

# ANNUAL REPORT

## 2018/19







*Magabies Water*

# LIST OF ACRONYMS

<b>AGSA</b>	Auditor General of South Africa
<b>ABC</b>	Amanzi Bargaining Council
<b>AR</b>	Audit Report
<b>BBBEE</b>	Broad Based Black Economic Empowerment
<b>BEC</b>	Bid Evaluation Committee
<b>CAPEX</b>	Capital Expenditure
<b>CCTV</b>	Closed Circuit Television
<b>CEO</b>	Chief Executive Officer
<b>CDM</b>	Cullinan Diamond Mine
<b>CSI</b>	Corporate Social Investment
<b>CSD</b>	Central Supplier Database
<b>DWS</b>	Department of Water and Sanitation
<b>DHS</b>	Department of Human Settlements
<b>DIFR</b>	Disability Injury Frequency Rate
<b>EXCO</b>	Executive Committee

<b>EWSETA</b>	Energy and Water Sector Training Authority
<b>EBITDA</b>	Earnings Before Income Tax Depreciation and Amortisation
<b>FY</b>	Financial Year
<b>GRAP</b>	Generally Recognised Accounting Practise
<b>GAC</b>	Granular Activated Carbon
<b>HRA</b>	Health Risk Assessment
<b>HRD</b>	Human Resources Development
<b>ICT</b>	Information Communication and Technology
<b>IOD</b>	Injury on Duty
<b>IRR</b>	Institutional Reforms and Realignment
<b>IODSA</b>	The Institute of Director of Southern Africa
<b>KPI</b>	Key Performance Indicators
<b>LM</b>	Local Municipality





# LIST OF ACRONYMS



<b>ML/D</b>	Million Litres Per day or Mega Litres per day
<b>MW</b>	Magalies Water
<b>MDG</b>	Millennium Development Goals
<b>NDP</b>	National Development Plan
<b>N/A</b>	Not Applicable
<b>NEHAWU</b>	National Education, Health and Allied Workers Union
<b>NWA</b>	National Water Act
<b>PFMA</b>	Public Finance Management Act
<b>PMU</b>	Project Management Unit
<b>PWD</b>	People with Disability
<b>RFQ</b>	Request for Quotation
<b>SAMWU</b>	South African Municipal Workers' Union
<b>SCM</b>	Supply Chain Management

<b>SoE</b>	State Owned Entity
<b>SANAS</b>	South African National Accreditation System
<b>SANS</b>	South African National Standards
<b>SHC</b>	Shareholder Compact
<b>SAP</b>	System Application Product
<b>SCADA</b>	Supervisory Control and Data Acquisition
<b>TCF</b>	Total Carbon Footprint
<b>ToR</b>	Terms of Reference
<b>WSA</b>	Water Services Act
<b>WTP</b>	Water Treatment Plant
<b>YTD</b>	Year to Date
<b>Y-E-S</b>	Youth Empowerment Service

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# PART A:

## STATEMENTS, CORPORATE GOVERNANCE & STRATEGIC OVERVIEW



# 01

## FOREWORD BY THE MINISTER OF HUMAN SETTLEMENTS, WATER AND SANITATION



**Ms Lindiwe Nonceba Sisulu (MP)**

Minister of Human Settlements, Water & Sanitation

I am optimistic that as government we are working on the right path to ensure that our policies and integrated planning become responsive to the equitable use and flow of water to benefit all communities of the Republic of South Africa. At the same time, we must focus on changing consumer behaviour with regard to water use and valuing water differently.

South Africa is one of the 30 driest countries in the world that experiences a challenge of water scarcity. The average rainfall per annum is less than 40% of the world average which means, on average our rainfall per year is less than 500mm, while at global level it is at 850mm. Water is a limited resource that must be guarded with respect and utmost care at all times. Out of the nine provinces that constitute our country, five of them have been declared as drought disaster provinces, namely North West, Limpopo, KwaZulu-Natal, Free State and Mpumalanga.

Access to water and sanitation is an integral part of humanity and to grow the economy and develop our society we need water. Hence in the new dawn of our democracy we took upon ourselves as government to enshrine water and sanitation as the Bill of Rights (Chapter 2) contained in the Constitution (1996, as amended). We ensured that structures are put in place to secure the use



and flow of water in the Republic of South Africa. We did that to make sure that water as a scarce resource is protected, conserved and used sustainably to benefit all citizens of our country.

Our National Development Plan (NDP) and the UN Sustainable Goal Six sees water as an enabler of development. Magalies Water is one of the key anchors that the Department of Water and Sanitation (DWS) relies upon for the supply of sustainable quality water and sanitation services across three provinces namely; North West (Rustenburg and Moses Kotane local municipalities), Limpopo (Bela-Bela, Modimolle-Mokgoopong and Thabazimbi local municipalities), and Gauteng (City of Tshwane Metropolitan Municipality).

Despite the stated challenges for the reporting period Financial Year (FY) 2018/19, Magalies Water has contributed effectively to their demarcated areas, more so the mining sector, agriculture, manufacturing, commercial and industrial sectors, as well as local municipalities within its area of supply.

Magalies Water has implemented capital expansion programmes to curb water demand challenges and has built relations with stakeholders from the private and inter-governmental sectors (Public-Private Partnerships) to forge partnerships to deliver on the expansion of the infrastructure. The entity has worked hard to provide solutions for the delivery of water and sanitation services to address key systematic barriers such as inequality, unsustainable consumption patterns, weak institutional capacity, and environmental degradation.

I would like to convey my gratitude to the Board, executive

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***“Magalies Water has contributed effectively to their demarcated areas, more so the mining sector, agriculture, manufacturing, commercial and industrial sectors, as well as local municipalities within its area of supply.”***

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management and the entire staff of Magalies Water for their role in the process of revolutionising the water and sanitation sector.



**Ms LN Sisulu (MP)**

Minister of Human Settlements, Water and Sanitation

# 02

## STATEMENT BY THE CHAIRPERSON



**AdvMosotho M Petlane**  
Chairperson of the Board

### **Dear Stakeholders,**

The Financial Year (FY) ended 30 June 2019 has been another good year for Magalies Water. This was possible because of the support we had received from the Shareholder, our customers, stakeholders, Board members and the entire staff compliment of Magalies Water.

I give special thanks to the former Minister of Water and Sanitation, the Honourable Mr Gugile E Nkwinti [former Member of Parliament (MP)], for all his incessant support towards the realisation of our agreed goals. I wish him well in his new endeavours. We also value the support we had received from Mrs Pamela Tshwete (MP, the Deputy Minister of Water and Sanitation) more so on the Water and Sanitation Master Plan which opened opportunities for our space. We also appreciate all contributions made by the Director-General, Ms Deborah Mochotlhi and the entire team of the Department of Water and Sanitation (DWS) who, at all times, managed to lend a hand to ensure that together we pushed the agenda of making water and sanitation accessible to South Africans.

The Member of the Executive Council (MEC) Motlalepula Rosho gave us invaluable support in addressing

water challenges in the North West province which is predominantly rural. We also acknowledge all Mayors – Cllr LJ Diremelo (Bojanala District); Executive Mayor Cllr Mpho Khunou (Rustenburg LM); Cllr Peter Molelekeng (Moses Kotane LM); Cllr Jostine Mothibe (Madibeng LM); Cllr Kim Medupe (Kgetleng LM); Cllr Makinta Andries Monaheng (Moretele LM), including all officials of Water Services Authorities (WSAs) from the stated following local municipalities (LMs); for the partnership and patronage that persisted to warrant sustainable development to bring forth positive change to our communities. We thank:

- Thabazimbi LM led by Cllr John Michael Fischer;
- City of Tshwane Metropolitan Municipality led by Cllr Stephen Mogalapa;
- Modimolle Mookgophong LM led by Cllr Marlene van Staden; and
- Bela-Bela LM led by Cllr Jeremiah Ngobeni.

As Magalies Water, we are humbled by endless backings and strategic partnership we continue to receive from Magosi as stakeholders across all of our service areas. We acknowledge 'Magosi otlhe go ya ka makgotla a a farologaneng' e leng, Kgosi MEMabe of Batlhako Ba Matutu from Mabeeskraal also, the Chairperson of the North West House of Traditional Leaders; Kgosi LT Molotlegi of the Royal Bafokeng in Phokeng; Kgosi MS Mathope of Bafokeng Ba-Mothope from Mathope Stat; Kgosi MS Zibi of Mahlubi from Khayakhulu; Kgosi TS Mooketsi of the Bahurutshe Boo-Mokgatla from Koffikraal; Kgosi TA Mooketsi of Bahurutshe Boo-Mokgatla from Brakkuil; the late Kgosi GL Maselwane of Bakwena Ba Mmatau from Mmatau; also the late Kgosi SE Maimane of Bakwena Ba

Manamela from Manamela; Kgosi JC Legoale of Bakwena Ba Maaka from Siga; Kgosi LG Motsatsi of Batlokwa Boo-Bogatsu from Tlokwen; Kgosi FM Matlapeng of Batlokwa Boo-Kgosi from Molatedi; Kgosi KB Sedumedi of Batlokwa Boo-Sedumedi from Letlhakeng; Kgosi GR Gasebone of Bakwena Ba Morare from Phela; Kgosi HD Mogagabe of Bakwena Ba-Mare A-Phogole kwa Uitkyk; Kgosi OTS Maotwe of Barokologadi Ba Maotwe from Pitsidisulejang; Kgosi BJ Sefanyetso of Bataung Boo-Selale from Moubane; Kgosi EM Mabalane of Baphiring from Mabalastat; Kgosi MJ Pilane of Bakgatla Ba Kgafela from Moruleng; Kgosi NJ Sefanyetso of Bataung Ba Moubane from Seolong; Kgosi NI Batleng of Batlhako Ba-Leema from Tlhatlaganyane; the late Kgosi TS Mogale of Bapo II from Bapong; also the late Kgosi Shongoane of Batlhalerwa from Tweelagte; Kgosi MM Monnakgotla of Bakubung Ba Ratheo from Ledig; Kgosi JJEM Ramokoka of Baphalane from Ramokoka Stat; Kgosi GS Motsepe of Bakgatla Ba Mmakau from Mmakau; Kgosi TRM Mamogale of Bakwena Ba Mogopa from Bethanie; the late Kgosi BE Mogale of Bapo Ba Mogale from Bapong I; Kgosi TK Nawa of Baphuting Ba-Ga-Nawa from Lebotlwane; Kgosi PP Maubane of Bakgatla Ba Mocha from Maubane; Kgosi N Makapan of Bakgatla Ba Mosetlha from Makapan Stat; and Kgosi LJ Mathibe of Bahwaduba from Mathibe Stat.

We send our gratitude to all captains of industry and private sector partners for their valuable contributions and collaborations that ensured that the delivery of service happens. We thank the following mining houses and business: Bafokeng Rasimone Platinum Mine; Bakubung Minerals; Cullinan Diamond; Impala Platinum Mine; Northam Platinum Mine; Pilanesburg Platinum Mine; Rhino Andalusite Mine; SA Ferrochrome (Pty) Ltd; Union for Joint Ventures; Cronimet Chrome Mine,

PPC Dwaalboom, RPM Amandelbult, Siyanda Bakgatla, Styldrift Project, Glencore; 3Q Concrete Holdings; Maseve Investments; Bakubung Wesizwe Mine; Royal Bafokeng Administration; Sun City and the Carousel Casino

I am grateful and feel blessed to work with such a strong, focused and dedicated team of my fellow Board members, who continued to be selfless all the way to ensure that we deliver on our mandate. I am also, and will forever be, indebted to the executive team and the entire staff of Magalies Water led by Mr Sandile Psychology Mkhize, the Chief Executive Officer (CEO), for their untiring righteous drive of the Board's strategic direction.

The Magalies team in their entirety helped us, as the Board, to achieve the objective of providing quality potable water that meets the standard as set by government. Again, we managed to provide sustainable water services to all customers. We have forged good relations with our customers and stakeholders. We are growing as an organisation and the returns informs us that we are on the right track. I appreciate your zest and positive drive to contribute towards the transformation and development agenda of our country, South Africa. I thank you all; the team of Magalies Water.

Our focused drive towards excellence and growth is already paying dividends, which is evident by the increased value of our bulk water infrastructure, and the rapid increase in the volume of water sales over the past five years. Historical disparities of the past continue to haunt us as they brought forth challenges of poverty, unemployment and inequality, which is still evident in our debt collection system. Some customers, to date, are still having challenges to pay for the services rendered.

The uneven economic landscape that is forever evolving continues to pose a challenge on capital finances to fund projects geared towards meeting the water demand, and ensuring sustainable supply of quality water services. Notwithstanding that, as the Board of Magalies Water, we have consistently managed to ensure the highest achievement of performance objectives as set out the pre-approved Shareholder Compact.

### Organisational performance

Magalies Water is growing as an organisation, thanks to our strategy of focused drive towards excellence and growth. Our joint efforts of hard work and dedication are starting to bear fruits, our achievements of performance targets attest to that fact. For the financial year 2018/19 ended 30 June 2019, we achieved 94.4% of our set targets, compared to achievements of 93% and 88% in 2017/18 and 2016/17 financial years, respectively. We declare a surplus increase of 107% for the same reporting period. We did not borrow any money from the capital markets for driving our infrastructure expansion strategy during the reporting period.

Magalies Water generated a revenue of R979.2 million and a surplus of R438.1 million, as opposed to the surplus of R211.4 million, which was declared during the 2017/18 FY. Our total asset value has grown to an amount R3.44 billion, after enhancing the capacity of our bulk water services infrastructure. The volume of water sold from our operations grew by 2.2% year-on-year to 92,6 billion litres per annum. As an organisation, we have the capacity and ability to generate positive cash flows from our operations.

Legacy challenges of non-payment continue to impact on our deliverables. We have missed our 50 Debtors Day target by 25 days due to the prevailing culture of non-payment for the services rendered. The actual performance achieved was 75 Debtors Days.

## Challenges

Magalies Water continues to experience challenges, which are impacting negatively towards the successful implementation of the Magalies Water mandate. The Board of Magalies Water continues to engage relevant stakeholders towards addressing some of the challenges. The following is a summary of challenges:

- There are still communities within Magalies Water's area of supply who do not have access to water services (no bulk footprint in Kgetlengrivier LM; Madibeng LM and Lephalele LM).
- Infrastructure capacity constraints to supply the growing population and meeting the prevailing demand in the Rustenburg, Moses Kotane, and Thabazimbi areas.
- The rapid deterioration of the raw water quality from the Magalies Water abstraction catchment areas (Crocodile River-Hartbeesport Dam in the west and Pienaars River-Roodeplaat Dam in the east).
- Directives that are unfunded (Madibeng directive where Magalies Water was appointed in February 2015 and the directive could not be implemented fully due to lack of funding from the DWS).
- The deteriorating rural water supply infrastructure at Madibeng LM due to lack of operation and maintenance (O&M). This is due to the payment dispute between Madibeng LM and Magalies Water. The matter is before the High Court in Mahikeng.
- Reduced or low levels of Vaalkop dam due to extended drought, requiring additional augmentation from Crocodile River. The current inter-basin canal connecting the Roodekoppies and the Vaalkop dams is running at full capacity, due to structural defects from lack of regular operation and maintenance by the DWS.
- Delays in the approval of the Magalies Water borrowing limits in order to approach capital markets for raising funds for capital infrastructure expansion.
- Magalies Water servitude encroachment by illegal squatters, which is also in violation of the municipal by-laws for the municipalities within our area of supply.
- Funding constraints to execute infrastructure expansion to address capacity constraints:
  - Pilanesberg Phase 2 - Rustenburg and RBA and MKLM.
  - Phase 3 - Kgetlengrivier LM.
  - Moretele South Bulk Project- Moretele LM (south).
  - Klipvoor Bulk Scheme-Moretele (north), Bela-Bela; Modimolle-Mookgopong (LM).



## Governance and strategy

This report marks the completion of our forward looking 2013/14 to 2018/19 corporate planning cycle, and ushers in a new phase of driving Magalies Water business, as documented in the approved 2019/20 - 2022/23 Corporate Plan. More than ever, on behalf of the Board and the Executive of Magalies Water, I am confident that we are on track to grow our business whilst we push back the frontiers of poverty. Raising capital for infrastructural projects geared towards meeting the demands and sustainable supply of good quality water services remains our plan. We aspire to achieve this noble goal without any reliance on the national fiscus.

During the reporting period, we managed to supply bulk water to all our customers that met the excellent levels of the South African National Standards (SANS 241:2015) on water quality. The Board, as an Accounting Authority, has continued with their oversight role, which has guided the organisation towards consistently achieving an unqualified audit opinion from the Auditor-General of South Africa (AGSA). This is accompanied by the consistent year-on-year improvement towards the achievement of the Shareholder Compact agreements over the past five years.

Hand-in-hand we are set to continue to abide and follow good corporate governance practices as recommended in the King IV Report on Corporate Governance. We will continue to set high standards for ourselves to challenge and stretch our capabilities towards achieving the mandate of Magalies Water.

We are once more humbled by the unqualified audit opinion expressed by the AGSA on our financial statements and performance information for the financial year ended 30 June 2019. In addition, no fruitless and wasteful expenditure was reported during the reporting period. Our conduct as an organisation will continue to position Magalies Water as a provider of quality water services to all customers.

## Stakeholder engagement and collaborations

Magalies Water is a reputable organisation and the Board of Magalies Water takes ownership of stakeholder engagement. We do that to build, enhance and collaborate stronger relations that ensures good positioning of our values and vision.

In delivering our mandate, we were cognisant of the fact that Magalies Water does not exist in isolation but operates in an open environment that consist of various stakeholders. The Board of Magalies Water understands that the best interests of this organisation are anchored in engagements and collaborations with stakeholders. The aim of our growth path is to deliver on the transformation agenda of the Republic of South Africa. As Magalies Water, we are clear of our obligation to add sustainable value to the livelihoods of our local communities, particularly, where we operate. We have built a foundation of strong relations with our partners, customers and stakeholders to pursue excellence. We will continue to place reliance and value on team work and partnership on top of our agenda.

Stakeholder engagement is driven to counter against

reputational impacts and is driven at Board level to ensure that the relations and collaborations are advanced to position Magalies Water as a service provider of choice.

### **Sustainable services delivery**

This noble goal need to be achieved in a self-funded manner, without reliance on the national fiscus and through collaborations with stakeholders for the benefit of communities in our supply areas.

We are aware that we are not perfect, but we believe

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***“The Financial Year ended 30 June 2019 has been another good year for Magalies Water. This was possible because of the support we had received from the shareholder, our customers, stakeholders, Board members and the entire staff compliment of Magalies Water. ”***

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that we are better governed and managed with one determination - which is to increase value and grow the customer base and our organisation's footprint.

This 2018/19 Annual Report will not be complete without thanking the AGSA and the Parliamentary Portfolio Committee on Human Settlements, Water and Sanitation for being resolute to holding us accountable.

Once more, to all stakeholders, both internal and external, you contributed immensely to our achievement. Our overall performance of 94.4% shows that we are on the right path. I salute you all for making such a positive impact.

To the Minister of Human Settlements, Water and Sanitation, the Honourable Ms Lindiwe N. Sisulu (MP) – we as Magalies Water, the Board; the entire executive management team and staff congratulate you on your new portfolio. We assure you of our support and wish you well in this journey. We assure you that we will continue to deliver on our set mandate without losing focus.

We also want to wish well and assure our full support to the two Deputy Ministers - Mr David Mhlobo (Deputy Minister of Water and Sanitation) and Ms Pamela Tshwete (Deputy Minister of Human Settlements) as well as the Director-General Mr M Tshangana on their new portfolios.



**Adv MM Petlane**

Chairperson of the Board

# 03

## STATEMENT BY THE CHIEF EXECUTIVE OFFICER (CEO)



**Mr Sandile Psychology Mkhize**  
Chief Executive Officer

It gives me pleasure to present to you, our esteemed stakeholders and customers, this Annual Report on behalf of the Magalies Water executive team for the year ended 30 June 2019. Once more, this Annual Report comes on the back of the strong financial, technological, strategic and social performance of Magalies Water which has consistently been on the upward trajectory over the past five years. This performance report on the achievement of our strategic objectives and Key Performance Indicators (KPIs) is always contextualised through our interpretation of both the primary and the secondary mandate we derive from sections 29 and 30 of the Water Services Act (WSA, Act 108 of 1997), respectively.

This Annual Report marks the end of the five-year strategic journey that we as Magalies Water embarked on since 2013/14 to date, a period aligned with our five-year forward-looking Corporate Plan (2013/14 - 2018/19). We have implemented structural improvements and have also developed bulk water infrastructure which has positioned the organisation for rapid growth within the current markets.

The current infrastructure expansion strategy is intended to position Magalies Water to also explore and take advantage of new external market opportunities. This infrastructure expansion strategy is guided by the gradual implementation of our Bulk Water Infrastructure Master Plan that started from 2014 and is still being implemented to date. As we transition into the new rapid growth phase of our strategic journey, we remain resolute to achieving our vision of being the leading provider of quality water services in South Africa. We intend on positioning ourselves in the minds and hearts of our customers and stakeholders as the bulk water utility of choice.

### Our performance

Magalies Water's organisational performance is grounded and unpacked in this report, based on the strategic context that is premised on the four balanced scorecard perspectives: Organisational effectiveness and efficiency. Finance and governance. Customer and stakeholder interactions. Organisational capacity.

For the current reporting period, we remained resolute and steadfast on delivering on our Shareholder Compact, which is aligned with the Government's National Development Plan (NDP) and the United Nation's (UN's) Sustainable Development Goal Six (eight targets) that focuses on water as an enabler for development.

In the year under review, as in the past, we continued to consider all relevant matters that influenced the performance of Magalies Water during the strategic planning and contracting phases with the Shareholder. The 36 KPIs were measured on a quarterly bases and reported to the Shareholder through the Shareholder

Compact. Out of the 36 KPIs, 34 KPIs were achieved, while two KPIs remained unachieved. This represents an overall performance of 94.4%, which compares favourably to the 93% performance achieved during the 2017/18 Financial Year (FY). This performance is consistent with the inculcated organisational culture of continuous improvement.

Magalies Water sold 92.6 billion litres of potable water in 2018/19 FY, which represents 254 ML/d of water sales against the installed capacity of 340 ML/d. This performance represents a 2.2% year-on-year increase in water sales volume. This plant utilisation rate of 75% is way below the world-average plant utilisation rate of ninety percent (90%), which is necessary before any capacity expansion may be considered. This low plant utilisation rate, despite the elevated water demand within our area of supply, is due to the improved production capacity, which is legged behind by the requisite distribution and reticulation capacity. The current pipeline projects under construction and some that are at the planning phase would see this utilisation rate growing beyond the 100% plant utilisation rate during peak periods. This is a clear indication of the need to fast track the funding process for our capital infrastructure expansion projects, which is currently being pursued with the relevant government stakeholders.

Although we are once more presenting an improved performance for Magalies Water, two KPIs were not achieved during the reporting period. The very same two KPIs of, Average Debtors Days and Disabling Injury Frequency Rate (DIFR) were also not achieved in the 2017/18 financial year. We achieved the DIFR of 1.92 against the target of 1.00. Similarly, the Average Debtors

Days achieved was 75 days against the target of 50 days. The Average Debtors Days has been our main challenge for over five financial years. This is consistent with the currently prevailing culture of poor payment for the services by the Water Services Authorities (WSAs) within our area of supply, which is compounded by the triple socio-economic challenges facing our country of inequality, poverty and unemployment. Most of the municipalities (WSAs) within our area of supply are classified as rural municipalities, where these socio-economic challenges are rife. Notwithstanding the above, we remain resolute and confident that the Debt Collection Strategy and the employee safety measures intended to achieve operational excellence would yield the results soon.

Magalies Water has continued with its upward trajectory of robust financial performance despite to challenging business operating environment facing South Africa at large. We continue to face chronic drought conditions due to erratic weather conditions. This has put upward pressure on our water production costs due to the deteriorating raw water quality conditions caused by reduced dam levels in our catchment area, and elevated pollution loads from both point sources (poor performing wastewater treatment works discharging non-compliant effluent into our rivers) and diffused sources (human settlements and agricultural activities polluting nearby streams and rivers). In the year under review, revenue of R979.2 million was generated from operating activities. Efficiencies in operations and cost containment initiatives resulted in an unprecedented net surplus of more than R438.1 million; a performance trend which is expected to continue in the medium- to long-term. Magalies Water

boasts a strong balance sheet with a current total asset base worth R3.44 billion as opposed to R3.36 billion in the 2017/18 FY, which is a strong indication of a growing organisation.

We have, once more, continued producing bulk potable water of excellent quality which consistently complies with the South African National Standards (SANS) 241: 2015 Water Quality Standard. It is encouraging to have attained such high levels of performance despite the continued challenges of low dam levels and deteriorating raw quality from both the Crocodile West and the Pienaars River catchments, where Magalies Water extracts raw water for treatment in both Area West and Area East, respectively. The continued deterioration in the raw water quality, as evidenced by the increasing values of the Water Treatability Index over the years, has forced Magalies Water to implement advanced water treatment processes that are above the industry-average, generic water treatment processes such as pre-oxidation (ozone or chlorine dioxide), concomitant dissolved air floatation and granular activated carbon filtration. This has increased the production cost pressures for Magalies Water while the raw water cost tariff charged by the regulator, the Department of Water and Sanitation, has remained standard for all the water users regardless of the raw water quality standards.

### Looking back (2013/14 to 2018/19)

At the end of the FY under review, Magalies Water marked the end of the strategic journey that began in 2013/14 with the crafting of the five-year Corporate Plan (2013/14 - 2018/19). This has seen Magalies Water grow from humble beginnings where revenue from operations



grew from R307.8 million in 2013/14 to R979.2 million in 2018/19. This represents 218% revenue growth. This growth was backed by growth in the bulk water production infrastructure from a total asset base of R1.78 billion in 2013/14 to R3.44 billion in 2018/19. This represents an infrastructure asset growth rate of 93% over five years. This is indicative of a rapidly growing organisation, despite the financial constraints for growing bulk infrastructure assets in the vast rural areas of our operations.

### Forward looking (2019/20 to 2023/24)

We developed short-term scenarios to help us weather the storm of the evolving strategic environment within our service area. The demand for water services continues to grow on par with the local population growth. However, we remain resolute and steadfast towards achieving our mandate irrespective of the prevailing economic conditions. Water scarcity, compounded by the changing weather patterns attributed to the climate change phenomenon, is the reality that is facing our country. We have to adapt our operations and be resilient going to the future, if we are to deliver successfully on our socio-economic development mandate.

I therefore present to you, our esteemed stakeholders and customers, the commitments we made in our Corporate Plan (2018/19 – 2022/23) towards achieving our “desired state” across the major programmes of Magalies Water, despite the funding constraints. Going forward, we shall be providing feedback on the following programmes: the planning, design and acquisition of water services facilities; equipment; bulk distribution capacity and enterprise capabilities within funding constraints to

achieve our mandate of primary (Section 29) activities efficiently.

### In this regard, we will:

- Continue to deliver water services that comply with required standards of water quality and reliability of supply to the satisfaction of our customers. Enhance our Section 30 functional capacity and capability to, effectively, handle the supply and demand. This would entail proactively partnering with WSAs (municipalities) within and outside our area of supply to provide bulk and reticulated water services. Contribute towards the transformation agenda through purposeful human capital, suppliers and community development measures including localised sourcing and effectively implementing enterprise development programmes.
- Provide efficient and effective business support to Finance, Supply Chain, Information and Communications Technology, Governance and Risk Management in order to maintain financial sustainability of Magalies Water within the approved tariff structure.
- Continue to engage stakeholders (Shareholder, customers) towards enabling appropriate levels of influence to the flexibility of our operations and planning.

### Appreciation

Once more, to our Shareholder, customers, stakeholders and communities within our areas of operation, on

behalf of the Executive Committee and the entire staff of Magalies Water, we would like to thank you for your continued support of our efforts to deliver on our socio-economic mandate. I remain humbled to lead such a highly-motivated and dedicated team towards a cause of ensuring that "water is life, and sanitation is dignity".

As an organisation, we want to give assurance that we are geared to respond to the development and service delivery opportunities in accordance with our Growth

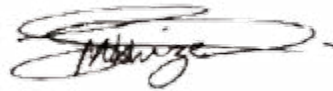
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*"Magalies Water has continued with its upward trajectory of robust financial performance despite to challenging business operating environment facing South Africa at large. We continue to face chronic drought conditions due to the erratic weather conditions."*

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Strategy. We shall continue on the upward trajectory path of stretching our abilities towards ensuring delivery of quality water services for all in our lifetime.

In conclusion, I would like to express my sincere gratitude to the Board of Magalies Water under the leadership of Advocate MM Petlane for their collective leadership and guidance of our organisation towards the best performance ever. We remain committed towards achieving a clean audit while driving the Growth Strategy of the Board.



**SP Mkhize**

Chief Executive Officer

# 04

## CORPORATE GOVERNANCE

Magalies Water Board is a Schedule 3B: State-owned Entity (SoE) established in terms of Section 28 of the Water Services Act (WSA, Act 108 of 1997) and is classified as a Government Business Enterprise as per Schedule 3B of the Public Finance Management Act (PFMA, Act 1 of 1999, as amended). The Service Area of Magalies Water as determined by the Minister stretches over the Pienaars and Crocodile rivers, these being two of its major catchment areas.

Magalies Water as a SoE is governed by, among others, legal frameworks that constitute its regulatory universe, including the following legislations:

- The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996).
- The Companies Act 2008, (Act 71 of 2008, as amended).
- The PFMA, 1999, as amended.
- The WSA, 1997.
- Other applicable public sector protocols.

Magalies Water also makes use of the King IV Report on Corporate Governance as a guideline to exercise ethical and effective leadership towards achieving the following

governance outcomes:

- Ethical culture.
- Good performance.
- Effective control.
- Legitimacy.

The stated legal instruments were utilised to ensure that the roles and responsibilities of the Executive Authority, the Accounting Authority and Management are defined with clarity to prevent any possible conflicts. To that effect, the Minister of the Department of Water and Sanitation, Ms Lindiwe Sisulu, Member of Parliament (MP), continues to devolve some of her vested powers to members of the Board of Magalies Water.

### 4.1 Corporate governance key focus

During the FY 2018/19, the key focus areas included application for a borrowing limit. This was done to enable the implementation of the Strategy Growth Plans. The intent is to ensure sustainability and enhance efficiency and productivity which is the going concern of Magalies Water.

The implementation of Magalies Water's Corporate Plan programmes took into account the principles of King IV on Corporate Governance, which came into effect since 1 April 2017.

## 4.2 The functions of the Company Secretary, Magalies Water Executive Committee (EXCO) and the Board

### 4.2.1 Company Secretary

The Company Secretary of Magalies Water is part of the organisation that oversees efficiencies on the administration and compliance activities within the organisation. The Company Secretary, together with Board Members, is responsible for tasks specified in the Companies Act, 2008 as amended.

The function oversees coordination of activities of the Board and its Committees in line with the Institute of Directors which states that:

*"The Company Secretary has a key role to play in ensuring that Board Procedures are both followed and regularly reviewed. The Chairperson and the Board will look to the Company Secretary for guidance on what their responsibilities are, under the Rules and Regulations to which they are subject and on how these responsibilities should be discharged. All Directors should have access to the advice and services of the Company Secretary and should recognise that the Chairperson is entitled to strong support from the Company Secretary in ensuring the effective*

*functioning of the Board".*

Taking cognisance of the above-mentioned duties, Magalies Water's Company Secretary, accordingly, discharged its responsibilities on the overall governance of the organisation. In addition to governance, the Secretary ensured that members of the EXCO and that of the Board carried forth their roles and responsibilities as was outlined in the Board Charter. Again, the oversight role was duly exercised by the Secretary.

### 4.2.2 Key functional activities of the Board

The Board leads Magalies Water as an organisation and takes collective responsibility for its long-term success. The function of the Board is to provide leadership with regards to setting strategic objectives, vision and values, within the framework of prudent controls over risks and opportunities. The latter two determinants of success or failure are inherent in Magalies Water's corporate compliance and planning cycle.

Magalies Water Board maintained visibility in the organisation during FY 2018/19 through active participation such as in the joint effort with the Rustenburg Local Municipality on Mandela Day (Dorpsruitspruit River Clean-Up Campaign); Magalies Water's Women's Day celebration held on 24 August 2018 and World Aids Day on December 2018, to mention a few.

A breakdown of some of the roles and responsibilities mandated to the Board of Magalies Water as extracted from its adopted Charter are as follows:

- To set the strategic direction of the company.
- To craft and adopt the growth and sustainability strategy of the organisation.
- To ensure that the defined objectives of the shareholder are achieved.
- To consider and guide strategic risk management commitments, processes and the implementation of effective risk management systems.
- To approve annual tariffs and budget allocation in line with strategic objectives, as it was the case for the current reporting period FY 2018/19 which ended on 30 June 2019.
- To ensure that the organisation is run in a financially viable manner including condoning irregular expenditure provided that the transactions are not financially significant.
- To ensure that management is vigilant on local municipalities' liquidity and financial sustainability while addressing the affordability of the non-paying debtors.
- To be responsive and guide mitigation of reputational impacts and approval processes for escalation of customers in arrears to the respective Ministers, and/or engaging National Treasury on the municipalities' equitable share apportionment.
- To approve Committee reports and activities, including the:
  - Declaration of interest and confidentiality
  - undertaking procedures.
- All committees Terms of References (ToRs) in line with the Board Charter.
- Setting and/or approval of policies of the organisation.
- The audited Annual Financial Statements and the annual performance reports for each financial year.
- To approve the quarterly performance information reports and subsequently for each year.
- To approve percentage of income to be allocated to the annual salary increases and performance incentive bonuses for each year including the FY 2018/2019.
- To set key performance indicators relating to the borrowing limits, guarantees and grant funding. This was carried out during the development of the Corporate Plan for 2019/20 to 2023/24 and the Shareholder Compact (2019/20).

**It is also the Board's duty:**

- To set and/or revise the delegation of authority.
- To dispatch its power of attorney including ensuring that Magalies Water has in place the registered tax representatives, approved executive organisational structure, and external auditors.
  - To ensure that the AGSA continues to add value to the organisation's business planning and monitoring.



- To ensure that the organisation is, and is seen to be, a responsible citizen.

At pre-set intervals the Board, with the assistance of the Company Secretary, performs self-assessment.

### 4.3 The Board and changes in the composition

Members of the Magalies Water Board were appointed by the Honourable Minister of Water and Sanitation in terms of Schedule 1 of the WSA, 1997 for a term not exceeding four years.

The Magalies Water Board's term came to an end on 30 April 2019. The new Board of Magalies Water was then appointed with effect from 1 May 2019. There was a formal Board induction which took place from 29 May 2019 to 31 May 2019. It was then that Board Committees were established from the new Board.



## 4.4 Board members

### Advocate MM Petlane

**Chairperson:** Board

Joined the Board on 1 May 2014 and was reappointed with effect from 1 May 2019.

**Chairperson:** Chairpersons Coordinating Committee from 01 May 2019.

**Chairperson:** Board Task Team – Stakeholder Engagements from 01 May 2019.

Advocate Petlane, whose strength is founded in his legal background, served in various leadership positions across the public, academic and private sectors, including being on the Board of Rand Water before taking up the Chairperson position of the Board of Magalies Water.



### Ms PN Nkwinika

**Deputy Chairperson:** Board

Joined the Board on 1 July 2009 and was reappointed with effect from 1 May 2019.

**Chairperson:** Human Resources and Remuneration Committee until 30 April 2019.

**Chairperson:** Finance Committee from 01 May 2019.

**Member:** Audit Committee from 01 May 2019.

**Member:** Chairpersons Coordinating Committee from 01 May 2019.

**Chairperson:** Board Task Team – Finance and Infrastructure from 01 May 2019.

Ms Nkwinika's legal background and her vast experience in the Public Sector have enabled her to serve in various positions within the Justice Department, including being a legal advisor and a Head of Department prior to taking up her position on the Magalies Water Board.



### Ms TF Zondi

Served on the Board from 1 July 2009 until 30 April 2019.

**Chairperson:** Audit Committee until 30 April 2019.

**Deputy Chairperson:** Risk Committee until 30 April 2019.

Ms TF Zondi has vast experience in Supply Chain Management in both private and public sector institutions. She has a wealth of knowledge in corporate governance.



### Ms N Mufamadi

Joined the Board on 1 May 2014 and was reappointed with effect from 1 May 2019.

**Deputy Chairperson:** Audit Committee until 30 April 2019.

**Member:** Risk Committee until 30 April 2019.

**Chairperson:** Audit Committee from 01 May 2019.

**Member:** Capital Investment Committee from 01 May 2019.

Ms Mufamadi has experience in accounting and auditing, including forensic auditing. She also holds other leadership positions within private and public sector institutions.





### Mr FP Vilakazi

Joined the Board on 1 May 2014 and was reappointed with effect from 1 May 2019.

**Chairperson:** Capital Investment Committee until 30 April 2019.

**Deputy Chairperson:** Finance Committee until 30 April 2019.

**Chairperson:** Capital Investment Committee from 01 May 2019.

**Member:** Risk Committee from 01 May 2019.

**Member:** Chairpersons Coordinating Committee.

**Member:** Board Task Team – Finance and Infrastructure.

Mr Vilakazi has extensive experience in the Public Sector. He previously served as a Member of the Executive Committee in the North West province. He was a special advisor to the Minister of Water and Environmental Affairs.



### Mr DR Sibanda

Joined the Board on 1 July 2009 and resigned on 15 January 2019.

**Chairperson:** Finance Committee until 15 January 2019.

**Member:** Human Resources and Remuneration Committee until 15 January 2019.

Mr Sibanda has experience in the fields of managerial and financial accounting with exposure in breweries, manufacturing, medical schemes and the Public Sector.



### Ms F Saloojee

Joined the Board on 1 May 2014 until 30 April 2019.

**Chairperson:** Risk Committee until 30 April 2019.

**Member:** Capital Investment Committee until 30 April 2019.

**Member:** Human Resources and Remuneration Committee until 30 April 2019.

Ms Saloojee brought a wealth of experience in local government. She had been the Councillor of Rustenburg Local Municipality. She also served in various leadership roles within the private sector and served on the Board of Rand Water prior to joining the Board of Magalies Water.



### Ms TD Monewe

Served on the Board from 01 December 2011 until 30 April 2019.

**Chairperson:** Stakeholder Engagement Committee until 30 April 2019.

**Deputy Chairperson:** Human Resources and Remuneration Committee until 30 April 2019.

**Member:** Finance Committee until 30 April 2019.

Ms Monewe is an educator by profession and served as a member of the Mayoral Committee responsible for Water and Sanitation in the Bojanala District Municipality, prior to joining the Magalies Water Board.



### Ms MS Lebeko-Ratlhagane

Served on the Board from 01 June 2014 until 30 April 2019.

**Member:** Capital Investment Committee.

**Member:** Risk Committee.

Ms Lebeko-Ratlhagane is a professionally registered Pharmacist who has vast experience in the local government and water sectors. She was a Mayor of the Ramotshere Moiloa Local Municipality and also a Board Chairperson of Botshelo Water, prior to joining Magalies Water Board.



### Kgosi SV Suping

Joined the Board on: 1 June 2014 and has been reappointed with effect from 1 May 2019.

**Member:** Human Resources and Remuneration Committee until 30 April 2019.

**Member:** Risk Committee until 30 April 2019.

**Member:** Human Resources and Remuneration Committee from 1 May 2019.

**Member:** Risk Committee from 1 May 2019.

Kgosi Suping is a Chief of the Bahurutshe Tribe in the village of Supingstad who brought incredible experience from being a Board member of Botshelo Water and from having served in the National House of Traditional Leaders prior to joining the Magalies Water Board.





### Mr TT Mohapi

Served on the Board from 01 December 2011 until 30 April 2019.

**Member:** Capital Investment Committee.

**Member:** Finance Committee.

**Member:** Risk Committee.

Mr Mohapi is an entrepreneur who also served in the Small Business Chamber and on the Tender Board of the Limpopo Province. He is an educator by profession and has vast experience in local government. He also served as the Mayor of the Modimolle Local Municipality prior to joining Magalies Water Board.



The following are the newly-appointed members to serve on the Board of Magalies Water from 1 May 2019 until 30 April 2023 and have been appointed to the following Board Committees:

### Dr L Zitha

Board member: Appointed from 1 May 2019.

**Chairperson:** Risk Committee.

Deputy Chairperson: Human Resources and Remuneration Committee.

Member: Chairpersons Coordinating Committee.

Dr Zitha is a public finance consultant who has extensive skills and experience in public finance and economic development. She has experience in developing strategies for funding infrastructure projects and played an instrumental role in implementing financial management reforms for municipalities in South Africa. She has vast experience in serving on various accounting authorities prior to joining the Board of Magalies Water.



### **Ms KP Mokoena**

Board member: Appointed from 1 May 2019.

Deputy Chairperson: Risk Committee.

Member: Finance Committee.

Member: Board Task Team – Stakeholder Engagements.

Ms Mokoena is a seasoned contractor and a women leader in the built environment backed by practical experience and educational qualifications as a scientist. Ms Mokoena has requisite skills, expertise as well as experience in project management, construction, contract management as well as corporate and project finance. She also has a background in the water sector. She has extensive knowledge for serving on accounting authorities prior to joining the Board of Magalies Water.



### **Ms YM Matolong**

Board member: Appointed from 1 May 2019.

Chairperson: Human Resources and Remuneration Committee.

Member: Capital Investment Committee.

Member: Chairpersons Coordinating Committee.

Member: Board Task Team – Finance and Infrastructure.

Ms Matolong is an accomplished Civil Engineer Executive with experience and proven track record for leading multi-disciplinary transport advisory as well as complex infrastructure projects. Known for driving set results and maximising output through the delivery of exceptional project quality, service and prudent management of people and processes. Ms Matolong has extensive engineering and project management expertise, including planning, design and construction of mega infrastructure projects. She experienced in developing governance structures in line with long-term organisational objectives prior to joining the Board of Magalies Water.



### Ms D Manamela

Board Member: Appointed from 1 May 2019.

Deputy Chairperson: Finance Committee.

Member: Human Resources and Remuneration Committee.

Member: Board Task Team – Stakeholder Engagements.

Ms Manamela has vast experience in environmental and safety management in both the public and private sector. She has proven and sound experience dealing with authorities at all the three spheres of government and has the ability to negotiate legislative terms embedded in licenses and permits. She has various leadership achievements and served on numerous accounting authorities prior to joining the Board of Magalies Water.



### Mr R Le Roux

Board member: Appointed from 1 May 2019.

Deputy Chairperson: Capital Investment Committee.

Member: Finance Committee.

Member: Board Task Team – Finance and Infrastructure

Mr Le Roux specialises in water resources engineering and has extensive experience in the respective areas of bulk water supply infrastructure planning, implementation, operational optimisation within the respective South African policies and legislative frameworks. His field of experience ranges from regional bulk water supply infrastructure master planning, concept planning and design, feasibility studies, bankability studies for large regional bulk water supply schemes and infrastructure projects. He has experience and can effectively contribute to ensuring efficient good corporate governance practices. He served on various accounting authorities prior to joining the Board of Magalies Water.





# External Independent Audit Committee members



Mr S Madikizela



Mr SM Mamotheti



Ms K Moodley

# Magalies Water



**Ms PN Nkwinika**  
Deputy Chairperson  
of the Board

**Advocate MM Petlane**  
Chairperson of the Board

**Ms N Mufamadi**  
Deputy Chairperson  
Audit Committee

**Kgosi SV Suping**  
Member: Human  
Resources and  
Remuneration  
Committee

**Mr R Le Roux**  
Deputy Chairperson  
Capital Investment  
Committee

**Ms D Manamela**  
Deputy Chairperson  
Finance Committee

# Board members

**Dr L Zitha**  
Chairperson Risk  
Committee



**Ms YM Matolong**  
Chairperson  
Human  
Resources and  
Remuneration  
Committee.



**Ms KP Mokoena**  
Deputy Chairperson  
Risk Committee



**Mr SP Mkhize**  
Chief Executive  
Officer



**Mr FP Vilakazi**  
Chairperson: Capital  
Investment Committee



Both the old and new Board had a 40% male to 60% female member composition split as shown in the tables.

**Table 1: Composition of the Board members by race and gender up to 30 April 2019**

Gender	Race					
	African	Indian	Coloured	White	Total	Percentage
<b>Male</b>	4	0	0	0	4	40%
<b>Female</b>	5	1	0	0	6	60%
<b>Total</b>	<b>9</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>10</b>	<b>100%</b>

**Table 2: Composition of the Board members by race and gender from 1 May 2019 to date**

Gender	Race					
	African	Indian	Coloured	White	Total	Percentage
<b>Male</b>	3	0	0	1	4	40%
<b>Female</b>	6	0	0	0	6	60%
<b>Total</b>	<b>9</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>10</b>	<b>100%</b>

In terms of trends, at the end of the FY 2018/19, Magalies Water saw a reduction of Board Members from 11 to 10 as of 15 January 2019 when Mr DR Sibanda resigned from the Board.

By comparison with prior years, in FY 2017/18, the Board closed the year with 11 members. This was a decrease from 12 members reported at the beginning of the FY. The same happened at the end of FY 2016/17; which was a reduction from the original 13 that was appointed in 2014/15.

#### 4.5 Board evaluation

The Institute of Directors in Southern Africa (IODSA) performed the performance and effectiveness evaluation of the Board of Magalies Water including individual Board members and Board Committees for previous financial year. The Company Secretary will conclude the performance and effectiveness evaluation of the newly-appointed Board members, individual Board members, and Board committees after serving a full year.

#### 4.6 Board Charter

The primary purpose of the Magalies Water Board's Charter is to set out the roles and responsibilities of the Board including its composition, meeting procedures, delegation and authority of Board members.

#### 4.7 Shareholder Compact

The Board concluded the Shareholder Compact with the Executive Authority, Minister of Human Settlements, Water and Sanitation, for FY 2018/19 which set the performance objectives, measures, indicators, and annual targets. Key Performance Indicators were set in accordance with the requirements of the PFMA, 1999, as amended. Each Board Committee dealt with the oversight on the implementation of the Shareholder Compact according to designated responsibilities.

#### 4.8 Board meetings

Members of the Board of Magalies Water made a valuable contribution to the sustainability of the organisation through their inputs, participation and committing their time to attend all scheduled Committee meetings. This ensured that the target of 85% of key performance indicators was achieved.

The Section below captures the record of attendance of all Board committees per member, for the period ending 30 April 2019 and the new term that started on 01 May 2019.

**Table 3: Ordinary and special Board meetings attendance**

Board member		
	Ordinary	Special
Adv MM Petlane	3/3	3/3
Ms PN Nkwinika	3/3	2/3
Mr DR Sibanda#	2/2	2/2
Mr TT Mohapi	3/3	2/2
Ms TF Zondi	3/3	1/2
Ms NM Mufamadi	2/3	2/3
Ms TD Monewe	3/3	2/2
Mr FP Vilakazi	3/3	3/3
Ms F Saloojee	3/3	1/2
Ms S Lebeko-Ratlhagane	3/3	2/2
Kgosi SV Suping	3/3	2/3
<b>NEWLY-APPOINTED BOARD MEMBERS WITH EFFECT FROM 1 MAY 2019 TO DATE</b>		
Mr RM Le Roux	0/0	1/1
Ms YM Matolong	0/0	1/1
Ms DM Manamela	0/0	1/1
Ms KP Mokoena	0/0	1/1
Dr L Zitha	0/0	1/1
<b>Total overall attendance of Board members</b>	<b>31/32</b>	<b>27/32</b>

# Mr DR Sibanda resigned from the Board of Magalies Water with effect from 15 January 2019.

## 4.9 Board committees

Committees of the Board were instrumental in ensuring that Magalies Water Board operated with effect and efficiency.

### 4.9.1 Committees up to 30 April 2019

The following are the committees of the Board that effectively implemented the Board's designated fiduciary duties and responsibilities up to 30 April 2019:

- a. Audit Committee.
- b. Capital Investment Committee.
- c. Finance Committee.
- d. Human Resources and Remuneration Committee.
- e. Risk Committee.
- f. Stakeholder Engagement Committee.

In addition, during FY 2018/19, the Chairpersons' Coordinating Committee was introduced and Magalies Water followed due process of approval by the Minister in this regard.

All the above stated Board committees operated according to the approved Committee Charter (Audit Committee) or ToR.

### 4.9.2 Committees from 01 May 2019

The new era started with a change in the number of the Board Committees but with a fortified approach to governance. A resolution was taken that the six Committees were still required but there was a need for restructuring. This led to two Board Task Teams being constituted for deployment, as and when the need arose,

and to improve efficiencies and pre-analysis before execution of critical deliverables. One of the above stated task teams was previously a stand-alone Committee on Stakeholder Engagements and the other was newly established. The Task Teams were set as follows:-

1. Board Task Team: Stakeholder Engagements.
2. Board Task Team: Finance and Infrastructure.

This change reduced the potential to have eight committees for FY 2019/20; the eight committees were contracted in the Shareholder Compact for FY 2019/20 of Magalies Water. The Board reduced the number of committees to six at Magalies Water.

Below is the list of the six Board committees that were subsequently established or re-constituted to ensure continued effectiveness in the implementation of the Board's designated fiduciary duties and responsibilities, going forward.

- Audit Committee.
- Capital Investment Committee.
- Chairpersons Coordinating Committee.
- Finance Committee.
- Human Resources and Remuneration Committee.
- Risk Committee.

#### 4.2.9.1 Audit Committee

All six scheduled meetings for the Audit Committee were successfully held during the period under review. The Committee performed its statutory function as set out in the Companies Act, 2008 and its roles and responsibilities

as set out in the PFMA, 1999, as amended and Treasury Regulation 27.1. The Committee is accountable to the Board and continues to play a critical independent oversight role on corporate governance, integrated financial reporting, evaluation of the effectiveness of internal controls, combined assurance, as well as internal and external audit functions. During FY 2018/19, the Committee reported on its evaluation of effectiveness of all measures put in place that culminated to compilation of this Annual Report. Some of the roles and key activities of the Audit Committee included the following:

- Oversight on compliance for Magalies Water as a SoE on legal and statutory requirements.
- Approval of risk areas of the entity covered within scope of the internal audit as per the risk assessment reports noted on a quarterly and annual basis.
- Reviewed the audited annual financial statements and assessed the adequacy, reliability and accuracy of financial information provided to end users.
- Reviewed and recommended to the Board approval of management accounts, performance information report, debt management and contingent liability reports identified as a result of internal and external audit and on a quarterly basis.

- Approved the annual Internal Audit Operation Plan and the Internal Audit Charter.
- Reviewed quarterly Internal Audit progress reports.
- Reviewed internal and external audit findings Tracking Register on a quarterly basis.
- Conducted annual self-assessment, among others.

**Table 4: Audit Committee scheduled meetings:  
Frequency per member**

Content	Attendance
Ms TF Zondi (Chairperson)	5/6
Ms N Mufamadi	4/6
Ms MS Lebeko-Ratlhagane	6/6
SM Mamotheti#*	6/6
Ms S Madikizela#*	3/6
K Moodley#*	6/6

*#\*External independent members*

**Table 5: Audit Committee attendance by invitation:  
Frequency per member**

Member	Attendance
Adv MM Petlane	1/1
Ms PN Nkwinika	4/5
Mr DR Sibanda	1/1
Mr TT Mohapi	1/1
Ms TD Monewe	1/1



Member	Attendance
Mr FP Vilakazi	1/1
Ms F Saloojee	0/1
Kgosi SV Suping	0/1

#### 4.9.2.2 Capital Investments Committee

The key roles and responsibilities of the Committee were as follows:-

- To recommend the approval of Magalies Water's Capital Expansion Programme and projects prioritisation plans to the Board.
- To recommend to the Board, the approval of additional, including deviations from re-prioritisation of projects away from the originally-approved Infrastructure Expansion Programme.
- To bring to the Board any water infrastructure-related matter that warranted its attention.
- To ensure that the primary activities of Magalies Water were achieved in terms of Section 29 and 30 of the WSA, 1997, among others.

**Table 6: Capital Investments Committee attendance by delegation: Frequency per member**

Member	Attendance
Mr FP Vilakazi (Chairperson)	5/5
Mr TT Mohapi	5/5
Ms F Saloojee	4/5
Ms MS Lebeko-Ratlhagane	5/5

**Table 7: Capital Investments Committee attendance by invitation: Frequency per member**

Member	Attendance
Adv MM Petlane	1/1
Ms PN Nkwinika	4/5
Ms TF Zondi	1/1

#### 4.9.2.3 Chairpersons Coordinating Committee

The Committee was constituted as a statutory compliance Committee that ensured submission of the Quarterly Performance Information Report to the Shareholder's Office. This was to ensure compliance in accordance to legislative mandate stated on Paragraph 29 of Treasury Regulations set on the PFMA (1999, as amended), including other applicable frameworks with regard to reporting the status on performance monitoring for Magalies Water as a SoE.

The purpose of the Chairpersons Coordinating Committee was to review and process the Quarterly Performance Information Report of the organisation. As a Committee of the Board it had to ensure that the statutory and compliance reporting duties of the organisation were efficiently and effectively processed. It had to ensure that the requirements of good corporate governance practices were adhered to.

The duties and responsibilities of Committee members as set out in the mandate and terms of reference were additional to duties and responsibilities they have as members of the Board. Deliberations of the Committee did not reduce the individual and collective responsibilities of the Board with regard to their fiduciary duties as

well as their responsibilities as members of the Board. They continued to exercise due care and judgement in accordance with their legal obligations.

The Committee had an independent role regarding accountability to both the Board and Shareholders of Magalies Water.

The Chairpersons Coordinating Committee had the authority to:

- Approve the quarterly performance information Reports of the organisation.
- Approve that the quarterly performance information Report be submitted to the DWS.
- Consider other mandates or undertake such duties and responsibilities as required from time-to-time by the Board.

**Table 8: Chairpersons Coordinating Committee attendance by delegation: Frequency per member**

Member	Attendance
Adv MM Petlane	3/3
Ms PN Nkwinika	3/3
Mr DR Sibanda <sup>#</sup>	1/1
Ms TF Zondi	3/3
Ms TD Monewe	3/3
Mr FP Vilakazi	3/3
Ms F Saloojee	3/3

<sup>#</sup>Mr DR Sibanda resigned from Magalies Water Board of Directors with effect from

15 January 2019

**Table 9: Chairpersons Coordinating Committee attendance by invitation: Frequency per member**

Member	Attendance
Mr TT Mohapi	1/1
Ms NM Mufamadi	0/1
Ms MS Lebeko-Ratlhagane	1/1
Kgosi SV Suping	1/1

#### 4.9.2.4 Finance Committee

The Finance Committee had to oversee financial reporting, effectiveness and efficiency of financial management, including reviews on the investment portfolio governance. The Committee held all its four scheduled meetings for the reporting period of FY 2018/19.

The key roles and responsibilities of the Finance Committee included the following:-

To recommend the approval of financial information to the Board.

- To recommend approval of the annual budget and its adjustments to the Board.
- To assess the financial reports as per the Corporate and Annual Performance Plans.
- To ensure that the Board approves the significance and materiality framework and that it is in place.
- To oversee the recommendation of irregular, fruitless and wasteful expenditure reports to the Board for approval.

- To monitor the quarterly approval of the management accounts by the Board.
- To recommend the audited Annual Financial Statements to the Board for approval.
- To review the delegation of authority and recommend to the Board for approval.
- To review and recommend the Finance Committee's ToR in line with the Board Charter for Board approval.
- To conduct annual self-assessment in line with the approved Finance Strategy Implementation Plan.
- To incorporate the King IV Principles on corporate governance into drafted policies for the Board's approval.
- To oversee Magalies Water's supply chain management compliance to Treasury Regulations and other relevant policies.
- To review and report progress to the Board on debt collection and cost-recovery.
- To advise Magalies Water on investments, loan requirements, bank facilities as well as guide the setting of the borrowing limits, guarantees and grant funding for Board's approval.
- To recommend to the Board the approval of annual tariffs, among others.

**Table 10: Finance Committee attendance by delegation: Frequency per member**

Member	Attendance
Mr DR Sibanda# (Chairperson)	3/3
Mr FP Vilakazi	5/5
Mr TT Mohapi	5/5
Ms TD Monewe	4/5

#Mr DR Sibanda resigned from Magalies Water Board of Directors with effect from 15 January 2019

**Table 11: Finance Committee attendance by invitation: Frequency per member**

Member	Attendance
Adv MM Petlane	1/1
Ms PN Nkwinka	5/5

#### 4.9.2.5 Human Resources and Remuneration Committee

This Committee was responsible for recommending remuneration, ethics and other human resource related policies, succession planning, induction, training, as well as the evaluation of the Board and its other Committees. The key functional roles and responsibilities included:-

- Recommendation to the Board to approve the Executive organisational structure.
- To regularly review and recommend to the Board for approval of all Corporate Services policies, e.g., Human Resources, Records Management and Information, Communication and Technology (ICT), among others.

- The undertaking of an annual review of the Committee's ToR, in line with the Board Charter.
- The promotion of conducive communication channels between the Board and the Executive Management as well as between management and staff members, on matters that related to working conditions and remuneration.
- Recommendation to the Board on all relevant activities that related to agreeable minimum services agreement for the Amanzi Bargaining Council (ABC).
- The review of the ABC and guidance provided on feedback on various matters that pertained to the South African Municipal Workers' Union (SAMWU) and National Education, Health and Allied Workers' Union (NEHAWU) meetings, including the non-unionised employees. That was in compliance to:-
  - Safety, Health and Environment (SHE) performance and policies.
  - Skills development and training and succession - planning opportunities and targets.
  - Employment equity targets.
  - Sharing appropriate processes for commitments.
- The overseeing of the implementation of remuneration and rewards policies that was conducive to the

achievement of strategic objectives and to individual performance. The role included:

- Recommending to the Board the approval of general annual salary adjustments within Magalies Water's both bargaining and non-bargaining staff categories.
- Making recommendations to the Board for the approval of the 2018/19 performance incentive bonuses for all employees.
- Review and recommend the terms and conditions for the Executive Committee service agreements, which included the review of performance and the rewards.
- Performed annual self-assessment.

**Table 12: Human Resources and Remuneration Committee attendance by delegation: Frequency per member**

Member	Attendance
Ms PN Nkwinika (Chairperson)	5/5
Mr DR Sibanda	4/4
Ms TD Monewe	5/5
Ms F Saloojee	4/5
Kgosi SV Suping	3/5

**Table 13: Human Resources and Remuneration Committee attendance by invitation: Frequency per member**

Member	Attendance
Mr TT Mohapi	1/1
Ms NM Mufamadi	1/1
Mr FP Vilakazi	2/2
Ms MS Lebeko-Ratlhagane	1/1

#### 4.9.2.6 Risk Committee

During the FY 2018/19, the Board approved the adoption of the National Treasury's Risk Management Framework and had revised its Magalies Water Policy, accordingly.

The Committee fulfilled an independent oversight role in guiding the management on strategic level risks including opportunities that were availed to the organisation by both the internal and external environments. This was carried out through the implementation of the approved Strategic Risk Management Plan. Among its functional roles, the Committee was responsible for: -

- Assisting the Board in formulating a Risk Policy and Framework which facilitated the implementation of a robust Strategic Risk Management Programme.
- Making recommendations to the Board concerning risk tolerance levels and the mitigation thereof.
- Providing assurance to the Board on the effectiveness of the risk management process.
- Ensuring that controls in place were relevant and effective in addressing all identified risks including

the Information and Communication Technology (ICT) risks.

**Table 14: Risk Committee attendance by delegation: Frequency per member**

Member	Attendance
Ms F Saloojee (Chairperson)	2/4
Ms TF Zondi	2/4
Ms N Mufamadi	3/4
Mr TT Mohapi	4/4
Kgosi SV Suping	4/4
Ms MS Lebeko-Ratlhagane	4/4

**Table 15: Risk Committee attendance by invitation: Frequency per member**

Member	Attendance
Adv MM Petlane	1/1
Ms PN Nkwinika	4/4

#### 4.9.2.7 Stakeholder Engagement Committee

The Board continued to build strong stakeholder relationships by being involved in strategic stakeholder engagements, whenever an opportunity existed. Magalies Water's approach to stakeholder relations had been premised on the principles of the King IV Report which is to ensure that the relationships with stakeholders are in compliance with relevant legislation and best practices were followed and ethically managed.

The key roles and responsibilities of the Stakeholder Engagement Committee were to:



- Identify key material stakeholders and were to address material risks and opportunities they present.
- Develop and implement of stakeholder strategies and policies.
- Develop a mechanism for constructive stakeholder engagement with all material stakeholders.
- Adopt communication guidelines for stakeholders including publication of policies that detailed the nature of interaction with the stakeholders.

**Table 16: Stakeholder Engagement Committee attendance by delegation: Frequency per member**

Member	Attendance
Ms TD Monewe (Chairperson)	5/5
Ms MS Lebeko-Ratlhagane	5/5
Mr FP Vilakazi	5/5
Mr TT Mohapi	4/5
Kgosi SV Suping	4/5

**Table 17: Stakeholder Engagement Committee attendance by invitation: Frequency per member**

Member	Attendance
Adv MM Petlane	1/1
Ms PN Nkwinika	5/5

#### 4.10 Code of Conduct and promotion of ethical culture

The Accounting Officer promoted the implementation of the Ethical Code of Conduct. The related processes were done through a delegated split between the Risk Specialist and the Company Secretary. The Risk Specialist was assigned to focus on internal operation and tactical levels while the Company Secretary's focus was targeted at strategic Board level. As a result, declarations of financial interests, confidentiality, conflict of interests and disclosures, were made by employees as provided for in the 1997 government's Code of Conduct's set standards for the Public Service. Practices had been kept in line with the Financial Disclosure Framework requirements imposed for senior officials.

At the end of the FY 2018/2019, the Risk Specialist had collected signed disclosures and declarations from all Magalies Water employees who were employed during the year. In this regard, Magalies Water, as an organisation, had achieved 100% compliance. The Company Secretary handled the Board members' declarations at Board level, as the ideal central office to provide advice to the Board and the organisation in general on any matter pertaining to ethics, conflict of interest, and good governance.

Magalies Water regards ethical conduct as mandatory to all employees and not just for senior management and other designated groups such as Supply Chain Management (SCM) staff, or members of SCM Committees. Magalies

Water continued to operate in accordance with the Ethics Code of Conduct's objectives, which included:

- Administrative management of remunerative work conducted by employees outside their delegated duties.
- Enforcing Regulation 13(c) of the Public Service Regulations, 2016 (PSR) which prohibited employees from contracting/conducting business with any of the South African organs of state, as from 1 August 2016. This effectively nullified the Section 30 of the Public Service Act, 1994 which had allowed employees in the Public Service to perform other remunerative work provided that they had written permission from the Accounting/Executive Authority.
- Promotion of transparency and which prevented business-related conflicts of interest with regard to all who attended or even drafted and/or sourced services based on the specification, evaluated and adjudicated of tenders/quotations and other relevant service requests.
- Managed errors of sourcing quotations from companies that are not on the National Treasury's Central Supplier Database (CSD).
- Referring to recorded portfolio of evidence in protecting the company and individuals who may be implicated or facing charges of misconduct of all forms.

- Enabling individuals to be always conscious of the disclosure requirements as they acquire, practice or pursue personal financial interests.
- Ensuring that employees execute the company's delegated duties and/or avoid improper influence/ biased judgements, etc. when acting on behalf of the company.

In summary, governance at Magalies Water had been consistently kept in line with applicable legislation. The Company Secretary and the Executive Committee (EXCO) were instrumental in assisting the Board to implement the direction of business plans and exercised executive control in managing day-to-day operations. Within EXCO, Magalies Water had been diligent in ensuring that the organisation adheres to regulatory compliance requirements and had ensured synergies with other key role players and statutory stakeholders.

The Magalies Water Board supported by its Committees, the Executive Committee as well as the Company Secretary, fully-owned the governance responsibility and fiduciary duties for driving good corporate citizenship. The FY 2018/19 Annual Report was subjected to continuous review throughout the reporting period.

Magalies Water has a solid foundation that is premised on the strength of a permanent CEO whose oversight of the six Operating Divisions is supported by five General Managers, the Chief Operations Officer, and the Chief Financial Officer; the incumbents constitute the EXCO collectively.

## Executive Committee members



**Mr Sandile Mkhize**

**Chief Executive Officer**

**Academic qualifications:**

Masters in Business Administration  
(Milpark Business School)  
M Tech: Environmental Biotechnology  
(Durban University of Technology)  
Management Advancement Programme  
(Wits Business School)  
BSc: Chemistry and Microbiology  
(University of KwaZulu-Natal)  
B Tech: Biotechnology  
(Durban University of Technology)  
Senior Executive Program  
(Harvard Business School)  
Diploma in Advanced Project  
Management (Damelin).



**Mahlomola Mehlo**

**Chief Operations Officer**

**Academic qualifications:**

Master of Technology: Civil Engineering  
(Vaal University of Technology)  
Master of Science: Project Management  
(University of Pretoria)  
Senior Executive Programme  
(Harvard Business School).



**Ms Tsakane Radebe**

**General Manager:**

**Project Management Unit**

**Academic qualifications:**

National Diploma:  
Mechanical Engineering  
(University of Johannesburg)  
Bachelor of Technology:  
Mechanical Engineering  
(Vaal University of Technology)  
Certified Associate in Project  
Management  
(Project Management Institute)  
Project Management Professional  
(Project Management Institute)  
Postgraduate Diploma in  
Business Administration.

## Executive Committee members



**Mr Pholetsi Moseki**

**Chief Financial Officer**

**Academic qualifications:**

Bachelor of Accounting Science  
(University of South Africa)

Bachelor of Accounting Science  
(Honours)/CTA (University of South Africa)  
Chartered Accountant (SA).

**Resigned :** 30 June 2019



**Ms Puleng Ratlabala**

**General Manager: Corporate Services**

**Academic qualifications:**

Bachelor of Arts Honours  
(University of Limpopo)  
Bachelor of Arts (University of Limpopo)  
Senior Management Programme  
(Milpark Business School).  
Senior Executive Programme  
(Harvard Business School).



**Ms Lerato Morake**

**General Manager: Water Services**

**Academic qualifications:**

BSc in Education (University of North West)  
Masters in Business Leadership  
(University of South Africa)  
Baccalaureus of Science Honours with  
specialisation in  
Applied Science: Water Utilisation  
(University of Pretoria).

## Executive Committee members



**Mr Phatela Lebogo**

**Acting General Manager:  
Stakeholder and Customer Services**

**Academic qualifications:**

University of Limpopo,  
Bachelor of Arts in Education (BA Ed), Honors  
in Education (B.Ed) - University of South Africa  
(UNISA) Master of Business Administration  
(MBA), Graduate Diploma in Engineering  
(Project Management)  
University of Witwatersrand, Executive  
Development Programme,  
University of Cape Town  
Graduate School of Business



**Mr Jimwell Leburu**

**Acting General Manager: Engineering  
Services**

**Academic qualifications:**

National Diploma in Engineering: Civil  
(University of Johannesburg).  
  
Project Management Professional  
(Project Management Institute),  
  
Programme in Project Management  
(University of Pretoria),  
  
Construction Contracts Management  
(CESA)









# 05

## STRATEGIC OVERVIEW

### 5.1 Vision

“To be the leading provider of quality water services in South Africa.”

### 5.2 Mission

Magalies Water Board provides (bulk) water services to Water Services Authorities, Water Services Institutions and other users to positively impact the quality of life and economic growth for communities in our area of operation.

### 5.3 Strategic intent

The strategic intent of Magalies Water is to meet its mandate of sustainable water provision and this will be achieved through reliable provision of quality water services and contribution to the socio-economic development in the service areas.

### 5.4 Core values

Magalies Water is guided by its values, which are used as anchor-points to establish the manner in which we approach our activities and how we relate to each other and our stakeholders.

**Integrity** - We do what we say we are going to do – ALWAYS!

**Service quality** - We endeavour to meet customer requirements in all that we do.

**Competence** - We deliver services with a high level of professionalism.

**Eco-efficiency** – Our practices reflect our care for the natural environment.

**Good corporate citizenship** - We strive for the development of a sustainable economy and the well-being of our community.

### 5.5 Cultural behaviours

Magalies Water relies on the commitment and dedication of each of our staff members to fulfil its Vision and Mission. As a SoE, Magalies Water aspires to be both a leader in the delivery of quality services and employer of choice. Hence, the development and retention of the best human capital is at the core of the Magalies Water Corporate Plan which serves as the strategy of the organisation that underscores the worth of human capital as the most valuable asset. To this end, Magalies Water has embarked on an extensive exercise to revive the spirit inherent

on organisational values as a means to re-imagine the Magalies Water of the future in which the personnel thrive and excel in their areas of operation.

## 5.6 Turning values to culture

Magalies Water has committed to revive the internal communication mechanisms in order to foster trust and to ensure synergy/coherence between the dissemination of internal and external information with stakeholders. Further to this, Magalies Water continued to be responsive, and had maintained its timeous and proactive consumer-centric service approach to fulfil its aspirations of excellence in delivering services to customers. The set standards and performance measures were strategically used for the reporting year, FY 2018/19 to re-build the Magalies Water brand, reputation and good standing in both the medium- to long-term operations to assist in the expansion of the SoE's footprint.

## 5.7 Primary And Other Legislative Mandates

Operating principles that guides the purpose and relevance of Magalies Water as a SoE Magalies Water is a Schedule 3B: SoE under the Department of Water and Sanitation (DWS). Like other government entities operating in the country (the Republic of South Africa), it is highly regulated and follows set statutory prescripts. The critical role of Magalies Water and its social license to operate are grounded in the legislative mandate imposed through the WSA, 1997, as amendend – which is, to ensure that the State complies with the Bill of Rights as enshrined in Chapter 2 of the Constitution of the Republic

of South Africa, 1996. This means all service areas of Magalies Water operates on both constitutional and legislative mandates highlighted below:

1. The Constitution of the Republic of South Africa (1996) : According to Chapter 2: The Bill of Rights in the Constitution, it is stated that the State must respect, protect, promote and fulfil the rights of all people in the country and (must) affirm the democratic values of human dignity, equality and freedom. Explicitly, *Section 10*, states that everyone has the right to human dignity and *Section 11*, speaks of everyone's right to life.
2. The PFMA, 1999, as amended classifies Magalies Water as a Schedule 3(B) SoE.
3. The NWA, Act 36 of 1998 as amended and its Regulations: The NWA (1998, as amended) provides that the National Government is the public trustee of the nation's water resources. Acting through the Minister of Human Settlement, Water and Sanitation, the national government has the power to regulate the use, flow and control of all water in the Republic. The goal is to protect, use, develop, conserve and manage water resources in a sustainable and equitable manner for the benefit of all persons.
4. The WSA, 1997, as amended provides for the right of access to the basic water supply and the right to basic sanitation services. The WSA, 1997 provides for the establishment of Water Boards (*Section 28*) and defines their primary *Section 29* – see (**section 5.8.2** of this report ) and secondary functions (*Section 30*) – **section 5.8.5** of this report. The latter could even be

extended to regional and/or continental/beyond the borders of South Africa.

## 5.8 Strategic Business Operating And Reporting Context

### 5.8.1 Brief overview of Magalies water business value chain activities

In terms of the law, the Minister of the DWS is the custodian of water resources including the dams from which Magalies Water extracts raw water to its Water Treatment Plants (WTPs) for processing. Thereafter, Magalies Water channels the potable water from WTPs through their pipelines which are owned assets of water service authorities and other users (customers). The main split is in terms of *Section 29* and *Section 30* Activities of the WSA, 1997 is detailed.

### 5.8.2 Primary activities (Section 29)

The primary activity of a Water Board in South Africa is to provide bulk water services to other Water Services Institutions within its service areas (*Section 29*). For Magalies Water, raw water is obtained through various intermediaries (for example, dams, mining associated sources, to name but a few) that are linked to two major catchments of the Crocodile and the Pienaars Rivers.

Magalies Water services extend over an area of 42,000 km<sup>2</sup> (refer to Figure 1 ) showing the service areas of Magalies Water that cuts across the three provinces of South Africa, namely, the North West, Limpopo and Gauteng.



## Location of water supply areas

Depicting: Magalies Water Service Area Map

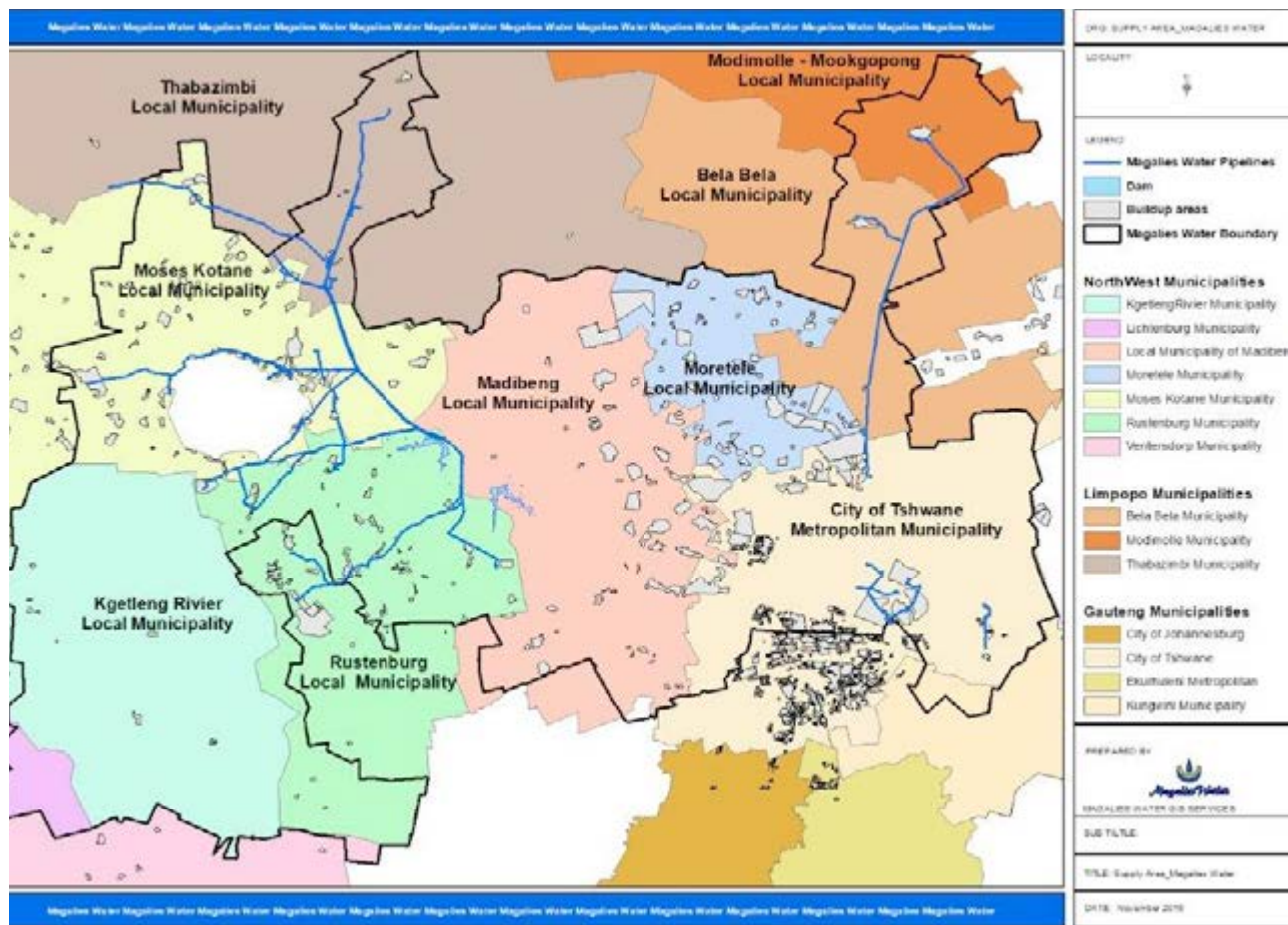


Figure 1: Magalies Water area of supply

5.8.3 Magalies Water’s customers

Magalies Water provides bulk potable water services to the following Water Services Authorities, in terms of core customers (Section 29):

Table 18: Key customers: Water Services Authorities

Water Services Authorities	Water Services Authorities
Rustenburg Local Municipality	Modimolle - Mookgopong Local Municipality
Moses Kotane Local Municipality	Bela - Bela Local Municipality
Thabazimbi Local Municipality	City of Tshwane Metropolitan Municipality

Other (mostly Section 30) major customers benefitting from Magalies Water in terms of bulk water supply and direct provisions of water through servitude arrangements and non-availability of local municipality infrastructure, include the following:

Table 19: Major customers

Customers’ names	Customers’ names
Bafokeng Rasimone Platinum Mine	Pilanesberg Platinum Mine
Bakubung Minerals	Rhino Andalusite Mine
Carousel Casino	Royal Bafokeng Administration
Cullinan Diamond Mine	SA Ferrochrome (Pty) Ltd
Impala Platinum Mine	Sun City
Northam Platinum Mine	Union Section Joint Venture

5.8.4 Water Treatment Plants (WTPs)

Magalies Water owns and operates the following WTPs and associated pipelines comprising of:



#### a. Vaalkop WTP

The **Vaalkop WTP** has a design capacity of 270 megalitres per day (ML/d). The stated WTP functions on raw water that has been abstracted from the Vaalkop Dam in the Crocodile River Catchment area. Thereafter, the treated potable water is then distributed in bulk to Magalies Water service areas of the North West and Limpopo provinces.





## b. Klipdrift WTP

The **Klipdrift WTP** is designed with a capacity of 42 ML/d. The raw water that is abstracted from the nearby Roodeplaats Dam in the Pienaars River Catchment area is treated and then distributed across to Magalies Water service areas in the Limpopo and Gauteng provinces.





### c. Cullinan WTP

The **Cullinan WTP** has a design capacity of 16ML/d. This WTP functions on raw water abstracted from the Bronkhorstspuit Dam, also located within the Pienaars River Catchment area. The treated potable water is then supplied to the Cullinan Diamond Mine and the City of Tshwane Metropolitan Municipality.





#### d. Wallmannsthal WTP

The Wallmannsthal WTP has a design capacity of 12 ML/d. Together with the Klipdrift WTP, it processes raw water abstracted from the Roodeplaats Dam in the Pienaars River Catchment area. The Wallmannsthal WTP supplies potable and bulk water service to the City of Tshwane Metropolitan Municipality and other individual customers.



### 5.8.5 Other activities (Section 30)

In partnership with the DWS, municipalities and the private sector, Magalies Water entered into contractual agreements to perform *Section 30* responsibilities such as being the implementing agent, and as per the Minister's directive.

Magalies Water is capacitated and capable to perform the secondary activities to enhance the optimisation of the value chain of water services business in South Africa. Specifically, Magalies Water as an organisation possesses good and relevant experience gained through programmes that have been rolled out. Below is an outline of the infrastructure and enabling tools that offer seamless and compliant services:

1. Infrastructure refurbishment.
2. Potable water and wastewater treatment solutions ranging from consultancy services; treatment, monitoring and operation of potable water and wastewater treatment plants.
3. Rapid response on critical interventions required on water and sanitation.
4. Water conservation and demand management.
5. Operations and Maintenance (O&M) of bulk water supply and bulk sanitation infrastructure.
6. Magalies Water Scientific Services: The South African National Accreditation System (SANAS) 17025 accredited laboratory-offering services in chemical, environmental and microbiological analyses for the water industry.

## 5.9 Macro operating environment

The operations of Magalies Water are affected and influenced by the following external environmental factors:-

### 5.9.1 Political environment

The political landscape, particularly the policy position on Institutional Reforms and Realignment (IRR) provides a strategic imperative for Magalies Water to grow. The perception that municipalities' capabilities in water services delivery and operations of water and sanitation infrastructure are, generally, considered as being highly or extremely vulnerable, provides an opportunity for Magalies Water to grow through providing the necessary (for example, Section 30) interventions.

The different proposed approaches to land redistribution (e.g. land grab) call for Magalies Water's vigilance in ensuring that alternative plausible servitudes and land assets pockets necessary for its operations are kept intact/ measured in line with the growth (expansion) plans.

Magalies Water witnessed the political environment envisaged during the macro - environment scanning becoming a reality during FY 2018/19. The election campaign and the manifestos of the rivalries for power tended to give rise to protests that highlighted the weaknesses in the various spheres of service delivery; and the water service delivery sector was not immune. The reporting period was stunted with evidence of fall-outs in some of the local government political environment where split ruling constituencies had formed alliances. The North West saw political changes both at provincial (e.g.,

premier) as well as at municipalities level – typically, the Rustenburg Local Municipality is one example. Magalies Water navigated through the financial year and continued to deliver on its mandate, nonetheless.

It remained true that, at ground level, Magalies Water's role and its brand are not 'recognised' separately from the role of the municipalities whom water is sold to. Magalies Water is sometimes mistaken for other water boards in some instances, and this has called for intense marketing of the organisation as well as increased awareness on the fact that tap water is an easy 'road' to a great life. Magalies Water, during the reporting period, incorporated a multi-pronged approach to engage stakeholders who differed in ideologies.

Regarding the scenarios outlined above, Magalies Water continues to review its approach and is crafting clearly designed proactive response plans that include careful mapping of its stakeholder segments in an attempt to unite everyone under a common service excellence banner and the entity, as a reliable and dependable service provider to water consumers.

### 5.9.2 Economic environment

As South Africa continued to weather the economic storms of varying intensity, the affordability impact filtered through to the implementation of the Magalies Water's Annual Plan/Shareholder Compact relating to the Corporate Plan 2018/2019 to 2022/2023. Constraints of economic growth, tight fiscal policies, the effects of the Monetary Policy and the sovereign credit rating grading status and the implementation of austerity measures - to mention a few - had significant effects on the desired

growth, particularly in relation to the Capital Expenditure (CAPEX) Programme rollout. Magalies Water was also impacted by the challenging economic environment that placed pressure on government with regards to the provision of funding for the social component of projects to the required levels. Where practicable, Magalies Water explored other areas to improve operational efficiencies (to realise cost savings) and drove its growth aspirations in rural areas even though high unemployment (the inability to pay for services) rendered still featured high.

The funding mix envisaged, that is capital contributions by customers, grant funding and borrowings only to the extent of improved cash flows and bankable projects did not proceed according to plan, but will still be pursued in future. Net cash flows will still need improvements in order to bring investments to optimal levels. The Rand volatility at the back of increases in finance costs (interest rates), fuel costs and Value-Added Tax (VAT) as well as the exchange rate factors remained significant factors that affect Magalies Water's economic outlook.

### 5.9.3 Societal issues (Demographic/socio-economic) factors

Changing spatial patterns, economic and population growth in the service areas provide Magalies Water with an opportunity to grow its business. The ongoing infrastructure upgrades addressed the demand and enabled progressive reach to the areas that do not have access to water services currently. During the tariff review process, Magalies Water took into account the affordability impact associated with the income levels of consumers in the areas serviced. The latter must have a contribution to the non-achievement of the Debtors Days



in FY 2018/19, some municipalities' inability to collect revenues must have led to the subsequent non-payment of Magalies Water's accounts.

Magalies Water continued to expand the services in response to the radical economic transformation theme articulated through the State President's commitment, that is, to give rise to inclusive socio-economic benefits in areas similar to and including those that Magalies Water targeted. Crippling the realisation of Magalies Water's vision is the impact of past and current levels of poverty, low-income levels and unemployment as well as ill-affordability levels of consumers to pay municipal services. These continue to threaten the financial sustainability of our entity, as can be seen in the organisation's sales volumes of the bulk water services year-on-year. Refer to (Section 11.1.1) the *Water Services Division/Organisational Efficiency and Effectiveness* section covered in this Annual Report.

Within the realm of the above constraints, in FY 2018/19 Magalies Water continued to position itself as the service provider of choice, not only through the expansion of its service footprint, but also by creating job opportunities, skills development and capacity building for the youth.

- Graduate, learnerships and internships programmes continued to be Magalies Water's vehicle to grow the social license to operate and expand the economic base of the municipalities where the entity has presence. Refer to (section 12.2.1.5) the Human Resources Department/Organisational Capacity section of this Annual Report for more details.
- Corporate Social Investment (CSI) initiatives continued and Magalies Water encouraged 'innovation' through research in industry-specific environments to harness

best practices/adaptation mechanisms to address the changing water services sector.

The net effect of Magalies Water had improved the rural and informal surrounding consumers' unemployment/affordability challenges.

#### 5.9.4 Technological factors

Technology is a business enabler that doubles up as a disruptor to most business models - consideration the "internet of things". Globally, the water sector is utilising big data to optimise business models that evolve along with time. The advancement and evolution of technology requires enhancement of research and development capabilities. Therefore, it is inherent that business operations should be able to respond and adapt to the evolving environment of technology.

Magalies Water operates within fresh surface water resources and a constrained landscape on which the organisation is set to grow the customer base, raw water sources, and spatial footprint. Magalies Water takes cognisance of the need to adopt the emerging diversification strategic trends. The forward looking Growth Plan Strategy includes the upgrades and use of boreholes and ground water in remote areas, among others. Calibration and integrity tests are planned to be dealt with through the technological enablers as such as the Geographic Information Systems (GIS) live detection mechanisms, among others. Magalies Water will in future implement a mix of innovative initiatives that will include, among others, the following:-

1. The zero effluent/zero discharge strategy.
2. The re-engineering of brown water/sanitation water

through a closed cycle process similar to Israel's greening or water re-use programmes.

3. Desalination, that may reduce fresh raw water use (consider acid mine waste water as well).
4. Adoption of energy efficient technologies to generate power from wastewater in order to lower the costs of production and increase competitiveness, among others.

#### 5.9.5 Environmental challenges

Global warming and climate change require adaptation strategies. These have an adverse impact on the hydrological systems. Groundwater resource diminishes at a faster rate than it can be naturally replenished and this translates to surface water scarcity; one of the key business disruptors within the emergent concept of the water-food-energy nexus. Since these changes are a reality, Magalies Water applied enough logic during the design studies for the borehole related projects that are earmarked for execution in the coming years.

While executing the ambition inherent in the Magalies Water's vision of being the leader in the delivery of quality water services in the South Africa - the design of the Service Expansion Programme plans are such that they should not add pressure to natural ecological systems. Research and development efforts continue to include innovative approaches at the Brits Laboratory and it had recently been noted that the emerging 'strains' of contaminants from the pharmaceutical industry and other ecological disruptors need smarter detection techniques.

Magalies Water monitored and reported on some of

the carbon footprint related activities that could have a negative effect or which has potential to legally constrain the business due to the surrounding natural environment's protection requirements. This effort talks to the organisation's eco-efficiency/friendly values system.

In addition, critical environmental management threats arose from:

**Municipalities with weak internal controls to deal with the quality of waste water released to the environment.** Although, Magalies Water's chemical costs were lower than budget due to improved water quality, the improvement was not sufficient to curb overall water production costs and employees still had to continue sampling and testing in order to keep up with the standards. Fruits of continued monitoring led to catching on time one of the SANS 215:2015 parameters not being met in Quarter Two. Overall, the standard requirements were met at the end of the financial year. The intention is to continue to address the challenges through partnerships that could re-direct such polluted water feedstock to electricity generation, and ultimately, drive tariffs down.

**Emerging trends including water losses and severe climatic conditions, which potentially affects business continuity.** These are among many difficult challenges to tackle. This encourages Magalies Water to work innovatively, with other parties to, effectively, detect/ reduce water losses and find alternative ways to harness the full hydrological cycle of water generation in a closed system manner.

In other words, opportunities for the future include the possibility to explore initiatives regarding water sources

that are associated with the closing of mines and the 'raw' polluted water from disused mining facilities.

#### 5.9.6 Legislative and regulatory environment

The current review of water sector related legislation provides an opportunistic environment conducive to business growth. Magalies Water formed part of the preparations with respect to the DWS's Institutional Reform and Realignment (IRR) processes. The organisation geared itself for the DWS's process of establishing an Independent Regulator for water as well as a National Water Infrastructure Agency in order to change the modes of interaction between the water boards and the shareholder, particularly the benefits associated with

Section 30.

These factors were placed on the planning radar, deliberated upon and monitored in order to strengthen Magalies Waters' business framework. The entity continued to respond to the Ministerial deployments and adapted the engagement approaches to various constituencies. Refer to the Stakeholder and Customer Service Division section of this Annual Report.







# PART B:

## BUSINESS MODEL AND PERFORMANCE INFORMATION





# 06

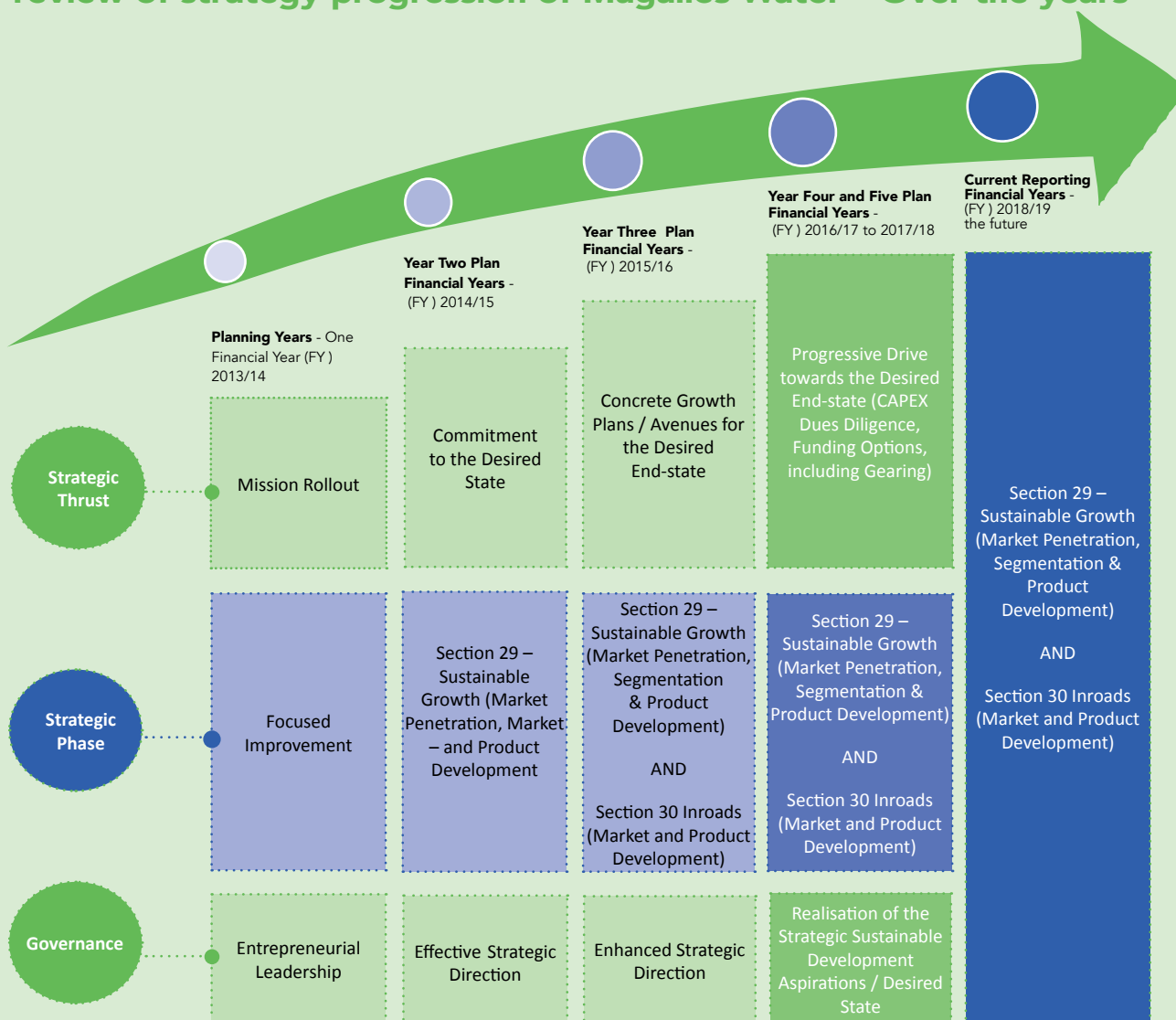
## BUSINESS MODEL AND PERFORMANCE INFORMATION

### 6.1 REPORT PROFILE

The business model of Magalies Water is anchored on a five-year, forward looking Corporate Plan of 2018/19 – 2022/23 which has evolved since the 2013/14 Financial Year (FY). Depicted in Figure 2 is a milestone journey of Magalies Water over the years towards growing the business's primary and support activities and building the value proposition. The highlighted strategic progression was measured against a corporate planning cycle of five years.

Magalies Water, as an organisation, has evolved over the years. Synergies have been created between performance and business continuity. This Annual Report presents an aerial view of the journey well-travelled from FY 2013/14 to the current review period of FY 2018/19 into the future. This means annual performance excellence accrued over the years, including challenges, provided a baseline and good reference points for the development and execution of the forward looking Corporate Plan of Magalies Water.

## Preview of strategy progression of Magalies Water – Over the years



**Figure 2:** Strategic progression of Magalies Water from FY 2013/14 - 2018/19

The format and structure of the FY 2018/19 Magalies Water Annual Report includes content with organisational pictures. Graphics and graphs are also used to enhance the explanation of content. All tables used in this Annual Report FY 2018/19 are labeled. As an organisation, Magalies Water is now on a good footing to take stock and plan better going forward to FY 2022/23.

**Micro - environmental analysis unpacked - Grounded on the 7-S Framework**

The history of Magalies Water Corporate Plans shows consistent evolution and adaptation to the industry's socio-economic environment. As an organisation, Magalies Water adopted a 7-S Framework (refer to Table 20) which is internally focused. The rationale is to sustain a balance of the developmental agenda initiatives in terms of both internal and external world views. The focus is still fixed aligned to the mandate of the Shareholder Compact.

**Table 20: 7-S Framework**

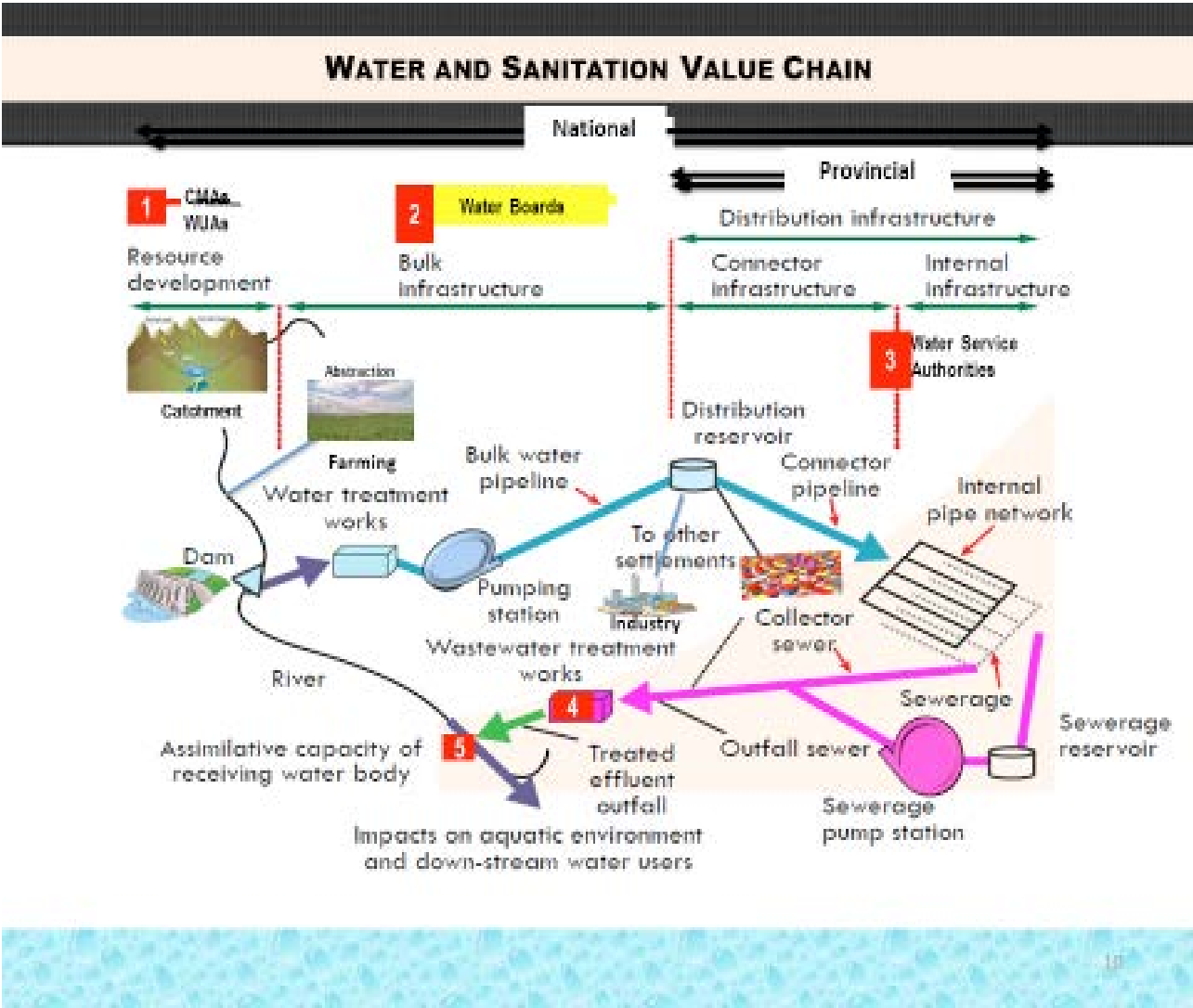
Aspect of the 7 – S	Key outcome
1. Strategy	The organisational strategy is designed and the trajectory is well-defined but funding of capital expansions remains a key challenge to strategic aspirations.
2. Structure	The organisational structure is well-designed for effective delivery of the primary core of Magalies Water (Section 29). Magalies Water can also deliver on Section 30 activities, although some enhancements are required.
3. Skills	Provision of quality water services is achievable – Magalies Water has skills development initiatives in place directly linked to the primary mandate. Core competencies of treating and supplying sustainable bulk quality water services are still key. Magalies Water Laboratory Services’ results show constant compliance to SANS 241: 2015 and the achievements had been above targets.

Aspect of the 7 – S	Key outcome
<b>4. Style</b>	The style of Magalies Water is geared towards being a learning organisation that takes into account the growth of infrastructure networks and complexity of operations. That is what informs the core competencies and distinct capabilities of Magalies Water as an organisation.
<b>5. Staff</b>	Magalies Water endeavours to consciously plan and develop actions to address the employment equity targets. The rationale is to achieve women and people with disability targets in the work-place. Also, for the workforce distribution and demographics that is aligned to the country's overall population. The organisation is cognisant that the institutional memory lies with the younger generation.
<b>6. Systems</b>	An integration system across the entire business value chain and automation of some critical business processes is ongoing ever since FY 2013/14 to date and into the future. The Magalies Water Research and Development team is consistently looking for alternatives on water treatment systems which could treat all forms of resilient modern day pollutants in raw water to optimise processes, including the real-time Geographic Information System (GIS)-based meter reading that has been piloted and continued even in the reporting period (FY 2018/19).
<b>7. Superordinate goals</b>	Our goals encompass and embed performance contracting in order to align individual performance to the organisational performance.

## 6.2 BUSINESS MODEL

Magalies Water is a Schedule 3B, SoE that is regulated by the PFMA, Act 1 of 1999, as amended. Its mandate is derived from Sections 29 and 30 of WSA, 1997. The shareholder of Magalies Water is the Government of the Republic of South Africa, represented by the Minister of Human Settlements, Water and Sanitation. As a SoE, Magalies Water is led by the Board of Directors who are appointed by the Minister and hence as an entity is called the Magalies Water Board.

Figure 3: is the value chain which gives a broad overview of role players in the water and sanitation sectors including both upstream and downstream.



**Figure 3:** Water and sanitation value chain

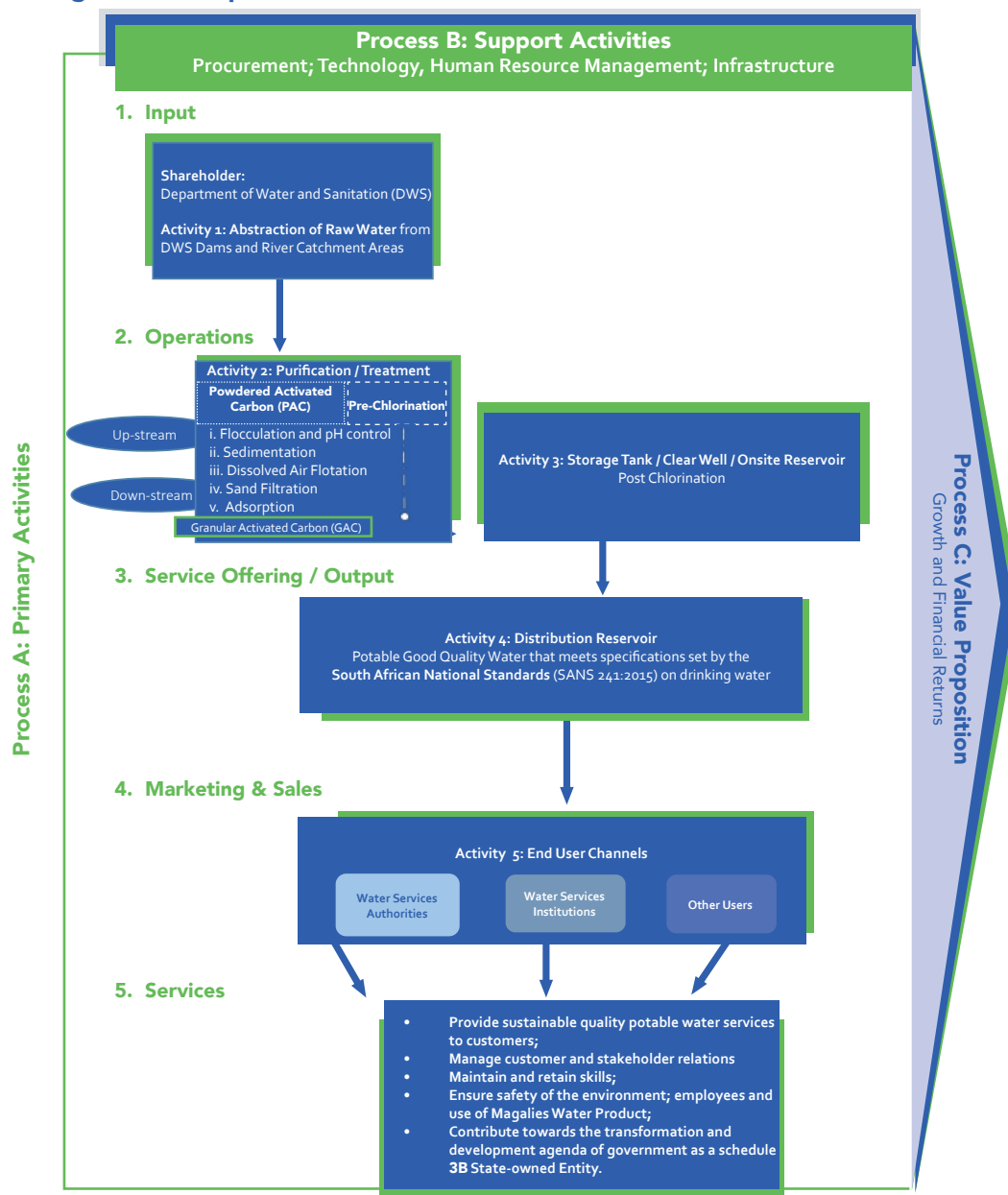


The daily operations of Magalies Water are managed by the Chief Executive Officer (CEO) who reports to the Board of Directors. The CEO of Magalies Water ensures that the value chain drives the mission to realise the vision – which is – “To be the leading provider of quality water services in South Africa”.

**Figure 4:** is a process chain for Magalies Water which models and outlines a pictorial overview of daily business operations to realise returns.



## Magalies Water process chain



**Figure 4:** Magalies water process chain

### 6.2.1 Outline of Magalies Water Process Chain

The business process of Magalies Water is outlined in three parts namely, primary activities, support activities and value propositions. All activities provide a rationale on how various inputs are transformed to give certain outcomes. The business process of Magalies Water is based on the effects of both primary and support activities on the outcomes that yield returns to the organisation.

#### 6.2.1.1 Process A: Primary activities of the value chain

The value chain is contextualised within “source-to-source” wherein a role is played across all components of the water supply value chain starting from the dam and river catchment areas to the end user. With reference to Figure 4 summary activities of the process chain are highlighted below:

1. **Input** – Activity 1 - This is the first process of the values chain which involves the shareholder. Raw water gets abstracted from Catchment Areas e.g. rivers and the Dams owned by the DWS.
2. **Operations** – Divided into two (activities 2 and 3)
  - Activity 2 in the process chain of Magalies Water is intensive and takes place on the four sites of the Water Treatment Plants (WTPs), which are namely Klipdrift WTP, Cullinan WTP, Vaalkop and Wallmannthal WTP. Raw water abstracted from the Catchment Areas owned by government gets purified in the WTP. On the upstream, raw water is first oxidised when drawn into the WTP and the process is called pre-chlorination. Thereafter, it goes through a process of

i) flocculation and pH control then ii) sedimentation thereafter iii) dissolved air floatation; followed by iv) sand filtration and v) absorption through Granular Activated Carbon (GAC) which happens at the downstream of the process to deal with issues of color, odour (Geosmin) and taste.

- Activity 3 is called Disinfection. Final water gets disinfected in the clear water tank using chlorine gas. The final product is then pumped to the command reservoirs.

### 3. Service offering/output

Refer to Activity 4 highlighted on Figure 4.

### 4. Marketing and sales

Refer to Activity 5 which shows end user channels (Figure 4)

### 5. Services

Refer to Figure 4 which highlights a summary of key deliverables by Magalies Water.

#### 6.2.1.2 Process B: Support activities in the value chain

Support activities are another anchor of the Magalies Water business model which is built around the following activities that include procurement, technology, human resource management and infrastructure (refer to figure 4).

#### 6.2.1.3 Process C: Value proposition

The value proposition of Magalies Water is what drives the business to grow and realise returns – in terms of both

human and financial capital refer to figure 4.

#### 6.2.1.4 Outcomes of the Business Model

The relationship of the resultant key outcomes and inputs' impact of the value chain referred to above, are tabulated as follows.

**Table 21: Impact of key outcomes and inputs on the value chain**

Capital	Deliberate inputs' impacts on key outcomes
<b>Financial</b>	Revenue generation of R979,202 million and a surplus of R438,115 million were realised for the reporting year FY 2018/19. While in the previous financial year, FY 2017/18 a revenue of R697,474 million and a surplus of R211,447 million was generated. Magalies Water, as an organisation, continued to provide quality water services through a combination of grants and own investments on capital expenditure. For the current reporting year, there were no borrowings. The 50 Debtor Days target was missed and the year closed on 75 Debtor Days instead.
<b>Manufactured</b>	Magalies Water used its own assets (in the form of treatment facilities and pipe lines) for production and distribution of quality potable water. Set targets were achieved. Translating it to monetary terms, it means R219 million was invested on income producing assets. A carrying value of about R2,899 billion was on non-current assets of which were mainly for water production and distribution process.
<b>Intellectual</b>	As per the 7 - S Framework, stated in Table 20 page 64 - 65, knowledge based intangibles such as software, servitudes, systems, procedures and protocols continued to be integrated within operations of Magalies Water. Intangible assets to the carrying value of R32,494 million included intangibles such as organisational knowledge and servitudes. In the FY 2017/18 the value was at R33,465 million while in 2016/17 it was at R36 million. This remains a going concern.
<b>Human</b>	Magalies Water's employee turnover ratio was at 3% at the end of the FY 2018/19. The human capital within the organisation remains a key, critical force in the delivery of strategic imperatives. Magalies Water is still in the good hands of competent and experienced staff. The Human Resource Unit of Magailies Water is committed and continues to ensure youth development in South Africa through its learnership, Internship and graduate programmes. Some of the stated learners were appointed in permanent positions to show commitment to youth employment.

Capital	Deliberate inputs' impacts on key outcomes
<b>Social and relationship</b>	<p>Magalies Water continued efforts to build its relationships with communities and other stakeholder groupings during the reporting period FY 2018/19, to enhance the organisation's reputation. Regulators and other networks measurements were represented through Bulk Supply Agreements which were at 92% vs 80% targeted performance levels regarding engagement meetings and Corporate Social Investment (CSI) programmes. All targets set for enhanced collective societal well-being related activities were achieved. The 92,645,110 kilolitres of water supplied by Magalies Water is another major achievement in terms of the organisation's determination to contribute to the improved living conditions of all the citizens in our country, particularly in areas where we have presence.</p>
<b>Natural</b>	<p>A baseline for the Greenhouse Gas Emissions (Kg CO<sub>2</sub>e) is set at 108 853 for Magalies Water. This was done as a baseline measure of comparison for future impacts, over a number of years. In this Report for the FY 2018/19, the Total Carbon Footprint (TCF) and CO<sub>2</sub> emissions for Magalies Water are calculated and supplied by the ECO<sub>2</sub> FLEET Report from Standard Bank Fleet Management. It is based on vehicle fleets managed by Standard Bank Fleet Management. The benchmark for Magalies Water is done against the National Average for CO<sub>2</sub> emissions which are reported monthly, quarterly and annually. The emissions are weighed in kilogram (kg) and litre per 100 kilometre (l/100km) for TCF and CO<sub>2</sub> emissions respectively. Please refer to the table below for a summary of CO<sub>2</sub> emissions produced by Magalies Water versus the mentioned national average. Magalies Water presented some energy efficient pilot projects such as the, eradication of alien plant species, for example, that were rolled out in the past year. We are cognisant of the fact that water resources rely on environmental fundamentals to enable the sustainability of our business.</p>



### 6.2.1.5 Value creation

At the centre of the Business Model of Magalies Water is the creation of a mutual long-term sustainable value to both stakeholders, particularly our customers, and Magalies Water.

## 6.3 REPORT CONSIDERATION AND PROFILING

All the relevant matters of significance that influence the performance of Magalies Water were considered to achieve the overall organisational performance that is presented in this Report. The Strategy of Magalies Water articulates a vision that seeks to create coherence between its operations, objectives of government as contained in the reform agenda set out in NDP, and ultimately the achievement of the sustainable development goals. We remain committed to consistently contribute to inclusive growth that will lead to job creation, poverty eradication, and reduction of inequality. Due to the fact that the water sector is one of the most inequitable in our society, the strategic vision of Magalies Water is underpinned by equitable and efficient distribution of water to address socio-economic challenges. Our industry environment is characterised by, among others, low economic growth, increasing fiscal constraints and declining availability of water resources.

### 6.3.1. Strategy and performance

Strategic opportunities were identified through a study that looked at how to increase revenue to R1 billion over two years. These entailed growing the business towards reducing the deficit between the increasing

population levels, changing spatial patterns and our own contribution to the service delivery backlogs in South Africa, and in our service areas in particular. Of the 50 potential projects contained in the Growth Strategy Plan, nine were prioritised for implementation, depending on affordability and to position Magalies Water strategically in supporting the government's envisaged institutional reforms and realignment policy. The execution of due diligence with regards to two of the nine, which were set for 2018/19 Shareholder Compact's key performance indicators was concluded. Most of the latter projects are at the Implementation readiness stage. Magalies Water is awaiting the outcomes of the application for the borrowing limits, from the National Treasury as well as any other funding opportunities that might arise.

The key pillars of our strategy implementation included the following:

- Plan, design and deliver enhanced water treatment facilities within funding constraints and a commitment to perform due diligence to two of the 50 Growth Plan initiatives during 2018/19.
- Deliver water services that comply with the required standards of water quality, reliability and client satisfaction.
- Enhance capacity for delivery of Section 30 activities such that supply and demand of those activities are aligned.
- Maintain financial sustainability within approved tariffs.
- Develop human resources of Magalies Water,

suppliers and communities through transformation, skills development, local employment and enterprise development.

- Provide efficient and effective business support in finance, supply chain management, information communication and technology (ICT), governance and risk management.
- Engage shareholders, clients and stakeholders to incorporate their specific influence on operations and planning.

### **6.3.2. Strategic objectives, indicators, planned targets and actual performance**

To further give effect to the key pillars of the strategy, presented in this Report are the strategic objectives, performance indicators and targets that had been set on a predetermined basis as per the Shareholder Compact (2018/19). This Annual Report is submitted to the relevant regulatory stakeholders in order to comply with the legislative mandate imposed through Paragraph 29 of the Treasury Regulations and the PFMA, 1999, as amended and any other applicable frameworks pertaining to reporting on the status of state-owned entity (SoE) performance monitoring information.

In addition, the Report provides transparency in the manner in which Magalies Water applied the business imperatives in the sphere of measuring its success rate on the execution of its organisational strategy. The predetermined strategic key performance areas (KPA's)

and key performance indicators (KPIs) as articulated in the Corporate Plan and its related Shareholders Compact form the basis for the reported level of success measured during the strategy implementation plans.

Both the Corporate Plan (2018/2019 - 2022/2023) and the Shareholder Compact (2018/19) share the definition of the following strategic perspectives: -

- Organisational efficiency and effectiveness.
- Financial performance.
- Customer and stakeholder interaction.
- Organisational capacity.
- General performance.

### **6.3.3 Summary of achievements**

As at the end of the financial year ended 30 June 2019, Magalies Water's overall performance of 94.4% was achieved (34 achieved out of 36 contracted targets or KPIs). By comparison, this performance achievement represents a 1.4% improvement from the 2017/18 financial year's overall performance. Actions to address the two unachieved targets, which constitute the 5.6% of the 36 KPIs, are detailed later in this Report.

Table 22: 2018/19 FY overall performance as at the end of June 2019

Performance perspective	Performance meeting expectations	Performance not meeting expectations	Total
Organisational effectiveness and efficiency	9	0	9
Financial performance	9	1	10
Customer and stakeholder interaction	3	0	3
Organisational capacity*	6	1	7
General	7	0	7
Totals	34	2	36

Performance expectation	Achieved	Not achieved
Number of KPIs	34	2
Percentage of overall performance	94,4%	5,6%

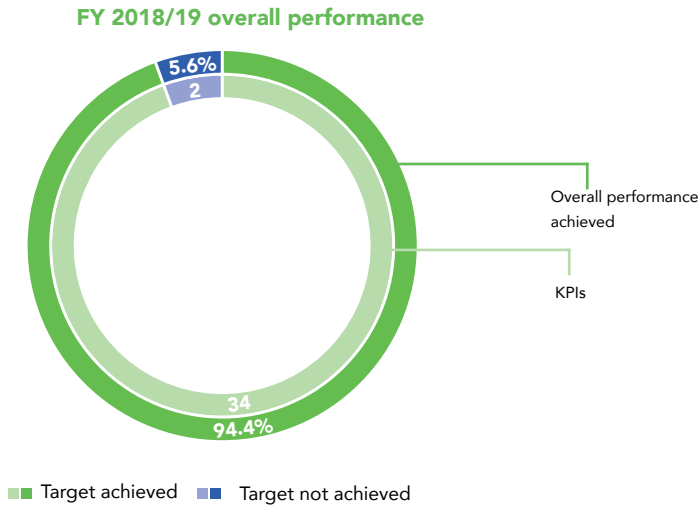


Figure 5: Overall performance

The above results represent performance information that has been audited by the Internal Audit function of Magalies Water as well as the AGSA. One of the two Key Performance Indicators that were not achieved was from the financial perspective while the other one is from the non-financial perspective. The sections that follow provide the respective corrective actions and measures put in place to improve the implementation successes.

The overall performance of 94.4% achieved can be explained in terms of the 34 Key Performance Indicators that had been achieved against 36 Key Performance Indicators that had been contracted as targets for the financial year. By comparison, this level of performance achievement represents a 1.4% improvement from the 2017/18 financial year's overall performance. Actions to address the two areas on non-achievement, which constituted the 5.6% of the 36 Key Performance Indicators, are detailed in the subsequent Sections of the Report.

#### **6.3.4 Overview of performance**

From this part of the Report, the details of performance information for all the key performance indicators (KPIs) are presented based on the Template of the Shareholder Compact. It should be noted that the KPIs that Magalies Water did not commit to implement are indicated with "Not contracted" or "N/A" or "N/A to MW". This is in line with the advice received from the Department of Water and Sanitation. The reasons for the Department to prefer the reflection of "Not contracted" or "N/A" or "N/A to MW" against the not measured Key Performance Indicators during the financial year is that the entire list in the Template is taken into account during the assessment of the Water Boards' performance. If these qualifiers are

not included, the assessing Team would not know if the exclusion is by omission or design.

In addition to the above, this Annual Report contains a number of footnotes at after most Tables containing the predetermined objectives due to the fact that during the business planning for 2018/19 financial year, Magalies Water had not followed the Department of Water and Sanitation Templates and the latter was only adhered to during the quarterly reporting time frames. This led to the realisation that there were some misalignment in the terms and terminologies adopted in the Templates for the same measurements that were technically meaning one and the same thing. Magalies Water could therefore report credibly on all the Key Performance Indicators and followed the King IV's 'apply and explain' principles, among others.

##### **6.3.4.1 Outlining performance targets not achieved**

The Recovery Plan for the two Key Performance Indicators, i.e., one Non-Financial and the other one for Financial Performance Perspectives that were not achieved during the 2018/19 financial year are as follows:-

#### **a. Disabling Injury Frequency Rate: Organisational capacity perspective**

The actual performance of 1.92 is almost double the <1 Target. This was due to the increase in the number of incidents (mostly car related) that led to work-time-losses. For the financial year, Magalies Water experienced a total of six (6) Injury-On-Duty (IOD) incidents compared to two (2) incidents



(1.73) recorded for the same period in 2017/18 financial year.

**b. Average Debtors Days: Finance performance perspective**

The Actual of 75 Average Debtors Days compared to the target of Average Debtors Days is reported. This was due to the delayed settlement of balances as well as non-payment experienced from some of the key customers.

- i. Continued interactions with the Municipalities to collect the amounts due.
- ii. Payment arrangement entered into and regularly monitored for compliance to terms of the agreements.
- iii. Implemented The Debtor's Collection Policy, resulting in restrictions being imposed on Debtors with a debt of over 90 days.
- iv. Going forward, Magalies Water has also appointed a panel of legal advisors who assist with recovering the long outstanding Debts, among others.

**Table 23** provides details of the non-financial KPIs status for FY 2018/19 and YTD for the achieved targets and the non-achieved targets.

#### 6.3.4.2 Outlining corrective actions

**a. Disabling Injury Frequency Rate: Organisational capacity perspective**

Magalies Water has implemented organisational wide training of employees on safe driving and safe work practices. The implementation of the newly reviewed safe work practices will be closely monitored, going forward.

**b. Average Debtors Days: Finance performance perspective**

Magalies Water embarked upon a number of more robust alternative measures to monitor and address the controls and challenges pertaining to the Average Debtors Days, and these included:-

**Table 23: Overall performance trends**

PERFORMANCE	2019	2018	2017	2016	2015
Water sold (KL'000) (+12%)	92 321	90 596	83 146	81 959	82 357
Revenue (+155%)	979 202	697 474	515 398	429 679	383 868
Gross profit (+586%)	540 981	319 848	189,430	136,009	122,546
Net surplus (+615%)	438 115	211 447	92 174	50 977	61 294
Investments (-41%)	114 859	109 943	115 191	110 220	193 650
Assets (+86%)	2 931 846	2 800 320	2 698 268	1 934 455	1 579 514
<b>Total assets (+59%)</b>	<b>3 440 388</b>	<b>3 350 593</b>	<b>3 145 294</b>	<b>2 376 205</b>	<b>2 168 033</b>

Refer to Part D - Financial performance perspective.



Table 24: AGSA and annual performance trends

Financial Year	2014/15	2015/16	2016/18	2017/18	2018/19
AGSA opinion	Unqualified # Findings	Unqualified # Findings	Unqualified # Findings	Unqualified # Findings	Unqualified # Findings
Annual performance	80%	62%	88%	93%	94%

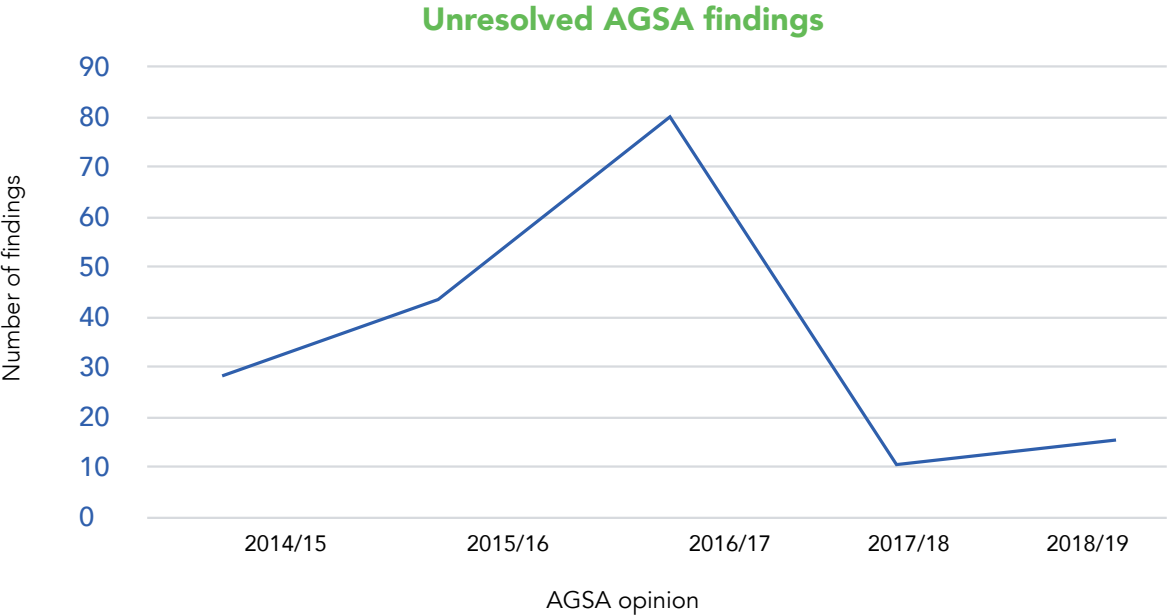
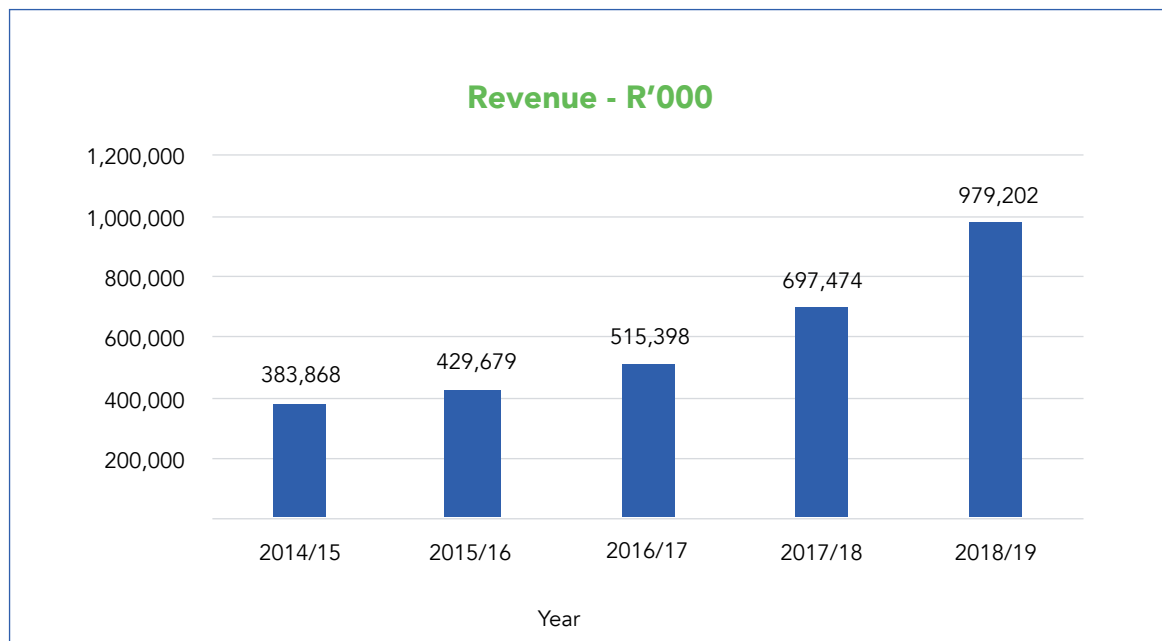


Figure 6: Unresolved AGSA findings

## Revenue growth trends

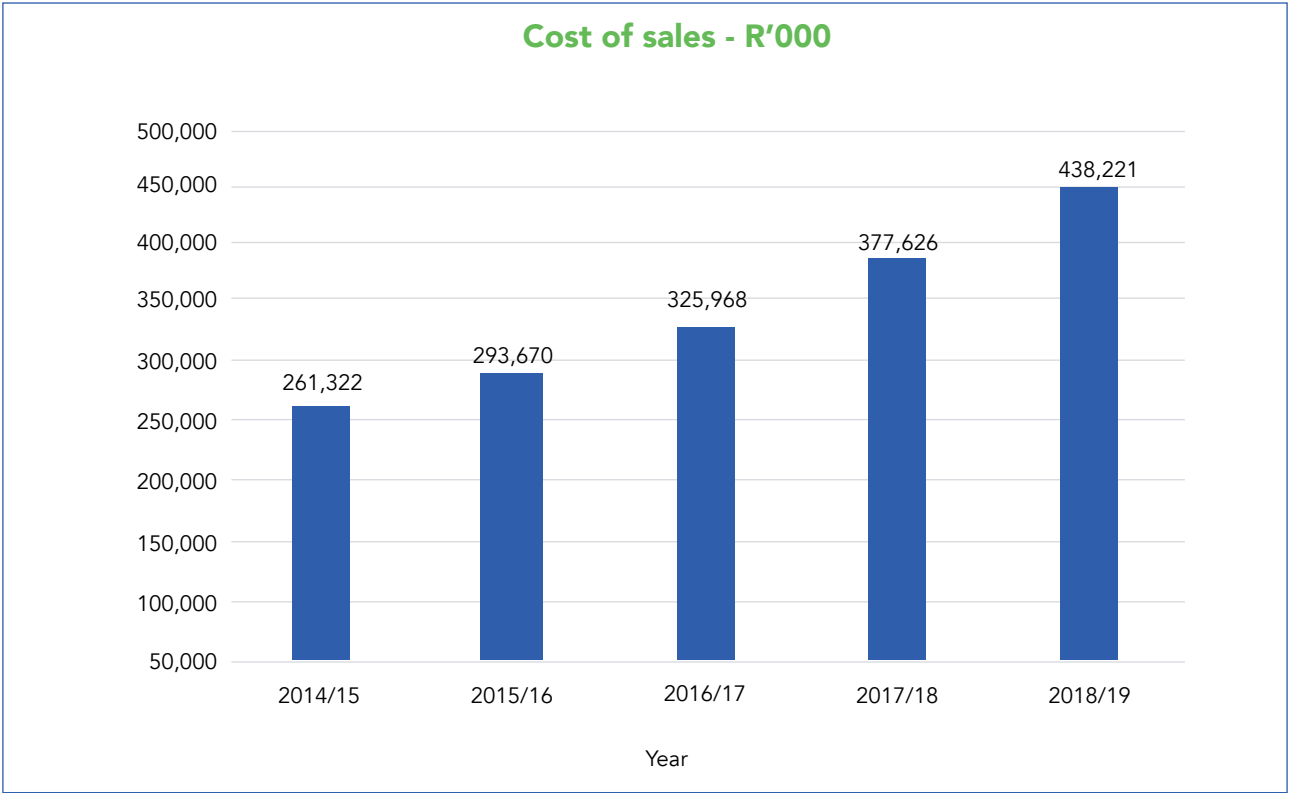


**Figure 7:** Revenue growth trends

Refer to the audited financial statement.



The cost of producing water has increased by 16% - attributable to increased supply; as well as the increase in prices of input production commodities such as electricity, chemicals and raw water.



**Figure 8:** Cost of sales







**Figure 9:** Net profit

The Section below illustrates performance for 2018/19 period ending 30 June 2019 by perspectives and per strategic objective.

## 6.4 Detailed Performance Per Strategic Objective and Performance

**Table 25: Organisational effectiveness and efficiency**

	Target not achieved		Target achieved	
Strategic objective	Key performance indicator	Annual target	Year to date actual performance	Reasons for non/over-achievement and corrective actions
To provide quality potable water	Bulk potable water quality compliance to SANS 241:2015 standards	Acute 1 $\geq$ 97%	99,88%	Overachievement reflects the continuous optimisation of the treatment processes.
		Acute 2 $\geq$ 97%	100%	Overachievement reflects the continuous optimisation of the treatment processes.
		Chronic $\geq$ 95%	99,60%	Overachievement reflects the continuous optimisation of the treatment processes.
		Aesthetic $\geq$ 93%	98,02%	Overachievement reflects the continuous optimisation of the treatment processes.
		Operational $\geq$ 93%	95,97%	Overachievement is due to the use of Chlorine Dioxide at Cullinan and also that Vaalkop reduced the Chlorine demand in the system.

Strategic objective	Key performance indicator	Annual target	Year to date actual performance	Reasons for non/over-achievement and corrective actions
To provide reliable and sustainable water services to customers	Percentage average water losses as percentage of water produced*^	Plants: ≤7%	4,96%	 Overachievement is due to the recycling of supernatant water.
		Distribution: ≤5%	3,31%	 Overachievement is because of an improvement in response time to attend to the pipe breaks as well as effectiveness of the controls that mitigate wastage.
	Number of incidents of continuous service delivery interruption exceeding 48 hours*^	≤8 incidents	0	 Overachievement is due to an improved effectiveness of the Call Centre's information distribution, and team effect, i.e., the turnaround and also the calibre of experts dispatched/involved in handling of this KPI or whot attend to the interruptions.
	% compliance to the Bulk Water Infrastructure Maintenance Plan\$&; *^	90%	98%	 Overachievement is due to the ability to attract and retain relevant expertise, planning through SAP System, appropriate budget allocation, and staff recognition are among the enablers to the entity's success in the adherence to this Critical Assets Maintenance Plan.


Notes for the performance objectives...firstly, \$&; \*^ denote that for good quality of potable water provided, Magalies Water is guided by the International Best Practice (IBP) on Asset Management. The latter recommends the effective Average Plant Utilisation Rate of between 80% and 85%. This is to allow for Plant operation during peak demand periods and for decision making purposes. An average utilisation above the prescribed IBP is an indication that an upgrade of the operating capacity may be overdue. Secondly, \*^ denote that the Strategic Objective for the relevant KPIs has been corrected. In the Shareholder Compact 2018/19, these were erroneously captured under "to provide quality potable water" to the complete omission of "to provide reliable and sustainable water services to customers" in the Plans' Tables.

The next Table reflects the Stakeholder Engagement Performance, and for other details on the Customer and Stakeholder Interaction, this Section can be read with the Stakeholder and Customer Division's as well as Corporate Governance Section's focussed reporting on the 2018/19 achievements, broadly.

**Table 26: Customer and stakeholder interaction**

	Target not achieved		Target achieved	
Strategic objectives	Key performance indicator	Annual target	Year to date actual performance	Reasons for non/over-achievement and corrective actions
To manage customer and Stakeholder Relations	% compliance with municipalities/ other customers with Bulk Supply Agreements (Scorecards weighted av.)	80%	92%	Overachievement is attributable to how external customers perceive Magalies Water's adhering to the service levels. Overall, an external score of 92% was achieved based on six local municipalities responses received. This measurement is tracked quarterly. During the last quarter of the reporting period, the Rustenburg Local Municipality did not provide the ratings.
	(Good Reputation and Legal Compliance with the Stakeholder Engagement Plan	80%	97%	Achieved at almost 100% that Magalies Water always aim for during the implementation of its plans. The 100% actual performance was nearly reached due to the increase in the number of the realised meetings / events. Included among the contributing factors are the changes in the Shareholder (Minister) due to the sixth Administration of Parliament, efforts to resolved debtors related matters, advancement of the growth strategy initiatives / proposals, and the change in the Board of Magalies Water.



Strategic objectives	Key performance indicator	Annual target	Year to date actual performance	Reasons for non/over-achievement and corrective actions
	Signed contracts, MOUs, etc.	Not contracted	Not contracted	Not contracted.
	Submission dates met **	100%	100%	 Achieved: A total of 12 mandatory statutory submissions to the authorities, as per the PFMA, 1999, as amended and its Regulations were met.

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**Notes for the performance objectives...**\*\*denote where annual and quarter targets in Q1:2018/19 Report were shown as 80% instead of 100% as it was in the SHC. It also shows the corrected KPI per SHC where “% Achievement of all Statutory Reports (on time)” had been captured in the Quarterly Reports.



## 6.5 Financial Reporting On Activities For The Quarter

For more details, this Section can be read with the Finance Division's focussed reporting on the 2018/19 achievements, broadly.

### 6.5.1. Overall Financial Performance

#### State the percentage achieved.

For year-end 2018/19, out of 10 measured financial KPIs, nine KPIs were achieved. This represents ninety percent (90%) performance achievement. The one unachieved KPI is Debtors Days target of 50 Days. The Recovery Plans for the KPI unachieved financial KPI is as follows:

- i. Performance target not achieved: Finance Perspective
  - **Total Debtors Days (Actual 75 Days vs 50 Days target):** Not achieved due to outstanding balances and non-payment by Madibeng LM, Moretele LM, Moses Kotane LM, Thabazimbi LM, Bela-Bela LM and Modimolle Mookgopong LM.

#### Corrective action: Performance not achieved - finance perspective




Below are some initiatives Magalies Water embarked upon, to monitor Debtors Days in a more robust way:

- Interactions with the Municipalities will continue to be held to collect the amounts due.
- Payment arrangement entered into will be regularly monitored to ensure that the municipalities are complying with the agreements.
- A panel of legal advisors who were appointed in 2018/19 assist Magalies Water with recovery of long outstanding debts.
- The Debtor's Collection Policy is implemented since 2018/19FY, resulting in restrictions being imposed on Debtors with a debt of over 90 days.
- Alignment of security deposit to consumption will be adhered in order to minimise the risk of non-recovery from the debtors.

### 6.5.1.1 Detailed financial performance information




**Table 27: Financial performance against pre-determined objectives**

	Target not achieved		Target achieved	
Strategic objectives	Key performance indicator	Annual target	Year to date actual performance	Reasons for non/over-achievement and corrective actions
To manage financial risks	Annual external Audit 2017/18	Unqualified Audit Report for 2017/18	Unqualified AR	 The Unqualified Annual Audit Outcome (2017/18) was achieved (as per the AGSA Report for 30 Nov 2018 submission).
	Breaches of materiality and significance framework	N/A to MW		

Strategic objectives	Key performance indicator	Annual target	Year to date actual performance	Reasons for non/over-achievement and corrective actions
To achieve growth and sustainable financial returns	Current ratio	1.5:1	1.7:1	 Overachieved due to increase in inventories and debtors balance (as a result of increased sales) and a decrease in provisions and other liabilities.
	Gross profit (EBITDA) margin	25%	32%	 Overachieved due to higher sales volumes; raising of demand charge; and lower chemical-, maintenance- and other -operating costs.
To manage financial risks	Annual external audit 2017/18	Unqualified Audit Report for 2017/18	Unqualified AR	 The unqualified annual audit outcome (2017/18) was achieved (as per the AGSA Report for 30 Nov 2018 submission).



Strategic objectives	Key performance indicator	Annual target	Year to date actual performance	Reasons for non/over-achievement and corrective actions
	Net profit margin (primary activity)	10%	22%	 Overachieved due to higher sales volumes; raising of demand charge; and lower chemical, maintenance and other operating costs.
	Debt/Equity Ratio	24%	0%	 Achieved because the application for the approval of the borrowing limits for the year was still in progress at the end of 2018/19 financial year.
To achieve growth and sustainable financial returns	Return on Assets	2%	5%	 Overachieved, this is mainly attributable to the recently commissioned assets and that Magalies Water is now realising revenue.
	Av. Debtors days	50 days	75 days	 Underperformed due to non-payment of customer accounts by local municipalities; this was despite Magalies Water's several engagements, and alternative initiatives/ interventions – e.g., restrictions, arranging payment agreements, among other.




Strategic objectives	Key performance indicator	Annual target	Year to date actual performance	Reasons for non/over-achievement and corrective actions
	% working capital to revenue (Working capital ratio)	82%	68%	 Overachieved due to higher sales volumes; raising of demand charge; and lower chemical, maintenance and other operating costs.
	Staff remuneration as a % of total OPEX	≤35%	34%	 Overachieved due to commitments raised in the previous Quarter that could only be finalised by the end of the financial year.
	Actual CAPEX spend on expansion related projects as % of total CAPEX budget  (previously measured in milestones)*/%	≥90%	98,64%	 Overachievement of the budget spend was possible due to the re-allocation of funds from the underperforming parts of the CAPEX Programme to other prioritised initiatives.  Overall, 99% of the CAPEX Programme budget was expensed, i.e., the Annual budget of R155,000m vs spend of R153,299 worked out to 98,64% for FY 2018/19.




1. \*/% for noting that the Quarter 3 and Q4 reporting did not flow with Q1 and Q2 because the grant-funding-based CAPEX's budget had to be excluded from the performance outcomes that had been reported at 19% and 33% during the first two (2) Quarters. Upon recalculation, the outcomes changed to 7% and 25% for the respective reporting periods in question.

## 6.6 Reporting on Governance Activities for the FY 2018/19

For more details, this Section can be read with the Corporate Governance Section's focussed reporting on the 2018/19 achievements, broadly.

**Table 28: General perspective against pre-determined objectives: to manage customer and stakeholder relations (adapted from SHC)**

 Target not achieved			 Target achieved	
Strategic objectives	Key performance indicator	Annual target	Year to date actual performance	Reasons for non/over-achievement and corrective actions
To manage customer and stakeholder relations	% Board members' attendance (Board/Committee)	85%	92%	 Overachieved due to the transition by May 2019 - the new and old Board change effect.  The Board Members' attendance had been contracted for reporting at the end of the financial year and this increase to 92% (254 attendance out of 277) invitations against the target of 85% is due to the changes of the Board during the financial year.

Strategic objectives	Key performance indicator	Annual target	Year to date actual performance	Reasons for non/over-achievement and corrective actions
	Total number of meetings planned for the Quarter vs Actual number of meetings held for the Quarter */*/*	24	41	 Overachieved due to the Board Membership transition during May 2019; the new and old Board change effect led to 41 actual meetings held compared to the 24 planned meetings.  Note: The Board established the Chairpersons Coordinating Committee. Refer to the Corporate Governance Section of this Annual Report for more details.
	% No. of resolutions taken by the board vs number of resolutions required	100%	100%	 Achieved: All six planned resolutions were taken as required.
	Progression of growth projects (Due diligence Reports) to Board resolution level	2	2	 Achieved: The business cases were concluded as planned.

2. Notes for the performance objectives...\*/\*/\* denote the full KPI had to be reinstated per SHC of 31 May 2018 to replace the abridged "No. of Meetings planned for the quarter vs Actual" as it had been in the Quarterly Reports.

**Table 29: External Audit Report**

External audit matters raised for the past year	Resolved/not resolved	Planned actions/progress to date	Due date
The AGSA concluded the audit process in Q2. MW achieved an unqualified audit with 12 findings (Annual Report 2017/18).		Of the 12 findings, six were in progress as at the end of 2018/19 FY and the other six had been resolved.	

**Table 30: Internal Audit Report**

Audit matters raised for the financial year	Resolved/not resolved	Planned actions/progress to date	Due date
Internal Audit had put processes in place to track findings. The internal auditing of external audit Findings (2017/18) was outsourced starting from May 2019.  The status will be concluded and included in the 2019/20 Annual Report		This is covered in terms of the Board approved 2019/20 FY's Internal Audit Plan.  2019/20 FY-end while monitoring of progress will be conducted and reported quarterly.	



# 07

## GOVERNANCE

### 7.1 Board and Sub-Committee meetings

The Board of Magalies Water constituted a fundamental base for the application of corporate governance principles in the organisation. Board members had designated portfolio of responsibilities reflecting particular strategic priorities. Table 31 shows Board meetings schedule for quarterly meetings. Six planned meetings per Quarter for the sub-committees, i.e., planned 24 for the financial year as per the SHC. Including the full and normal sessions of the Board, this meant that a total of 28 Board meetings could be reported as planned and held during the financial year. However, a total of 41 meetings effectively took place during the financial year as the Entity accommodated the Board membership changes, among others.



**Table 31: Board meetings: FY 2018/19**

Board meetings	Board meetings directed: DWS policy regarding Board practices and the remuneration of Board (members)	Scheduled meetings for the FY 2018/19	Special meetings scheduled for the FY 2018/19	Total number of meetings held	Board member attendance of board meetings	Ministerial approval (where required)
Board and Subcommittee meetings	The Minister appointed new Magalies Water Board members and the remuneration and practices matters inherent to the process were addressed, accordingly.	The status that was reported quarterly culminated to the Corporate Governance Section of this Report in so far as the Board Committee sessions held for the financial year.	The status that was reported quarterly culminated to the Corporate Governance Section of this Report for the financial year achievements. The Board members were actively involved in the Magalies Water events, briefings, Task Team works, Chairpersons Coordinating Committee meetings - the latter got introduced for the first time during the financial year 2018/19.	41 meetings held out of 24 meetings planned for the financial year.	Achieved as per the outline in the Corporate Governance Section of this Annual Report.	The necessary approvals were secured on time, where required during the year ending 30 June 2019.

Notes for the performance objectives... It should be noted that, upon further consultation with NOSA during the financial year, the Quarterly reporting as per the SHC had to be reviewed due to the realisation of the prescribed 12-months calculations spectrum for this kind of the KPI.

Board meetings	Board meetings directed: DWS policy regarding Board practices and the remuneration of Board (members)	Scheduled meetings for the FY 2018/19	Special meetings scheduled for the FY 2018/19	Total number of meetings held	Board member attendance of board meetings	Ministerial approval (where required)
Attendance of Board members	The Board Chairperson and other Executives and Board member support responded as and when required by the Ministerial Plan and national Assembly and Portfolio Committee/s.	For the year's details – refer to the Corporate Governance Section of this Annual Report.	For the year's details – refer to the Corporate Governance Section of this Annual Report.	<p>277 invitations and ±254 attendance.</p> <p>For the year – 92% achieved; Refer to the Corporate Governance Section of this Annual Report for more details.</p>	For the year's details – refer to the Corporate Governance Section of this Annual Report.	The necessary approvals were secured on time, where required during the year ending 30 June 2019.

# 08

## ORGANISATIONAL CAPACITY: EMPLOYMENT REPORT

Magalies Water adapted in line with the SHC and the Corporate Plan, Table 32 by arrangement with DWS. For more details, this Section can be read with the Corporate Services Division's focussed reporting on the 2018/19 achievements, broadly.





**Table 32: Organisational capacity performance against pre-determined objectives**

	Target not achieved		Target achieved	
Strategic objective	Key performance indicator	Annual target	Year to date actual performance	Reasons for non/over-achievement and corrective actions
To maintain retention and safety of employees)	Percentage Staff turnover	<3%	1,15%%	 Overachieved at 1.15% due Magalies Water's retention strategies such as market related salaries, medical aid and other benefits.
	DIFR	<1	1.92	 Underachieved: DIFR performance over the past 12 months was above the target of 1 due to the increase in the number of work-time-loss related incidents, i.e., six in 2018/19 compared to two in for FY 2017/18. In both years, these were mostly vehicle related.




## 8.1 Job Creation

For more details, this Section can be read with the Corporate Services Division's focussed reporting on the 2018/19 achievements, broadly.

**Table 33: Organisational capacity performance - capacity building and skills development against pre-determined objectives**

	Target not achieved		Target achieved	
Strategic objective	Key performance indicator	Annual target	Year to date actual performance	Reasons for non/over-achievement and corrective actions
To contribute towards transformation and developmental agenda	Number of people appointed on the Learnership programme.	25	22	 Achieved  Magalies Water had 25 appointed as planned but closed with 22 learnership participants due to the withdrawal of three external learnership candidates during FY 2018/19.
	Number of people appointed on the Internships programme.	10	19	 Overachieved due to the deliberate delay in the filling of full time positions partly as a result of budget constraints. The additional nine Interns were recruited intentionally in order to also support the Outcome 4 or the Y-E-S Government Programmes, among others.



Strategic objective	Key performance indicator	Annual target	Year to date actual performance	Reasons for non/over-achievement and corrective actions
	Number of external bursaries awarded.	10	13	 Overachieved due to the intentional objective of continuing to support the four bursars who had been carried over from the previous years' study timelines. This meant that the externally recruited bursars would overlap over the years since the study years are aligned with the Magalies Water's FY. For the FY 2019/20 through to the end of the study cycle, nine external bursaries were awarded. Hence, 13 placements were realised.
	Number of people appointed on the Graduate programme.	4	4	 Achieved as planned
	Number of people employed (Permanent and contract).	Direct: 20	22	 Overachieved due to prioritisation of positions vacant in the 305 staff complement's approved structure relative to the 283 staff count when the FY 2018/19 started and 277 people by the year ending 30 June 2019. Vacancies were filled as and when necessary, according to skills criticality. As a result ten people were placed on a fixed term contract for three years by Quarter 3 of this particular financial year, effectively increasing the employed people to 32.

# 09

## CORPORATE SOCIAL INVESTMENT

For more details, this Section can be read with the Stakeholder and Customer Service Division's focussed reporting on the 2018/19 achievements, broadly.



Magalies Water implements the Corporate Social Investment (CSI) activities in accordance to the CSI Policy of Magalies Water. In consultation with the local municipalities within the service areas, the needs analysis

is undertaken and the scoping is performed to identify priority areas for implementation such that all remains within the constraints of the available resources.

Five CSI projects were completed by the end of 2018/19 financial year and these were based on the Board approved CSI Programme.







**Table 34: General performance perspective: Corporate Social Investment (Effected the DWS Reporting Template vs SHC)**

	Target not achieved		Target achieved	
Strategic objective	Key performance indicator	Annual target	Year to date actual performance	Reasons for non/over-achievement and corrective actions
To manage customer and Stakeholder Relations	Number of initiatives undertaken	3	5	 During Quarter 2, the Board approved the CSI initiatives for the FY 2018/19. By the end of the FY, five projects had been completed, that is:  1. Installation of VIP toilets (70 units) at Moretele LM.  2. Dorpsruit Stream Clean-Up Campaign for the Mandela Day Inter-stakeholder involving Magalies Water's Board and staff.

Strategic objective	Key performance indicator	Annual target	Year to date actual performance	Reasons for non/over-achievement and corrective actions
				<p>Rustenburg Local Municipality, communities members, live radio broadcast by Mafisa FM and the event was published online by <i>Mail &amp; Guardian</i> (Musa Ndlangamandla).</p> <p>3. Magalies Water donated blankets for the elderly in Lephalale Local Municipality.</p> <p>4. The Madibeng Project included:</p> <p>a. Jericho: Madima a Toloane S School - Refurbishment of water supply system.</p> <p>b. Mmakau Moemise P School - Refurbishment of school toilets</p> <p>5. Moses Kotane LM :</p> <p>a. Clinic water tank installation.</p>

Notes for the performance objectives...firstly, #@! Explains the full KPI that had to be reinstated per SHC of 31 May 2018 to replace the "Number of Corporate Social Investment Initiatives implemented" that was reflected quarterly, throughout the financial year. Secondly, by July 2018, Magalies Water received the DWS Reporting Template which categorise the initiative as "General Performance", thereby giving rise to the "Stakeholder and Customer Satisfaction" as a Perspective and "To contribute towards transformation & development. agenda (Customer & stakeholder relations") as the Strategic Objective as it had been in the aforementioned SHC unaligned.

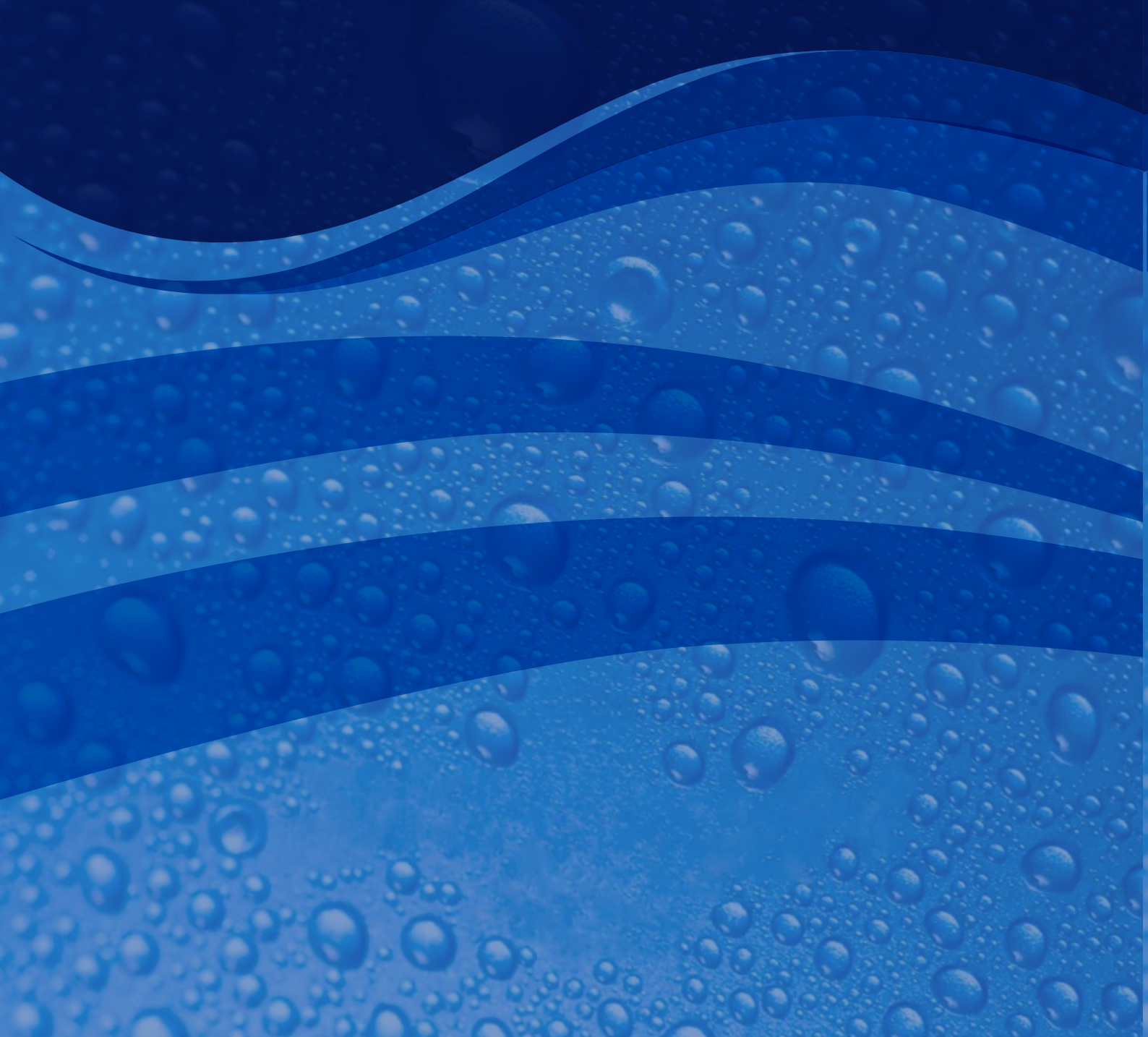
**Table 35: Other general performance perspective: internal audit 2017/18 audit findings (Effectuated the DWS reporting template vs SHC)**

	Target not achieved		Target achieved	
Strategic objective	Key performance indicator	Annual target	Year to date actual performance	Reasons for non/over-achievement and corrective actions
To manage financial risks	Number of repeat and unresolved internal audit findings	Repeat ≤ 2	0	 No repeat findings.
		Unresolved ≤ 5	0	 All findings were resolved.

Notes for the performance objectives...similar to the CSI comment above, #\$\$% denote where the Shareholder submitted by 31 May 2018 had had "Finance and governance" as the Performance Perspective while upon receiving (by Jul 2018) the DWS's Reporting Template, this KPI was found to be categorised as "General Performance".









# PART C:

## GENERAL PERFORMANCE AND ASSURANCE



# 10

## GENERAL PERFORMANCE AND ASSURANCE

### 10. The Office of the Chief Executive Officer

The Office of the Chief Executive Officer (CEO) includes the Company Secretary, Enterprise Risk Management, Internal Audit, Strategy Management Departments, Corporate Services Division, and Stakeholder and Customer Services Division.

#### 10.1 Internal Audit

Magalies Water's Internal Audit function is an independent assurance provider to the Magalies Water's Audit Committee on the effectiveness of the SoEs internal control environment, including its internal financial controls, and effectiveness of its risk management and governance processes.

The Internal Audit function is supported by a panel of internal audit service providers. For the reporting period, 2018/19, the function performed a review on the effectiveness of the internal control environment which included financial controls, corporate governance and risk management processes within Magalies Water (a

Schedule 3B - SoE).

The internal audit activities performed during the FY 2018/19 were identified through a combination of the Magalies Water's Risk Management processes as well as a risk-based internal audit methodology adopted by the Internal Audit function. The FY 2018/19 risk-based Annual Internal Audit Plan was approved by the Audit Committee. The internal audit activities are executed by an appropriately qualified and experienced team of internal auditors, and through the engagement of external practitioners on specified and agreed terms for selected specialised projects. The Head of Internal Audit has a functional reporting line to the Audit Committee and provides quarterly feedback on progress made towards the achievement of the audit plan; including governance, risk management and internal control environment.

Based on the work performed by Internal Audit during the FY 2018/19, the opinion from Internal Audit Department is that governance, risk management and internal control environment was effective within Magalies Water as an organisation. This provides reasonable assurance that the objectives of the organisation would be achieved.

## 10.2 Fraud and corruption

Aligned with its commitment to principles of transparency, honesty and integrity in the conduct of business, Magalies Water actively works towards the prevention of corruption and bribery, including procedures that provide guidance on areas such as receiving gifts and donations. Employees of Magalies Water who do not comply with the organisation's code of business conduct and ethics face disciplinary action, including dismissal.

The reporting of suspected cases of fraud and dishonest behaviour is handled through an independently hosted hotline and other internal arrangements for walk-ins. Magalies Water views whistle-blowers as critical in the detection and prevention of fraud and dishonest behaviour. As a SoE it commits to the protection of whistle blowers.

The outsourcing decision enabled compliance with the provisions of the Protected Disclosures Act (Act 26 of 2000) for whistle-blowers and whistle-blowing processes. That is done to protect people who would have made such disclosure in good faith.

## 10.3 Enterprise risk management

Magalies Water has a dedicated risk management function based in the Office of the Chief Executive Officer (CEO). It is responsible for coordinating and supporting the overall organisational risk management process which

includes business continuity, fraud, corruption, related whistle-blowing services and compliance management.

The organisation has an approved risk management framework, policy and strategy which guides the risk management processes. It also has an effective Risk Management Committee (internal). The Risk Committee of the Board provides oversight on risk and the organisation's control environment, while the Audit Committee provides an independent oversight on the adequacy and effectiveness of the risk management process.

The organisation's approach to risk management is based on established governance processes which rely on both individual responsibility and collective oversight, supported by comprehensive reporting. As acknowledgement of the complex and changing risk environment, continuous risk assessments are conducted to identify any emerging risks that could have a negative impact on realisation of organisational goals.

## 10.4 Risk management (including Treasury risks)

Magalies Water Board has adopted an enterprise-wide approach to risk management. Strategic and operational risks were identified during FY 2018/19 and reported to the Risk Committee of the Board and to the Board on a quarterly basis.



Table 36 depicts Magalies Water's strategic risks for the year ending 30 June 2019.

**Table 36: Strategic risk report**

No	Risk category	Description of risk	Residual risk			Root cause	Mitigation measures	Implementation progress as at Quarter Four (Q4) of the FY 2018/19
			Likelihood	Impact	Rating			
1.	Raw water supply	Inadequate raw water supply (Quantity)	Major(4)	Likely (4)	High (16)	<p>1. Low dam levels.</p> <p>2. Infrastructure failure.</p> <p>3. Augmentation system/restriction or failure.</p> <p>4. Dependency on infrastructure owned by external parties.</p> <p>5. Raw water dam leaks.</p>	<p><b>VAALKOP RAW WATER SYSTEM</b></p> <p>1. Magalies Water to take over operations and maintenance of canal – DWS.</p> <p>2. Maintain flow into the canal by controlling algal growth.</p> <p>3. Prevent blockages by regular cleaning of the canal.</p> <p>4. Daily monitoring of the canal flow in dam.</p> <p><b>CULLINAN RAW WATER SYSTEM</b></p> <p>1. Take over raw water supply system from Cullinan Diamond Mine.</p> <p>2. Repair raw water dam leak at Cullinan WTP.</p> <p>3. Monitor and report on raw water quality.</p> <p>4. Continuous engagement with DWS.</p>	<p><b>VAALKOP RAW WATER SYSTEM</b></p> <p>1. Dam levels increased to 42.3% - Communication with DWS is ongoing.</p> <p>2. Nothing to report.</p> <p>3. Cleaning and removal of vegetation in the canal by Magalies Water team is now ongoing.</p> <p>4. Daily monitoring and reporting of dam levels and canal flow rates done.</p> <p><b>CULLINAN RAW WATER SYSTEM</b></p> <p>1. Cullinan Diamond Mine (CDM) to forward letter of intent for transfer of system. No progress from CDM side.</p> <p>2. No progress for this quarter.</p>

No	Risk category	Description of risk	Residual risk			Root cause	Mitigation measures	Implementation progress as at Quarter Four (Q4) of the FY 2018/19
			Likelihood	Impact	Rating			
2.		Poor quality of raw water resources	Major (4)	Likely (4)	High (16)	1. Droughts and floods. 2. Increase natural resource consumption. 3. Deteriorating quality of raw water. 4. Inadequate distribution system management. 5. Over abstraction of natural water resource. 6. Pollution. 7. Inappropriate plant treatment processes and technologies. 8. Inadequate maintenance of the Canal.	1. Monitor and report on raw water quality. 2. Continuous engagement with DWS.	1. Scientific Services is monitoring the catchment areas to determine the contaminants polluting the catchment areas. 2. Engagements: 2.1. From the data collected, Scientific Services will compile a report with analysis and submit it to the relevant officials. 2.2. Engagement with City of Tshwane.

No	Risk category	Description of risk	Residual risk			Root cause	Mitigation measures	Implementation progress as at Quarter Four (Q4) of the FY 2018/19
			Likelihood	Impact	Rating			
3.	Profitability and liquidity	Inadequate financial resources to sustain operations	Major (4)	Likely (4)	High (16)	<p>1. Capital expenditure budget not sufficient to ensure all planned projects are executed timeously.</p> <p>2. Inadequate debt collection.</p> <p>Operational inefficiencies, ineffectiveness.</p>	<p>1. Application of borrowing limits. Develop a debt collection strategy and ensure implementation.</p> <p>2. Adhere to the transfer of monthly 2% of debtors paid transferred to debtors' accounts.</p>	<p>1. A report was submitted by the service provider which was presented to Finance Committee and the Board. The Board has provided the Executive Committee with a mandate to start the process of applying for a borrowing limit from National Treasury. Documentation was sent to National Treasury to apply for borrowing limit. Still awaiting feedback.</p> <p>2. The Debt Collection Policy was approved by the Board during the meeting that was held on 23 November 2018.</p> <p>3. No surplus funds were available to transfer the monthly 2% of payment received from debtors.</p>

No	Risk category	Description of risk	Residual risk			Root cause	Mitigation measures	Implementation progress as at Quarter Four (Q4) of the FY 2018/19
			Likelihood	Impact	Rating			
4.	Physical safety & security	Security breaches and incidents	Critical (3)	Possible (3)	Mod- erate (9)	1. Lack of security procedures. 2. Lack of physical security management. 3. Hostages and harassments. 4. Inadequate security systems. 5. Lack of safety and security awareness.	1. Follow up on the implementation of the recommendations of the Security Risk Assessment Report. 2. Issue a contravention fine where applicable. 3. Report all hostages and harassments to the police immediately. 4. Conduct safety and security awareness campaign (4 & 5).	1. Security Policy and Procedures have been drafted and will serve at EXCO. 2. For 2 & 3 - one security incident of cable theft at Wallmannsthal was reported in May 2019. 3. None. 4. Security awareness is conducted through the use of a newsletter on a monthly basis.

No	Risk category	Description of risk	Residual risk			Root cause	Mitigation measures	Implementation progress as at Quarter Four (Q4) of the FY 2018/19
			Likelihood	Impact	Rating			
5	Reputation	Erosion of reputation	Moderate (3)	Possible (3)	Moderate (9)	<p>1. Inadequate stakeholder engagement.</p> <p>2. Poor customer service.</p> <p>3. Inadequate marketing and communication.</p> <p>4. State of the organisational climate.</p> <p>5. Poor handling of confidential information.</p> <p>6 * Ineffective internal and external Communication Strategy.</p>	<p>1. Ensure effective implementation of the Customer/ Stakeholder Engagement Plan.</p> <p>2. Develop an internal and external strategy and ensure implementation.</p> <p>3. Develop procedures on handling confidential information and enforce accountability.</p>	<p>1. Customer and Stakeholder Engagement Plan.</p> <p>2. Stakeholder meetings: Target: 2 stakeholder meetings. Actual achieved: 100%.</p> <p>3. WSA meetings – target: 6 meetings; actual meetings held: 0% (meetings were scheduled for July 2019).</p> <p>4. Mine meetings attended: Annual target: 2; Current: 1 (50%) - Central Meeting. Meeting was held on 29 March 2019 and the second meeting was planned for July 2019.</p> <p>5. Text messages to councillors and customers are sent continuously.</p> <p><b>Customer care/feed-back:</b></p> <p>6. Customer Contact Centre resolution rate: Target: 80%; actual achieved 88.44%,</p> <p>7. Queries received: 277, resolved: 245, unresolved cases: 32.</p> <p>8. Overall Customer Contact Centre Score Card: Target: 80%; Actual: 87%.</p>



No	Risk category	Description of risk	Residual risk			Root cause	Mitigation measures	Implementation progress as at Quarter Four (Q4) of the FY 2018/19
			Likelihood	Impact	Rating			
6.	Bulk water infrastructure constraints	Current infrastructure not meeting current demand	Major (4)	Possible (3)	Moderate (12)	<p>1. Ageing infrastructure.</p> <p>2. Delays in project implementation.</p> <p>3. Dependency on infrastructure owned by external parties.</p> <p>4. *Leaking dams.</p> <p>5. Unreliable electricity supply and poor assets management.</p> <p>6. Obsolete equipment.</p> <p>7. Delays in finalising procurement processes.</p> <p>8. Inadequate financial resource.</p> <p>9. Inadequate human resource capacity.</p> <p>10. Regulatory interruptions.</p>	<p>1. For 1 &amp; 2, conclude the borrowing process with the National Treasury.</p> <p>2. Same as above</p> <p>3. Update Bulk Water Master Plan and Develop Bulk Sanitation Master Plan.</p> <p>4. Ensure the Implementation of minor Capital Expenditure (CAPEX) projects.</p> <p>5. Implementation of Bulk Water Infrastructure Master Plan.</p> <p>6. Capacitate the SCM Unit.</p>	<p>1. See action above (Supply Chain Management (SCM) Unit).</p> <p>2. See action above (SCM Unit).</p> <p>3. See action above (SCM Unit).</p> <p>4. The implementation of minor CAPEX is ongoing.</p> <p>4.1 Cullinan Raw Water Balancing Dam Refurbishment: Bid specification document has been drafted.</p> <p>4.2 Cullinan Clarifier Refurbishment: request for quotation (RFQ) process is underway.</p> <p>4.3 Wallmannsthal Welding Workshop: Tender evaluations to be done at Bid Evaluation Committee (BEC).</p> <p>4.4 Wallmannsthal River Sub-station: Tender went for BEC and was recommended to re-advertise due to bidder unresponsive.</p>

No	Risk category	Description of risk	Residual risk			Root cause	Mitigation measures	Implementation progress as at Quarter Four (Q4) of the FY 2018/19
			Likelihood	Impact	Rating			
						11. Business interruptions. 12. Lack of planning software.		<p>4.5 Klipdrift and Wallmannsthal Fencing: Contractors are onsite, Klipdrift 64% complete; Wallmannsthal 64% complete.</p> <p>5. Implementation of Bulk Water Infrastructure Master Plan is ongoing.</p> <p>5.1 Moretele South rising main and reservoir: Rising main, progress 35%. The reservoir tender has been cancelled due to budget not being available.</p> <p>5.2 Sondela booster pump station: Civil and mechanical - Completed, progress 100%. Electrical and instrumentation - Ongoing, progress 99%.</p> <p>5.3 Wallmannsthal highlift pump station: Progress 78%.</p> <p>5.4 Tuschenkomst to Ruighoek pipeline and pump station: Completed; 100%.</p>

No	Risk category	Description of risk	Residual risk			Root cause	Mitigation measures	Implementation progress as at Quarter Four (Q4) of the FY 2018/19
			Likelihood	Impact	Rating			
7.	Information and Communication Technology (ICT) governance	Failure to align ICT activities to the approved governance framework, policies and procedures.	Moderate (3)	Possible (3)	Moderate (9)	1. Not adhering to approved Information and Communication (ICT) policies, procedures and frameworks.	<p>1. Monthly review of ICT Compliance report.</p> <p>2. Monthly monitoring of compliance to ICT Framework, policies and procedures.</p> <p>3. Review the ICT Strategy and Policies, and Disaster Recovery processes.</p>	<p>Firewall review were conducted and filed for record purpose. System administrator activities were conducted on the System Application Product (SAP), Visual Internet Protocol (VIP) and Active Directory in Q4.</p> <p>The ICT Master System Plan review is in progress. The Master System Plan will assist the organisation to align ICT activities with the Corporate Plan.</p>
8.	<p>Potable water quality (SANS compliance) -</p> <p>Raw water resources</p>	Poor potable water quality (non - compliance with SANS	Moderate (3)	Unlikely (2)	Low (6)	<p>1. Droughts and floods.</p> <p>2. Increase natural resource consumption.</p> <p>3. Deteriorating quality of raw water.</p> <p>4. Inadequate distribution system management.</p> <p>5. Over abstraction of natural water resource.</p> <p>6. Pollution.</p> <p>7. Inappropriate plant treatment processes and technologies</p> <p>8. Inadequate maintenance of canal.</p>	1. Conduct annual technical process audit for each plant and implement recommendations thereof.	Treatment processes are monitored on a four-hourly basis and online monitors are being restored to improve timeous response to process changes.

No	Risk category	Description of risk	Residual risk			Root cause	Mitigation measures	Implementation progress as at Quarter Four (Q4) of the FY 2018/19
			Likelihood	Impact	Rating			
9.	Critical skills and knowledge	Failure to maintain retain and develop critical skills.	Moderate (3)	Unlikely (2)	Low (6)	<p>1. Lack of identification of critical and core skills.</p> <p>2. Competition for skills.</p>	<p>1. Ensure approval and implementation of policies.</p> <p>1.1 Succession Planning Policy.</p> <p>1.2 Recruitment Policy.</p> <p>2. Ensure that all HR policies are published on the intranet and are communicated through inductions.</p> <p>3. Develop a Retention Policy.</p>	<p>1. Succession and Recruitment policies workshops finalised.</p> <p>2. Draft succession procedures.</p> <p>3. Retention Policy finalised and awaits input from labour.</p>





# 11

## ORGANISATIONAL EFFICIENCY AND EFFECTIVENESS

### 11.1 Operations

Magalies Water's operations are taken care of by the Chief Operations Officer who is assisted by three members of the Executive Committee, namely, the General Manager: Water Services, General Manager: Project Management Unit, and General Manager: Engineering Services.

#### 11.1.1 Water Services Division

The mandate of the Water Services Division includes implementing scientific service related functions and our state-of-the-art laboratory remains the flagship enabler for analytical services on potable water supplied to customers.

##### a. Laboratory services

Until 1 July 2015, Magalies Water housed its scientific services laboratory at Vaalkop Water Treatment Plant and customer accessibility was, due to long distance and location, a challenge. It was then relocated to a more central facility in Brits; a move that was appreciated by our customers.

The Brits laboratory provides a wide variety of world-class services to clients at the backdrop of being International Organisation for Standardisation/the International Electrotechnical Commission 17025 (ISO/IEC 17025)

accredited in the field of Microbiology and Chemistry in the North West province. ISO/IEC 17025 enables laboratories to demonstrate that they operate competently and generate valid results, thereby promoting confidence in their work both nationally and around the world. Highly skilled staff conduct over 60 000 analyses annually to ensure that water quality complies with the national drinking water standards set by the SANS 241:2015.

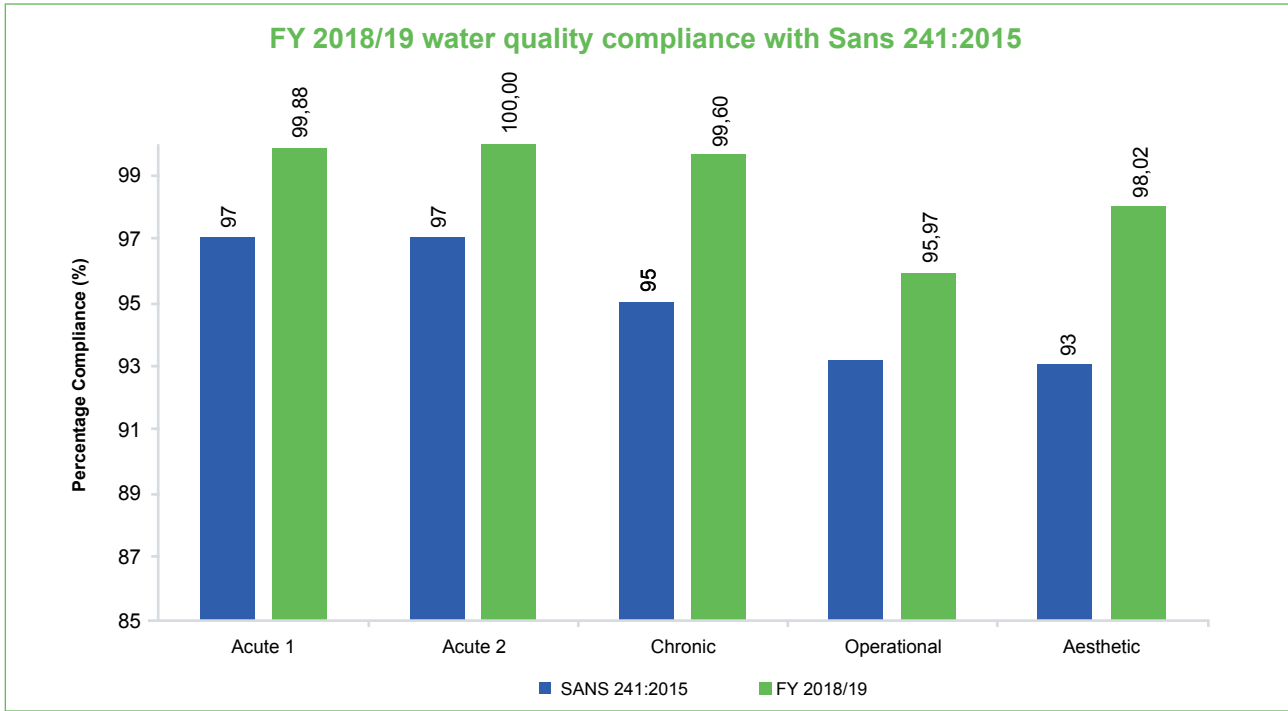
The sampling and monitoring programmes are compliant with the Blue and Green Drop requirements in line with SANS 241:2015 on waste water discharge requirements.

Brits laboratory is run by 24 permanent and energetic professionals, younger than 35 years of age and gender equity is at 62.5% female and 37.5% male. World-class equipment is used and the laboratory has achieved 56 accredited determinants comprising 45 Chemistry determinants and 9 for Microbiology and Hydrology. In addition, three more method of analysis were recommended for accreditation by SANAS for chemistry.

##### b. Water quality compliance

Magalies Water has set performance indicators to monitor and assess water quality supplied to customers in line with the SANS 241:2015 specifications. Figure 10 depicts actual achievement on compliance in terms of all SANS

241:2015 specified risk categories (namely, Acute 1, Acute 2, Chronic, Aesthetic and Operational) which are key indicators to establish the quality of potable water for consumption during the reporting period of FY 2018/19.



**Figure 10:** Magalies Water SANS 241:2015 compliance results for the FY 2018/19

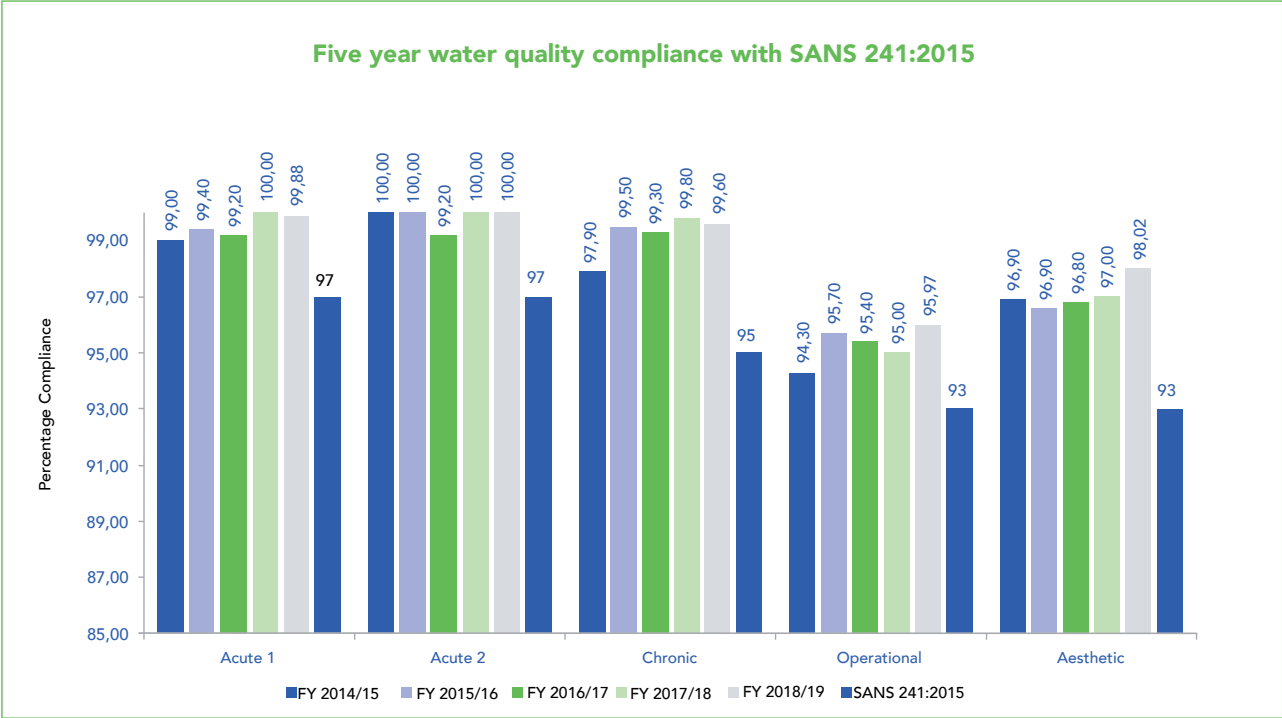
The four **water quality determinants** referred to above should be understood as follows:

- **Acute health** (both 1 and 2) refers to determinants that pose immediate and unacceptable health risk if specified contamination limits are exceeded.
- **Aesthetic** refers to determinants that taint water with respect to taste, odour or colour but do not pose any unacceptable health risk even if specified contamination limits are exceeded.
- **Chronic health** refers to determinants that pose unacceptable health risk if ingested over an extended period of time, provided their presence exceeds specified SANS 241:2015 limits.
- **Operational** refers to determinants that are essential for the assessment of the efficient operation of treatment

systems and identification of risk to the infrastructure.

The above success levels are attributed to the ability of Magalies Water laboratory to accurately analyse and timeously report on water quality so that key and critical operational decisions could be taken and implemented at the Water Treatment Plants (WTPs).

A continuous trend that dates back from the FY 2014/15 to the FY 2018/19 is highlighted in Figure 11 regarding Magalies Water compliance to SANS 241:2015. The compliance achievement levels over the past five years are attributable to the execution of organisational set targets on Water Services as per the Corporate Plan. The audited annual reports of the previous financial years until the reporting period of the FY 2018/19 demonstrate the uninterrupted and consistent compliance to SANS 241:15. See Figure 11 which shows the compliance levels for five consecutive financial years, from 2014/15 to 2018/19.



**Figure 11:** Five year water quality compliance

It should be noted that Magalies Water, as an organisation and a SoE, continued to review and build objectives to respond and adapt to the ever changing economic landscape, and to consistently learn new ways to do business. Hence, a series of annual reports referenced above show that in some years, Magalies Water has improved even on the number of key performance indicators.

**c. Water quality performance per risk category for the 2018/19 financial year**

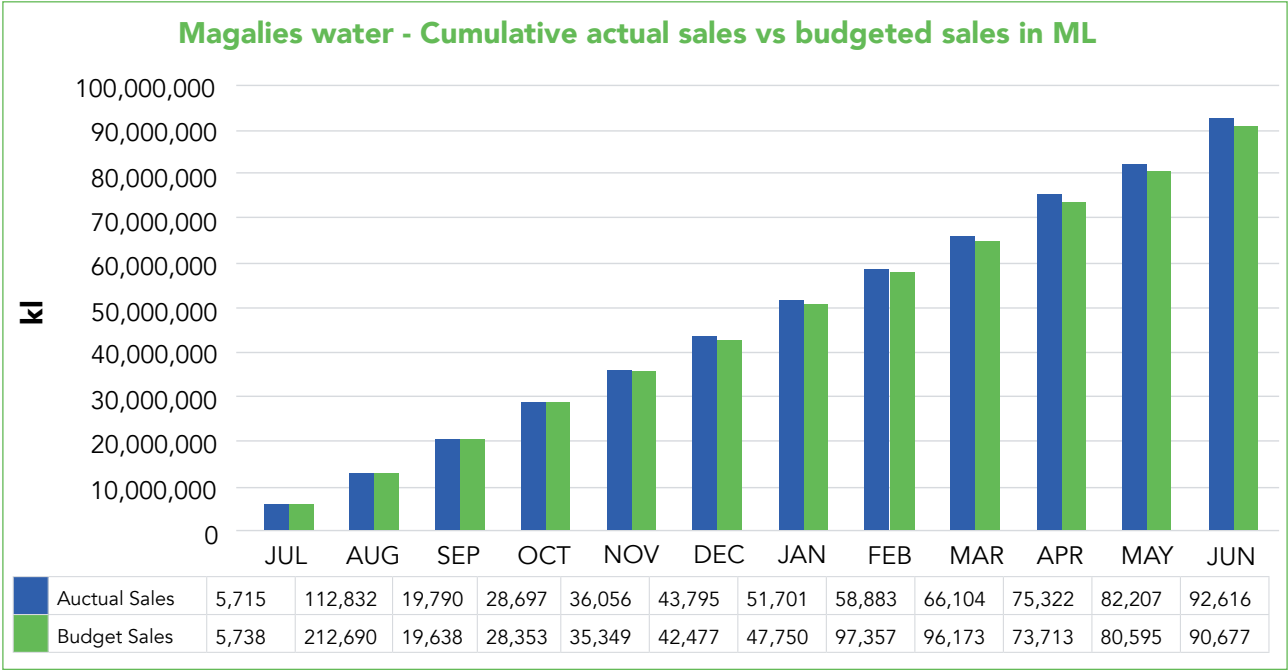
All four of Magalies Water’s WTPs at Vaalkop, Klipdrift, Cullinan and Wallmannsthal have met and exceeded requirements as set by SANS 241:2015. Magalies Water produced water of excellent quality during the 2018/19 reporting period which complied with all the SANS 241:2015 set targets as summarised in Table 37 below:

**Table 37: Summary of overall water quality produced at Magalies WTPs for the period July 2018 to June 2019**

Risk	Targeted compliance with SANS 241:2015	Actual performance against target
Acute-1 health	≥97%	99.88%
Acute-2 health	≥97%	100.0%
Chronic health	≥95%	99.60%
Operational	≥93%	95.97%
Aesthetic	≥93%	98.02%

d. Water sales volumes

Sales volumes are the primary success factor that drives Magalies Water’s revenue. Figure 12 shows the accumulated total potable water sales volumes against the set targets or budgeted sales for the four WTPs.



**Figure 12:** In the FY 2018/19 Magalies Water exceeded its budgeted sales volumes by 2.1%

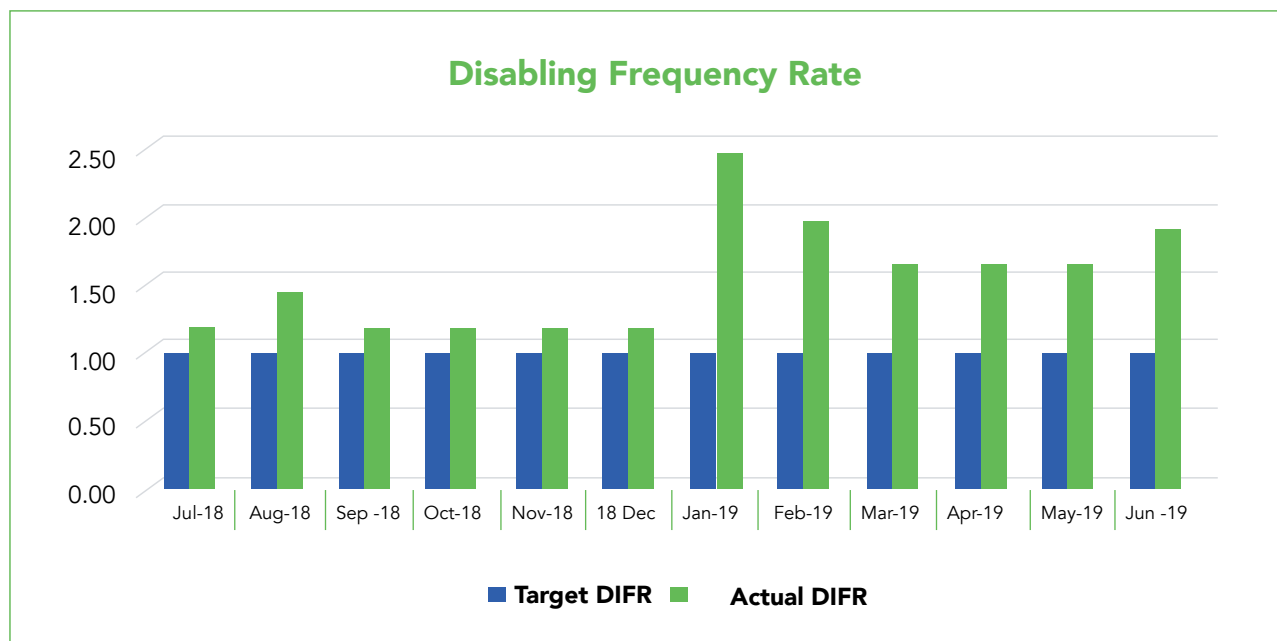


e. **Safety, health and environment**

At the end of the current reporting period FY 2018/19, Magalies Water had already started to develop the Health and Safety System as well as Safety Operating Procedures in line with the ISO 45001:2018 Management System – previously known as OHSAS 18001:2015 (Occupational Health and Safety Management System). The system and operational procedures were 100% developed. The system was audited internally and the South African Bureau of Standards (SABS) was approached to start with the certification process. The plan is to have the stated system certified in the FY 2019/20.

## 11.2 SAFETY MANAGEMENT

The Disabling Injury Frequency Rate (DIFR) is utilised as a proxy indicator to assess the extent of safety in the workplace. In the FY 2018/19, a DIFR of 1.92 was recorded; against the limit of <1. In the FY 2017/18, Magalies Water had production time losses from two separate incidents, and in the FY 2018/19 there were six work-time-loss injuries. Refer to Figure 13 for the DIFR in the FY 2018/19.



**Figure 13:** Safety record for the FY 2018/19

The organisation appreciates the fact that there were no on-duty fatalities during the financial year performance under review. Most of the injuries reported were through vehicle related incidents and on gravel roads. Magalies Water has developed a plan for the FY 2019/20 to curb the stated road incidents. Advanced driver training is scheduled. Furthermore, the implementation of the ISO 45001 Management System that has replaced the OHSAS 18001 System will assist with overall stringent measures (for monitoring and assessing) on safety at all WTPs.

## 11.3 ENVIRONMENTAL MANAGEMENT

During the FY 2018/19, a number of initiatives that were informed by the Environmental Management Implementation Plan were rolled out as outlined below.

### 11.3.1 ISO 14001:2015 Management System Certification

During the last quarter of 2018/19, Magalies Water was certified on the ISO 14001 Management System (2015).

### 11.3.2 Prudent initiatives: Environmental impact efforts

Other initiatives that demonstrated commitment to the principles of international best practices that are inherent in the ISO 14001 Management System included:

- **Eradication of alien plant species**

Magalies Water understands that landowners are legally responsible for the control of invasive alien plants on their

properties in terms of the Conservation of Agricultural Resources Act (Act 43 of 1983). As a result, during the 2018/19 financial year, surveys were conducted on alien invasive plants at Magalies Water's premises and the method of removal of each identified species was documented. Subsequently, Magalies Water removed the identified species from all four Plants. Monitoring is conducted every year.

### 11.3.3 Carbon footprint

A carbon footprint is a measure of how much an organisation is contributing to greenhouse gases that cause global climate change. At Magalies Water, the primary focus is on carbon dioxide (CO<sub>2</sub>) which is one of the group of greenhouse gases that is produced whenever fossil fuels are burned.

Magalies Water embarked on an initiative to compute, assess and record its carbon footprint during the FY 2018/19. This initiative was geared towards contributing to a low carbon economy and reduction of greenhouse gas emissions. This will contribute towards reducing the long-term effects of climate change to support the Government's mitigation and adaptation strategies.

The report concluded that the biggest emissions at Magalies Water come from those caused by electricity usage. There was a recommendation of initiatives that will reduce the amount of electricity used at the WTPs. Mitigation measures and targets were set by each WTP in order to reduce the carbon emissions within Magalies Water.

#### 11.3.4 Process efficiency

The deteriorating raw water quality necessitated the need for new, improved and innovated water treatment technologies to be implemented. Some of the initiatives are listed below.

- Ozone treatment, which is regarded as one of the strongest disinfectants and oxidants in water treatment, was implemented at the Vaalkop WTP in 2007 and was extended to the Klipdrift WTP.
- The introduction of chlorine dioxide as pre-treatment at the Vaalkop and Cullinan WTPs assisted in removing and reducing certain stubborn micro-organisms. The relative low cost is an advantage, when compared to other disinfectants.
- An upgrade and introduction of the Supervisory Control and Data Acquisition SCADA system at the Cullinan, Walmannsthal, Klipdrift and Vaalkop WTPs has delivered efficiencies, and enhanced the monitoring and control of Magalies Water's systems and processes.
- The investment into Variable Frequency Drives (VSDs) at most of the WTPs yielded many benefits both from financial and operational perspectives. Magalies Water has already seen a reduction in energy usage and this was achieved through improved or better control by the dynamic response of VSDs compared to the traditional direct drives. The efficiency of VSDs was improved by the increase in the power factor of the drive system. An increase in the power factor and the reduction in energy use of the system resulted in a reduction in energy cost.
- Recent increases in theft and vandalism necessitated the need for, among others, improved monitoring of WTPs. A number of cameras were installed at offices, WTPs and pump stations. Real-time monitoring is now possible, and together with the high speed communications network, it is transmitted to the security and operations control rooms which are manned 24 hours per day.

#### **11.4 Engineering Services Divisions and the Project Management Unit (PMU)**

Both the Project Management Unit (PMU) and Engineering Services Division focused on assisting various Divisions to successfully complete, mainly, the Capital Expenditure (CAPEX) infrastructural upgrades, refurbishments, construction, monitoring, evaluation and quality compliance. The work covered included managing the outsourcing of parts of work that Magalies Water is unable to execute in-house.

The PMU processes also include providing an oversight of the budgetary constraints, performance obligations and communication of progress and challenges to the Board.

The Capital Expansion Master Plan provided a trajectory for the organic growth of Magalies Water through implementation of water services infrastructure. Expansions of infrastructure were carried out to enhance operational capacity and resilience in response to the increasing demand of water supply. Completed projects enhance Magalies Water's aspirations to increase in the asset base and geographical reach for water services provision.

During the FY 2018/19, Magalies Water mostly implemented, self-funded projects and the following are such key projects:

The six Capital Projects rolled out during FY 2018/19 were:-

##### **11.4.1 Tuschenkomst to Ruighoek pipeline and pump station**

The Tuschenkomst to Ruighoek pipeline and pump

station entails construction of a 16.5 kilometre (km) long bulk-supply steel pipeline with a booster pump-station from the Tuschenkomst terminal reservoir to the existing bulk supply pipeline in Ruighoek. This will increase water supply to the Mabeskraal cluster.

##### **11.4.2 Klipdrift Water Treatment Plant (WTP) upgrades**

The water treatment works upgrades at Klipdrift were intended to provide for current and future water requirements of the Moretele, Bela-Bela and Modimolle-Mokgophoong local municipalities. The upgrade, which led to an additional capacity of 24 Mℓ/day, was completed and handed over during the reporting period FY 2018/19.

##### **11.4.3 Moretele South rising main and reservoir**

The construction of this 30 km bulk pipeline is aimed at enabling the provision of water from the Klipdrift Water Treatment Plant to Moretele Local Municipality. The water demand of the City of Tshwane Metropolitan Municipality will be catered for through supply into the Babelegi Reservoir in the Greater Temba-Hammanskraal area. The overall project is 35% complete for the pipeline. This project is being rolled out in phases due to budgetary constraints. Phase one of the project is underway and is 80% complete, which includes the construction of the 6.2 km of pipeline and 1 km of the road where the pipeline is going through the residential area. The first phase of the project will benefit all the areas supplied by the existing City of Tshwane's Carousel View pipeline.

#### 11.4.4 Sondela booster pump station

The construction of a booster pump station at Sondela as well as a 300 millimetre (mm) diameter pipeline was intended to provide assurance of current and future water demand of the Modimolle-Mookgophong local municipality. The civil and mechanical contract is 100% complete with the works reaching practical completion on 3 July 2018. The electrical/instrumentation contract is 98% complete. The electrical/instrumentation contractor had completed installations and the works reached practical completion on 27 June 2019. Commissioning of all individual components at the pump station is ongoing.

#### 11.4.5 Wallmannsthal high lift pump station

At the close of FY 2018/19, the high lift pump station upgrade project was 78% complete. The contractor has completed the operation and control philosophy. Decommissioning and removing of the three old pump sets is ongoing. This will be replaced with two pump sets. The first pumpset has been installed and preparation for installation for the second pump set had to be carried over to FY 2019/20.

#### 11.4.6 Brits WTP upgrades

Parts of the Brits WTP upgrade project had progressed as follows, by the end of the reporting period (FY 2018/19):

- The civil works project was 97% complete. The latter is attributable to the fact that the contractors had completed the rerouting of the

raw water pipeline, the flocculation channels, the chlorine contact tanks, dissolved air floatation (DAF) recycle by-pass and DAF chambers.

- The clear water tanks were at 99% progress.
- The Granular Activated Carbon (GAC) filters were at 93% progress.

Other works that had to be carried over to FY 2019/20 included:

- The ozone contact tank, which was at 12% progress.
- The sludge dams that were at 67% progress.
- The new sand filters that were at 56%.
- The pre-ozone is at 22% progress.
- The supernatant pump station was more advanced compared to others, at 60% progress.
- The mechanical and electrical contractors for the Water Treatment Works (WTW) had been appointed. The commencement of the latter two depends on fund availability from the Department of Water and Sanitation (DWS).

#### 11.4.7 Koster Waste Water Treatment Plant

The overall project was 76% complete at the end of FY 2018/19. The work entailed the construction of a new three 3 Ml/day Waste Water Treatment Works as well as the associated outfall sewers. The Plant is designed for an upgrade of its operational processes and construction of an additional clarifier to a capacity of 6 Ml/day in the future. The Waste



Water Treatment System is old and the sewage is being pumped directly into the river without being treated.

The mechanical and electrical contractors are already appointed and are on the ground.

- The civil progress is 89% complete.
- The mechanical progress is at 45%.
- The electrical progress is at 50%.

#### **11.4.8 On the outfall sewers:**

- Pipeline connection 3 was at 100%.
- Pipeline connection 4 was at 100%.
- Pipeline connection 5 was at 100%.
- Pipeline connection 2 is on 95%.
- Pipeline connection 1 was at 89%.
- The internal pipework is at 55%.
- The roadwork is at 30%.
- Fencing is at 0%.

#### **11.4.9 Zeekoegat pipeline**

The extension of the Zeekoegat gravity main to the South African Police Services' Dog School Project was completed by the end of September 2018.

#### **11.4.10 Implementation Readiness Studies (IRS)**

The status of the Implementation Readiness Studies that had been reported in the FY 2018/19 remained the same for some of the projects due to financial resources constraints. The Programme entails construction of the following:

- A bulk pipeline from La Patrie reservoir to Moruleng to address the increasing water demand of the Moses Kotane Local Municipality.
- A pipeline and pump-station between Padda junction and Thabazimbi to augment the current bulk supply to the Thabazimbi Local Municipality.
- A gravity pipeline from La Patrie reservoir to Sandfontein to replace the current pipeline in order to meet the existing and future water demand.
- A pipeline that connects Padda junction to Swartklip to replace the currently stressed and aged pipeline.
- Another pipeline and pump-station from Mafenya to Tlhabane reservoir to provide for sufficient capacity to meet the long-term water demand of the Rustenburg Local Municipality and the Royal Bafokeng Administration.

Magalies Water had two additional Growth Plan-linked projects on which due diligence studies were conducted and finalised by the end of FY 2018/19 as planned.



# 12

## ORGANISATIONAL CAPACITY: CORPORATE SERVICES DIVISION

### 12.1 CORPORATE SERVICES DIVISION

Magalies Water has a dedicated Corporate Services Division to enable fully-fledged human capital management, including attraction, development of skilled workforce and/or development and upgrading of the existing employees and their retention. The organisation utilises the services of an Employee Wellness Programme (EWP), which is key to managing employees' psycho-social challenges and their productivity in the workplace.

Through the Employee Relations Unit, Magalies Water is able to maintain a healthy relationship with internal stakeholders (staff) including engagement with the unionised labour force, among others. Other Departments within the division Corporate Services include Information, Communication and Technology; Legal Services and Records Management. The division is headed by the General Manager who is a member of the EXCO.

Annually, this Division manages compliance to the labour relations related legislative requirements and implements initiatives that are incorporated into the Corporate Plans. This inclusion enables the organisation to achieve the organisational strategies pertaining to the following:-

- Recruitment and selection of skilled employees, in general.
- Continuous improvement of the organisation's employment equity profile.
- Training and development of employees.
- Retention of skilled and technical staff, among other aspects.
- Implementation of benchmarked employment best practices and policies, among others.

#### 12.1.1 HUMAN CAPITAL MANAGEMENT

The Manager: Human Capital Management Department oversees three units, namely, Employee Relations Management (ER), Human Resources Management (HRM) and Human Resources Development (HRD). The HRM Unit assists the organisation on matters relating to remuneration and rewards, absenteeism management, workforce profiling, employment equity, staff turnover and staff retention. The HRD Unit handles transformational projects (for example, bursaries, internships, learnerships and business operations' initiatives such as the mentoring/coaching of artisans, among others).

Performance management is key in the HR Development Unit as it ensures that the Organisational Strategy is implemented through individual performance contracts with employees. The management of the Employee Wellness Programme (EWP) is part of the HR Development Unit.

#### 12.1.1.1 Workforce profile

Various tables that will follow depict the overall performance on staff recruitment and improvement of employment equity with regard to the advancement of the designated groups [historically disadvantaged individuals, people with disabilities (PWDs) and women during the past FY 2018/19.

A detailed breakdown of actual achievements on the percentage of the workforce profile related key performance indicator versus targets per category as at the end of FY 2018/19 is also highlighted in a series of Tables and graphs.

On the number of employees, Magalies Water reduced from 283 staff members as at the end of the FY 2017/18 to 277 employees at the end of the FY 2018/19. The reduction was due to resignations and delays in filling vacancies to enable Magalies Water to keep within the remuneration budget without compromising service delivery. The difference between the FY 2017/18 and FY 2018/19 is shown in the table 38:





**Table 38: Employment report**

Employment group	Baseline (at start of the FY	Total (end of the FY 2018/19)	Reasons for variances
Top management EXCO	7	6	<p>Magalies Water closed the financial year with six less employees than when the year started due to:</p> <ul style="list-style-type: none"> <li>The decision to put a hold on some permanent positions in order to keep within the remuneration budget. Furthermore, the differences in occupational levels are as a result of aligning reporting of occupational levels with Department of Labour occupational levels.</li> </ul>
Senior management	14	3	
Professional qualified	15	53	
Skilled technical and academically qualified workers, junior management, supervisors, foremen and superintendents	40	69	
Semi-skilled and discretionary decision making.	135	96	
Unskilled and defined decision making	72	50	
<b>Total permanent</b>	<b>283</b>	<b>277</b>	

The percentage performance split by gender and race is as shown in Table 39.



**Table 39: Employee report by race and gender**

Race	Gender	Total per gender per race	%	Male	Female
Race	Gender	Total per gender per race	%	Male	Female
African	Male	144	51.99	57.40	42.60
	Female	110	39.71		
Indian	Male	2	0.72		
	Female	0	0		
Coloured	Male	2	0.72		
	Female	1	0.36		
White	Male	11	3.97		
	Female	7	2.53		
<b>Male + Female Totals</b>		<b>277</b>	<b>100</b>		

**Table 40: Employment equity status - male**

The below is the status and targets in line with the approved Magalies Water Employment Equity Plan:

Occupational level	Male							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	3	0	0	0	0	0	0	0
Senior management	2	0	0	0	1	0	0	0
Professionally qualified	27	0	1	1	1	0	3	0
Skilled technical	26	0	0	1	0	1	7	0
Semi-skilled	55	0	1	1	0	1	1	0
Unskilled	31	0	0	1	0	1	0	0
<b>Total</b>	<b>144</b>	<b>0</b>	<b>2</b>	<b>4</b>	<b>2</b>	<b>3</b>	<b>11</b>	<b>0</b>

**Table 41: Employment equity status - Female**

The equity report on females is shown below.

Occupational level	Female							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	3	0	0	0	0	1	0	0
Senior management	0	1	0	0	0	0	0	0
Professionally qualified	18	2	0	1	0	1	3	1
Skilled technical	32	0	1	2	0	1	3	0
Semi-skilled	38	0	0	2	0	0	1	0
Unskilled	19	0	0	1	0	0	0	0
<b>Total</b>	<b>110</b>	<b>3</b>	<b>1</b>	<b>6</b>	<b>0</b>	<b>3</b>	<b>7</b>	<b>1</b>

**Table 42: Employees with disabilities**

Levels	Employees with disabilities			
	Male		Female	
	Current	Target	Current	Target
Top management	-	-	-	-
Senior management	-	-	-	-
Professional qualified	1	-	-	-
Skilled	-	-	-	1
Semi-skilled	2	-	-	1
Unskilled	-	1	-	-
<b>Total</b>	<b>3</b>	<b>1</b>	<b>0</b>	<b>2</b>

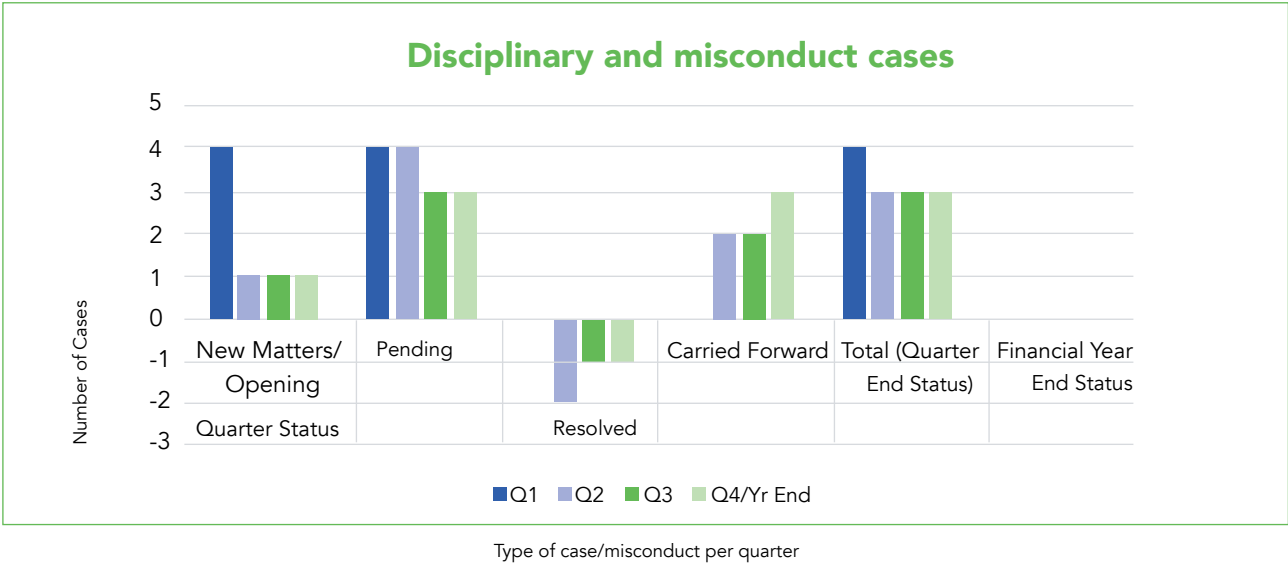
Although Magalies Water had a target to fill one position with a person living with a disability, efforts are made to recruit more to improve the current state; hence other positions had been identified to attract more PWDs. It should be noted

that there were no specified targets set regarding disabilities for both genders but the 2% target by race and work levels for the PWDs would (once achieved), still enable Magalies Water to attain the ratio of 55% males to 43% females in future.

### 12.1.1.2 Employee relations management

Employee Relations oversees the implementation of the mandatory and compliance imperatives specified in the labour laws of the Republic of South Africa as well as any other binding instruments that the government would have acceded to or ratified. At the end of the FY 2018/19, the unionised staff members belonged to the National Education, Health and Allied Workers’ Union (NEHAWU) or the South African Municipal Workers’ Union (SAMWU). The Employee Relations function included the handling of matters pertaining to disputes and grievances – be it relating to unionised and/or unionised staff members.

Overall, Magalies Water by the end of FY 2018/19, registered a total of seven disciplinary and/or misconduct related cases. Four were resolved while three were carried over to the new financial year. For a view of Magalies Water’s continuous quarterly monitoring and measurement, refer to the Graph below.



**Figure 14:** Disciplinary/misconduct cases for FY 2018/19  
It should be noted that the Quarter Four record of three also reflects the year-end performance status.

**Table 43: below provides a summary of the sanctions meted in these cases.**

Nature of disciplinary action	Number
Verbal warning	0
Written warning	1
Final written warning	1
Dismissal	1

Fixed costs related to human capital overheads for FY 2018/19 are shown in Table 44 below.

**Table 44: Personnel costs by item**

Item	Total expenditure	Staff expenditure	Staff expenses/ total expenses	Employees	Average staff costs
Measure unit direct employee costs	(Rm) 606 485	(Rm) 94 084	% age 15,51%	Number 180	Rm-value 522
Support services		91 643	15,11%	97	944
<b>Total</b>	<b>606 485</b>	<b>185 727</b>	<b>30,62%</b>	<b>277</b>	<b>1466</b>

Staff cost by salary bands is tabulated in Table 45.

**Table 45: Personnel costs by salary band**

Level	Staff expenditure	Staff expenditure/ total staff	Employees	Average costs per employee
Measure unit	Rm-value	%	Number	Rm-value
Top management	18 648	10,04%	6	3 108
Senior management, professional qualified, skilled, semi-skilled and unskilled	167 079	89,96%	271	616
<b>Total</b>	<b>185 727</b>	<b>100%</b>	<b>277</b>	<b>3 724</b>

**Table 46: Provision for performance rewards**

Item	Performance rewards	Personnel expenditure	Performance rewards to total personnel costs
Measure unit	Rm	Rm	%
Top management	1.655		
Senior management	303		
Professionally qualified	2.999		
Skilled, semi-skilled and unskilled	5.274		
<b>Total</b>	<b>10.230</b>	<b>185 727</b>	<b>5,5%</b>

### 12.1.1.3 Staff turnover monitoring and management

The percentage for staff turnover in FY 2018/19 has been, as it was in the past years, less than the 3% target. The year closed up from 1,15% in 2017/18 to 1,31% in the last quarter of FY 2018/19.



#### 12.1.1.4 Additional alignment: Ministerial outcomes, DWS strategic goals and water objectives

In terms of Ministerial Outcomes 12 and 4 regarding an efficient, effective and development-oriented public service and an empowered, fair and inclusive citizenship, as directed by the National Development Plan (NDP), and job creation linked to Outcome 4: Youth Accord [currently, the Youth Employment Service (Y-E-S) undertaking by the President of the Republic of South Africa], including the strategic objective of the Department of Water and Sanitation (DWS) of being *an efficient, effective and development oriented sector leader*, Magalies Water has responded in its planning and execution through implementing its commitment to contribute towards transformation and developmental agenda objectives. This FY 2018/19 Annual Report provides performance related achievements by Magalies Water regarding a skilled and capable workforce that is capacitated, among others.

#### 12.1.1.5 Organisational capacity/job creation management

This Section provides a breakdown of some of the alignment initiatives both from the external environment (societies where Magalies Water has presence) and from the internal environment (own employees' career growth pathing) perspectives.

##### a. Direct jobs

During FY 2018/19, Magalies Water planned to employ 20 employees. A total number of 22 positions filled were achieved. Out of 22 positions filled, 16 were new appointments and six were internal promotions.

##### b. Indirect/temporary jobs

For the reporting period ending 30 June 2018/19, Magalies Water had no planned indirect jobs. However, ten people were placed on fixed-term contracts for three years by Quarter Three of the reporting period. Magalies Water still executed its work through permanent employees and/or by contracting to the Broad-Based Black Economic Empowerment (BBBEE) compliant category of service providers, where it was necessary.

## 12.2 HUMAN RESOURCES DEVELOPMENT DEPARTMENT

The HRD Unit is responsible for the implementation of skills development initiatives in compliance with the Skills Development Act (Act 97 of 1998) and in support of the Government's programmes aimed at the skills development of young South Africans.

#### 12.2.1 Skills development programmes

The Annual Report (FY 2018/19) presents a split of skills development programmes between internal and innovative tactics that focused on our own employees and external youth, including other people drawn from the customer base (including

municipalities) and communities that Magalies Water supplies water to. Magalies Water believes in the development and retention of the right skills in order to deliver on its mandate and for the benefit of the country at large.

#### 12.2.1.1 Internal bursaries

Through Magalies Water's entrenched Bursary Programme, a total of 25 bursaries in the various study fields were awarded prior to FY 2018. Five bursars had since dropped out. Magalies Water continued to offer support to employees and an additional 30 bursaries were approved during FY 2018/19 period, for the coming FY 2019/20.

Refer to Table 47 for the internal bursaries (with study fields) approved by HRD.



**Table 47: Internal bursaries by department and study field:**

Department	Fields	Number of awarded bursaries
Finance	<ul style="list-style-type: none"> <li>Local Government Finance</li> <li>Accounting Science</li> <li>Financial Accounting</li> <li>Management Accounting</li> <li>Financial Management</li> </ul>	5
Supply Chain Management (SCM)	Procurement and Supply	1
Scientific Services	Bio –Technology	1
Scientific Services	Chemistry	1
Production	Water Care	2
Maintenance	Mechanical Engineering	1
Production	Electrical Engineering	1
Office of the Chief Executive Officer (CEO) and Human Resource Development (HRD)	Human Resource Management	2
Scientific Services	MBA	1
Human Resource (HR)	MBL	1
Corporate Services and Water Services	MPhil Management Coaching	2
Scientific Services	Public Administration	1
Scientific Services and Stakeholder & Customer Services	Business Administration	3
Stakeholder & Customer Services	Strategic Brand Communication	1
Office of the Chief Executive Officer (CEO)	International Communication	1

Department	Fields	Number of awarded bursaries
Maintenance	Geographical Information	1
Maintenance	Boiler making	1
Maintenance	Management Development Programme	1
Office of the Chief Operations Officer (COO); Production & Maintenance	Project Management	3

#### 12.2.1.2 Contribution to the National Capacity Building Programme/Skills development

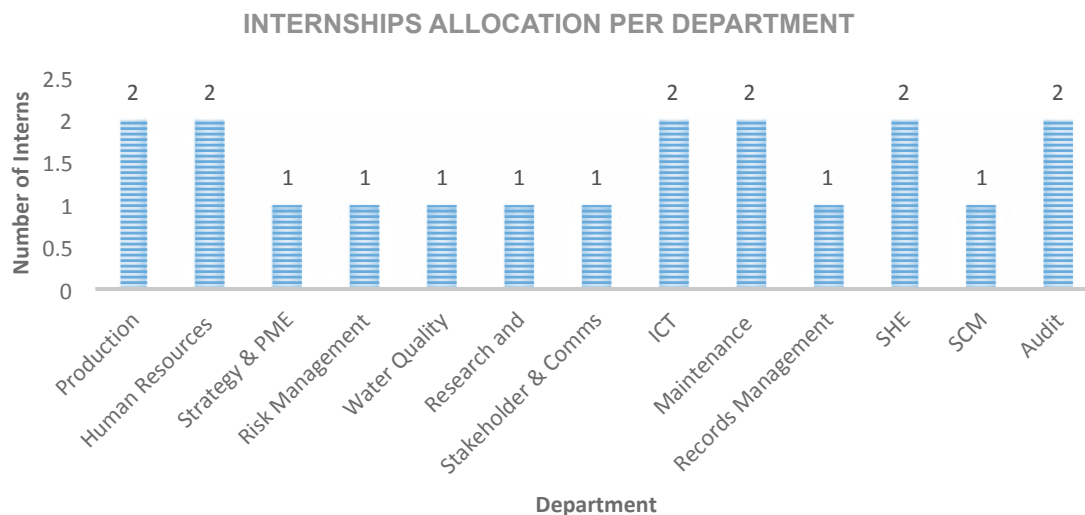
During FY 2018/19, the following skills development initiatives were targeted and all the indicators were either met or exceeded, on the following;

- Internships.
- Learnerships.
- External bursaries.
- Engineering graduates.

Through the above, Magalies Water provided unemployed graduates and potential entrants to the labour market with much-needed opportunities to apply their acquired skills and gain work experience.

#### 12.2.1.3 Internships

A target of ten Interns for FY 2018/19 was exceeded and the organisation closed the year with 19 Interns. Figure 15 shows business functional areas where candidates were placed.



**Figure 15:** Internships allocation by department

The Internship Programme is in line with the legislative imperative of the Skills Development Act, 1998 which states that every employer should use the workplace as an active learning environment and should provide young people with workplace experience in order for them to enter the job market.

#### 12.2.1.4 Learnership

Magalies Water had over the years, implemented the Learnership Programme through the Vaalkop - Water Treatment Plant (WTP) under the guidance of Senior Process Controllers employed by Magalies Water. Once certified by the Energy and Water Sector Training Authority (EWSETA), the learnership candidates are accredited with NQF Level 2 and NQF Level 3 qualifications, respectively. The qualifications enabled the learners to find suitable job opportunities in the water sector.

In the past year, Magalies Water placed 25 candidates in two Learnership Programmes. Three resigned from the programme and 22 learners remained by the end of the financial year.

- Candidates were placed on the Process Control Learnership Programme at NQF Level 3. Incumbent youth were recruited from around Magalies Water's areas of operation.
- The NQF Level 4 Learnership Programme is composed of ten learners who are permanent employees at the Water Treatment and Process Control production areas.

The achievements shown below are in line with the legislative Skills Development Act, 1998, which requires

employers to use the workplace, whenever it is practical to do so, to provide opportunities for new entrants to the labour market to gain work experience and/or to employ persons who find it difficult to find jobs.

#### 12.2.1.5 Graduates Capacity Building Programme (Engineering)

During FY 2018/19, four graduates were placed in active learning in accordance with the annual target aimed at exposing the youth to practical engineering work experience and in order to address the scarce and critical skills in the water sector. These graduates were recruited and placed at different WTPs.

A further breakdown and details of the graduate fields of study are provided in the Table below.

**Table 48: Graduate coaching**

Engineering discipline	Number
Civil	1
Electrical	1
Mechanical	2

The above Engineering graduate participants are coached and mentored through Magalies Water's already qualified skilled professionals in their respective fields.



### 12.2.1.6 External bursaries

Magalies Water believes in increasing the levels of investment in education and training for the broader South Africans, if not also for the world labour market, through a social responsibility mandate where bursaries are offered to students to further their studies at tertiary level.

During the course of FY 2018/19, 12 students were awarded bursaries to pursue their full study cycle in the Electrical, Civil, Mechanical Engineering fields and Water Care. Three of the 12 students withdrew due to various reasons. There are also four students studying through Orbit College who are sponsored by Magalies Water. This Programme runs on either as new uptake for three-year cycle or an extension of the previously placed individuals' period until the cycle is completed. New recruits are placed in the programme as candidates complete their learning process.

### 12.2.1.7 Employee wellness programme

Magalies Water has an integrated approach to the health and wellness of employees. Wellness includes a combination of the use of a Health Risk Assessment (HRA) and provision of Employee Wellness Programme (EWP) services. Throughout the year, the EWP conduct information sessions focusing on health and wellness, raising awareness about potential health risks, and encourage/advise employees on behavioural changes.

The EWP service was made available to all employees and their immediate family members on a 24-hour basis and it was rolled out through private service providers with professional specialised staff who kept details of engagements confidential at all times.

The HRA is a screening tool to assess the functionality of an individual's health status and to guide the organisation towards identifying the best suitable EWP support for each case.

### 12.2.1.8 Employee Wellness Programme – 2018/19 success rate

Magalies Water rolled out its EWP from a multi-pronged design perspective. For example, access to its services takes any form of or a combination of the following:

- Face-to-face or telephonic counselling (self-referral or managerial referrals).
- Group trauma intervention, among others.
- Awareness and education workshops.

During FY 2018/19, the EWP utilisation rate stood at 10.29% of the total staff complement of Magalies Water, which is more than satisfactory performance level when benchmarked with the water sector (with an average rate of 7.7% utilisation).

Further breakdown of services is presented in Table 49.

**Table 49: Employee Wellness Programme (EWP) utilisation**

Service Type	Magalies water		Water sector/ benchmark
	No. of Cases	% of Cases	
Face-to-face counselling	31	86.11%%	47%
Legal and financial	3	8.33%	6.74 %
Telephone counselling	2	5.56%	2.51%
<b>Total</b>	<b>36</b>	<b>100.00%</b>	

## 12.3 Information, communication and technology department

Magalies Water, through its dedicated staff who are specialists in the Information and Communication Technology (ICT) field, maintains the ICT infrastructural systems. The ICT Department monitors and measures the business-enabling tool in terms of, among others, system availability and this availability achieved was at 99.33%; above the target of 95%. Measures to address the emerging cybersecurity risks and threats in the environment included Internet Protocol (IP)-based Closed Circuit Television (CCTV) camera systems were rolled-out to all WTPs.

The CCTV systems are used in conjunction with physical and operational security measures for protecting Magalies Water's employees and property. Both the Dashboard Reporting Tool that is integrated with Supervisory Control and Data Acquisition (SCADA) was developed and Android and iOS based Mobile APP tool built with Survey 123 for ArcGIS were developed and tested for implementation in the next financial year cycle. The APP collects maintenance related field work data and posts it to the ArcGIS Server for analysis by non-GIS professionals.

In short, the Corporate Services Division is one of Magalies Water's key anchors of the business model that enables value add to balance technology and human capital input towards ensuring effective and efficient business operations.

# 13

## STAKEHOLDER AND CUSTOMER SERVICES DIVISION

Stakeholder and Customer Services Division, under the management of the General Manager (GM) who is also a member of the EXCO and reports directly to the CEO, plays an integral part in ensuring that Magalies Water executes its core mandate of providing bulk water services.

The Stakeholder and Customer Services Division is tasked with the responsibility of communicating, engaging, and building relations with all stakeholders to ensure excellent service delivery. Guided by the Magalies Water Corporate Plan, all programmes within the division are interlinked to encompass good relations with both internal and external stakeholders.

This division comprises of two focus areas, which are

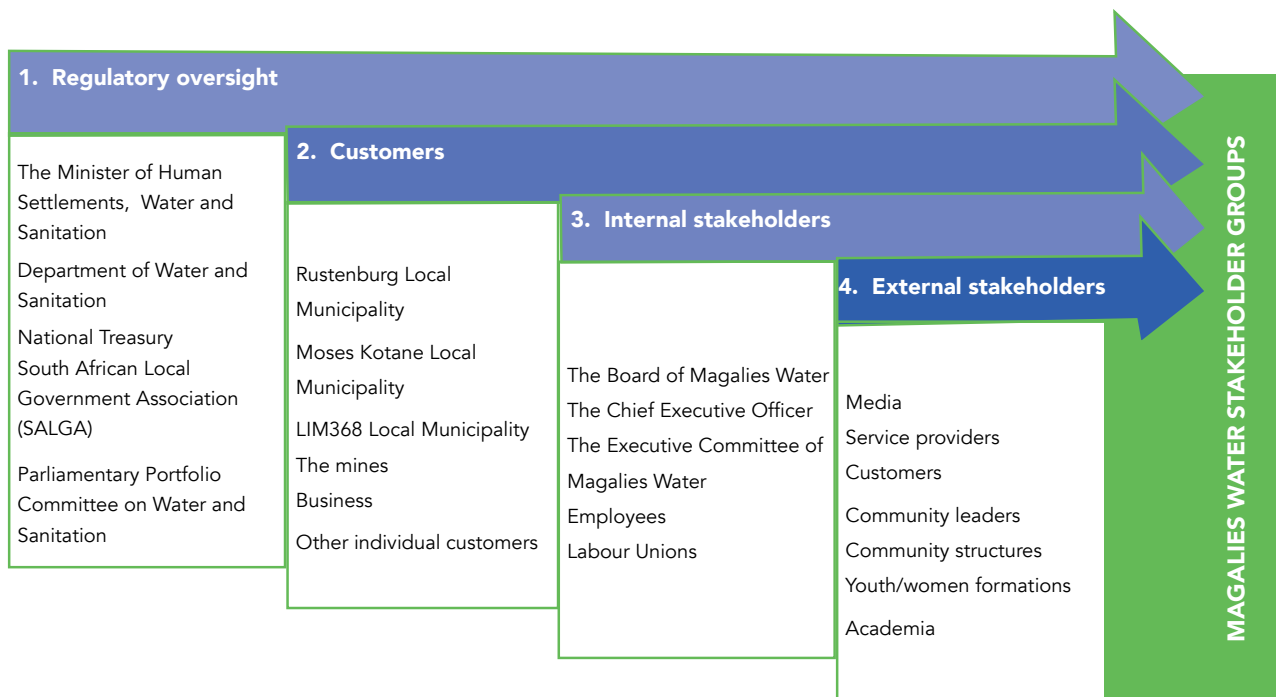
the Communications and Marketing and the Business Development and Customer Services departments. These departments are crucial in establishing the needs and/or expectations of customers and end-users pertaining to the services they require.

In understanding Magalies Waters' stakeholders, the division has classified them into the following categories:

1. Stakeholders with regulatory oversight.
2. Stakeholders whom Magalies Water delivers services to (customers).
3. Stakeholders who provide resources.
4. Internal stakeholders.

These stakeholder groups assist Magalies Water in establishing the needs and interests in order to foster good corporate citizenship and sustainability.

## MAGALIES WATER STAKEHOLDER GROUPS



**Figure 16:** Stakeholder groups

Magalies Water strives for an integrated approach on stakeholder engagement hence the development of an Integrated Communication Plan which was approved by the Board of Directors during the reporting period of 2018/19.

Integration of stakeholder grouping is a foundation built to ensure that issues and concerns of stakeholders are prioritised and attended to with the sole purpose of adding value to the reputation of Magalies Water.

### 13.1 Media

The function and purpose of media in Magalies Water is to inform, engage, educate and mobilise stakeholders through the use of traditional and new media/communication channels. These channels are customised according to stakeholder groupings to ensure that accurate and reliable information from the organisation is shared. Optimisation of media communication includes development and management of communication plans including end-to-end digital projects as well as coordination and management of all media processes (i.e. liaison with media houses, content management and development, and media monitoring etc.). Build relations with the media on behalf of the organisation.

### 13.2 Marketing and Communication

The role of the Marketing and Communication department is to ensure that there is continued sound stakeholder relations management, positive organisational profiling

and marketing through proactive internal and external communications, public relations campaigns and interactive media relations. The organisation remains steadfast with its strategic intent to communicate the organisation's goals, ideas, as well as newsworthy events with representatives of all forms of media. In the mix, Magalies Waters' department responsible for communication and marketing also makes use of traditional and new media platforms in order to extend the corporate brand. It also serves as an advisory function to senior leaders in managing crisis and reputation management. However, the department continues to explore other mediums and how to enhance current engagement approaches.

In short, the above key focus areas are inherent to the Stakeholder Engagement Plan and Integrated Marketing and Communication Plan and refer to:

- Internal staff engagement.
- External stakeholder engagement.
- Customer service and engagement.

The plan itself is derived from the Stakeholder and Communication Strategy that mirrors the aspirations of Magalies Water's five-year corporate plans and the annual Shareholder Compact contracted with the Minister of Human Settlements, Water and Sanitation. We take the spirit of these guiding documents into account during the embedding of the organisational brand as we communicate them to both internal and external stakeholders.

In executing its mandate, Magalies Water pays a particular attention to Section 29 key business customers and stakeholders who are listed in the Table below, based on the signed bulk supply agreements' principle arrangements.

Magalies Water provides bulk potable water to the following Water Service Authorities, in terms of the core customers (Section 29).

**Table 50: Customer agreement**

Name of customer	Memorandum of Agreement expiry
Bela Bela Local Municipality	2029 (10 years)
City of Tshwane Metropolitan Municipality	2027 (10 years)
Modimolle-Mookgophong Municipality	2021 (3 years)
Moses Kotane Local Municipality	2023 (10 years)
Rand Water (Vaalkop Southern Water Supply Scheme)	Open ended contract
Royal Bafokeng Administration	2021 (3 years)
Rustenburg Local Municipality	2018 (under negotiation)
Thabazimbi Local Municipality	June 2019 (New agreement in progress)

Central to the above-mentioned functional mandate of the Department is the coordination of all initiatives behind the Magalies Water Corporate Plan's intensive strategic

choices, i.e., market development strategies, product development strategies, and market penetration strategies including growth or expansion strategy programmes as encapsulated in the Capital Projects Master Plan of Magalies Water. In this instance, the function supports a number of strategic objectives towards achieving the goals of the overall business strategy, among which are to position:

- Corporate brand identity within the water services marketplace.
- Magalies Water's vision "To be the leading provider of quality water services in South Africa" and as an "Employer of choice" through the Brand Ambassador campaign.
- Consult, engage, and listen to stakeholders and take stock of:
  - Stakeholders interests and concerns in the design of the marketing and communications support priorities, development of policies, planning of campaigns, exhibitions, programmes and other internal inter-divisional services.
  - Marketing communication using various mediums of advertising.
  - Building good relations with the media.
  - Communication research on customer service and stakeholder engagement issues.
  - Facilitate, foster alliances and lobby for external and internal support of customer and stakeholder-driven organisational activities.



- Itself as an effective and dependable technical communication support. This entails photography, speech writing, video production, oversight of the brand during the compilation of annual reports, reviewing the design and managing the organisation's intranet and externally focused website.
- Foster a culture of inclusivity for internal stakeholders to be proud of and/or display appropriate corporate image, live the existing values and desired culture behaviours, be it through dress codes and/or work ethics, among others.

### 13.3 Business development and customer services department

The Business Development and Customer Services Department, which is within the Stakeholder and Customer Service Division, rolls out its functional support through two customer-centric and customers facing 'contact' points that comprise of the Call Centre and Business Development. This Department's function is to support the growth Strategy through stakeholder interventions. It assists on issue management and stakeholder expectations to help build good relations in accordance to stakeholder groupings. In order to ensure that the latter forms part of customised material issues for engagement; the latter is tailored in line with the groupings and classification. It is instrumental in stakeholder classification/segmentation to allow Magalies Water to select appropriate objectives and messaging easily, and in the setting of contact time frames and analysis of feedback, such as the stakeholder

perception surveys conducted regularly in a transparent and consistent manner.

#### 13.3.1 Magalies Water: CSI for FY 2018/19

In support to national, provincial and, especially, local municipalities local within our areas of operation in terms of addressing water and sanitation backlogs – all in pursuit of the Millennium Development Goals (MDGs), Magalies Water follows a stringent well-thought, in-house Corporate Social Investment (CSI) framework to select project areas and we do this in a consultative approach and nature. The methodology includes intense scrutiny where we interact with the councillors of each of the six beneficiary municipalities, who in turn provide lists of requirements per the local municipality. Prioritised according to the available funds, Magalies Water increased the CSI spend to more than R4 million during 2018/19 compared to R3 million in the previous year. The focus was on initiatives that were about the integration of innovative and creative value-adding solutions to economical, societal and environmental challenges. These challenges take a centre stage and are given consideration during decision-making processes on who to select for the limited benefits. We also consider the previous years' beneficiaries, as we facilitate sponsorships during stakeholder engagements.

Our planning and scheduling of the CSI initiatives was based on the assumption that the working capital would be raised seamlessly towards the execution of the projects. However, this was not the case as we experienced a delay in the delivery of the programmes quarterly as planned until FY 2018/19 due to the challenges relating to:

- Developing contractors project capacities.

- The factor of multiple local municipalities with administrators' consultations.
- Programme monitoring and evaluation, which although the Project Managers made several site inspections to ensure minimum acceptable quality of work is met, this proved insufficient and the best would have been the staging of an on-site full time supervision from neither Magalies Water nor the local municipalities concerned.
- Fixed budget allocation versus the factor of protracted execution time pre-processes versus the scale or quality assurance issues of the project.
  - Weaknesses of project scheduling.
  - Inadequate planning or timing of submission of critical input and feedback.
  - Inadequate material delivery lead times.
  - Cash flow problems.

Nonetheless, five CSI projects were completed versus the target of three for the financial year 2018/19. Refer to table 51 for details.

**Table 51: CSI project**

Municipalities	Project description and scope
Bela-Bela local municipality	Construction of ablution facilities
Lephalale local municipality	Blankets donated to the elderly
Moses Kotane local municipality	Construction of three houses
Moses Kotane local municipality	Community food security (Two x 10000L water storage tanks)
Thabazimbi local municipality	Construction of control chambers





# PART D:

## FINANCIAL PERFORMANCE PERSPECTIVE





# 14

## THE CHIEF FINANCIAL OFFICER STATEMENT

### 14.1 Introduction

Magalies water is required in terms of the PFMA, 1999, as amended to prepare financial statements in accordance with the Standard of Generally Recognised Accounting Practise (GRAP) and must submit those financial statements within two months after the end of the financial year to the auditors of the public entity. The Statements for the financial year (FY) 2018/19 were prepared and presented as guided by the PFMA, 1999, as amended; the Preferential Procurement Policy Framework Act (Act 5 of 2000 and its Preferential Procurement Regulations of 2017); the Supply Chain Management Framework; the Water Services Act (Act 108 of 1997, as amended); and other related prescripts. The FY 2018/19 financial statements were audited by the AGSA, the entity achieved an unqualified audit opinion.

Guidance was received from the Audit Committee, regarding the review of financial statements, audit report and quarterly management reports.

### 14.2 Change in the accounting framework

The Accounting Standards Board (ASB) issued Directive 12 with effective from 1 April 2018. The directive prescribes the criteria to be applied by public entities in selecting and

applying the appropriate reporting framework. Schedule 3B entities are required to opt for reporting based on GRAP or International Financial Reporting Standards (IFRS) if they meet the criteria's detailed in the directive. Magalies Water assessed the criteria to establish the appropriate reporting framework for FY 2018/19, based on the assessment conducted it was then determined that the financial statement for Magalies Water should be prepared on GRAP.

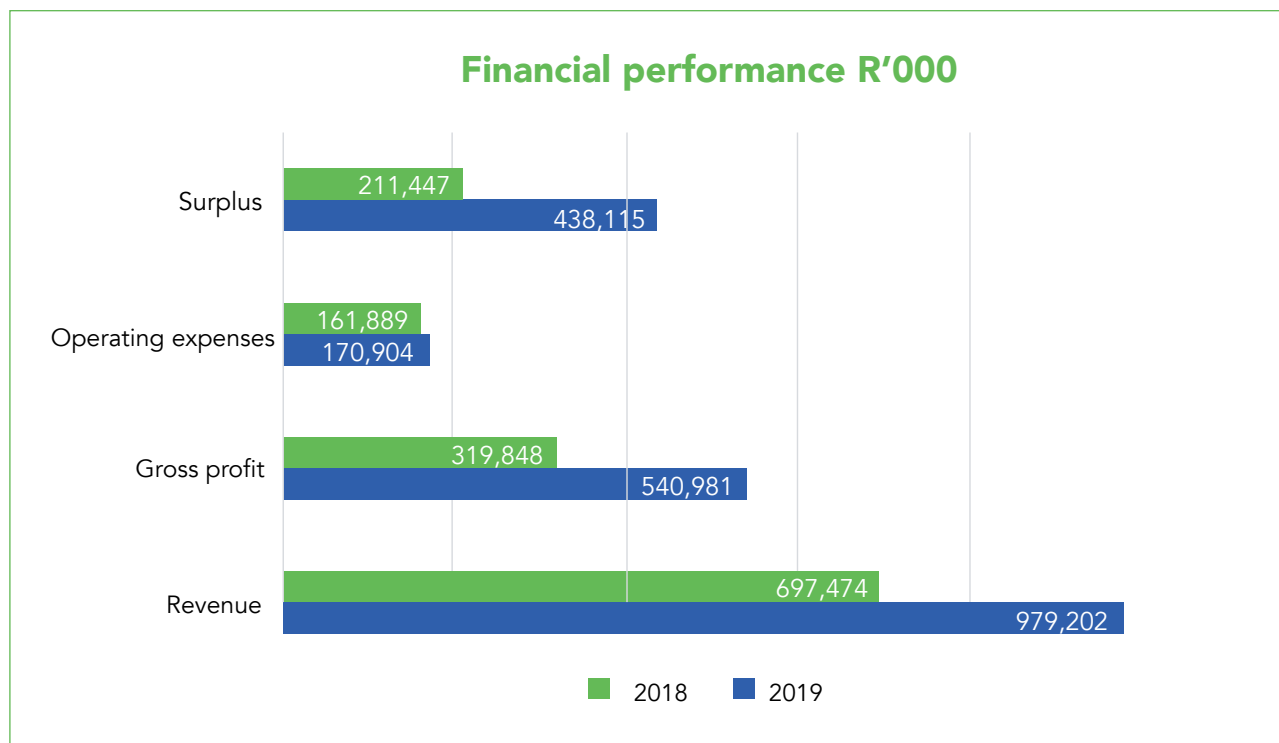
A change on the accounting framework had an impact on the accounting treatment of government grant and revenue which caused material adjustments to the figures previously reported for FY 2017/18.

### 14.3 Supply chain management

The entity through its Supply Chain Division, ensured that procurement of goods and services was fair and compliant with National Treasury standards and other applicable legislations.



## 14.4 Financial performance



**Figure 17:** Financial performance of Magalies Water

### 14.4.1 Surplus for the year

The current reporting year's surplus reflects an increase of 107% from the prior year mainly due to changes in a reporting framework. In the previous financial years government grant was recognized as a liability and transferred to revenue as and when the assets is used/depreciated, as required by International Financial Reporting Standards (IFRS). Due to changes in the accounting framework, the government grant is recognised in the statement of financial performance when all conditions of the contract have been complied with. The grant ,previously recognised as liability was transferred to the revenue as Magalies Water met all the conditions of the contract. Surplus earned during the year is invested for future capital projects and refurbishment of the current infrastructure. A commitment of R275.6 million relating to capital projects is disclosed in the financial statement for all capital funding required in the near future.

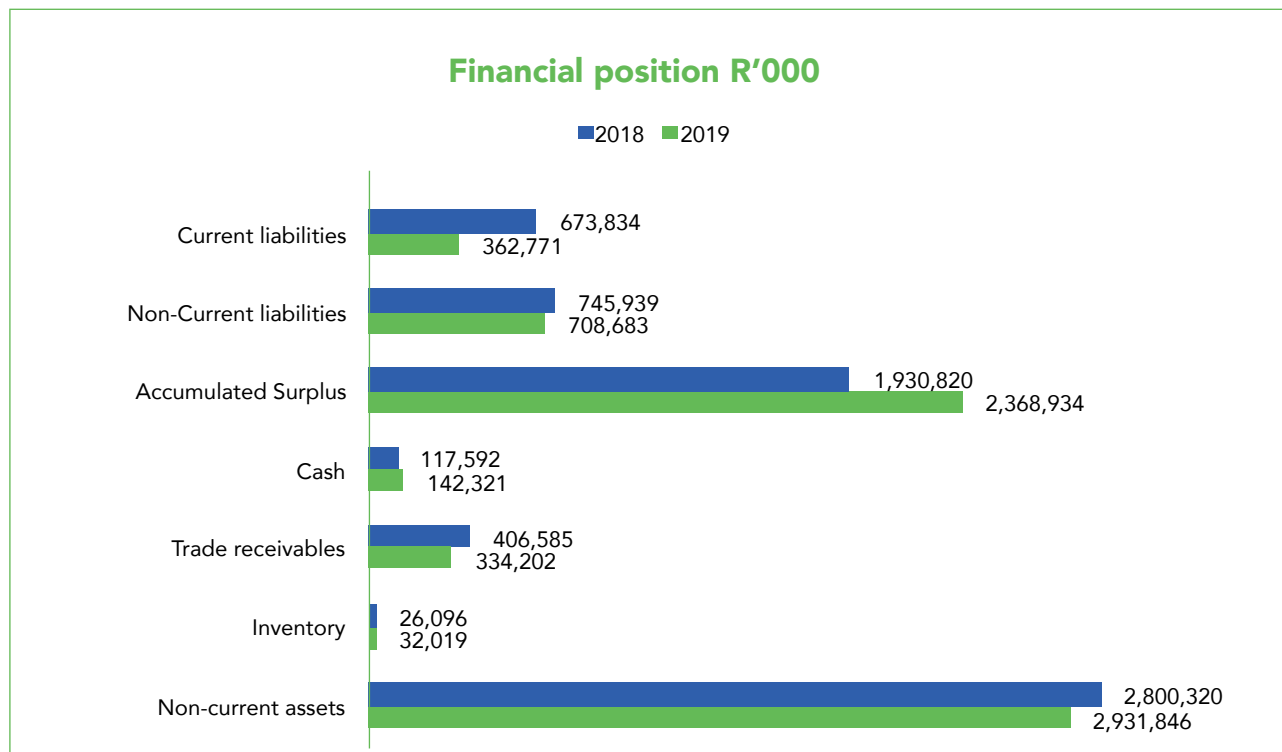
#### 14.4.2 Revenue

Total Revenue increased by 40% to R979.2 million (FY 2017/18 the total revenue was at R697.4 million), as a result of a change in the reporting framework and an increase in demand charge implemented on consumers abstracting more than their allowed quota.

#### 14.4.3 Cost of Sales

Cost of sales increased by 16% by year end of FY 2018/19 compared to the previous financial year FY 2017/18, which correlates with an increase in revenue as a result of an increase in volumes sold.

### 14.5 Statement of financial position



**Figure 18:** Financial position

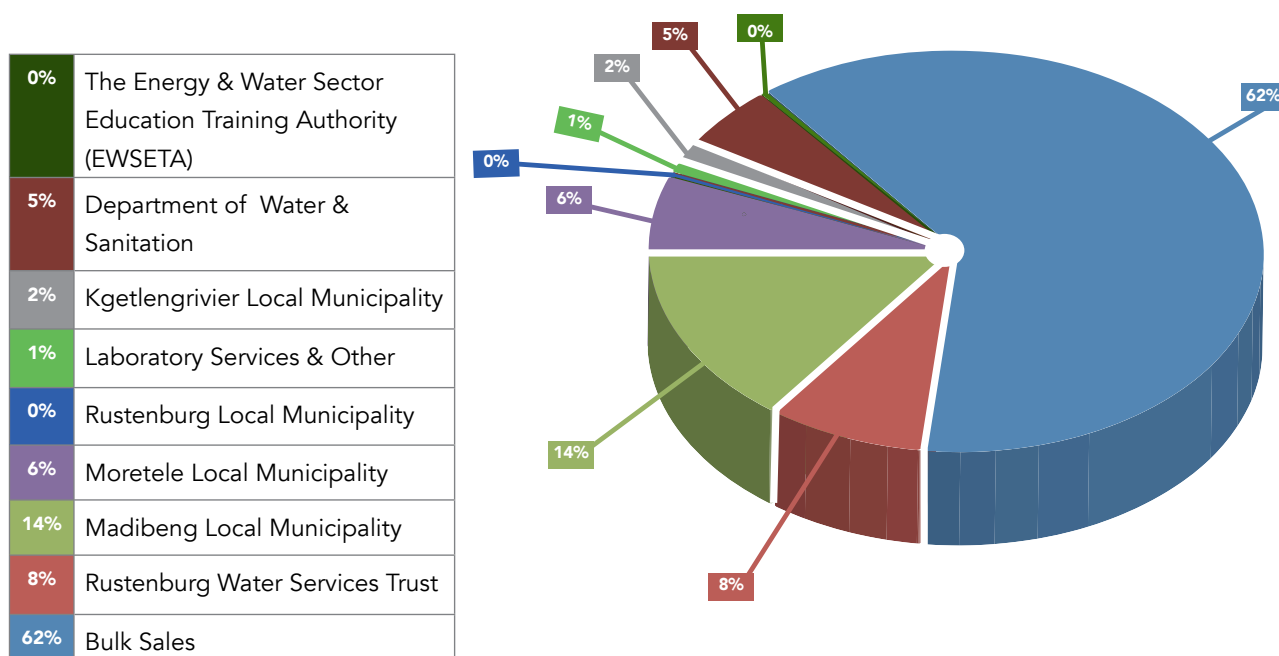
### 14.5.1 Non-current assets

The asset value increased by 5% to R2 931 million (2017/18FY: R2 800 million) as a result of CAPEX project completed during the financial year.

### 14.5.2 Current assets

The receivables from exchange transactions as at 30 June 2019 were R334.2 million which decreased by 18% compared to the previous year due to collections of long outstanding debt from debtors. The entity is still encountering challenges with a number of delinquent debtors; however plans are in place to improve debt collection for the coming financial year, including payment agreements made with the defaulting bulk water customers which are monitored monthly.

The figure 19 illustrates the categories of the debtors due at the end of FY 2018/19



**Figure 19:** Categories of debtors at the end of FY 2018/19

### 14.5.3 Non- current liabilities

Magalies Water has not yet utilised gearing to fund its Capital Expansion Implementation Programmes.

## 14.6 Cash flows

The cash and cash equivalents reported at 30 June 2019 is R142.3 million (At the end of FY 2017/18, it was as at R117.5 million). The cash balances had remained above R30 million over the past three years. Magalies Water as an entity of government has sufficient cash reserves to continue to pay debts as they fall due in the ordinary course of business.

## 14.7 Tariffs

The tariffs are reviewed on an annual basis through consultation with relevant stakeholders as determined by legislation. The approved tariff for FY 2018/19 as approved by the Minister of the Department of Water and Sanitation were as follows:

**Table 52:** Water Treatment Plant tariffs

Water Treatment Plant (WTP)	Approved tariff
Vaalkop WTP	R6.44
Wallmannsthal WTP	R10.22
Klipdrift WTP	R7.76
Cullinan WTP	R7.31

## 14.8 Funding Requirements

Numerous capital projects were identified by Magalies Water board, but the reserves were limited to implement all projects. Application for borrowing limit was submitted to the Department of Water and Sanitation to enable the organisation to meet its capital infrastructure requirements.



**Ms Matshidiso Tabane**

Chief Financial Officer

# 15

## AUDIT COMMITTEE REPORT

The Audit Committee hereby presents its Report for the year ended 30 June 2019. The committee is an independent statutory body appointed by the Board in compliance with the Public Finance Management Act, 1999 (Act 1 of 1999 as amended) (PFMA) as well as the Treasury Regulations.

### 15.1 Responsibilities of the Audit Committee

In addition to the PFMA prescripts referred to above, the roles and responsibilities of the Committee are set out in the Treasury Regulation 27.1. The Committee plays an independent role in Corporate Governance, Combined Assurance, Integrated Reporting and management of internal controls. Members are also accountable to the Board to which they report on their evaluation of Financial Statements and effectiveness of internal controls during the financial year, in order to ensure credibility of the audit outcomes that are incorporated to the Annual Report 2018/19. Furthermore, the roles of the Committee comprise of the following:

- Risk areas of the entity to be covered in the scope of internal audit
- Adequacy, reliability and accuracy of financial information provided to users of financial information

- Accounting and Auditing concerns identified as a result of internal and external audit
- Entity compliance with the legal and statutory provisions

The Committee hereby reports that it has complied with its responsibilities in accordance to Section 51 of the PFMA and the provisions paragraph 27.1 of the Treasury Regulations. The committee also reports that it has discharged its responsibilities and regulated its affairs in accordance to its Audit Committee Charter.

The Committee has assisted the Board in fulfilment of its oversight role through review of financial reporting processes, internal controls, audit processes, monitoring compliance with accounting policies, compliance to applicable legislation and regulations.

### 15.2 Composition and Attendance to Meetings

The Committee consists of six independent non-executive members of which three are members of the Board.

The Audit committee held all the scheduled meetings for the 2018/19 financial year and attendance rate is set out as follows:

**Table 53:** Audit Committee Meetings

Member	Attendance
TF Zondi (Chairperson)	5/6
N Mufamadi	4/6
MS Lebeko-Ratlhagane	6/6
* SM Mamotheti	6/6
* S Madikizela	3/6
* K Moodley	6/6

\* External Independent Members

In the Table below are other Board Members who attended by invitation the Meetings.

**Table 54:** Audit Committee Meetings by invitation

Member	Attendance
Adv MM Petlane	4/5
PN Nkwinika	6/6
* DR Sibanda	1/1
TT Mohapi	1/1
TD Monewe	1/1
FP Vilakazi	1/1
F Saloojee	0/1
Kgosi SV Suping	0/1

\* Mr DR Sibanda resigned from the board of Magalies Water with effect from 15th January 2019.

The new Board of Magalies Water were appointed with effect from 1<sup>st</sup> May 2019 to date.

The Audit Committee composition after the appointment of the new Board of Magalies Water were amended to consist of five independent non executive members of which two are Members of the Board.

The Chief Executive Officer attended as the Accounting Officer of Magalies Water. In addition, by invitation attendees to the Audit Committee meetings included the Chief Audit Executive, Office of the Auditor-General, Strategy Manager and the Risk Specialist.

## 15.3 Effectiveness of internal control

The systems of controls is designed to provide cost effective assurance that assets are safeguarded and that liabilities and working capital are efficiently managed. In accordance with the PFMA and corporate governance requirements of King IV, Internal Audit provided the Committee, management and the Board with assurance that the internal controls are appropriate and effective. This accountability of the committee has been achieved by ensuring that risk management processes identified corrective actions and led to the enhancements of controls wherever various reports of Internal Audit, the Audit Report and the Management Letter of the Auditor-General could note gaps. During the 2018/19, Management and the committee also raised to a higher level the response capacity to mitigate control weaknesses that used to be of concern, and are content with the continuous improvements planned for the 2018/19 financial year.



## 15.4 Quality of management quarterly reports submitted in terms of the PFMA

Quarterly performance information per the Shareholders Compact was analysed and the committee was continuously satisfied with the content and quality of Magalies Water Reports.

## 15.5 Evaluation of Annual Financial Statements

### The committee:

- reviewed and discussed the draft annual financial statements to be included in the integrated annual report with the Office of the Auditor General (AGSA), Management and the Accounting Authority;
- reviewed the report in terms of, from time to time, changes in accounting policies and practices;
- noted adjustments made as a results of the audit process; and
- reviewed the entity's compliance with legal and regulatory provisions; among others.

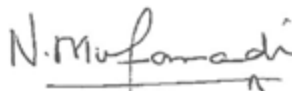
The Committee concurs with and accept the Auditor General's report on the annual financial statements and all other governance related internal controls applicable to the performance report for 2018/19.

## 15.6 Internal Audit

The internal audit plan was approved during the financial year and the Audit Committee provided its oversight to the internal audit function and the approved the internal audit charter. The Audit Committee is satisfied that the Internal Audit function is effectively operating. The Board also approved the enhancement of the functions' efficiencies (to improve time required to maximize the outputs). To the latter effect, part of the internal audit functions were outsourced to a panel of Internal Auditors and two (2) interns were appointed. The internal audit function remained open to the idea of subjecting it to independent quality reviews, had the Audit committee and/or the Board deemed it appropriate.

## 15.7 External Audit

The Committee met with the AGSA to ensure that there were no unresolved issues and we concur with the issues they raised in their Report.



**Ms NM Mufamadi**

Chairperson of the Audit Committee

# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON MAGALIES WATER

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of Magalies Water set out on pages 178 to 232, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, the statement of changes in net assets, the cash flow statement and the statement of comparison of budget with actual amounts 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 Magalies Water as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (Standards of GRAP) 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 public entity in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' Code of ethics for professional accountants and parts 1 and 3 of the International Ethics Standards Board for Accountants' International code of ethics for professional accountants (including International Independence Standards) (IESBA codes), as well as 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 codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matter

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

### **Change in reporting framework**

7. As disclosed in note 2 and note 32 to the financial statements, the public entity adopted the Standards of GRAP for the first time in the current financial year. This adoption resulted in certain items being reclassified and remeasured from the entity-specific basis of accounting previously applied.

### **Responsibilities of the accounting authority for the financial statements**

8. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the financial statements in accordance with the Standards of GRAP 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.
9. In preparing the financial statements, the accounting authority is responsible for assessing Magalies Water's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the public 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**

10. 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.
11. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

12. 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.
13. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public 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.
14. 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 public entity for the year ended 30 June 2019:

Objectives	Pages in the annual performance report
To manage customer and stakeholder relations	84 - 85 and 92 - 93
To provide quality portable water	82
To provide reliable and sustainable water services to customers	83

15. 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.
16. I did not raise any material findings on the usefulness and reliability of the reported performance information for these objectives.

## Other matter

17. I draw attention to the matter below. Achievement of planned targets
18. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year.

## Report on the audit of compliance with legislation

### Introduction and scope

19. 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 public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
20. The material findings on compliance with specific matters in key legislation are as follows:

### Strategic planning and performance management

21. The corporate plan did not include the objectives and outcomes agreed in the shareholder's compact, as required by treasury regulation 29.1.1(a).

### Financial statements, performance and annual reports

22. 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.
23. Material misstatements of depreciation affecting property, plant and equipment and cost of sales; related parties disclosure; operational commitments; and cash flow statement identified by the auditors in the submitted financial statement were corrected and/or the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

### Other information

24. 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.
25. 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.
26. 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.
27. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, 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

28. 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 matter reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.
29. Management did not implement proper record keeping in a timely manner, including proper reconciliations to ensure that complete, relevant and accurate information is accessible and available to support the financial statements, which was affected by the change in the accounting framework.



## Other reports

30. I draw attention to the following engagement conducted by a party that had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
31. An independent consultant was investigating an allegation of possible irregularities in the entity's supply chain management processes at the request of the entity, covering the period 2014-15 to 2017-18. The independent consultant had yet to table the outcome of the investigation to the board at the time of this audit report.

*Auditor General*

Pretoria

16 October 2019



AUDITOR - GENERAL  
SOUTH AFRICA

*Auditing to build public confidence*

## Annexure- Auditor-general's responsibility for the audit

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

### Financial statements

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

### Communication with those charged with governance

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



## **Magalies Water Annual Financial Statements for the year ended June 30, 2019**

## General Information

**Country of incorporation and domicile**

**Nature of business and principal activities**

**Members**

Adv M.M Petlane

Mr S.P Mkhize

Ms P.N Nkwinika

Mr F.P Vilakazi

Ms M.M Mufamadi

Mr S.V Suping

Mr R.M Le Roux

Ms Y.M Matolong

Ms K.P.N Mokoena

Ms L Zitha

Ms D.M Manamela

**Business address**

38 Heystek Street Rustenburg 0300

**Controlling entity**

Department of Water and Sanitation

**Bankers**

Standard bank

**Auditors**

Auditor General South Africa Registered Auditors

## Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

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Cash Flow Statement.....	181
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The following supplementary information does not form part of the annual financial statements and is unaudited: Detailed Income statement.....	233 - 234



## Boards' Responsibilities and Approval

The Board is required by the Water Services Act No 108 of 1997 and the Public Finance Management Act (Act 1 of 1999), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Board to ensure that the annual financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

The Board has reviewed the entity's cash flow forecast for the year to June 30, 2020 and, in the light of this review and the current financial position, they are satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The Auditor General South Africa is responsible for independently reviewing and reporting on the entity's annual financial statements. The annual financial statements have been examined by the entity's external auditors and their report is presented on page 165.

The annual financial statements set out on page 178 to 234, which have been prepared on the going concern basis, were approved by the board of members on 14 August 2019 and were signed on its behalf by:



**Adv M.M Petlane**

Chairperson of the Board



**Mr S.P Mkhize**

Chief Executive Officer

# Magalies Water

Annual Financial Statements for the year ended June 30, 2019  
Statement of Financial Position as at June 30, 2019

Figures in Rand thousand	Note(s)	2019	2018 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	6	32,019	26,096
Receivables from exchange transactions	7	334,202	406,585
Cash and cash equivalents	8	142,321	117,592
		<b>508,542</b>	<b>550,273</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	3	2,899,353	2,766,855
Intangible assets	4	32,493	33,465
		<b>2,931,846</b>	<b>2,800,320</b>
<b>Total Assets</b>		<b>3,440,388</b>	<b>3,350,593</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Operating lease liability	25	-	6
Payables from exchange transactions	11	347,298	355,529
Conditional grants and receipts	26	-	302,826
Deferred income	9	13,909	13,909
Capital contributions	10	1,564	1,564
		<b>362,771</b>	<b>673,834</b>
<b>Non-Current Liabilities</b>			
Conditional grants and receipts	26	90,957	112,739
Deferred income	9	552,932	566,841
Capital contributions	10	64,794	66,359
		<b>708,683</b>	<b>745,939</b>
<b>Total Liabilities</b>		<b>1,071,454</b>	<b>1,419,773</b>
<b>Net Assets</b>		<b>2,368,934</b>	<b>1,930,820</b>
Accumulated surplus		2,368,934	1,930,820

# Magalies Water

Annual Financial Statements for the year ended June 30, 2019

## Statement of Financial Performance

Figures in Rand thousand	Note(s)	2019	2018 Restated*
<b>Revenue</b>	12	979,202	697,474
Cost of sales	15	(438,221)	(377,626)
<b>Gross surplus</b>		<b>540,981</b>	<b>319,848</b>
Other income	13	41,481	31,672
Other expenses	16,17,18	(170,904)	(161,889)
<b>Operating surplus</b>		<b>411,558</b>	<b>189,631</b>
Investment income	27	26,557	21,816
<b>Surplus for the year</b>		<b>438,115</b>	<b>211,447</b>

# Magalies Water

Annual Financial Statements for the year ended June 30, 2019

## Statement of Changes in Net Assets

Figures in Rand thousand	Accumulated Surplus	Total net Assets
Opening balance as previously reported 1 July 2017 Adjustments	1,335,893	1,335,893
Correction of errors	(4,719)	(4,719)
Change in accounting policy	388,199	388,199
<b>Balance at July 1, 2017 as restated*</b>	<b>1,719,373</b>	<b>1,719,373</b>
Changes in net assets		
Surplus previously reported	114,794	114,794
Adjustments:	(2,408)	(2,408)
Change in accounting policy	99,061	99,061
Total recognised income and expenses for the year	211,447	211,447
Total changes	211,447	211,447
<b>Restated* Balance at July 1, 2018</b>	<b>1,930,819</b>	<b>1,930,819</b>
Changes in net assets		
Surplus for the year	438,115	438,115
Total changes	438,115	438,115
<b>Balance at June 30, 2019</b>	<b>2,368,934</b>	<b>2,368,934</b>

# Magalies Water

Annual Financial Statements for the year ended June 30, 2019

## Cash Flow Statement

Figures in Rand thousand	Note(s)	2019	2018 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		754,166	473,588
Grants		8,749	52,391
Interest income		26,557	21,816
Other receipts		762	625
		<b>790,234</b>	<b>548,420</b>
<b>Payments</b>			
Employee costs		(185,727)	(142,813)
Suppliers		(356,863)	(247,145)
Taxes on surpluses		-	-
		542,590	389,958
<b>Net cash flows from operating activities</b>	19	<b>247,644</b>	<b>158,462</b>
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(219,093)	(185,153)
Proceeds from sale of property, plant and equipment	3	7	357
Purchase of other intangible assets	4	(3,829)	(1,439)
<b>Net cash flows from investing activities</b>		<b>(222,915)</b>	<b>(186,235)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>24,729</b>	<b>(27,773)</b>
Cash and cash equivalents at the beginning of the year		117,592	145,365
<b>Cash and cash equivalents at the end of the year</b>	8	<b>142,321</b>	<b>117,592</b>



# Magalies Water

Annual Financial Statements for the year ended June 30, 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Sale of goods	631,180	-	<b>631,180</b>	655,776	<b>24,596</b>	35
Management fees	5,404	-	<b>5,404</b>	7,573	<b>2,169</b>	
Tender fees	120	-	<b>120</b>	297	<b>177</b>	
Cost recovery income	1,800	-	<b>1,800</b>	15,466	<b>13,666</b>	
Other income	330	-	<b>330</b>	846	<b>516</b>	
Lab analysis	1,449	-	<b>1,449</b>	1,825	<b>376</b>	
Deferred income recognised	27,240	-	<b>27,240</b>	15,474	<b>(11,766)</b>	
Finance income	12,902	-	<b>12,902</b>	26,557	<b>13,655</b>	
<b>Total revenue from exchange transactions</b>	<b>680,425</b>	-	<b>680,425</b>	<b>723,814</b>	<b>43,389</b>	
<b>Revenue from non-exchange transactions</b>						
Transfer revenue						
Government grants & subsidies	-	-	-	323,426	<b>323,426</b>	
<b>Total revenue</b>	<b>680,425</b>	-	<b>680,425</b>	<b>1,047,240</b>	<b>366,815</b>	

# Magalies Water

Annual Financial Statements for the year ended June 30, 2019

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
Figures in Rand thousand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Expenditure</b>						
Personnel	(105,318)	-	(105,318)	(91,643)	13,675	
Lease rentals on operating lease	(601)	-	(601)	-	601	
Depreciation and amortisation	(12,054)	-	(12,054)	(8,443)	3,611	
Impairment loss/ Reversal of impairments	-	-	-	(42)	(42)	
Sale of goods/Inventory	(406,320)		(406,320)	(438,221)	(31,901)	
General Expenses	(90,592)	-	(90,592)	(70,776)	19,816	
<b>Total expenditure</b>	<b>(614,885)</b>	<b>-</b>	<b>(614,885)</b>	<b>(609,125)</b>	<b>5,760</b>	
<b>Surplus before taxation</b>	<b>65,540</b>	<b>-</b>	<b>65,540</b>	<b>438,115</b>	<b>372,575</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>65,540</b>		<b>65,540</b>	<b>438,115</b>	<b>372,575</b>	

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board and in accordance with Section 122(3) of the Water Services Act No 108 of 1997 and the Public Finance Management Act (Act 1 of 1999).

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

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 2 First-time adoption of Standards of GRAP.

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that Magalies Water will continue to operate as a going concern for at least the next 12 months.

### 1.3 Significant judgements and sources of estimation uncertainty

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

Significant judgements include:

Depreciation methods, residual values, impairment of assets and provision for doubtful debt.

#### Trade receivables

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

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, short term cash investments and bank balances and are initially measured at fair value and subsequently measured at amortised cost.

#### Payables from exchange transaction

Payables from exchange are initially measured at fair value and subsequently measured at amortised cost.

### 1.4 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

When significant components of an item of property, plant and equipment have different useful lives, they are

accounted for as separate items (major components) of property, plant and equipment.

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

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

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

Item	Depreciation method	Average useful life
Buildings other infrastructure	Straight line	40 - 55 years
Plant and machinery	Straight line	18 - 55 years
Furniture and fixtures	Straight line	6 - 30 years
Mobile equipments and motor vehicles	Straight line	4 - 35 years
Office equipment	Straight line	3 - 35 years
IT equipments and accessories	Straight line	3 - 10 years
Pipelines & Reservoirs	Straight line	45 - 85 years
Laboratory equipment	Straight line	5 - 10 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

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 is depreciated separately.

The entity assesses at each reporting date whether there is any indication that the entity expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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

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

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit 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.

### 1.5 Intangible assets

An asset is identifiable if it either:

- Is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- Arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

An intangible asset is recognised when:

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

Acquired computer software is capitalised on the basis of costs incurred to acquire and bring into use the specific software. Costs associated with maintaining computer software programs and acquisition of licences are recognised as an expense when they are incurred.

Servitudes are rights granted to Magalies Water for an indefinite period of time. The life of the servitude will remain in force as long as the relevant infrastructure is still in use. A servitude will only become impaired if the infrastructure to which the servitude is derecognised.

Intangible assets are carried at cost less any accumulated

amortisation and any impairment losses.

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

Item	Amortisation method	Average useful life
Computer software	Straight line	3 - 5 years
Servitudes		Indefinite

- Intangible assets are derecognised:
- On disposal; or
- When no future economic benefits or service potential are expected from its use or disposal.

### 1.6 Financial instruments

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

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

- Financial assets measured at amortised cost.
- Financial liabilities measured at amortised cost.

Classification depends on the purpose for which the financial instruments were obtained/incurred and takes place as initial recognition. The entity classifies the



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

### **Initial recognition**

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

### **Initial measurement of financial assets and financial liabilities**

The entity measures a financial asset and financial liability initially at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available for sale financial assets.

### **1.6 Financial instruments (continued)**

Subsequent measurement of financial assets and financial liabilities Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

The entity subsequently measures financial liabilities at amortised cost, using the effective interest method.

### **Impairment and uncollectibility of financial assets**

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

asset is impaired.

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

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit. Where such assets are written off, the write off is made against the relevant allowance account. The amount of reversal is recognised in surplus or deficit.

### **Derecognition**

#### **Financial assets**

The entity derecognises financial assets when the right to receive cash flows from the financial asset have expired or have been transferred and the entity has transferred substantially all risks and rewards of ownership.

#### **Financial liabilities**

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

### **1.7 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating lease.

### Operating leases - lessor

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

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

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

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

### Operating leases - lessee

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

### 1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost, determined on the weighted average cost basis, and net realisable value.

### 1.8 Inventories (continued)

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

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventories held by the entity comprise of water, chemicals and maintenance spares.

### 1.9 Employee benefits

#### Short-term employee benefits

Short-term employee benefits are employee benefits that are due to be settled within twelve months after the end of the period in which the employees render the related service.

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

The expected cost of performance 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 plan

The entity contributes towards Magalies Water Retirement Fund and the fund is registered and controlled in terms of the

Pension Fund Act 24 of 1956. The entity is under no obligation to cover any unfunded benefits.

### **1.10 Contingent liability**

A contingent liability is a possible obligation that arises from past events and whose events will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within control of the entity.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 20.

### **1.11 Revenue from exchange transactions**

#### **Measurement**

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

#### **Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits or service potential 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.

### **1.12 Revenue from non-exchange transactions**

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

#### **Recognition**

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

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

### **1.13 Cost of sales**

Cost of sales includes the cost of raw water, chemicals, electricity and all other direct operating costs associated with the production of water.

### **1.14 Transfer of assets from customers**

Transferred assets from customers are recognised and

initially measured at fair value. The corresponding amount is recognised as deferred income. Revenue is recognised on a systematic basis over the useful life of the asset

### 1.15 Capital contributions

The contributions are recognised as revenue on a systematic basis over the useful life of the assets when the assets are brought into use

### 1.16 Borrowing costs

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

### 1.17 Comparative figures

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

### 1.18 Fruitless and wasteful expenditure

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

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

### 1.19 Irregular expenditure

For the purposes of determining whether irregular expenditure has taken place, there must have been a transgression of a provision contained in any applicable legislation which shall include PFMA, Treasury Regulations, National Treasury Instructions and Supply Chain Management policy.

All instances of irregular expenditure are investigated and disciplinary action is taken against the employees who have transgressed the regulations.

### 1.20 Budget information

The approved budget is prepared on a accrual basis and presented by functional classification.

The approved budget covers the fiscal period from 7/1/2018 to 6/30/2019.

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

### 1.21 Related parties

Magalies Water is a state controlled entity and has related party relationships with all other entities within the sphere of government. Unless otherwise disclosed, all transactions with related parties are on arm's length basis at market related prices.

### 1.22 Events after reporting date

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

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

The entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The entity will disclose the nature of the event and an estimate of its financial effect or a statement that such

estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### 1.23 Offsetting

Financial assets and liabilities are offset and net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the entity intends either to settle on a net basis, or to realise the asset and settle the liability.

### 1.24 Expenditure

Expenditure is recognised when Magalies Water is deemed to have been supplied with the service or has control of the goods supplied.

**Figures in Rand thousand**

**2019**

**2018**

**2. Changes in accounting policy**

In terms of directive 12 issued by the Accounting Standard Board, entities were required make an assessment to determine the appropriate reporting framework that should be applied for presentation of financial statements. Based on Magalies Water's assessment of directive 12 the appropriate accounting framework was determined to be Generally Recognised Accounting Practice (GRAP) and therefore the accounting policy changed from International Financial Reporting Standards (IFRS) to GRAP.

Magalies Water adopted GRAP for the first time in the current financial year. The adoption of GRAP resulted in the reclassification and measurement of certain items from the entity specific basis of accounting previously applied.

The movements in the opening accumulated surplus is the cumulative difference for prior periods.

No adjustments were disclosed for 2019 financial year since transactions were accounting in accordance with GRAP from beginning of the financial year.

**Revenue recognition**

During the year, the entity changed its accounting policy with respect to the treatment of Government Grant and capital contributions. In order to conform with the treatment in of GRAP 23 – revenue from non exchange transaction.

Magalies Water changed the reporting framework from International Financial Reporting Standards (IFRS) to Generally Recognized Accounting Practice (GRAP). The accounting policy for government grant was changed in order to conform to the requirements of GRAP 23.

Magalies Water received grant from the Department of Water and Sanitation for implementation of Pilanesberg scheme and Klipdrift upgrade project. Based on the agreement entered with the department, assets will be transferred to Magalies Water upon completion of the project. Phase 1 of the Pilanesberg and a portion of the Klipdrift projects have been completed and assets were capitalized.

Previously government grant was recognized in accordance with IAS 20: Government grant gives an option for entities to defer the income and realize over the useful life of the asset. Therefore Magalies Water accounted for the grant as a liability in the financial statement and revenue was realized over the useful live of the asset

In terms of GRAP 23, revenue recognition is determined based on the nature of the condition of the agreement signed. Magalies Water complied with the conditions of the grant received from the department, therefore the liability previously recognized should be realized as revenue.



The Department of Public Works also contributed R23.4 million for the upgrade of the Roodeplaat dog school. The amount was previously recognised as capital contribution. Due to changes in the reporting framework the transaction was reclassified from capital contribution to government grant based on the conditions of the agreement.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended June 30, 2018 is as follows:

Related party transactions were also impacted by the change in accounting policy, the effect of the change are disclosed in note 28.

Figures in Rand thousand	2019	2018
<b>2. Changes in accounting policy (continued)</b>		
<b>Statement of financial position</b>		
<b>Government grant/ Unspent conditional grants and receipts</b>		
Previously stated	-	(879,342)
Adjustment	-	463,777
	-	<b>(415,565)</b>
<b>Capital contributions</b>		
Previously stated	-	(91,407)
Adjustment	-	23,484
	-	<b>(67,923)</b>
<b>Opening balance accumulated surplus</b>		
Previously stated	-	(1,335,893)
Adjustment	-	(388,198)
	-	<b>(1,724,091)</b>
<b>Statement of Financial Performance</b>		
<b>Government grant and subsidies</b>		
Previously stated	-	-
Adjustment	-	(111,066)
	-	<b>(111,066)</b>

Figures in Rand thousand	2019	2018
<b>Deferred income recognised</b>		
Previously stated	-	(28,991)
Adjustment	-	12,003
	-	<b>(16,988)</b>
<b>Surplus for the year</b>		
Previously stated	-	114,794
Adjustment	-	99,061
	-	<b>213,855</b>
<b>Cash flow statement</b>		
<b>Cash flow from operating activities</b>		
<b>Surplus</b>		
Previously stated	-	114,794
Adjustment	-	99,061
	-	<b>213,855</b>

# Magalies Water

Annual Financial Statements for the year ended June 30, 2019  
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Figures in Rand thousand

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### 3. Property, plant and equipment

	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	4,564	-	4,564	4,564	-	4,564
Buildings & other infrastructure	292,811	(72,880)	219,931	246,541	(67,263)	179,278
Plant and machinery	669,670	(168,807)	500,863	477,236	(140,514)	336,722
Furniture and fixtures	16,783	(7,479)	9,304	12,149	(6,591)	5,558
Mobile equipment & motor vehicles	29,218	(21,939)	7,279	28,122	(19,600)	8,522
IT equipment & accessories	22,733	(12,431)	10,302	24,154	(13,125)	11,029
Pipelines and reservoirs	2,262,032	(439,280)	1,822,752	1,977,734	(394,801)	1,582,933
Capital work in progress	324,358	-	324,358	638,249	-	638,249
<b>Total</b>	<b>3,622,169</b>	<b>(722,816)</b>	<b>2,899,353</b>	<b>3,408,749</b>	<b>(641,894)</b>	<b>2,766,855</b>

## Figures in Rand thousand

2019

2018

### Reconciliation of property, plant and equipment - 2019

	Opening balance	Addi- tions	Reclassification	Dispos- als	Trans- fers	Depreci- ation	Impair- ment loss	Total
Land	4,564		-	-	-	-	-	4,564
Buildings & infrastructure	179,278	1,312	(3,152)	-	48,197	(5,704)	-	219,931
Plant and machinery	336,722	15,414	1	(7)	178,254	(29,481)	(40)	500,863
Furniture and fixtures	5,558	1,414	3,151	-	2	(819)	(2)	9,304
Mobile equipments & motor vehicles	8,522	1,096	-	-	-	(2,339)	-	7,279
IT equipment & accessories	11,029	1,868	-	-	1,128	(3,723)	-	10,302
Pipeline and reservoirs	1,582,933	-	-	-	284,298	(44,479)	-	1,822,752
Capital work in progress	638,249	197,989	-	-	(511,879)	-	-	324,358
	<b>2,766,855</b>	<b>219,093</b>	<b>-</b>	<b>(7)</b>	<b>-</b>	<b>(86,545)</b>	<b>(42)</b>	<b>2,899,353</b>

# Magalies Water

Annual Financial Statements for the year ended June 30, 2019  
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### 3. Property, plant and equipment (continued) Reconciliation of property, plant and equipment - 2018

	Opening balance	Addi- tions	Reclassifi- cati on	Disposals	Trans- fers	Depreciation	Impair- ment loss	Total
Land	4,564	-	-	-	-	-	-	4,564
Buildings & infrastructure	137,661	947	(2,279)	-	47,934	(4,984)	(1)	179,278
Plant and machinery	316,242	9,032	308	-	33,606	(22,452)	(14)	336,722
Furniture and fixtures	3,853	840	1,971	-	-	(1,106)	-	5,558
Mobile equipment & motor vehicles	3,837	5,893	-	(157)	-	(1,051)	-	8,522
IT equipment & accessories	9,631	3,811	-	-	195	(2,608)	-	11,029
Pipelines and reservoirs	1,611,104	-	-	-	15,242	(43,413)	-	1,582,933
Capital work in progress	570,596	164,630	-	-	(96,977)	-	-	638,249
	<b>2,657,488</b>	<b>185,153</b>	<b>-</b>	<b>(157)</b>	<b>-</b>	<b>(75,614)</b>	<b>(15)</b>	<b>2,766,855</b>

#### Pledged as security

Property, plant and equipment not pledged as security.



# Magalies Water

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## 4. Intangible assets

	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost /	Accu- mulated Valuation	Carrying value
Computer software, other	48,216	(16,912)	31,304	50,982	(18,706)	32,276
Servitudes	1,189	-	1,189	1,189	-	1,189
<b>Total</b>	<b>49,405</b>	<b>(16,912)</b>	<b>32,493</b>	<b>52,171</b>	<b>(18,706)</b>	<b>33,465</b>

Figures in Rand thousand

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#### 4. Intangible assets (continued)

##### Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Total
Computer software, other	32,276	3,829	(4,800)	31,305
Servitudes	1,189	-	-	1,189
	<b>33,465</b>	<b>3,829</b>	<b>(4,800)</b>	<b>32,494</b>

##### Reconciliation of intangible assets - 2018

	Opening balance	Additions	Amortisation	Total
Computer software, other	35,771	1,019	(4,514)	32,276
Servitudes	769	420	-	1,189
	<b>36,540</b>	<b>1,439</b>	<b>(4,514)</b>	<b>33,465</b>

#### 5. Employee benefit obligations

##### Employee benefit liability

##### Defined contribution plan

The entity contributes towards Magalies Water Retirement Fund which is controlled in terms of the Pensions Fund Act 24 of 1956.

Figures in Rand thousand	2019	2018
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The entity is under no obligation to cover any unfunded benefits.

The total economic entity contribution to such schemes	22,582	19,056
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The amount recognised as an expense for defined contribution plans is	22,582	19,056
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## Other employee benefits

Magalies Water provide long-term service awards to employees but no provision was raised in the financial statement, as the figure is immaterial. The total expenditure incurred for 2018/19 financial year amount to R418 250.

## 6. Inventories

Spare, consumables	23,823	19,483
Water inventory	2,076	2,471
Chemicals	6,120	4,142
	<b>32,019</b>	<b>26,096</b>

## Inventory pledged as security

Inventory was not pledged as security.

## 7. Receivables from exchange transactions

Prepayments	958	831
Trade receivables	339,609	412,842
Impairment of receivables	(25,233)	(38,869)
Sundry debtors	15,015	29,738
Deposits	3,853	2,043
	<b>334,202</b>	<b>406,585</b>

Figures in Rand thousand	2019	2018
<b>7. Receivables from exchange transactions (continued)</b>		
Receivables are not pledged as security.		
<b>Trade and other receivables past due but not impaired</b>		
At June 30, 2019, R 51 056 946.87 (2018: R89 764 455.43) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
30 days	22,223	49,924
60 days	28,834	39,841
<b>Trade and other receivables impaired</b>		
As of June 30, 2019, trade and other receivables of R 185 277 362.43 - (2018: R 222 830 189.76) were assessed for impairment and the allowance for impairment has been provided for.		
The amount of the provision was R 25 232 778.63- as of June 30, 2019 (2018: R 38 868 855.47).		
The ageing of these receivables is as follows:		
3 to 6 months	35,661	98,850
Over 6 months	149,616	123,980
<b>Reconciliation of provision for impairment of trade and other receivables</b>		
Opening balance	38,869	15,683
Provision for impairment	-	23,186
Unused amounts reversed	(13,636)	-
	<b>25,233</b>	<b>38,869</b>

Figures in Rand thousand	2019	2018
<b>8. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	15	10
Bank balances	27,447	7,639
Short-term deposits	114,859	109,943
	<b>142,321</b>	<b>117,592</b>

Short-term deposits consist of investment held with financial institutions for capital growth. Cash and cash equivalents are not pledged as security

## 9. Deferred income

Deferred income consist of assets transferred by the mines to Magalies Water. These assets consist of pipelines and reservoir contributed by the Platmin Mine in line with the off take agreement that was signed in 2008 for R 123,4 million and R 457,3 million received from Barrick, Maseve and Wesizwe mines in the 2016/17 financial year.

Non-current liabilities	552,932	566,841
Current liabilities	13,909	13,909
	<b>566,841</b>	<b>580,750</b>

Transferred assets from customers are measured on initial recognition at fair value. The corresponding amount is recognised as deferred income. Revenue is recognised on a systematic basis over the useful life of the assets.

**Figures in Rand thousand**

**2019**

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**10. Capital contributions**

Capital contributions consist primarily of contributions received from Maseve Investments R35.2M and Bakubung Minerals R35.2M. These contributions are recognised as revenue when the assets are brought into use over the useful life of the assets as per the agreement.

Non-current liabilities	64,794	66,359
Current liabilities	1,564	1,564
	<b>66,358</b>	<b>67,923</b>

**11. Payables from exchange transactions**

Trade payables	277,848	266,853
Amounts received in advanced	16,742	15,606
Accrual for bonuses	14,323	12,408
Retentions	24,518	48,116
Deposits received	2,212	2,143
Accrual for leave	10,903	9,580
Other payables	752	823
	<b>347,298</b>	<b>355,529</b>

Trade and other payables are carried at amortised cost and the carrying amount approximates fair value. Trade payables are normally settled within 30 days from the date of receipt of invoice.



Figures in Rand thousand	2019	2018
<b>12. Revenue</b>		
Total revenue	979,202	697,474
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Sale of water	655,776	586,408
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Transfer revenue</b>		
Government grants & subsidies	323,426	111,066
<b>13. Other operating income</b>		
Management fees	7,573	8,098
Tender fees	297	159
Rental income	247	243
Debt impairment recovered	13,636	-
Cost recovery income	1,830	1,853
Other income	599	2,295
Lab analysis	1,825	1,836
Deferred income recognised	15,474	16,988
Profit/loss on sale of assets	-	200
	<b>41,481</b>	<b>31,672</b>

# Magalies Water

Annual Financial Statements for the year ended June 30, 2019  
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**Figures in Rand thousand**

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## **14. Repairs and maintenance (included in cost of sales and other expenses)**

Buildings	247	184
Plant and machinery	22,079	14,085
Motor vehicles	2,321	2,355
Pipelines and reservoirs	6,988	4,848
	<b>31,635</b>	<b>21,472</b>

## **15. Cost of sales**

Cost of sales is made up of the following production costs

Raw water purchases	86,226	80,636
Chemicals	31,062	26,557
Employee costs	94,084	74,919
Electricity	99,130	92,775
Depreciation and impairments	82,902	71,353
Repairs and maintenance	30,636	20,901
Other production overheads	4,583	2,546
Potable water costs (CoT Augmented)	9,598	7,939
	<b>438,221</b>	<b>377,626</b>

### Figures in Rand thousand

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#### 16. Employee related costs

Basic	56,909	45,594
Bonus	11,298	5,997
Medical aid - company contributions	883	810
Settlement allowance	757	572
Company contributions	12,228	9,710
Travel, motor car, accommodation, subsistence and other allowances	580	180
Overtime payments	734	930
Acting allowances	1,062	1,117
Car allowance	92	92
Housing benefits and allowances	1,384	1,129
Cellphone allowance	993	880
Other salary expenses	4,562	691
Standby allowance	161	192
	<b>91,643</b>	<b>67,894</b>

# Magalies Water

Annual Financial Statements for the year ended June 30, 2019  
Notes to the Annual Financial Statements

Figures in Rand thousand	2019	2018
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## Emoluments: Board members

### 2019

	Board fees	Committee fees	Other fees	Expenses	Total
Adv M.M. Petlane (Chairperson)*	55	34	226	484	799
Ms P.N. Nkwinika ( Deputy Chairperson)*	9	142	123	505	779
Mr D.R. Sibanda***	13	47	10	117	187
Ms T.F. Zondi**	18	96	64	174	352
Ms T.D. Monewe**	22	92	76	185	375
Mr T.T. Mohapi**	15	82	44	246	387
Ms. F. Saloojee**	15	54	34	181	283
Mr F.P. Vilakazi*	18	119	103	206	446
Ms M.M. Mufamadi*	11	53	23	165	252
Mr S.V. Suping*	13	60	69	264	406
Ms M.S. Ratlhagane**	22	97	53	237	409
Ms Y.M. Matolong*	-	-	17	25	42
Mr R.M. Le Roux*	-	-	19	30	49
Ms K.P.N Mokoena*	-	-	17	23	40
Ms L. Zitha*	-	-	17	27	44
Ms D.M. Manamela*	-	-	17	25	42
	<b>211</b>	<b>876</b>	<b>912</b>	<b>2,894</b>	<b>4,892</b>

The Magalies Water Board's term of office expired end of April 2018 was subsequently extended by the Minister until 30 April 2019.

\*New Board members were appointed effective from 1 May 2019, comprising of MR R.M Le Roux; Ms Y.M Matolong; Ms K.P.N Mokoena; Ms L Zitha and Ms D.M Manamela. The following members were re-appointed to the Board: Adv M.M Petlane; Ms P.N Nkwinika; Mr F.P Vilakazi, Ms M.M Mufamadi, MR S.V Suping

\*\* Ms T.D Monewe, Mr T.T Mohapi, Ms F Saloojee, Ms M.S Ratlhagane and Ms T. F Zondi - The term ended 30 April 2019.

\*\*\*Mr D.R Sibanda resigned on 15 January 2019.

^ Other fees consist of compensation for other meeting attended by the Board members

^ ^ Expenses comprises of stipend, travel and accommodation and general refund.

## Figures in Rand thousand

2019

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### 16. Employee related costs (continued)

2018

	Board fees	Committee fees	Other fees^	Expenses^^	Total
Adv M.M. Petlane (Chairperson)	83	33	253	527	896
Ms P.N. Nkwinika (Deputy Chairperson)	35	134	154	408	731
Ms M. Hlahla*	54	17	34	168	273
Mr D.R. Sibanda	25	69	55	213	362
Ms T.F. Zondi	27	53	60	184	324
Ms T.D. Monewe	40	93	70	205	408
Mr T.T. Mohapi	41	59	59	284	443
Ms F. Saloojee	35	68	57	249	409
Mr F.P. Vilakazi	45	71	76	169	361
Ms M.M. Mufamadi	29	18	16	129	192
Mr S.V. Suping	39	42	48	258	387
Ms M.S. Ratlhagane	40	61	87	227	415
	<b>493</b>	<b>718</b>	<b>969</b>	<b>3,021</b>	<b>5,201</b>

\* Ms M Hlahla resigned on 27 March 2018.

^ Other fees consist of compensation for other meeting attended by the Board members

^^ Expenses comprise of stipend, travel and accommodation and general refunds

# Magalies Water

Annual Financial Statements for the year ended June 30, 2019  
Notes to the Annual Financial Statements

Figures in Rand thousand				2019	2018	
Emoluments: Executive staff members						
2019	Salary	Acting allowance	Expenses^	Performance bonus	Other expenses^^	Total
Mr S. Mkhize - Chief Executive	1,937	-	212	551	335	3,035
Mr M. Mehlo - Chief Operating Officer	1,621	-	53	474	305	2,453
Mr P.I. Moseki - Chief Financial Officer*	1,491	-	83	-	303	1,877
Ms P.P. Ratlabala - GM Corporate Services	1,436	-	116	-	249	1,801
Mr L. Mushayanyama - GM Stakeholder & Communications**	1,150	-	542	-	326	2,018
Ms T. Zwane - GM PMU	1,444	-	69	210	242	1,965
Ms L. Morake - GM Water Services	1,444	-	114	420	290	2,268
MR P.S. Lebogo - Acting GM Stakeholder & Communications	1,055	167	82	75	220	1,599
Mr J. Leburu - Acting GM Engineering	814	457	146	58	157	1,632
	12,392	624	1,417	1,788	2,427	18,648

\*Mr P.I. Moseki resigned on 30 June 2019

\*\* Mr L. Mushayanyama resigned on 31 March 2019

^ Expenses comprise of cellphone allowance, travel & accommodation, refunds and settlements.

^^ Other expenses comprise of leave pay-out and company contribution



Figures in Rand thousand				2019	2018	
16. Employee related costs (continued)						
2018	Sala- ries	Acting allowance	Expenses^	Performance bonus	Other expenses^^	Total
Mr S. Mkhize - Chief Executive*	1,358	64	503	438	314	2,677
Ms K. Kgatuke - GM Finance*****	100	-	9	190	128	427
Ms P.P. Ratlabala - GM Corporate	587	-	133	-	117	837
Mr P.I. Moseki - Chief Financial Officer*****	158	-	116	-	26	300
Mr L. Mushayanyama - GM Stakeholder & Communications****	637	-	148	-	120	905
Mr J. Ndala - Acting GM Corporate Services	520	111	109	216	185	1,141
Mr M. Mehlo - Chief Operating Officer***	1,210	124	235	500	257	2,326
Ms T. Radebe - GM PMU	1,186	-	213	202	213	1,814
Ms M. Tabane - Acting GM Finance	317	126	80	-	70	593
Ms L. Morake - GM Water Services	1,165	-	190	360	285	2,000
Mr P.S. Lebogo - Acting GM Stakeholder & Communications	944	92	159	267	206	1,668
	8,182	517	1,895	2,173	1,921	14,688

\*Mr S Mkhize was acting Chief Executive Officer from September 2016 and appointed as CEO with effect from 1 January 2018.

\*\* Ms P Ratlabala was appointed GM Corporate Services with effect from 15 January 2018.

\*\*\* Mr M Mehlo was appointed Chief Operating Officer with effect from 1 May 2018.

**Figures in Rand thousand**

**2019**

**2018**

\*\*\*\* Mr L Mushayanyama was appointed GM Stakeholder and Communications with effect from 10 January 2018.

\*\*\*\*\*Mr P Moseki was appointed Chief Financial Officer with effect from 21 May 2018.

\*\*\*\*\* Ms K Kgatuke resigned in July 2017.

^Expenses comprise of cellphone allowance, travel & accommodation and refunds

^^ Other expenses comprise of leave pay out and company contributions

**Emoluments: Independent Audit Committee Members**

**2019**

	<b>^Committee fees</b>	<b>^^Other fees</b>	<b>*Expenses</b>	<b>Total</b>
Mr S.M Mamothethi	38	34	34	106
Mr S.P Madikizela	14	32	21	67
Ms K Moodley	51	38	39	128
	<b>103</b>	<b>104</b>	<b>94</b>	<b>301</b>

^Committee fees consist of all committee meetings (Audit & risk).

^^Other fees comprise of induction meeting and other non committee meetings.

\*Expenses comprise of travel and accomodation costs.

# Magalies Water

Annual Financial Statements for the year ended June 30, 2019  
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Figures in Rand thousand			2019	2018	
2018	^Committee fees	^^Other fees	*Expenses	Total	
	Mr S.M Mamothethi	26	18	22	66
	Mr S.P Madikizela	16	18	15	49
	Ms K Moodley	16	9	10	35
	Subtotal	58	45	47	150
	58	45	47	150	

^Committee fees consist of all committee meetings (Audit & risk).

^^Other fees comprise of induction meeting and other non committee meetings.

\*Expenses comprise of travel and accomodation costs.

Figures in Rand thousand	2019	2018
<b>17. Depreciation and amortisation</b>		
Buildings	239	952
Furniture and fixtures	975	1,105
Motor vehicle	63	44
IT equipment	2,761	2,016
Intangible assets	4,405	4,391
Plant and machinery	40	14
	<b>8,483</b>	<b>8,522</b>
<b>18. Other expenses</b>		
Advertising	853	415
Auditors remuneration	2,288	2,538
Bank charges	166	134
Hiring charges	-	92
Lease rentals on operating lease	857	1,426
Computer expenses	211	80
Consulting and professional fees	8,066	11,483
Consumables	2,499	2,449
Donations	50	-
Catering	542	341
Insurance	2,735	2,393
Promotions and Publication	6,619	3,585
Repairs and maintenance (admin)	998	569
Security	6,249	5,769
Membership fees	257	160

Figures in Rand thousand	2019	2018
<b>18. Other expenses continued</b>		
Telephone and fax	4,544	3,397
Training and conferences	9,938	5,675
Travel and accomodation	5,101	5,555
Electricity	579	499
Recruitment costs	543	768
Corporate social responsibility	4,796	2,390
Other operating expenses	5,664	4,469
Licence fees	3,090	2,617
Admin overheads	2,007	3,636
Legal expense	2,087	1,831
Flowers	37	15
Bad debts	-	23,186
	<b>70,776</b>	<b>85,472</b>
<b>19. Cash generated from operations</b>		
Surplus	438,115	211,447
<b>Adjustments for:</b> Depreciation and amortisation	91,385	79,875
Loss on sale of assets and liabilities	-	(200)
Impairment	42	15
Debt impairment	-	23,186
Movements in operating lease assets and accruals	(6)	(18)
<b>Changes in working capital:</b> Inventories	(5,923)	(3,716)
Receivables from exchange transactions	72,382	(127,302)
Payables from exchange transactions	(8,222)	81,279
Conditional grants and receipts	(324,655)	(98,591)
Deferred income	(15,474)	(16,988)
	<b>247,644</b>	<b>148,987</b>

**Figures in Rand thousand**

**2019**

**2018**

**20. Contingencies**

**Contingent Liabilities**

Guarantee issued by standard bank	512	512
Litigations by ex-employees	870	840
Ya Rena Civils (Pty) Ltd	3,276	3,276
	<b>4,658</b>	<b>4,628</b>

Guarantees of R512 378 were issued by Standard Bank in respect of payments to Eskom.

Legal proceedings have been instituted against Magalies Water by ex-employees. Magalies Water has reasonable defence and the probability of the loss is minimal. The amount claimed by the plaintiffs is R870 000.00.

Ya Rena Civils was contracted to build a 20 mega liter reservoir for the Pilanesburg Scheme. The contractor failed to complete the work on time and penalties were imposed by Magalies Water. The contractor is suing Magalies Water for payment of the last invoice submitted; despite penalties imposed for the delays being higher than the invoice submitted. Magalies Water is defending the claim. The matter was held in chamber on 15 June 2018, where both parties presented oral submissions to the Court and judgement was reserved. Magalies Water, during the hearing of 30<sup>th</sup> May 2019 raised a *point in limine* in respect of *lis alibi pendens* which was upheld by the court and subsequently dismissing the application by Ya-Rena with costs. The matter finalised pending appeal by the applicant and or trial date to deal with main matter of penalties and the invoice submitted for payment.



Magalies Water was served with an interdict to cease and stop the implementation of tender RFB/MW/97/2016-7, Moretele South Water Pipeline by Umso Construction (Pty) Ltd and Crown Bay Construction (Pty) Ltd. The interdiction of the tender implementation is to allow Umso JV to commence review application of the decision to award the said tender to Murray and Dickson Construction (Pty) Ltd. This is based on the opinion that their bid was unfairly evaluated and that they ought to have been the one appointed as, they had the lowest price bid. Arguments on the matter were heard by the court on 16 March 2018. Judgement was delivered on 12 April 2018 and applicant's review was dismissed with costs.

However on 7 May 2018 the applicant filed a notice of application for leave to appeal the judgement and the court order. The court again dismissed the leave of appeal application on 6 September 2018. The plaintiff however delivered a notice to seek appeal from the Supreme Court of Appeal for a further leave to appeal. Magalies Water has opposed the application and still waiting for ruling from the court. A reasonable estimate could not be determined.

### Contingent assets

Magalies Water has servitudes that are not yet registered in the entity's name. The process to negotiate the value of the land with the owners is in progress. As at 30 June 2019, this process was not finalised. As a result, Magalies Water is uncertain as to the amount of these servitudes. These servitudes have not been accounted for in the annual financial statements.

**Figures in Rand thousand**

**2019**

**2018**

**21. Change in estimate**

**Property, plant and equipment**

Included in the property, plant and equipment are assets nearing the end of its useful life, but still in use. The useful lives of these assets was assessed at year. The impact of the change in accounting estimate is as follows:

	Original depreciation	Adjusted depreciation
Buildings	9	6
Plant and machinery	977	356
Vehicles	39	34
Furniture and fixtures	23	4
IT equipment	73	71
<b>Sub Total</b>	<b>1,121</b>	<b>471</b>

**22. Commitments**

**Capital commitments**

**Already contracted but not provided for**

Property, plant and equipment	275,695	504,184
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**Other commitments**

Operational commitments	28,834	17,169
	<b>304,529</b>	<b>521,353</b>

Other commitments not disclosed in the disclosure balance relates to contractual agreements determined on the hours spent of a project and/or rate of items or services procures. The total contractual obligation could not be determined.

Figures in Rand thousand	2019	2018
<b>Operating lease commitments</b>		
<b>Minimum lease payments due</b>		
- Within one year	449	584
- in second to fifth year inclusive	151	588
	<b>600</b>	<b>1,172</b>

Operating lease payments represent rentals payable by the entity for office equipment and premises. Leases are negotiated for an average term of three years. The rental periods are in accordance with the contracts per service provider.

#### Commitment prior period error

Operational commitment - 17,169

An amount of 17 million relating to operational projects was omitted from the 2017/18 financial year.

#### 23. Fruitless and wasteful expenditure

Opening balance as previously reported	-	4
<b>Opening balance as restated</b>	<b>-</b>	<b>4</b>
Less: Amount written off - current	-	4
<b>Closing balance</b>	<b>-</b>	<b>-</b>

No fruitless and wasteful expenditure was incurred during the financial year.

Figures in Rand thousand	2019	2018
<b>24. Irregular expenditure</b>		
Opening balance as previously reported	5,417	4,616
<b>Opening balance as restated</b>	<b>5,417</b>	<b>4,616</b>
Add: Irregular expenditure related to procurement policy	-	263
Add: Irregular expenditure identified during audit	407	538
<b>Closing balance</b>	<b>5,824</b>	<b>5,417</b>

Irregular expenditure reported relates to one incident identified by the auditors, which arose as a result of non compliance with legislation with one of Magalies Water employee was awarded bids and did not declare her interest.

Prior year cases of irregular expenditure amounting to R 4 616 000 were investigated; the outcomes of the investigations were reported investigations conducted, no employee is liable for the expenditure incurred. The cases still needs to be submitted to the Board for cond

#### Cases under investigation

Two cases of irregular expenditure reported in 2017/18 financial year related to non-compliance with procurement process requirements are still under investigation

#### 25. Operating lease liability

Current liabilities	-	(6)
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#### 26. Conditional grants and receipts

Unspent conditional grant consist of grant received from the Department of Water and Sanitation for the construction of the Pilanesberg Scheme and Klipdrift upgrade, amounting to R 893M. And a capital contribution amounting to R23.4M received from the Department of Public Works for other projects. The grants are recognised as revenue when the construction of the assets is complete, brought into use and all the conditions of the agreement with the departments are met.

Figures in Rand thousand	2019	2018
Non-current liabilities	90,957	112,739
Current liabilities	-	302,826
	<b>90,957</b>	<b>415,565</b>

## 27. Investment revenue

### Finance income

Interest on short-term deposit	10,003	8,880
Interest on bank balance	1,386	1,302
Interest charged on trade and other receivables	15,168	11,635
	<b>26,557</b>	<b>21,817</b>

## 28. Financial instruments disclosure

### Categories of financial instruments

The carrying values of financial assets and liabilities are presented by class in the tables below:

### 2019

#### Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	334,202	334,202
Cash and cash equivalents	142,321	142,321
	<b>476,523</b>	<b>476,523</b>

**Figures in Rand thousand**

**2019**

**2018**

**28. Financial instruments disclosure (continued)**

**Financial liabilities**

	<b>At amortised cost</b>	<b>Total</b>
Trade and other receivables from exchange transactions	347,299	347,299

**2018**

**Financial assets**

	<b>At amortised cost</b>	<b>Total</b>
Trade and other receivables from exchange transactions	406,585	406,585
Cash and cash equivalents	117,592	117,592
	<b>524,177</b>	<b>524,177</b>

**Financial liabilities**

	<b>At amortised cost</b>	<b>Total</b>
Trade and other receivables from exchange transactions	355,526	355,526

**29. Risk management**

**Capital risk management**

Magalies Water's objective for managing capital is to enhance shareholder value and generated sufficient surplus to meet the required capital expenditure programmes, thus sustaining future development of the entity and its ability to continue as a going concern. This objective has remained consistent with the previous years.



## Figures in Rand thousand

2019

2018

### Financial risk management

The principal financial risks to which Magalies Water is exposed as a result of its financial instruments are liquidity risk, credit risk and market risk (interest rate risk).

The entity's overall risk management strategy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the entity's financial performance. Risk management is carried out by the entity's investment advisors under policies approved by the Board. The investment policy provides guide for overall risk management, as well as investment of excess liquidity.

### Liquidity risk

Liquidity risk is the risk that the entity will encounter difficulties in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Magalies Water's approach to managing liquidity risk is to ensure that the entity will always have sufficient liquidity to meet its liabilities when they fall due.

Magalies Water monitors its risk to shortage of funds using projected cash flows from operations and has provision for cash buffer investment. The entity also manages liquidity risk through as ongoing review of future commitments. Cash flow forecasts are prepared

The table below reflects Magalies Water's maximum exposure to liquidity risk, which equals the carrying value of trade and other payables at reporting date:

	0 to 30 days	30 to 120 days	over 120 days	Total
Trade and other payables	148,758	99,608	98,935	347,299

**Figures in Rand thousand**

**2019**

**2018**

## **29. Risk management (continued)**

### **Credit risk**

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

Magalies Water minimize loss by default of customers through implementation of policies and procedures relating to debt collection. All known risks are disclosed to the Board. Interest is charged at prime rate on debt over 30 days from the date of invoice.

The Board does not expect any of the counterparties to fail to meet their obligations, hence no investment has been impaired during the current and prior year.

Financial assets exposed to credit risk at year end were as follows:

#### **Financial instrument**

	<b>2019</b>	<b>2018</b>
Trade and other receivables	334,202	406,585
Cash and cash equivalents	142,321	117,592

### **Market risk**

#### **Interest rate risk**

As the entity has no significant interest-bearing assets, the entity's income and operating cash flows are substantially independent of changes in market interest rates.

Magalies Water is exposed to interest rate as a result of investments held with various institutions . The entity has variable interest rate facilities which are reset on changes in prime interest rate, and therefore exposed to cash flow interest risk.

A sensitivity analysis to a change in interest rate has been performed based on the exposure to interest rates on investments at reporting date. A 1% increase or decrease has been used and represent management's assessment of the reasonable possible change in interest rates. The sensitivity analysis has been performed on the same basis as the previous year.

## Figures in Rand thousand

2019

2018

The following table illustrates the sensitivity of the entity to interest rate changes by 1%:

### 1% decrease

Decrease in financial assets	(1,148)	(1,106)
Decrease in comprehensive income	(1,148)	(1,106)
	<b>(2,296)</b>	<b>(2,212)</b>

### 1% increase

Increase in financial assets	1,148	1,105
increasen in comprehensive income	1,148	1,105
	<b>2,296</b>	<b>2,210</b>

## 30. Related parties

### Relationships

Ultimate controlling entity

National Government

Controlling entity

Department of Water and Sanitation

The Board and Executive Management are considered as key management and there were no related party transactions between the entity and key management during the year under review, refer to note 16 for payments made during the year.

### Related party balances

#### Amounts included in trade payables

Department of Water and Sanitation	125,959	155,411
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#### Amounts included in receivables

Rand Water	20,169	60,587
Department of Water and Sanitation	15, 873	91,602

Figures in Rand thousand	2019	2018
<b>Amounts included in unspent conditional grant</b>		
Department of Water and Sanitation	90,957	392,081
Department of Public Works	-	23,484
<b>Amounts included in cost of sales</b>		
Department of Water and Sanitation	85,908	81,024
<b>Amounts included in revenue</b>		
Rand Water	161,177	151,296
Department of Water and Sanitation	323,426	111,065
<b>Amounts included in other expenditure</b>		
<b>Amounts included in other operating income</b>		
Department of Water and Sanitation	4,024	4,130

#### **Additional related party disclosure**

In terms of directive 12 issued by the Accounting Standard Board, entities were required make an assessment to determine the appropriate reporting framework that should be applied for presentation of financial statements. Based on Magalies Water's assessment of directive 12 the appropriate accounting framework was determined to be GRAP and therefore the accounting policy changed from International Financial Reporting Standards (IFRS) to GRAP.

Magalies Water adopted GRAP for the first time in the current financial year. The adoption of GRAP resulted in the reclassification and measurement of certain items from the entity specific basis of accounting previously applied.

Magalies Water previously applied paragraph 26 of IAS 24, which exempt entities from disclosure of related parties that are at arms-length. Due to changes in the reporting framework the accounting policy for related parties was changed to comply with the requirements of GRAP 20. In terms of GRAP Magalies Water is required to disclose the nature and the balance of related party transactions, therefore prior year related parties transactions were adjusted.

The following adjustments were made to the related party balance disclosed in the 2017/18 financial year.

Figures in Rand thousand	2019	2018
<b>Amounts included in unspent conditional grant</b>		
Department of Water and Sanitation	-	392,081
Department of Public Works	-	23,484
	-	<b>415,565</b>

### 31. Prior period errors

The useful lives was not appropriately considered in the previous financial years. During migration from pastel accounting to SAP the usefulife for some assets was incorrectly assessed which resulted in a lower depreciation charge.

Repairs and maintainance were incorrectly reported as cost of sales in the 2017/18 financial year. The correction of the error(s) results in adjustments as follows:

Figures in Rand thousand	2019	2018
<b>31. Prior period errors (continued)</b>		
<b>Statement of financial position</b>		
Accumulated depreciation building & other infrastructure	-	1,109
Accumulated depreciation plant and machinery	-	(5,723)
Accumulated depreciation furniture & fixtures	-	(1,025)
Accumulated depreciation IT equipment & accessories	-	(70)
Accumulated depreciation pipelines and reservoirs	-	(1,415)
Opening accumulated Surplus	-	7,124
Cost of building and other infrastructure	-	(3,880)
Cost of plant and machinery	-	820
Cost of furniture and fixtures	-	2,760
<b>Statement of financial performance</b>		
Depreciation building & other infrastructure	-	96
Depreciation plant & machinery	-	1,526
Depreciation furniture & fixtures	-	79
Depreciation IT equipment & accessories	-	501
Depreciation Pipeline and reservoirs	-	472
Cost of sales	-	7,394
Operating Expense	-	4,986

## Figures in Rand thousand

2019

2018

### 32. Additional information on change in accounting policy and reclassification

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by the change in accounting policy and re-classification:

#### Statement of financial position

##### 2017

	Note	As previously reported	Change in accounting policy	Restated
Government grant/unspent conditional grant		847,506	(388,198)	459,308
Retained income/ Accumulated surplus		1,335,893	388,198	1,724,091
		<b>2,183,399</b>	<b>-</b>	<b>2,183,399</b>

Due to changes in accounting policy as detailed in note 2, government grant/unspent conditional grant was adjusted to account for grants that meet the recognition criteria of revenue at per GRAP 3.

##### 2018

	Note	As previously reported	Change in accounting policy	Re-Classification	Restated
Government grant/unspent conditional grant		879,342	(463,777)	-	415,565
Capital contribution		91,407	(23,484)	-	67,923
Retained income/Accumulated surplus		1,450,687	487,258	-	1,937,945
Cash and cash equivalents		7,649	-	109,943	117,592
Other financial assets		109,943	-	(109,943)	-
		<b>2,539,028</b>	<b>-</b>	<b>-</b>	<b>2,539,025</b>



**Figures in Rand thousand**

**2019**

**2018**

Due to changes in accounting policy as detailed in note 2, government grant/unspent conditional grant was adjusted to account for grants that meet the recognition criteria of revenue at per GRAP 3.

Other financial assets consist of short term investment which will be realised within a period of 12 months. The balance was reclassified to cash and cash equivalent to conform to the requirement of GRAP 104.

**Statement of financial performance**

**32. Additional information on change in accounting policy and reclassification (continued)**

**2018**

	<b>Note</b>	<b>Change in accounting policy</b>	<b>Restated</b>
Government grant and subsidies		111,066	111,066

Due to changes in accounting policy as detailed in note 2, government grant was adjusted to account for grants that meet the recognition criteria of revenue at per GRAP 3. The income relate to grant received for the Pilanesburg 1 and Klipdrift projects, which were completed and capitalised during the period.

**Cash flow statement**

**2018**

	<b>Note</b>	<b>As previously reported</b>	<b>Change in accounting policy</b>	<b>Restated</b>
<b>Cash flow from operating activities</b>				
Surplus		114,794	99,061	213,855

**33. Going concern**

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement

of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## 34. Events after the reporting date

No subsequent events were identified by management.

## 35. Budget differences

### Material differences between budget and actual amounts

**Sale of goods** - Variance is mainly attributed to demand charge on customers exceeding their allocated daily quota.

**Management Fees** - The variance attributable to Moretele Operations and Maintenance requesting new maintenance and additional callouts emanating from this. Furthermore, additional funding made available by Department of Water and Sanitation for Kgetlengrивer and Madibeng projects.

**Other Income** - Variance is due to an increased number of new connections, for both bulk water and individuals, than budgeted for. Including Welgeval Block amounting to R275000.

**Lab analysis** - An increased demand for the Scientific Services laboratory analysis resulting in a positive variance.

**Finance Income** - The main contributor is interest receivable from debtors with long outstanding accounts, attributable mainly to defaulting municipalities.

**Depreciation and amortization** - A large number of projects capitalized at year, after the budgeting processes having been completed, resulting in under-estimation of the costs.

**Impairment loss** - Impairment of assets emanating from de-recognition of assets.

**General Expenses** - This variance is due to a saving on some cost budgets including consultants' fees, board expenses, and training and computer expenses.

Figures in Rand thousand	2019	2018
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## 35. Budget differences (continued)

**Deferred income** - The budget include current portion of the government grant received from Department of Water and Sanitation, due to changes in the reporting framework income from the department is classified as non-exchange and is reported separately.

**Cost recovery income** - The variance is due to reversal of provision for bad debts.

**Personel/Employee cost** - Variance is due to leave payout for employees who resigned or terminated during the year and overtime due to emergencies.

**Cost of sales** - Variance is due to increase in demand from customers exceeding the allocated quota, additional demand was not budgeted.

**Government grant and subsidies** - An amount of R15 million was budgeted for under deferred income to account for the income which will be realized from government grant during the year. However due to changes in reporting framework the accounting policy for government grant was changed and resulted in significant revenue realized, refer to note 2.

# Magalies Water

Annual Financial Statements for the year ended June 30, 2019

## Detailed Income Statement

Figures in Rand thousand	Note(s)	2019	2018 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Sale of goods		655,776	586,408
Management fees		7,573	8,098
Tender fees		297	159
Cost recovery income		15,466	1,853
Other income		846	2,538
Lab analysis		1,825	1,836
Deferred income recognised		15,474	16,988
Profit on sale of assets		-	200
Finance income	27	26,557	21,816
<b>Total revenue from exchange transactions</b>		<b>723,814</b>	<b>639,896</b>
<b>Revenue from non-exchange transactions</b>			
<b>Transfer revenue</b>			
Government grants & subsidies		323,426	111,066
<b>Total revenue</b>	12	<b>1,047,240</b>	<b>750,962</b>

# Magalies Water

Annual Financial Statements for the year ended June 30, 2019

## Detailed Income Statement

Figures in Rand thousand	Note(s)	2019	2018 Restated*
<b>Expenditure</b>			
Employee related costs	16	(91,643)	(67,894)
Depreciation and amortisation	17	(8,443)	(8,508)
Reversal of impairments		(42)	(15)
Sale of goods/Inventory		(438,221)	(377,626)
General Expenses	18	(70,776)	(85,472)
<b>Total expenditure</b>		<b>(609,125)</b>	<b>(539,515)</b>
<b>Surplus for the year</b>		<b>438,115</b>	<b>211,447</b>



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**HEAD OFFICE**

38 Heystek Street, Rustenburg, | North West, 0300, South Africa | Private Bag  
X82327, | Rustenburg, 0300

EMAIL: [info@magalieswater.co.za](mailto:info@magalieswater.co.za) | TELEPHONE: +27 14 597 4636 | FAX: +27 14  
597 4638 | [www.magalieswater.co.za](http://www.magalieswater.co.za)

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