande	155	146	2	303
L Smith *	-	72	-	72
T Cumming **	-	68	-	68
N Ravgee *	-	34	-	34
S Bruce *	-	13	-	13
	1 203	2 025	29	3 257
2017	Board Stipend R'000	Board meeting fees R'000	Travel and other re-imbusement R'000	Total R'000
N Mnqeta	210	380	2	592
L Louw	154	172	3	329
AS Hadebe	173	66	-	239
T Maenetja	13	10	-	23
EV Jooste	154	174	-	328
BE Hollingworth	154	211	14	379
M Nzimande	154	179	2	335
AP Le Roux	154	189	9	352
C Mbande	154	87	2	243
K Mockler *	-	3	-	3
L Manquku *	-	51	-	51
S Bruce *	-	42	-	42
	1 320	1 564	32	2 916

\* Independent Audit and Risk Committee members

\*\*Independent Finance Committee member.

## 27. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period, Amatola Water Board had significant damage to property due to sabotage and arson at various sites. The estimated damages suffered from these acts amounts to R8 million of which R1 million has the prospects of recovery through insurance. Management has assessed the nature of the event and noted that although significant, it is not an adjusting event.

## 28. OTHER GENERAL EXPENSES

	2018 R'000	2017 R'000
Bank Charges	201	195
Consumables: Chemicals	77	130
Consumables: Computer	147	228
Consumables: Glassware	7	47
Consumables: Laboratory	1 092	881
Consumables: Other	997	854
Corporate Identity Development	11	1
Dam: Safety Checks	1	-
Design and Creative Services	102	73
Electricity and Water	1 550	741
Equipment: Hire	10	(35)
Equipment: small value items	65	176
Exhibition & Rental Costs	-	53
Fees: Contracts	20	123
Films Videos and Other	-	16
Health and Safety	395	283
Inauguration & Events	108	297
Medical costs/ consumables	21	27
Indoor and Outdoor Plants	-	11
Insurance: General Liability	-	19
Insurance: Workman's Comp	506	461
Laundry & Cleaning Expenses	269	217
Legal Expenses	7 906	4 866
Membership Fees	224	521
Newspapers Periodicals Subs	88	70
Postage & Distribution Costs	24	14
Printing & Stationery	629	512
Promotional Aids & Gifts	5	76
Protective Clothing	396	1 374
Public Relations Services	6	30
Publicity and Advertising	230	182
Refreshments: Seminars & Meetings	228	237
Rentals: Office Buildings	456	949
Repographic & Printing Service	183	222
R & D: Specific Project	-	960
Services: Courier	2	6
Services: Data	1 954	1 344
Software Licenses	1 404	1 774
Sponsorship & Social Investment	145	216
Staff Social Events	3	7
Stores Write-off & Adjustment*	(30)	132
Stores Revaluations*	3	(1)
Telephone: Cell Phones	551	760
Telephone: Telkom	769 7	54
Transport: Hire of Vehicles	108	187
Transport: Vehicle License Fee	228	228
Unallocated General Expenses*	-	(550)
Control of Hyacinth	-	82
Recoveries: Service Labour*	-	(7)
	21 091	19 743

General expenses relate to the following expense line items in the accounting records of Amatola Water Board.



# ANNEXURES

10



# APPENDIX A: SPLIT OF PRIMARY AND OTHER ACTIVITIES (UNAUDITED)

	Primary Activity (Bulk Supply)	Primary Activity (Bulk Supply)	Other Activity	Other Activity	Total	Total
	2018	2017	2018	2017	2018	2017
	R'000	R'000		R'000		R'000
Revenue	308 233	304 953	76 600	100 319	384 833	405 272
Cost of Sales	(231 081)	(217 706)	(63 194)	(71 460)	(294 275)	(289 166)
Gross profit	77 152	87 247	13 406	28 859	90 558	116 106
	25,0%	27,3%	17,5%	28,8%	23,5%	28,6%
Other income	2445	4 065	2 070	-	4 515	4 065
Operating and Administration Expenses	(124 148)	(94 499)	(105 110)	(32 759)	(229 258)	(127 258)
Net operating surplus/(deficit)	(44 552)	(3 187)	(89 634)	(3 900)	(134 185)	(7 086)
Interest Income	15 728	12 446	13 317	4 313	29 045	16 759
Finance Cost	261	( 113)	221	( 39)	482	( 152)
Surplus (Deficit) for the year	(29 084)	9 147	(76 538)	374	(105 622)	9 521

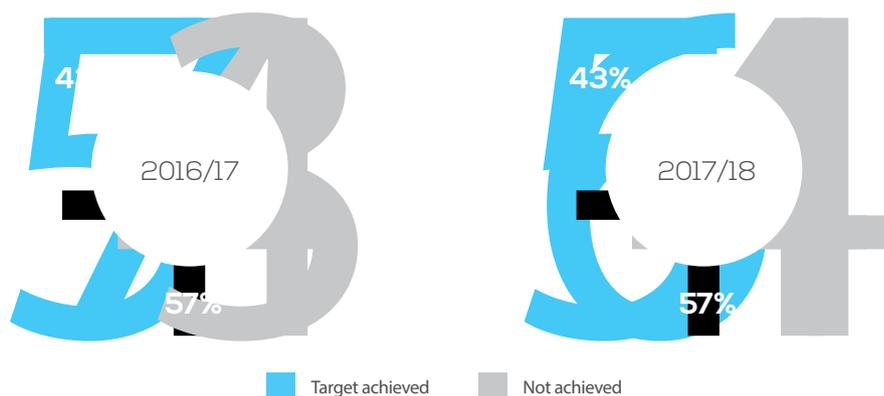
# APPENDIX B: FIVE-YEAR HISTORICAL STATISTICAL OVERVIEW (UNAUDITED)

	2018 YTD	%	2017	%	2016	%	2015	%	2014	%	2013	%	2012	%
	R000		Restated		Restated		Restated		Restated		Restated		Restated	
			R000		R000		R000		R000		R000		R000	
<b>OPERATIONS</b>														
Revenue	384 833	(5,0)	405 272	1,7	398 637	18,9	335 327	2,0	328 763	(8,2)	358 056	1,9	351 302	46,7
Cost of Sales	294 278	1,8	289 166	1,1	285 964	20,6	237 187	4,1	227 952	(8,6)	249 301	(2,6)	255 970	65,1
Other income	4 516		4 065											
Operating and Admin Expenses	229 258	80,2	127 259	7,8	118 078	12,7	104 769	18,1	88 719	8,2	82 027	(23,8)	107 648	0,3
Net finance income	29 045	73,3	16 761	31,8	12 714	104,0	6 231	(53,1)	13 299	183,1	4 698	7,3	4 379	(30,3)
Net Operating (Deficit)/Surplus	-105 624	(1 209,4)	9 521	30,3	7 309	(1 597,7)	(488)	(101,9)	25 390	(19,2)	31 425	(495,9)	(7 937)	(52,1)
<b>FINANCIAL POSITION</b>														
Capital Contribution	274 557	-	274 557	-	274 557	-	274 557	-	274 557	-	274 557	-	274 557	-
Reserves														
Retained (Deficit)/Surplus	-14 239	(115,6)	91 385	11,6	81 862	9,8	74 553	(0,7)	75 041	47,0	51 042	299,4	12 781	(111,7)
Long-term Liabilities	301 060	9,5	275 050	54,5	178 079	113,3	83 506	5 408,3	1 516	(85,5)	10 448	964,0	982	(76,3)
Current Liabilities	557 897	97,3	282 808	(26,8)	386 554	8,4	356 534	11,2	320 753	(12,8)	368 041	75,9	209 236	85,4
Total Equity and Liabilities	1 119 275	21,2	923 800	0,3	921 052	16,7	789 150	17,5	671 867	(4,6)	704 088	41,5	497 556	11,0
Non-current Assets	542 726	1,7	533 716	20,8	441 957	25,7	351 563	23,1	285 531	(2,4)	292 524	(1,8)	297 882	(1,4)
Current Assets	576 549	47,8	390 084	(18,6)	479 095	9,5	437 587	13,3	386 336	(6,1)	411 564	119,6	187 445	38,5
Total Assets	1 119 275	21,2	923 800	0,3	921 052	16,7	789 150	17,5	671 867	(4,6)	704 088	45,1	485 327	11,0

	2018 YTD R'000	%	2017 Restated R'000	%	2016 Restated R'000	%	2015 Restated R'000	%	2014 Restated R'000	%	2013 Restated R'000	%	2012 Restated R'000	%
<b>CASH FLOW POSITION</b>														
Cash flow from Operating Activities	186 408	(421,9)	-57 901	(148,6)	119 147	293,7	(61 522)	212,9	54 504	6,1	58 036	(159,5)	22 364	240,1
Cash Flow util. in /gen. from Investing Activities	59 065	(152,8)	-111 937	(277,2)	63 160	4,7	66 267	738,7	(10 375)	(41,6)	(7 328)	(1301,1)	(523)	105,5
Cash Flow utilised in Financing Activities	-	100,0	-15	99,1	(1 609)	82,0	(8 902)	66,3	(26 362)	2 934,7	930	133,0	(2 829)	(4,8)
Net Cash Increase/(Decrease) for year	245 473	244,5	-169 853	194,0	180 698	4 446,8	(4 157)	123,4	17 767	65,6	51 638	(171,6)	19 012	309,4
<b>RATIOS</b>														
Revenue (Kilolitres x 1000)														
Treated Water Sales	31 708	(4,5)	33 208	(1,3)	33 630	0,7	33 385	0,6	33 189	4,6	31 723	2,9	30 835	0,7
Raw Water Sales	8 028	(4,9)	8 438	2,3	8 247	9,1	7 557	(10,5)	8 441	7,6	7 842	(4,0)	8 168	(2,8)
Total Water Sales	39 736	(4,6)	41 646	(0,6)	41 877	2,3	40 942	(1,7)	41 630	5,2	39 565	1,4	39 003	(0,1)
Revenue (R'000)														
Treated Water Sales	286 564	5,9	270 593	7,9	250 701	8,4	231 338	9,6	211 167	14,8	183 864	13,5	161 930	18,9
Raw Water Sales	18 614	9,1	17 067	9,7	15 557	17,5	13 245	(0,0)	13 249	18,4	11 192	3,5	10 810	3,2
Total Water Sales	305 178	6,1	287 660	8,0	266 258	8,9	244 583	9,0	224 416	15,1	195 056	12,9	172 740	17,8

# APPENDIX C: CORPORATE SCORECARD

## OVERALL CORPORATE PERFORMANCE



KPI NO	MEASURE/INDICATOR	DWS INDICATOR	ACTUAL ACHIEVEMENT 2016/17	PLANNED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	REASON FOR VARIANCE AND RECOVERY PLAN
<b>CUSTOMER AND STAKEHOLDER PERSPECTIVE</b>						
<b>Strategic objective 1.1: To progressively obtain stakeholder satisfaction levels of at least</b>						
1.1.1	Stakeholder satisfaction score	N	0	6	9	Target not achieved (Page 180 for explanatory note)
1.1.2	% customer satisfaction level	N	New	7,5	0	Target not achieved (Page 180 for explanatory note)
1.1.3	% BBEE spend	Y	100%	100%	104%	Target achieved
1.1.4	# of community/school initiatives undertaken	Y	10	4	10	Target achieved
1.1.5	% submission dates met	Y	100%	100%	100%	Target achieved
<b>Strategic objective 1.2: To ensure that 81% of WSAs in the province are contracted as customers through ownership or ROU by 2036</b>						
1.2.1	% of WSAs in the province contracted as customers	N	New	31%	31%	Target achieved
1.2.2	% of actual capital expenditure budget spend on expansion related projects (initiatives by the minister)	Y	-	80%	124%	Target achieved
1.2.3	% progress against ministerial directives implementation plan	Y	48%	80%	37%	Target not achieved (Page 57 for explanatory note)
1.2.4	# of signed contracts and MOUs	Y	5	3	5	Target achieved
1.2.5	# of municipalities/other customers with bulk supply agreements	Y	5	5	5	Target achieved

KPI NO	MEASURE/INDICATOR	DWS INDICATOR	ACTUAL ACHIEVEMENT 2016/17	PLANNED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	REASON FOR VARIANCE AND RECOVERY PLAN
<b>Strategic objective 2.1: To achieve accreditation with an integrated environmental management system by 2022</b>						
2.1.1	# of integrated environmental sustainable management system initiatives implemented	N	New	1	1	Target achieved
2.1.2	# of environmental monitoring and evaluation initiatives indicating compliance with environmental footprint targets	N	New	2	2	Target achieved

KPI NO	MEASURE/INDICATOR	DWS INDICATOR	ACTUAL ACHIEVEMENT 2016/17	PLANNED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	REASON FOR VARIANCE AND RECOVERY PLAN
<b>FINANCIAL PERSPECTIVE</b>						
<b>Strategic objective 3.1: To establish and implement funding mechanisms and models to increase volumes to 170 Mℓ/day by 2022</b>						
3.1.1	# of Mℓ/day sold	N	111 Mℓ/day	115	81,35	Target not achieved (Page 181 for explanatory note)
3.1.2	Liquidity ratio	N	New	1,179	1,028	Target not achieved (Page 181 for explanatory note)
3.1.3	Current ratio	Y	1,34	1,202	1,033	Target not achieved (Page 55 for explanatory note)
3.1.4	Gross profit margin % (primary activity)	Y	27,00%	24,20%	25,03	Target achieved
3.1.5	Gross profit margin (secondary activity)	Y	29,00%	54,60%	17,50%	Target not achieved (Page 55 for explanatory note)
3.1.6	Net profit margin (primary activity)	Y	16,00%	-1,80%	-9,44%	Target not achieved (Page 56 for explanatory note)
3.1.7	Net profit margin (secondary activity)	Y	38,00%	10,30%	-99,92%	Target not achieved (Page 56 for explanatory note)
3.1.8	Net profit margin (all)	N	0,5%	1,50%	-27,45%	Target not achieved (Page 181 for explanatory note)
3.1.9	Debt equity	Y	0%	0%	0%	Target achieved
3.1.10	Return on assets	Y	0,60%	0,40%	-24,72%	Target not achieved (Page 56 for explanatory note)
3.1.11	Debtors days	Y	88,07	42,7	73,91	Target not achieved (Page 56 for explanatory note)
3.1.12	% variance on operating expenditure	Y	New	0%	-15,04%	Target not achieved (Page 56 for explanatory note)
3.1.13	% secondary revenue of total turnover	Y	28%	27%	19,90%	Target not achieved (Page 56 for explanatory note)
3.1.14	Solvency ratio	N	1,63	1,8	1,30	Target not achieved (Page 181 for explanatory note)
3.1.15	# of funding mechanisms and models developed and approved	N	New	1	0	Target not achieved (Page 181 for explanatory note)

KPI NO	MEASURE/INDICATOR	DWS INDICATOR	ACTUAL ACHIEVEMENT 2016/17	PLANNED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	REASON FOR VARIANCE AND RECOVERY PLAN
<b>Strategic objective 3.2: To establish one integrated and sustainable partnership to support financial sustainability</b>						
3.2.1	R-value additional funding sourced	N	New	R110m	0	Target not achieved (Page 181 for explanatory note)
3.2.2	# new partnerships and agreements signed	N	New	0	0	Target achieved

KPI NO	MEASURE/INDICATOR	DWS INDICATOR	ACTUAL ACHIEVEMENT 2016/17	PLANNED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	REASON FOR VARIANCE AND RECOVERY PLAN
<b>INTERNAL BUSINESS PROCESS PERSPECTIVE</b>						
<b>Strategic objective 4.1: To achieve and maintain a "good" quality rating of SANS 241 at all water plants operated by AW</b>						
4.1.1	# of AW plants achieving "good" quality SANS 241:2015 Edition 2 in Table 4	Y	New	6	10	Target achieved
4.1.2	% compliance of bulk waste water plants with discharge licence or general authorisation requirements	N	New	60%	80,2%	Target achieved
<b>Strategic objective 4.2: To achieve and maintain compliance to effluent discharge requirements as per the regulation at all wastewater plants operated by AW</b>						
4.2.1	# of waste waterworks complying with discharge licence or general authorisation requirements	N	1	1	2	Target achieved
4.2.2	Average number of days to report on tests performed	N	New	5	4,4	Target achieved
<b>Strategic objective 4.3: To maintain a turnaround time of five days to report on all water quality tests performed</b>						
4.3.1	# of determinants SANAS accredited	N	12	15	17	Target achieved
<b>Strategic objective 5.1: To manage the water resources in an integrated manner to achieve 98% assurance of supply</b>						
5.1.1	% assurance of potable water supply	Y	99%	98%	99,97%	Target achieved
<b>Strategic objective 5.2: Zero water supply interruptions which are greater than 24 hours</b>						
5.2.1	% assurance of raw water supply	Y	New	98%	98%	Target achieved

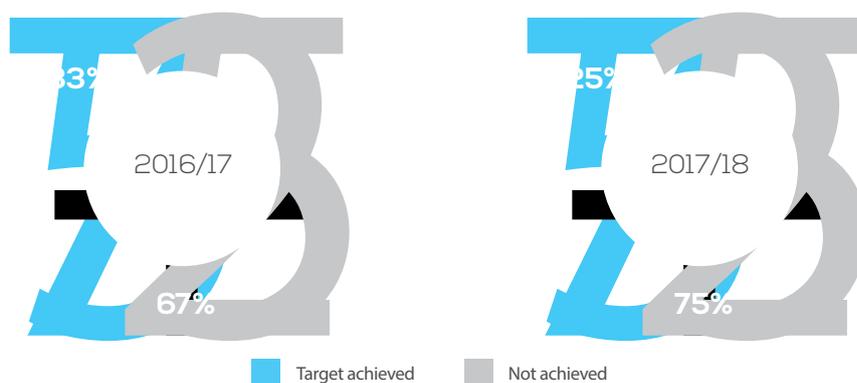
KPI NO	MEASURE/INDICATOR	DWS INDICATOR	ACTUAL ACHIEVEMENT 2016/17	PLANNED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	REASON FOR VARIANCE AND RECOVERY PLAN
<b>Strategic objective 6.1: To maintain water losses at a maximum of 12% per annum</b>						
6.1.1	% total water losses on production and distribution	Y	14,2%	14%	11.12%	Target achieved
6.1.2	Repairs and maintenance as % of PPE and investment property (carrying value)	Y	5,30%	2%	4,50%	Target achieved
6.1.3	% expenditure on maintenance of total primary business operating budget	N	New	8%	8,20%	Target achieved

KPI NO	MEASURE/INDICATOR	DWS INDICATOR	ACTUAL ACHIEVEMENT 2016/17	PLANNED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	REASON FOR VARIANCE AND RECOVERY PLAN
<b>LEARNING AND GROWING PERSPECTIVE</b>						
<b>Strategic objective 7.1: To achieve a Likert organisational effectiveness score of 4 out of 5 by 2022</b>						
7.1.1	% compliance to ISO 9001	N	New	80%	0%	Target not achieved (Page 182 for explanatory note)
7.1.2	% availability of ICT infrastructure	N	New	98,30%	99,00%	Target achieved
7.1.3	% availability of ICT systems	N	New	98,30%	99,00%	Target achieved
7.1.4	Organisational effectiveness score	N	New	3,2	3,25	Target achieved
7.1.5	# of learnerships	Y	0	10	10	Target achieved
7.1.6	# of bursaries employees	Y	New	25	28	Target achieved
7.1.7	# of graduate programmes	Y	New	2	2	Target achieved
7.1.8	R-value overall project expenditure	Y	R907m	R640.50m	R482m	Target not achieved (Page 56 for explanatory note)
7.1.9	Overall project completion dates within targets	Y	81%	80%	57%	Target not achieved (Page 56 for explanatory note)
7.1.10	Employee to revenue (R million)	N	New	R1.1m	R0.89m	Target achieved
7.1.11	% staff turnover	Y	27,80%	1,00%	1,3%	Target not achieved (Page 57 for explanatory note)
7.1.12	# of permanent jobs created	Y	405	437	432	Target not achieved (Page 57 for explanatory note)
7.1.13	# of temporary jobs created	Y	832	400	638	Target achieved
7.1.14	Staff remuneration as % of total operating expenditure	Y	40%	43%	32.4%	Target achieved
7.1.15	External audit outcome	Y	Unqualified	Unqualified	Unqualified	Target achieved
7.1.16	% Board member attendance of all board/ committee meetings	Y	75%	100%	80%	Target not achieved (Page 58 for explanatory note)
7.1.17	# of repeats internal audit findings	Y	9	10	0	Target achieved
7.1.18	# of unresolved internal audit findings	Y	8	25	11	Target not achieved (Page 58 for explanatory note)
7.1.19	# of breaches of materiality and significance framework	Y	0	0	0	Target achieved

KPI NO	MEASURE/INDICATOR	DWS INDICATOR	ACTUAL ACHIEVEMENT 2016/17	PLANNED TARGET 2017/18	ACTUAL ACHIEVEMENT 2017/18	REASON FOR VARIANCE AND RECOVERY PLAN
7.1.20	% of targets achieved within the organisational scorecard	N	57%	80%	57%	Target not achieved (Page 182 for explanatory note)
7.1.21	% of employees achieving an average score of 3.5	N	New	70%	45%	Target not achieved (Page 182 for explanatory note)
7.1.22	% of employee reviews performed bi-annually	N	New	100%	100%	Target achieved
7.1.23	% of new grievances resolved within 30 days	N	New	100%	50%	Target not achieved (Page 182 for explanatory note)
7.1.24	% of employees suitably qualified as per the job requirements	N	New	60%	100%	Target achieved
7.1.25	% of identified posts filled by pre-determined recruitment time	N	New	84%	18,75%	Target not achieved (Page 182 for explanatory note)
7.1.26	% successful implementation of the personal development plan	N	New	80%	0%	Target not achieved (Page 182 for explanatory note)

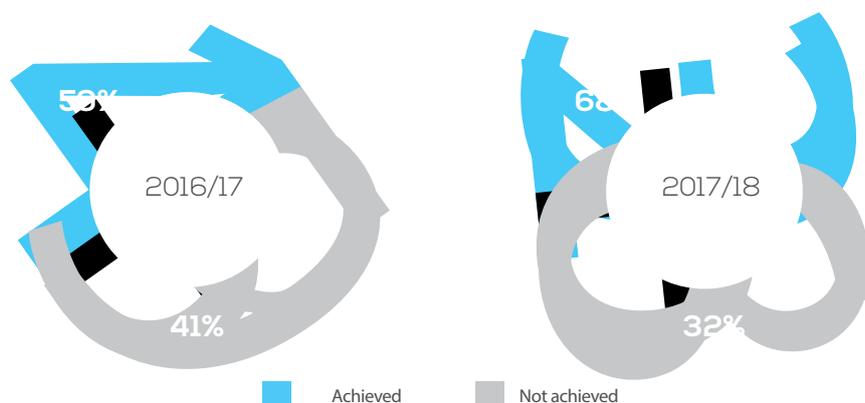
# EXPLANATORY NOTES ON ADVERSE PERFORMANCE AND AREAS OF IMPROVEMENT

## CUSTOMER AND STAKEHOLDER PERSPECTIVE



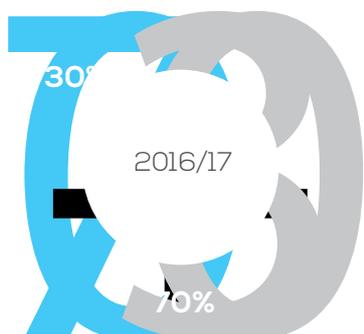
INDICATOR NUMBER	INDICATOR/ MEASURE	REASON FOR VARIANCE AND RECOVERY PLAN
<b>STRATEGIC OBJECTIVE: To progressively obtain stakeholder satisfaction levels of at least 80% by 2022</b>		
1.1.1	Stakeholder satisfaction score	<ul style="list-style-type: none"> <li>Target was not achieved due to the lack of capacity and resources to coordinate stakeholder engagement activities.</li> <li>The remedial action plan for the next financial year will include the resourcing of the stakeholder and communication function in the Office of the CEO and implementation of the stakeholder plan. Bi-annual stakeholder satisfaction surveys will be undertaken.</li> </ul>
1.1.2	% customer satisfaction level	<ul style="list-style-type: none"> <li>Target was not achieved due to the lack of capacity and resources to coordinate stakeholder engagement activities.</li> <li>The remedial action plan for the next financial year will include the resourcing of the stakeholder and communication function in the Office of the CEO and implementation of the stakeholder plan. Bi-annual customer satisfaction surveys will be undertaken.</li> </ul>

## FINANCIAL PERSPECTIVE

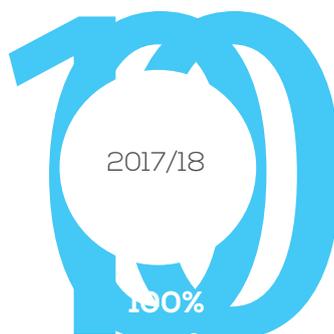


INDICATOR NUMBER	INDICATOR/ MEASURE	REASON FOR VARIANCE AND RECOVERY PLAN
<b>STRATEGIC OBJECTIVE: To establish and implement funding mechanisms and models to increase volumes to 170 Ml/day by 2022</b>		
3.1.1	# of Ml/day sold	<ul style="list-style-type: none"> <li>Target was not achieved as AW discontinued services due to non-payment by the Makana LM contract in August 2018. Implementation of water restrictions in ADM contract also resulted in the reduced water sales.</li> <li>The recovery plan will involve continuous stakeholder engagements and follow-up through the IGFRA and legal process processes regarding outstanding debt.</li> </ul>
3.1.2	Liquidity ratio	<ul style="list-style-type: none"> <li>Target was not achieved due to the impairment of the debt of ADM and Makana LM.</li> <li>The remedial action plan will include stringent debt terms and conditions and enforcement of debt management policy to address the current debt situation.</li> </ul>
3.1.8	Net profit margin (all)	<ul style="list-style-type: none"> <li>Target not achieved due to the impairment of the debt of ADM and others of R120m. A debtor profiling exercise and an accelerated debt collection exercise is proposed for AW to address the current debt situation and to and to ensure the collection of all ADM's outstanding debt.</li> </ul>
3.1.14	Solvency ratio	<ul style="list-style-type: none"> <li>Target was not achieved due to an increase in bad debt provision which negatively affected the asset base of AW.</li> <li>As part of the remedial action AW will continuously engage DWS to implement the transfer agreement to ensure that the funding is received timeously.</li> </ul>
3.1.15	# of funding mechanisms and models developed and approved	<ul style="list-style-type: none"> <li>Target was not achieved due to the absence of an integrated infrastructure master plan.</li> <li>The remedial action plan will focus on the finalisation of the AW infrastructure masterplan during 2018/19 financial year.</li> </ul>
3.2.1	R-value additional funding sourced	<ul style="list-style-type: none"> <li>Target was not achieved</li> <li>Funding models will form part of the AW turnaround plan during the 2018/19 financial year. This funding will be used to accelerate the completion of infrastructure master plan during the 2018/19 financial year.</li> </ul>

## INTERNAL PROCESSES



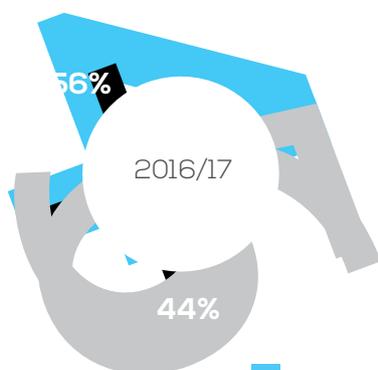
Achieved



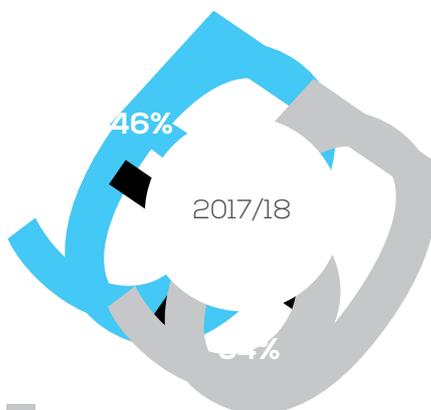
Not achieved



## LEARNING AND GROWTH



Achieved



Not achieved



INDICATOR NUMBER	INDICATOR/ MEASURE	REASON FOR VARIANCE AND RECOVERY PLAN
<b>STRATEGIC OBJECTIVE: To achieve an organisation effectiveness Likert score of 4 out of a 5 by 2022</b>		
7.1.1	% compliance to ISO 9001	<ul style="list-style-type: none"> <li>Target was not achieved. ISO 9001 was put on hold after cost-cutting was approved by Board.</li> <li>This target has been rolled over to the 2018/19 financial year as funding is being sought in the 2018/2019 financial year.</li> </ul>
7.1.20	% of targets achieved within the organisational scorecard	<ul style="list-style-type: none"> <li>Target was not achieved due the adverse performance realised during the year which is largely attributable to poor financial performance.</li> <li>The remedial action plan is the implementation of the AW turnaround plan focusing financial viability; reconnecting with stakeholder; and acceleration of projects implementation.</li> </ul>
7.1.21	% of employees achieving an average score of 3.5	<ul style="list-style-type: none"> <li>Target was not achieved, which is a reflection on the low levels of employee performance achievement cause by the following:                             <ul style="list-style-type: none"> <li>- work backlog;</li> <li>- capacity and resource constraints;</li> <li>- skills shortages;</li> <li>- increase in number vacancies</li> </ul> </li> <li>The remedial action includes the implementation of the AW turnaround plan with key focus on filling of critical vacancies and training to address gaps</li> </ul>
7.1.23	% of new grievances resolved within 30 days	<ul style="list-style-type: none"> <li>Target was not achieved due to the lack resources to address grievances timeously.</li> <li>As part of the remedial action, management and organised labour in local labour forum engage on monthly basis to expedite the process of concluding collective grievances.</li> </ul>
7.1.25	% of identified posts filled by pre-determined recruitment time	<ul style="list-style-type: none"> <li>Target was not achieved due to the moratorium and delays in Ministerial approval of critical posts.</li> <li>The remedial action taken is to expedite filling of vacant positions in 2018/19 financial year.</li> </ul>
7.1.26	% successful implementation of the personal development plan	<ul style="list-style-type: none"> <li>Target was not achieved due to the budget cuts and reprioritisation during the financial year.</li> <li>The remedial action take will be to implement only the approved items of the personal development plan in 2018/19 financial year.</li> </ul>

# APPENDIX D: GRI CONTENT INDEX

Amatola Water has reported “in accordance” with the comprehensive option resented by the GRI’s G4 guidelines. An independent assurance report can be found on page 140 - 144.

## GENERAL STANDARD DISCLOSURES

STRATEGY AND ANALYSIS	PAGE
G4-1: Provide a statement from the most senior decision-maker of the organisation (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organisation and the organisation’s strategy for addressing sustainability	1 - 2, 3 - 5, 7 - 10
G4-2: Provide a description of key impacts, risks and opportunities	1 - 2, 3 - 5, 7 - 10, 21, 25 - 30, 35 - 36, 115 - 113, 162 - 165
ORGANISATIONAL PROFILE	PAGE
G4-3: Report the name of the organisation	Throughout the report
G4-4: Report the primary brands, products and services	17 - 19
G4-5: Report the location of the organisation’s headquarters	Cover page
G4-6: Report the number of countries where the organisation operates, and names of countries where either the organisation has significant operations or that are specifically relevant to the sustainability topics covered in the report	17 and 19
G4-7: Report the nature of ownership and legal form	17 and 18
G4-8: Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries)	17 - 19
G4-9: Report the scale of the organisation, including: <ul style="list-style-type: none"> <li>• Total number of employees</li> <li>• Total number of operations</li> <li>• Net sales (for private sector organisations) or net revenues (for public sector organisations)</li> <li>• Total capitalisation broken down in terms of debt and equity (for private-sector organisations)</li> <li>• Quantity of products or services provided</li> </ul>	19, 61 - 62, 77 - 96, 125 - 127, 145, 153
G4-10: Report the composition of the workforce, including: <ul style="list-style-type: none"> <li>• Total number of employees by employment contract and gender</li> <li>• Total number of permanent employees by employment type and gender</li> <li>• Total workforce by employees and supervised workers and by gender</li> <li>• Total workforce by region and gender</li> <li>• Whether a substantial portion of the organisation’s work is performed by workers who are legally recognised as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors</li> <li>• Any significant variations in employment numbers</li> </ul>	62 - 63
G4-11: Report the percentage of total employees covered by collective bargaining agreements	64
G4-12: Describe the organisation’s supply chain	130, 141, 152, 166 - 167
G4-13: Report any significant changes during the reporting period regarding the organisation’s size, structure, ownership, or its supply chain, including: <ul style="list-style-type: none"> <li>• Changes in the location of, or changes in, operations, including facility openings, closings, and expansions</li> <li>• Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private-sector organisations)</li> <li>• Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination</li> </ul>	130, 141, 152, 166 - 167
G4-14: Report whether and how the precautionary approach or principle is addressed by the organisation	Not applicable
G4-15: List externally developed economic, environmental and social charters, principles, or other initiatives to which the organisation subscribes or which it endorses	15, 21, 31, 104, 114
G4-16: List memberships of associations (such as industry associations) and national or international advocacy organisations in which the organisation: <ul style="list-style-type: none"> <li>• Holds a position on the governance body</li> <li>• Participates in projects or committees</li> <li>• Provides substantive funding beyond routine membership dues</li> <li>• Views membership as strategic</li> </ul>	38 and 43

IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES		PAGE
G4-17:		133 - 173
a.	List all entities included in the organisation's consolidated financial statements or equivalent documents	
b.	Report whether any entity included in the organisation's consolidated financial statements or equivalent documents is not covered by the report	
G4-18:		15 - 17
a.	Explain the process for defining the report content and the aspect boundaries	
b.	Explain how the organisation has implemented the reporting principles for defining report content	
G4-19:	List all the material aspects identified in the process for defining report content	35 and 36
G4-20:	For each material aspect, report the aspect boundary within the organisation, as follows:	35 and 36
	<ul style="list-style-type: none"> <li>• Report whether the aspect is material within the organisation</li> <li>• If the aspect is not material for all entities within the organisation (as described in G4-17), select one of the following two approaches and report either: <ul style="list-style-type: none"> <li>- The list of entities or groups of entities included in G4-17 for which the aspect is not material or</li> <li>- The list of entities or groups of entities included in G4-17 for which the aspect is material</li> </ul> </li> <li>• Report any specific limitation regarding the aspect boundary within the organisation</li> </ul>	
G4-21:	For each material aspect, report the aspect boundary outside the organisation, as follows:	35 and 36
	<ul style="list-style-type: none"> <li>• Report whether the aspect is material outside of the organisation</li> <li>• If the aspect is material outside of the organisation, identify the entities, groups of entities or elements for which the aspect is material, and describe the geographical location where the aspect is material for the entities identified</li> <li>• Report any specific limitation regarding the aspect boundary outside the organisation</li> </ul>	
G4-22:	Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements	145 -146, 162
G4-23:	Report significant changes from previous reporting periods in the scope and aspect boundaries	15-17

STAKEHOLDER ENGAGEMENT		PAGE
G4-24:	Provide a list of stakeholder groups engaged by the organisation	37 - 44
G4-25:	Report the basis for identification and selection of stakeholders with whom to engage	37 - 39
G4-26:	Report the organisation's approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group, and an indication of whether any of the engagement was undertaken specifically as part of the report preparation process	37- 39
G4-27:	Report key topics and concerns that have been raised through stakeholder engagement, and how the organisation has responded to those key topics and concerns, including through its reporting, and report the stakeholder groups that raised each of the key topics and concerns	37 - 44

REPORT PROFILE		PAGE
G4-28:	Reporting period (such as fiscal or calendar year) for information provided	Throughout the report
G4-29:	Date of most recent previous report	Throughout the report
G4-30:	Reporting cycle (such as annual, biennial)	Throughout the report
G4-31:	Provide the contact point for questions regarding the report or its contents	Cover page
G4-32:		183
a.	Report the "in accordance" option the organisation has chosen	
b.	Report the GRI content index for the chosen option	
c.	Report the reference to the external assurance report	
G4-33:		117 - 121
a.	Report the organisation's policy and current practice with regard to seeking external assurance for the report	
b.	If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided	
c.	Report the relationship between the organisation and the assurance providers	
d.	Report whether the highest governance body or senior executives are involved in seeking assurance for the organisation's sustainability report	

GOVERNANCE	PAGE
G4-34: Report the governance structure of the organisation, including committees of the highest governance body, and identify any committees responsible for decision-making on economic, environmental and social impacts	99, 103, 109
G4-35: Report the process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees	109
G4-36: Report whether the organisation has appointed an executive-level position or positions with responsibility for economic, environmental and social topics, and whether post holders report directly to the highest governance body	103, 109
G4-37: Report processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics. If consultation is delegated, describe to whom and any feedback processes to the highest governance body	4 and 99
G4-38: Report the composition of the highest governance body and its committees by: <ul style="list-style-type: none"> <li>• Executive or non-executive</li> <li>• Independence</li> <li>• Tenure on the governance body</li> <li>• Number of each individual's other significant positions and commitments, and the nature of the commitments</li> <li>• Gender</li> <li>• Membership of under-represented social groups</li> <li>• Competences relating to economic, environmental and social impacts</li> <li>• Stakeholder representation</li> </ul>	99 - 109
G4-39: Report whether the Chair of the highest governance body is also an executive officer (and, if so, his or her function within the organisation's management and the reasons for this arrangement)	Not applicable
G4-40: Report the nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members, including: <ul style="list-style-type: none"> <li>• Whether and how diversity is considered</li> <li>• Whether and how independence is considered</li> <li>• Whether and how expertise and experience relating to economic, environmental and social topics are considered</li> <li>• Whether and how stakeholders (including shareholders) are involved</li> </ul>	Not applicable
G4-41: Report processes for the highest governance body to ensure conflicts of interest are avoided and managed, and whether conflicts of interest are disclosed to stakeholders, including, as a minimum: <ul style="list-style-type: none"> <li>• Cross-board membership</li> <li>• Cross-shareholding with suppliers and other stakeholders</li> <li>• Existence of controlling shareholder</li> <li>• Related party disclosures</li> </ul>	110 - 112, 151, 161
G4-42: Report the highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts	20, 25 - 32, 103 - 104
G4-43: Report the measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics	104
G4-44: Report the processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics, whether such evaluation is independent or not, and its frequency, whether such evaluation is a self-assessment, as well as action taken in response to evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics, including, as a minimum, changes in membership and organisational practice	31, 48 - 58
G4-45: Report the highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities, including the highest governance body's role in the implementation of due diligence processes, and whether stakeholder consultation is used to support the highest governance body's identification and management of economic, environmental and social impacts, risks and opportunities	37 - 39, 112 - 115
G4-46: Report the highest governance body's role in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics	20 - 21, 35 - 36, 112 - 115

GOVERNANCE	PAGE
G4-47: Report the frequency of the highest governance body's review of economic, environmental and social impacts, risks and opportunities	20 - 21, 112 - 115
G4-48: Report the highest committee or position that formally reviews and approves the organisation's sustainability report and ensures that all material aspects are covered	35 - 36
G4-49: Report the process for communicating critical concerns to the highest governance body	99 - 100, 110 - 112
G4-50: Report the nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them	99 and 110
G4-51: Report the remuneration policies for the highest governance body and senior executives for the below types of remuneration: <ul style="list-style-type: none"> <li>• Fixed pay and variable pay:</li> <li>• Performance-based pay</li> <li>• Equity-based pay</li> <li>• Bonuses</li> <li>• Deferred or vested shares <ul style="list-style-type: none"> <li>- Sign-on bonuses or recruitment incentive payments</li> <li>- Termination payments</li> <li>- Clawbacks</li> <li>- Retirement benefits, including the difference between benefit schemes and contribution rates for the highest governance body, senior executives, and all other employees</li> </ul> </li> <li>• Report how performance criteria in the remuneration policy relate to the highest governance body's and senior executives' economic, environmental and social objectives</li> </ul>	104, 168 - 169
G4-52: Report the process for determining remuneration. Report whether remuneration consultants are involved in determining remuneration and whether they are independent of management, and report any other relationships which the remuneration consultants have with the organisation	104
G4-53: Report how stakeholders' views are sought and taken into account regarding remuneration, including the results of votes on remuneration policies and proposals, if applicable	104
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<b>CATEGORY: SOCIAL – LABOUR PRACTICES AND DECENT WORK</b>		
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## ASPECT: LABOUR PRACTICES GRIEVANCE MECHANISMS

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## CATEGORY: SOCIAL – HUMAN RIGHTS

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## CATEGORY: SOCIAL – SOCIETY

### ASPECT: LOCAL COMMUNITIES

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### ASPECT: ANTI-CORRUPTION

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G4-SO4: Communication and training on anti-corruption policies and procedures	110 - 112
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### ASPECT: SUPPLIER ASSESSMENT FOR IMPACTS ON SOCIETY

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## CATEGORY: SOCIAL – PRODUCT RESPONSIBILITY

### ASPECT: CUSTOMER HEALTH AND SAFETY

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G4-PR2: Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	79, 117 -118
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### ASPECT: COMPLIANCE

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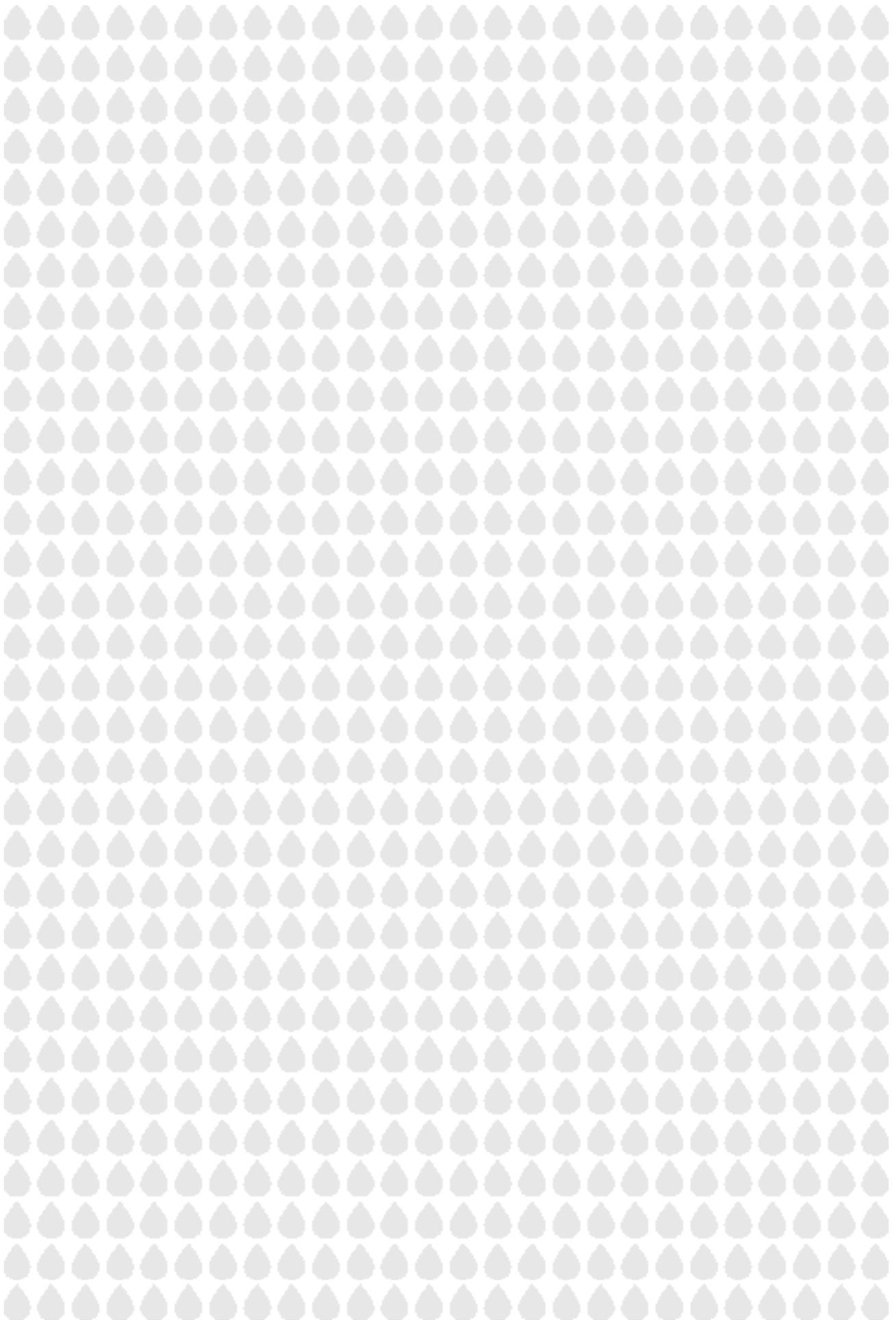
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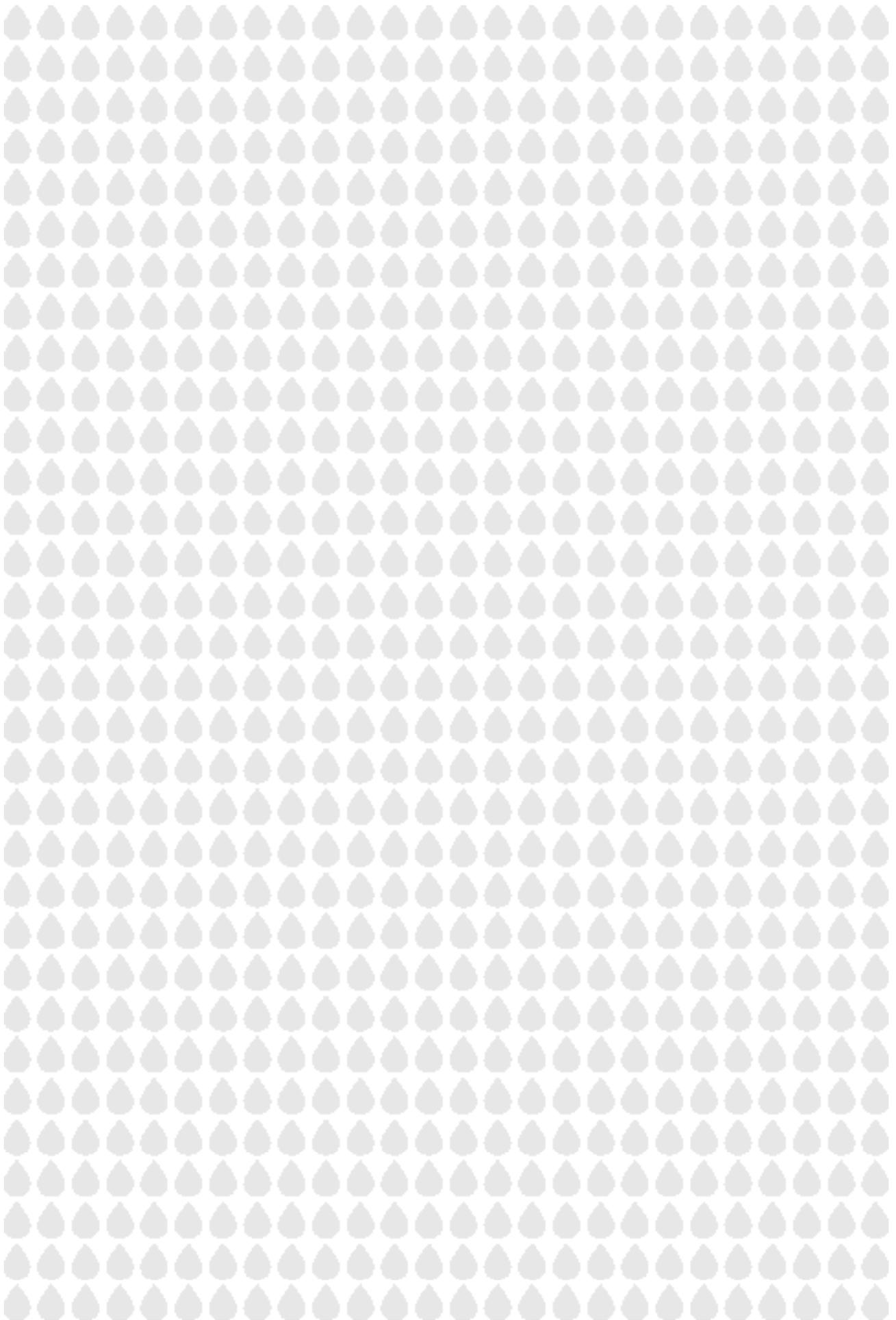
# ABBREVIATIONS

FULL NAME	ABBREVIATION	FULL NAME	ABBREVIATION
And	&	Global Reporting Initiative Generation 4	GRI G4
Accounting	ACC	Government Business Enterprises	GBE
Accounting Standards Board	ASB	Government Outcomes	GOV OUT
Amathole District Municipality	ADM	Government Water Scheme Supply	GWSS
Amatola Water	AW	GRI (formerly the Global Reporting Initiative)	GRI
Audit and Risk Committee	ARC	Gross Domestic Product	GDP
Auditor-General of Southern Africa	AGSA	Honourable	Hon
BAAN Computerised Maintenance Management System	BAAN	Honours	Hons
Baccalaureus Procuratoris	BPROC	Human resources	HR
Bachelor of Arts	BA	Human Resources Management	HRM
Bachelor of Commerce	BCom	Implementing Agent	IA
Bachelor of Laws	LLB	Information and communication technology	ICT
Bachelor of Science	BSc	Information Management Steering Committee	ITSCM
Bachelor of Technology	BTech	Infrastructure Stability	IS
Broad-based black economic empowerment	BBBEE	Institute of Directors in South Africa	IoDSA
Bulk Water Supply	BWS	Institutional realignment and reform	IRR
Capital expenditure	Capex	Integrated management system	IMS
Chartered Accountant (South Africa)	CA (SA)	Integrated Reporting	IR
Chief Executive	CE	Inter-Governmental Relation	IGR
Chief Executive Officer	CEO	International Accounting Standards	IAS
Chief Financial Officer	CFO	International Ethics Standards Board for Accountants	IESBA
Chief Risk Officer	CRO	International Standards on Auditing	ISA
Commission for Conciliation, Mediation and Arbitration	CCMA	International Executive Development Programme	leDP
Committee of Sponsoring Organisations	COSO	Intergovernmental Relations Framework Act No 13 of 2005	IGFRA
Community / Environmental	CE	International Integrated Reporting Council	IIRC
Companies and Intellectual Property Commission	CIPC	International Integrated Reporting Council's International Integrated Reporting Framework	IIRC <IR>
Contract Participation Goals	CPGs	International Organization for Standardization	ISO
Cooperative Governance and Traditional Affairs	CoGTA	International Professional Practices Framework	IPPF
Customer Satisfaction	CS	Information Technology	IT
Delegation of Authority	DoA	Key Performance Indicator	KPI
Department of Public Service and Administration	DPSA	Kilolitre	Kℓ
Department of Cooperative Governance	DCoG	Kilometre	Km
Department of Education	DoE	Kilowatt Hour per Cubic Meter	KWH/M3
Department of Science and Technology	DST	King Code of Governance Principles and the King Report on Governance	King IV
Department of Water and Sanitation	DWS	King Sabata Dalindyebo	KSD
Department of Water and Sanitation Objective	DWS OBJ	King Sabata Dalindyebo Local Municipality	KSDLM
Development Bank of Southern Africa	DBSA	King Sabata Dalindyebo Presidential Intervention	KSDPI
Director-General	DG	Leadership and Employee Development	LG
Disabling Injury	DI	Legum Baccalaureus	LLB
Disabling incident frequency rate	DIFR	Legum Magister	LLM
Disaster Recovery Plan	DRP	Local Municipality	LM
Energy, Water, Sector Education and Training Authority	EWSETA	Loss Time Injury	LTI
Enterprise Performance Management	EPM		
Environmental Management System	EMS		
Expanded Public Works Programme	EPWP		
Federated Employers' Mutual Assurance	FEMA		
Finance Committee	FINCO		
Financial Year	FY		
Financial Viability	FV		
Further Education and Training	FET		

FULL NAME	ABBREVIATION
Management Committee	MANCO
Master of Leadership	MBL
Master of Commerce	MCom
Master of Science	MSc
Master's in Business Administration	MBA
Member of Parliament	MP
Modified Poly Vinyl Chloride	mPVC
Medium-Term Strategic Framework	MTSF
Megalitre	Mℓ
Memorandum of Understanding	MOU
Municipal Infrastructure Grant	MIG
Not applicable	N/A
National Diploma	ND
National Department of Public Works	NDPW
Number	No
Number	#
National Occupational Safety Association (South Africa)	NOSA
Public Audit Act of South Africa, 2004 (Act No 25 of 2004)	PAA
Nooitgedagt/Coega Low-Level Scheme	NCLLS
Objective Number	OBJ NO
Occupational Health and Safety	OHS
Occupational Health and Safety Advisory Services	OHSAS
Oliver Reginald	OR
Operational Optimisation	OO
Operational Resilience	OR
OR Tambo District Municipality	ORTDM
Personal Protective Equipment	PPE
Photovoltaic	PVC
Postgraduate Diploma	PGDip
Preferential Procurement Policy Framework Act	PPPFA
Public Management Act	PFMA
Project and Development	P&D
Project Development Unit	PMU
Provincial Joint Tactical Team	PJTT
Professional Service Provider	PSP
PricewaterCoopers	PwC
Doctor of Philosophy	PhD
Quarter	Q
Quick Reference	QR Code
Rand per kilo.	R/KL
Regional Bulk Infrastructure Grant	RBIG
Regional Water Scheme	RWS
Research and Development	R&D
Return of Assets	ROA
Reverse Osmosis	RO
Right of Use	ROU
Safety, Health and Environment	SHE
Short Message Services	SMS
Small, Medium and Micro Enterprises	
SMME	
South Africa	SA
South African Association of Water Utilities	SAAWU
South African Bureau of Standards	SABS

FULL NAME	ABBREVIATION
South African Institute of Professional Accountants	SAIPA
South African Local Government Association	SALGA
South African Municipal Workers' Union	SAMWU
South African National Accreditation System	SANAS
South African National Standard	SANS
South African Rand	ZAR
South African Revenue Service	SARS
South African Statements of Generally Accepted Accounting Practice	SA GAAP
Stakeholder Relationships and Support	SS
Strategic Goals	SO
Sundays River Valley Local Municipality	SRVLM
Supervisory Control and Data Acquisition	SCADA
Supply Chain Management	SCM
Technical and Vocational Education and Training	TVET
Total Dissolve Solids	TDS
Trinity Broadcasting Network	TBN
Turnaround Plan	TAP
Water Adequacy	WA
Water Quality	WQ
Water Services Authority	WSA
Water Services Utility	WSU
Water Treatment Works	WTW
Volkswagen	VW







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