



2020/21

ANNUAL REPORT



Magalies Water Board was established in 1969 in terms of Government Notice 234 of 1969 primarily to supply water needs of platinum mines in the Rustenburg and Thabazimbi areas. Magalies Water provides water for industries and communities, and in 1996 it extended its water supply services to operate, maintain and supply retail water to select local municipalities and the City of Tshwane Metropolitan.

# CONTENTS

## PART A

### **Statements, Corporate Governance and Strategic Overview .....4**

Foreword by the Minister of Water and Sanitation .....	6
Foreword by the Chairperson .....	10
Statement by the Chief Executive Officer .....	14
Statement of Responsibility and Confirmation of the Annual Report Information Accuracy.....	18
Corporate Governance .....	19
Interim Board Members .....	22
Executive Committee Members .....	32
Strategic Overview.....	34
Thematic Core Values of the Magalies Water of the Future .....	37

## PART B

### **Business Model and Performance Information ..... 46**

Strategic Positioning .....	48
Governance .....	54
Organisational Capacity: Employment Report .....	56
Corporate Social Investment .....	57

## PART C

### **General Performance and Assurance ..... 58**

General Performance and Assurance .....	60
Organisational Efficiency and Effectiveness .....	72
Corporate Services Division .....	79
Stakeholder and Customer Services Division .....	90
Financial Performance Perspective: Chief Financial Officer Statement .....	95
Audit & Risk Committee Report .....	102
Internal Audit Opinion .....	105

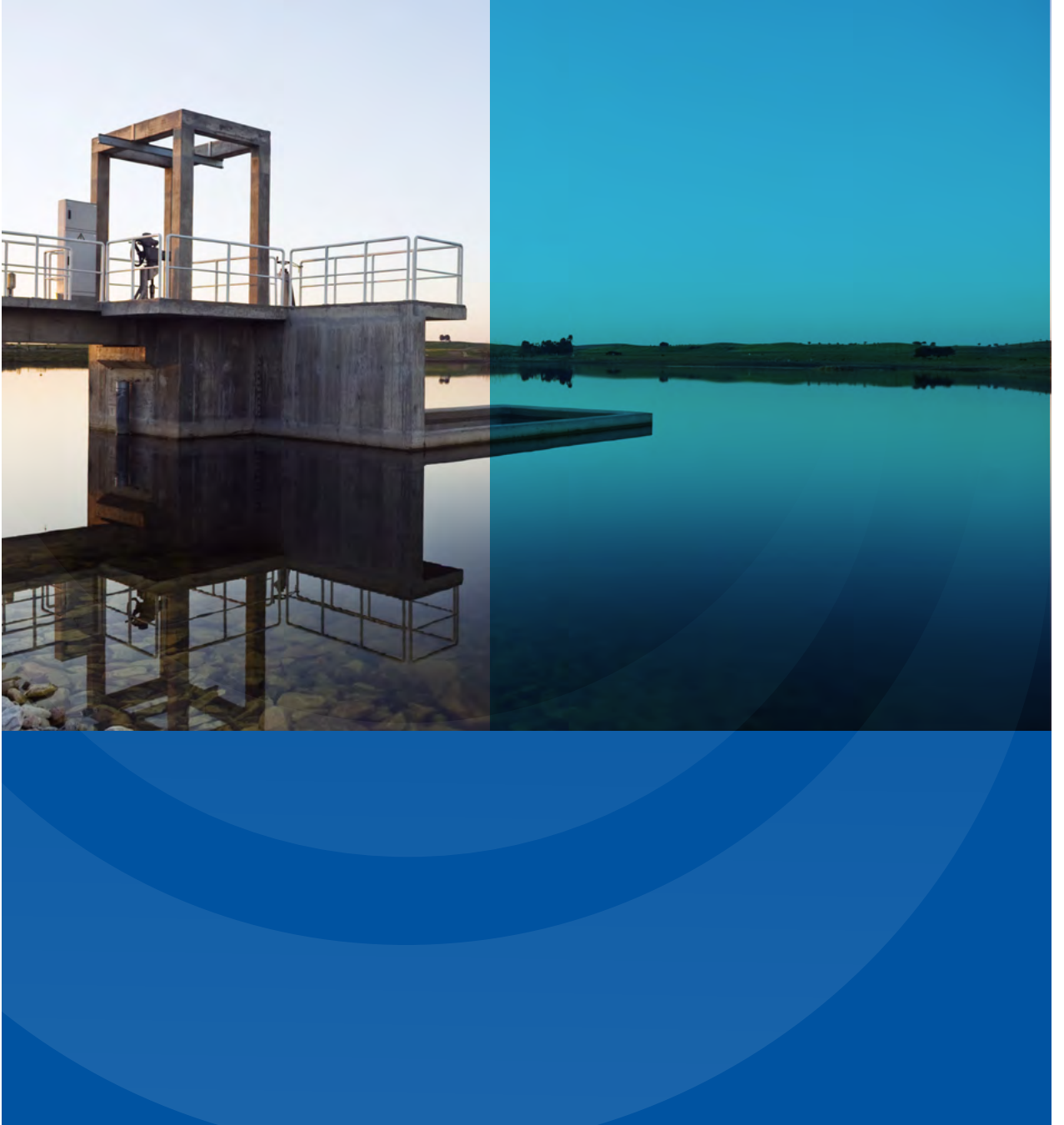
## PART D

### **Financial Performance Perspective ..... 106**

Report of the Auditor-General to Parliament .....	110
Annual Financial Statements .....	114

# LIST OF ACRONYMS

<b>AGSA</b>	Auditor-General of South Africa
<b>IA</b>	Implementing Agent
<b>PBWSS</b>	Pilanesberg Bulk Water Supply Scheme
<b>SANS</b>	South African National Standards
<b>ICT</b>	Information Communication and Technology
<b>BCM</b>	Business Continuity Management
<b>DWS</b>	Department of Water and Sanitation
<b>WCDM</b>	Water Conservation and Demand Management
<b>ISO</b>	International Organization for Standardization
<b>NQF</b>	National Qualifications Framework
<b>CSI</b>	Corporate Social Investments
<b>EWSETA</b>	Energy and Water Sector Training Authority
<b>Mℓ/day</b>	Megalitre per day





# PART A

## STATEMENTS, CORPORATE GOVERNANCE AND STRATEGIC OVERVIEW







**Mr Senzo Mchunu** Minister of Water and Sanitation

## FOREWORD BY THE MINISTER OF WATER AND SANITATION

At the heart of our constitutional democracy, of which our nation is rightly proud, is the right to access basic services, including water. Access to clean drinking water ranks high among fundamental human rights. To achieve universal access to water, government, private business, non-governmental organisations as well as the citizens of the Republic of South Africa need to unite behind responsible water usage and conservation to ensure that this important natural resource, which is already strained, continues to reach our people in all the corners of the country.



Our role as the Ministry of Water and Sanitation, is to provide strategic support to all the water boards in ensuring that access and provision of water to communities, is realised through a concerted effort between government and sector wide stakeholders. This shall ensure that as a collective we are able to respond acutely to the triple challenges of unemployment, poverty and inequality which have far reaching implications to the vast majority of our people in respect of access to water.

Access to water plays a critical role in addressing the current socio-economic challenges plaguing the country. Health facilities in peri-urban and rural areas can provide healthcare services to communities while promoting personal hygiene on the strength of the availability of water. Equally, our already constrained economy is able to operate particularly with the use of this all-important resource in mining, agriculture, and processing among other critical facets, to advance socio-economic growth. There would have been unprecedented interruptions to the economy, if our endeavour to ensure that water supply is sustainable while working towards the goal of water security, on the back of water scarcity in the country which is further compounded by the increasing demand for water supply as the population continues to grow. The interruptions would have come at a great cost, including job-losses in the above mentioned sectors of the economy, as we have come to realise the same with the after-effects of Covid-19 on the nation's economy and the many livelihoods which were not spared in the process.

The National Development Plan (NDP 2030) emphasises water security and its equitable distribution to communities as an enabler for socio-economic development. While there is general appreciation for existing gaps in respect of development across the nine provinces due to disparities in terms of infrastructure and economic development, we, together with Magalies Water, have been able to ensure that communities that previously did not have access to the basic human right of access to water services, are able to

enjoy it with no further hindrances. It is these long-standing disparities which the NDP aims to address through a well thought and sequential approach in resolving this service delivery aspect. This sentiment is expressed in Priority 1 (economic transformation and job creation) to which the work of the Department of Water and Sanitation is linked. The department is mandated to focus on integrated water resources management, infrastructure planning and development; and to ensure the regulation of water services within South Africa.

Consequently, South Africa needs to reduce water demand by implementing management systems flowing from the bulk infrastructure expansion projects and increase supply for a growing population and economy to ensure water progress towards water security by 2030. However, this mammoth task will not be realised if there is no concerted effort by all sections of government, economy, and civil society in addressing this challenge of water conservation and demand management. The effects of the contracting economy, which have a direct bearing on the rural-to-urban migration coupled with the advent of the Covid-19 pandemic, which requires increased water access to advance personal hygiene imperatives, has seen the water sector in the country experiencing unprecedented demand pressure. Access to water has never been as critical as it is now, given the health challenges which require consistent personal hygiene, which is heavily reliant on hand hygiene.

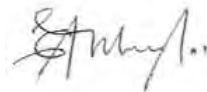
The department continues to work closely with water boards, ensuring that their initiatives are supported and that unsustainable water consumption patterns are addressed. To that extent, we have noted the progress made by Magalies Water in addressing the long-standing water demand challenges experienced within the jurisdictions of the Bojanala District Municipality, the City of Tshwane Metropolitan Municipality and the Waterberg District Municipality. We remain confident that upon completion, the projects which are being undertaken and commissioned, will bring relief to communities that have

had to bear the brunt of high-water demand in their region. It is encouraging to see that Magalies Water is working around the clock with affected stakeholders to ensure that the water supply challenges are resolved to the benefit of communities.

It pleases us to see the commendable work which has been done to date by Magalies Water. The entity's performance and deliverables to ensure that communities enjoy water and sanitation services gives us much hope of more sterling work to be done. The stability of water and sanitation related services at the Kgetlengrivier Local Municipality has afforded the residents of Koster and Swartruggens much needed reprieve through the service delivery standards that Magalies Water has been committed to and which are demonstrable by the positive impact which is felt by the communities who depend on these services.

We commend the interim board, the executive and entire Magalies Water staff for ensuring that the organisation continues to assert itself within the water sector through community engagements using varying methods of communication.

For the second year in a row, Magalies Water has once more made us proud by achieving a Clean Audit Opinion from the Auditor-General of South Africa (AGSA). This is indicative of the highest level of governance and performance, which is aligned with the recommendations of the King IV Report on Corporate Governance for South Africa, 2016. This sterling performance was capped with the 95% performance against the Shareholder Compact, which is a service level agreement between the Government of South Africa and the Magalies Water. Such a performance underscores the role that water boards play in the water value chain of this country. The importance of this role cannot be discounted, considering water boards are critical in ensuring that communities receive water that is clean and of acceptable standard.



**Mr E.S. Mchunu (MP)**  
**Minister of Water and Sanitation**







**Ms N.R. Mokoto** Magalies Water Interim Board Chairperson

## FOREWORD BY THE CHAIRPERSON

Magalies Water is going through the most critical period in our organisation's history so far. This brings along an opportunity for us to deeply reflect on the year that has gone by. As we complete that journey and start a new one, we are called to take stock of the many lessons learnt, celebrate the successes achieved and map a way forward as we strive to maintain excellence and consistent good performance in our organisation.

Ours is a critical and broad mandate which finds its expression in the Constitution of the Republic of South Africa. Despite having such a crucial responsibility, we are now faced with many unprecedented challenges such as the ongoing threat of the novel coronavirus (Covid-19), high demand for access to water services, and ongoing economic downturn that is impacting negatively on the organisation's plans and programmes as well as on other sectors of our society.

Magalies Water would not have been able to function effectively throughout the previous financial year ended 30 June 2021 without a proper turnaround plan, dynamic leadership and an innovative team of executives that saw the organisation improve its operational performance and financial management thus achieving its second clean audit opinion from the Auditor-General South Africa (AGSA). The executives' commitment, unity and strong cooperation in ensuring that Magalies Water continues to achieve all the strategic objectives, is highly appreciated. I also acknowledge with gratitude, the unwavering support of the Minister of Water and Sanitation to the organisation and the Board.

Throughout the year under review, Magalies Water Board – with the support of its executives and employees – has performed its role and executed its mandate with the required diligence and responsibility. We have carried this mandate of providing bulk water supply with pride and dignity thereby also creating an environment that is conducive for promoting the realisation of universal access to quality potable water service by all communities in our area of operation.

We are indebted to the most valuable asset of Magalies Water, which is our workforce. These are the people who work around the clock to ensure that our plants are operational and perform optimally for the benefit of the many communities who access water from our bulk supply. With the many challenges experienced by all in

the previous financial year, your passion and dedication to the strategic objectives, mission and vision of Magalies Water has made it possible to achieve 95% of the set targets for the reporting period. Your positive attitude and contributions towards the implementation of the vision and the achievement of the organisational objectives has positioned Magalies Water as one of the top performing entities in the country. The organisation continues to ensure that it is considered as the employer of choice within the sector by recruiting experienced and talented employees who are competitively remunerated.

The Executive Committee and the leadership displayed by the CEO, Mr Sandile Mkhize, have ensured that Magalies Water remains the go-to bulk water service provider in its area of operation. It is through this immense commitment to the organisation that the efforts and contributions of our foot soldiers are most noticeable and it is because of the team's resilience that we are more capable of delivering better services to all.

Our strong intergovernmental relationship with key stakeholders, partners and customers has paved a solid foundation for effective and efficient implementation of all our developmental programmes as directed by Section 29 and 30 of the Water Services Act, 1997 (Act 108 of 1997). This is despite the many challenges we continue to face as an organisation.

We continue to prioritise and nurture key relationships with our key stakeholders such as the various national departments, provinces (North West, Limpopo and Gauteng) and different local municipalities within our area of operation namely Rustenburg Local Municipality, City of Tshwane Metropolitan Municipality, Moses Kotane Local Municipality, Kgetlengrivier Local Municipality, Moretele Local Municipality, Thabazimbi Local Municipality, Bela-Bela Local Municipality and Modimolle-Mookgopong Local Municipality.

While the core business of Magalies Water is to provide bulk water services, it is our strategic objective to strengthen our existing relationships with stakeholders by accommodating their views and inputs on mutually beneficial issues. It is through such an open-minded approach that we continue to make inroads and register progress with previously neglected sectors. In the medium to long term, we remain inspired by the divergent views on how Magalies Water can become a more competitive bulk water services provider, thus asserting its presence and position within the water sector.

## Organisational performance

Our vision is, "To be the leading provider of quality water services in South Africa". In line with this and other legal mandates and policy guidelines, Magalies Water adopted a corporate plan and a shareholder compact articulating the organisation's strategic thinking and business imperatives. The two documents guide our performance management and determine expected deliverables for the organisation. With the overall performance of 95%, Magalies Water has exceeded the previous year's performance by 2% and thus realised an achievement of 37 out of 39 key performance indicators (KPIs) at the end of the financial year. Despite the ongoing economic difficulties and Covid-19 pandemic and subsequent lockdowns, Magalies Water has surpassed the expected target on water sales which increased tremendously with strong demand for water by our customers.

## Challenges and opportunities

It is without a doubt that the effects of the Covid-19 pandemic have left an indelible mark on our personal and professional lives. Some of the people we once worked with (whose experience, determination and passion brought the much-needed results) are not with us anymore. Be that as it may, we forge ahead with the intention of continuing their legacies by building on the work they did before.

Covid-19 has put into sharp focus hand hygiene and consequently water quality. While we have a world-class laboratory which is instrumental in performing oversight and quality assurance on the final product which is dispensed to consumers, the deteriorating raw water quality continues to pose a challenge. Furthermore, the depletion of raw water resources due to climate change and over utilisation has multi-layered consequences that includes generally reduced quantities of potable water supply to communities, which means that some consumers may experience shortages of water supply. We will, however, endeavour to find a long-lasting solution, engage all relevant stakeholders to ensure that universal access to water is realised and sustained.

Water demand is still high in our areas of operation as a result of numerous factors. The rural-to-urban migration of prospective job seekers, coupled with population growth and slow economic growth has placed our infrastructure under severe stress.

Despite these challenges, our recent appointment at Kgetlengrivier Local Municipality as an implementing agent (IA) for operations and maintenance (O&M) of bulk water and sanitation assets not only signals a vote of confidence from both the Ministry of Water and Sanitation as well as the North West Cooperative Governance, Human Settlements and Traditional Affairs Department, but it is also a testament to our ability to meet and exceed expectations in terms of our service standards.

We, however, need to point out that the financial constraints and poor funding of strategic projects we continue to face, remains the great stumbling block in the accelerated roll-out and expansion of infrastructure projects. We remain emboldened by the many opportunities for growth that are coming our direction. We are confident that the new partnerships forged and valuable insights offered by potential funders will enable the organisation to respond more accurately and appropriately to the current supply and water demand challenges.



Resolving financial bottlenecks which affect the direct performance of Magalies Water, can assist the organisation to exceed its current revenue targets if the methodology of financial returns is expanded to cater for newer customers who will pay for the services rendered.

Many of the projects which have been successfully completed and commissioned in the past financial year as well as those which will take shape in this current financial year and the following years to come, are as a result of our endeavour to respond positively to challenges within the environment in which we operate.

## Business model and sustainability

While Magalies Water continues to meet its financial obligations by paying its workforce on time and meeting the entity's other financial commitments, our financial viability is continually affected by increasing debts by municipalities. Most municipalities within our area of operation are almost indigent and do not have enough revenue base to sustain them, except to rely on grant funding from the already constrained fiscus.

We work towards sustained water supply and water security within the area of our operation. To ensure optimal efficiency, we have increased our turn-around time to all technical challenges, thus averting prolonged inconvenience to communities.

In the end, communities of Rustenburg – more specifically Tlhabane, the Royal Bafokeng Authority (RBA), and Geelhout – will experience improved water supply. The expansion of our service offering will also put Magalies Water at an advantage as it will own and maintain the critical infrastructure, thus inspiring confidence as we work hard to increase our existing bulk customers.



**Ms N.R. Mokoto**

**Magalies Water Interim Board Chairperson**



**Mr S.P. Mkhize** Magalies Water Chief Executive Officer

## STATEMENT BY THE CHIEF EXECUTIVE OFFICER

It is an honour once more to present to you, our valued stakeholders and customers, the 2020/21 Magalies Water Annual Report. The presentation of this annual report comes at the back of the astounding performance of 95% against the Shareholder Compact for the 2020/21 financial year, which was capped with a clean audit opinion from the Auditor-General of South Africa (AGSA).

We consider such an achievement to be inspiring and believe that from there, Magalies Water's performance can only go upwards. At the heart of the implementation of the Magalies Water Corporate Plan, in conjunction with the strategic objectives, is the strict compliance to the dictates of the Water Services Act, 1997 (Act 108 of 1997) which anchors our organisational strategy firmly on the mandate and responsibility which we derive from the Constitution of the Republic of South Africa, 1996.

The five-year forward looking corporate plan intends to assist Magalies Water to cement its position within the water sector, while increasing its dominance through investment in bulk water and sanitation infrastructure, development of its human capital, and increasing its service offering within and outside its area of operation. To this end, we endeavour to position Magalies Water as a worthy contributor to the delivery of high-quality water services to our customers.

The Magalies Water Corporate Plan contains five-year commitments to further enhance our capabilities towards achieving the "desired end-state", described above, across the following major programmes:

1. Plan, design and acquire water services facilities, equipment, bulk distribution capacity and enterprise capabilities within funding constraints to achieve our mandate of primary (Section 29) activities efficiently.
2. Deliver water services that comply with required standards of water quality and reliability of supply and satisfy our customers.
3. Enhance our Section 30 functional capacity and capability to, effectively, handle the supply and demand.
4. Maintain financial sustainability within the approved tariffs.
5. Develop and/or transform the Magalies Water's human capital, suppliers and communities through embarking on initiatives for upskilling, localising employment and effectively implementing enterprise development programmes.

6. Provide efficient and effective business support to finance, supply chain, information and communications technology, governance and risk management.
7. Engage stakeholders (shareholder and customers) towards enabling appropriate level of influence to the flexibility of our operations and planning.

## Our performance

The Magalies Water Corporate Plan was used in the development of the Magalies Water Shareholder Compact, which is a binding commitment specifying the performance levels to be expected from the organisation by the shareholder. Both the Corporate Plan (2020/21 Reviewed) and the Shareholder Compact (2020/2021) are designed in line with the balanced scorecard principles as well as general performance measures that enhance corporate governance practice as espoused in the King IV Report on Corporate Governance for South Africa.

The strategic perspectives that inform this report are the following:

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

It is quite comforting that the organisation continues to perform with distinction in meeting the set targets. Out of the 39 key performance indicators (KPIs) that Magalies Water Board contracted with the shareholder, 37 KPIs were achieved, while only two KPIs were not achieved. This represents an overall performance of 95%, as compared to the 93% achieved during the 2019/20 financial year.

Although two key performance indicators (KPI's) were not achieved, it gives the executives of Magalies Water great comfort that Magalies Water is well on its way to achieve



its long-term strategic intent of being the leading provider of quality water services in South Africa. We will double our efforts to look into the areas where non-achievement has been flagged and intensify our efforts in effecting the necessary redress.

Despite the challenges brought upon us by the global pandemic of Covid-19, we are proud of our performance with regards to our primary mandate which is bulk potable water supply to our customers. Magalies Water achieved a water sales volume of 94 175 707 kℓ against the target of 87 140 979 kℓ. This represents an over achievement of over 8%. Magalies Water continues to contribute positively to water conservation and demand management (WCDM), where 3.75% of potable water was lost in our over 800 km of distribution pipelines against the target of 7%.

In addition to the increased water sales volume and reduced distribution losses, the water sold was on average compliant to the excellent levels of all five parameters of the SANS 241: 2015 drinking water quality standard (Acute-1 health, Acute-2 health, Chronic health, Operational, and Aesthetic). This means that the water supplied by Magalies Water was tested in a SANS accredited laboratory and confirmed to be always suitable for human consumption.

Topping-up such an exceptional operational performance, Magalies Water achieved a clean audit opinion from the Auditor-General in relation to the 2019/20 financial year, which is reportable under the current reporting period, due to delayed finalisation of the 2019/20 external audit process by AGSA. For the year under review, Magalies Water has continued on the good governance path by obtaining another clean audit opinion from the Auditor-General. This constitute a second clean audit opinion in a row.

In delivering to the Magalies Water Corporate Plan's strategic intent, we are pleased to have commenced work on some of the critical bulk water projects including the Moretele South Rising Main Project which is 96.7% complete. Although this is commendable, more is needed

in the form of bulk water infrastructure funding in order to gradually eliminate the backlog of water services provision within our area of operation.

We have been unable to see tangible results in respect of average debtors' days. We have not recorded progress in this regard as municipalities, who are our key customers, continue to take long in servicing their water accounts due to various financial difficulties facing them. Other customers generally delay payment of their accounts in anticipation of paying when they receive equitable share allocations on quarterly basis from the National Treasury in accordance with the Division of Revenue Act, 2020 (DORA).

The erratic servicing of the bulk water accounts by municipalities is further compounded by the dwindling economy which has greatly affected the revenue collection of municipalities in addition to the debilitating effects of the Covid-19 pandemic. However, debt collection measures have been implemented to motivate customers to pay their water accounts on time, including but not limited to issuing restriction notices to municipalities that owe monies to Magalies Water.

Disconnections could not be implemented as the national state of disaster (which the country has been placed under since March 2020) prohibits the restriction of water supply to consumers. As such, bulk water supply disconnection as a means to collect overdue revenue to Magalies Water may not be implemented as a deterrent to customers whose accounts remain in arrears. While we aim to achieve growth and sustainable financial returns, the escalating debt book poses a major risk in achieving this goal.

Magalies Water is an equal opportunity employer that promotes workplace diversity (race, gender, and disability) through filling vacant positions. The organisation has increased its workforce to 294 employees from 288 at the beginning of the financial year (which had been set as the organisational target). We continue to invest in the development of young professionals in the water sector. Magalies Water offers internship and graduate programmes

that give unemployed and inexperienced graduates the opportunity to gain work experience. Currently, Magalies Water has 22 interns, who are placed for a period of 24 months in various units.

In support of local suppliers and/or the local content of a product according to SATS 1286:2011, Magalies Water adheres to the specified evaluation criteria on all the tenders and contributes towards transformation and developmental agenda. Timely payment of SMMEs, township and rural enterprise support is crucial.

It is our intention to ensure that our improved service offering ties in closely with progressive and continually improved performance. The Magalies Water Corporate Plan, which considers the medium to long-term strategic objectives, remains central towards the identified areas of growth and sustainability within our area of operation. This is the vision with which we will live by our own mantra – the leading provider of quality water services in the country. We will do this despite the financial and infrastructural limitations we are faced with, knowing that we have conquered in the past and we can do it all over again; we will do it with intentional and repetitive steps which have brought us to where we find our organisation today.

In conclusion, I would like to thank the Magalies Water customers, stakeholders and shareholder for all the support in our endeavours to deliver on our water services mandate. I would also like to thank our staff and my fellow EXCO colleagues for the partnership towards achieving the corporate objectives.

Lastly, my sincere gratitude goes to the Board of Magalies Water, under the stewardship of Ms N.R. Mokoto, for their collective leadership and guidance. We remain committed to maintaining the clean audit performance while driving the growth strategy of the organisation.



**Mr S.P. Mkhize**

**Magalies Water Chief Executive Officer**

# STATEMENT OF RESPONSIBILITY AND CONFIRMATION OF THE ANNUAL REPORT INFORMATION ACCURACY

In my capacity as the accounting officer in terms of the Public Finance Management Act , 1999 (Act 1 of 1999) (PFMA) as amended and as the Chief Executive Officer of Magalies Water, it is my honour to accept responsibility for the maintenance and preparation of financial statements and non-financial performance information of Magalies Water for the 2020/21 financial year.

The Magalies Water Annual Financial Statements have been prepared in accordance with, among others, the Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board (ASB) and the requirements of the PFMA. I also take full responsibility for the preparation, assessments or evaluations and the outcomes contained in this Annual Report, financial year ending 30 June 2021.

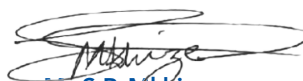
The level of performance (95%) reported on the predetermined objectives is accurate and I have confidence that the content is credible, of integrity and reliable due to the currently embedded internal controls that remain relevant and adequate. These are designed to provide reasonable assurance on our performance throughout the year. For instance, at self-assessment level, the Magalies Water internal controls are implemented and monitored; our employees understand the importance of maintaining the highest ethical standards in the manner we conduct our business.

The internal audit function and the risk management processes provide the necessary oversight that takes into account all levels of defence in the verification of the effectiveness of the existing control measures and the identification of additional ones where applicable. The two

functions also continued to provide reasonable assurance against material misstatements or deficits and to check whether risk and opportunities were dealt with, whenever it was deemed necessary.

This is our account of the acceptability of the true state of affairs of our entity's results from both operational and financial reporting for the year ended 30 June 2021. It is premised on two critical factors:

1. Our reported information has been externally audited and the Auditor-General of South Africa (AGSA) has expressed an independent opinion on the annual financial and all other predetermined non-financial objectives that had been contracted to the shareholder for the reporting period. We provided unrestricted access to the AGSA for review of all the relevant records as legally required. Refer to the AG Report on pages 110 to 113.
2. The Board and Executive Authority have been privy to the Annual Report for 2020/21 in line with the legislative requirements. The Annual Report has been prepared on a going concern basis and the Executive Authority approved it by 29 November 2021.



**Mr S.P. Mkhize**  
**Magalies Water**  
**Chief Executive Officer**



**Ms N.R. Mokoto**  
**Magalies Water**  
**Interim Board Chairperson**



# CORPORATE GOVERNANCE

Magalies Water Board is a state-owned entity (SOE) established in terms of Section 28 of the Water Services Act, 1997 (Act 108 of 1997) (WSA) and is classified as a government business enterprise in Schedule 3B of the Public Finance Management Act, 1999 (Act 1 of 1999). The service area of Magalies Water as determined by the Minister of Water and Sanitation stretches over the Pienaars and Crocodile rivers, these being two of its major catchment areas.

As an SOE, Magalies Water is governed by, among others, legal frameworks that constitute its regulatory universe, including the legislation listed below. These legal instruments ensure that the roles and responsibilities of the Executive Authority, the Accounting Authority and management are clarified to prevent any possible conflicts. To that effect, the Minister of Water and Sanitation, continues to devolve some of the vested powers to members of the Board of Magalies Water:

- The Constitution of the Republic of South Africa, 1996 (Act 108 of 1996)  
According to Chapter 2: Bill of Rights of the Constitution, the state must respect, protect, promote and fulfil the rights of all people in our country and (must) affirm the democratic values of human dignity, equality and freedom. Section 10 states that everyone has rights to human dignity and Section 11 speaks of everyone's right to life.
- The Companies Act, 2008 (Act 71 of 2008)
- The Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA) as amended
- National Water Act, 1998 (Act 36 of 1998) (NWA) and its regulations: The NWA provides that national

government is the public trustee of the nation's water resources. Acting through the Minister of Water and Sanitation, national government has the power to regulate the use, flow and control of all water in the republic. The goals are to protect, use, develop, conserve and manage water resources sustainably and equitably for the benefit of all persons.

- The Water Services Act, 1997 (Act 108 of 1997) (WSA), which provides for the right of access to basic water supply and the right to basic sanitation services. The WSA also provides for the establishment of water boards and defines their primary (Section 29) and secondary (Section 30) functions.
- Other applicable public sector protocols:  
Magalies Water also makes use of the King IV Report on Corporate Governance to exercise ethical and effective leadership in achieving the following governance outcomes:
  - Ethical culture
  - Good performance
  - Effective control
  - Legitimacy.

## Corporate governance key focus areas

The intent is to ensure sustainability and enhance efficiency and productivity, which are ongoing concerns for 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 on 01 April 2017.

## The functions of the Magalies Water Company Secretary and Board

### Company Secretary

The company secretary oversees administration and compliance in the organisation. The company secretary, together with the 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 South Africa (IoDSA), 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.'*

In addition to governance, the Magalies Water Company Secretary ensured that members of the Executive Committee (EXCO) and the Board carried out their roles and responsibilities as outlined in the Magalies Water Board Charter.

### The Board

The Board leads Magalies Water and takes collective responsibility for its long-term success. It provides leadership in setting strategic objectives, vision and values within the framework of prudent controls over risks and opportunities, the success or failure of which forms part of the corporate compliance and planning cycle. Among the roles and responsibilities mandated to the Board and extracted from its adopted charter are:

- Lead ethically and effectively by cultivating the characteristics of integrity, competence, fairness, transparency, accountability and responsibility and exhibit them in their conduct.
- Appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are inseparable elements of the value creation process, by steering and setting the direction for strategy; including considering, challenging and approving management's formulation of short, medium and long-term strategy.
- Act as the focal point and custodian of corporate governance in the organisation by steering the organisation and setting its strategic direction, approving policy and planning that give effect to that direction, overseeing and monitoring the implementation and execution by the management and ensure accountability for the organisation's performance through reporting and disclosures.
- Adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time, by setting the direction of how it should be approached and addressed in the organisation, and approving policy that articulates and gives effect to the set direction.
- Govern risk in a way that supports the organisation in setting and achieving its strategic objectives, by evaluating and agreeing the nature and extent of risks that the organisation is willing to take in pursuit of its strategic objectives including governing technology and information in a way that supports the organisation in setting and achieving its strategic objectives.
- Approve annual tariffs and budget allocation in line with strategic objectives.
- Ensure that the organisation is financially viable, including condoning irregular expenditure provided that the transactions are not financially significant.
- Ensure that management is vigilant on local municipalities' liquidity and financial sustainability,

while addressing the affordability of non-paying debtors.

- Be responsive and guide mitigation of reputational impacts and approval processes for escalation of customers in arrears to the ministers, and/or engage the National Treasury on the municipalities' equitable share apportionment.
- Approve committee reports and activities, including:
  - Declaration of interest and confidentiality undertaking procedures.
  - All committee terms of references in line with the Board Charter.
  - Setting and/or approval of policies of the organisation.
  - Audited annual financial statements and the annual performance reports for each financial year:
    - Approve quarterly and annual performance information reports.
    - Approve annual salary increases and performance incentive bonuses for each year.
    - Set key performance indicators for borrowing limits, guarantees and grant funding. This was carried out during the development of the Corporate Plan for 2020/21 to 2024/25 and the Shareholder Compact (2020/21).

Additional Board duties include the following:

- Setting and/or revising the delegation of authority.
- Dispatching its power of attorney, including ensuring that Magalies Water has registered tax representatives, an approved organisational structure and external auditors (AGSA) continues to add value to the organisation's business planning and monitoring.
- Ensuring 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.

In accordance with Schedule 1 of the Water Services Act, 1997 (Act 108 of 1997), the former Minister of the Human Settlements, Water and Sanitation, Honourable Lindiwe Sisulu, appointed an Interim Board on 08 July 2020, effective from 01 July 2020. An inaugural meeting facilitated by the DWS was held on 13 July 2020, followed by an induction on 22 July 2020; thereafter Board committees were established.

The Interim Board members contribute valuable inputs to the sustainability of the organisation through committing their time in attending all the organised committee meetings thus ensuring that the target of 85% attendance was achieved.

The following Board committees were established during the Interim Board induction session held on 22 July 2020 to effectively implement the designated fiduciary duties and responsibilities:

1. Audit & Risk Committee
2. Finance Committee
3. Capital Investment & Stakeholder Engagement Committee
4. Human Resource, Social & Ethics Committee
5. Chairpersons Coordinating Committee

---

# INTERIM BOARD MEMBERS



**Ms Nthibane Rebecca (Pinky) Mokoto**

***Chairperson***

Ms Mokoto is a seasoned communicator, having attained a number of qualifications in the communications field and risen up the ranks to now being appointed as the Interim Chairperson of the Board of Magalies Water. She Was former MP at RSA National Assembly. Served in portfolios of finance, communications, joint rules committee, constitutional and legislature review and public enterprises. She was committee whip of basic education. Served as Councillor and Executive Mayor of Ngaka Modiri Molema District Municipality. Experience in communications, governance public and local level, oversight and monitoring of programme implementation. Served in different roles at NGO level. Emerging Entrepreneur.



**Dr Thembinkosi Gladden Twalo**

***Deputy Chairperson***

Dr Twalo is an accomplished academic who has written and published numerous journal articles, conference papers and research reports. He has extensive experience in research, management, evidence-based policy-making and innovation.



**Dr Keneilwe Lydia Sebegu**

***Board member***

Dr Sebegu has extensive experience in teaching. She has supervised and managed the curriculum development in the education department of North West, and trained biology, mathematics and science teachers. She is a strategist who has provided strategic leadership to various government departments as an accounting officer over many years.





**Ms Bukeka Mahlutshana**

***Board member***

Ms Mahlutshana is an experienced leader with a successful track record in strategic planning, business development, business turnaround strategies and coordinating and managing the execution of innovative solutions, among others. She has held various positions in both the private and public sectors and has worked closely with government departments, municipalities, unions and communities. Her key achievements include the successful establishment of the Bus Rapid Transit in the City of Tshwane and the North West Transport Investment Business Development Unit.



**Mr Motiki George Shoahle**

***Board member***

Mr Shoahle is a chartered accountant with experience in accounting for financial instruments, finance and operating lease assets, revenue recognition and project management, to mention a few.



**Ms Ertia Boitumelo Mokgatle**

***Board member***

Ms Mokgatle is a risk management specialist and professional, having served on numerous boards in the public and private sectors. She has international work experience, which includes work done in Uganda and Botswana.



**Mr Likotsi David Morienyane**

***Board member***

Mr Morienyane is a registered professional engineer with the Engineering Council of South Africa and has extensive experience as an enterprise architect, having developed enterprise architecture blueprints and IT systems for various companies and government departments.



**Mr Itumeleng Mosala**

***Board member***

Mr Mosala is an accomplished professional with strong expertise in governing complex business operations, monitoring ongoing programmes and processes and modelling change management initiatives. He has held a number of strategic local government positions, including Chair of Chairs in the North West Provincial Legislature and being a Member of Parliament.



**Ms Magogodi Elizabeth Tebogo Malaka**

***Board member***

Ms Malaka has over 20 years of experience in the public sector, with expertise in programme and project management, strategic leadership, financial management and infrastructure delivery. She is a member of the Institute of Directors South Africa and serves on numerous Board committees. She has also attended water sector study tours in Canada, Stockholm and Sri Lanka.



**Change in the Interim Board composition**

The Board composition was affected by the passing of one of its Board members. The late Mr Vuyani Alexander Magnus Magqabi passed away on 16 January 2021. Mr Magqabi was a lawyer with experience in handling complex cases in the Supreme Court of Appeal and Constitutional Court. He was proficient in labour law, land claim litigations, contract and property law, criminal law and commercial law.



**Ms Deona Engelbrecht**  
Company Secretary



**Ms Zelda Tshabalala**  
Audit & Risk Committee member



**Mr Stanley Ngobeni**  
Audit & Risk Committee member



**Ms Neo Shabalala**  
Audit & Risk Committee member

**Table 1: Interim Board members**

Board member	Appointment date	Gender	Finance Committee	Chairpersons Coordinating Committee	Capital Investment and Stakeholder Engagement Committee	Audit & Risk Committee	HR, Social and Ethics Committee
Ms NR Mokoto (Chairperson)	01 July 2020	Female		X			
Dr TG Twalo (Deputy Chairperson)	01 July 2020	Male		X	X		X
Dr KL Sebegu	01 July 2020	Female	X	X	X		
Ms EB Mokgatle	01 July 2020	Female		X		X	X
Ms B Mahluthshana	01 July 2020	Female	X	X	X		
Mr LD Morienyane*	01 July 2020	Male		X	X	X	X
Mr I Mosala	01 July 2020	Male	X		X		
Ms MET Malaka**	01 July 2020	Female	X		X		X
Mr MG Shoahle	01 July 2020	Male	X				X
Mr VAM Magqabi #	01 July 2020	Male				X	X

# Mr VAM Magqabi passed away on 16 January 2021

\* Mr LD Morienyane was reassigned from the Capital Investment & Stakeholder Engagement Committee to the Audit & Risk Committee on 25 March 2021

\*\* Ms MET Malaka was reassigned from the Finance Committee to the Human Resource, Social & Ethics Committee on 25 March 2021.

The term of independent external members of the Audit & Risk Committee ended in April 2020 and were extended pending the appointment of a new external Audit & Risk Committee, which was delayed by the Covid-19 pandemic.

The new External Audit & Risk Committee members were appointed effective from 01 March 2021:

- Mr SN Ngobeni
- Ms Z Tshabalala
- Ms N Shabalala

## Board composition by race and gender

**Table 2: Composition of the Interim Board**

Race	Gender	Total	%	Male %	Female %
African	Male	4*	44%	44%	56%
	Female	5	56%		
Indian	Male	-	-		
	Female	-	-		
Coloured	Male	-	-		
	Female	-	-		
White	Male	-	-		
	Female	-	-		
Total		9	100%		
Male and female totals				4	5

\* One of the male Board members, Mr Magqabi, passed away on 16 January 2021 which affected the Board composition.

## Board evaluation

According to King IV report on corporate governance, it is recommended that Board evaluation be conducted annually. Due to the changes in the governance structure of Magalies Water, the performance and effectiveness evaluation process was postponed to 2021/22 financial year. The Magalies Water Company Secretary will evaluate the performance and effectiveness of the interim Board members, individual Board members, and Board committees after a full year of service.

## Board Charter

The primary purpose of the Magalies Board Charter is to set out the roles and responsibilities of the Board, composition, meeting procedures, delegation and authority and to effectively guide the Board in the following:

- Leadership, ethics and corporate citizenship
- Strategy, performance and reporting
- Governing structures and delegation
- Stakeholders

- Governance functional areas
- ## Shareholder Compact

Magalies Water signed off the Shareholder Compact, effective for the period 01 July 2020 to 30 June 2021. It is hereby recorded that the agreed objectives, although subject to review annually, set out matters that are applicable beyond the period of a year. In the event that they are amended, the parties shall take into account initiatives already commenced on the basis of such objectives.

In terms of regulation 29 of the Treasury Regulations issued in terms of the Public Finance Management Act, 1999 (Act 1 of 1999) (as amended) (the PFMA), the accounting authority for a public entity listed in Schedule 3b, must, in consultation with its executive authority, annually conclude a shareholder compact.

Such a shareholder compact must document the mandated key performance measures and indicators to be attained by the public entity as agreed between the accounting authority and the executive authority.

The required Shareholder Compact in the context of Magalies Water and the executive authority comprises the agreed principles, and the key performance objectives, measures and indicators.

## Board meetings

Due to changes in the Board and its composition during the start of Magalies Water's financial year 2020/21, the Board attendance and compliance schedule will be reported for both the previous Board and the newly appointed Interim Board.



**Table 3: Attendance of ordinary and special Board meetings by previous Board members**

Board member	Attended meetings to planned meetings: Board and Committees	
	Ordinary	Special
Adv MM Petlane	1/1	0/0
Ms PN Nkwinika	1/1	0/0
Mr FP Vilakazi	1/1	0/0
Ms NM Mufamadi	1/1	0/0
Mr KSV Suping	1/1	0/0
Mr RM Le Roux	1/1	0/0
Ms YM Matolong	1/1	0/0
Ms DM Manamela	1/1	0/0
Ms KP Mokoena	1/1	0/0
Dr L Zitha	1/1	0/0
<b>Total overall attendance of Board members</b>	<b>10/10</b>	<b>0/0</b>

Members of the Interim Board of Magalies Water made valuable contributions to the sustainability of the organisation through their inputs, participation and time devoted to attending all scheduled committee meetings. The tables below detail attendance of Board committee meetings for the period ending June 2021.

**Table 4: Attendance of ordinary and special Board meetings by Interim Board members**

Interim Board member	Ordinary & special Board meeting attendance	
	Ordinary	Special
Ms NR Mokoto	7/7	2/2
Dr TG Twalo	7/7	2/2
Dr KL Sebegu	5/7	2/2
Ms BE Mokgatle	7/7	2/2
Ms MET Malaka	7/7	2/2
Mr VAM Magqabi #	3/3	2/2
Mr LD Morienyane	7/7	2/2
Ms B Mahluthshana	7/7	2/2
Mr MG Shoahle	7/7	2/2
Mr I Mosala	7/7	1/1
<b>Total overall attendance of Board Members</b>	<b>64/66</b>	<b>19/19</b>

# Mr VAM Magqabi passed away on 16 January 2021

## Board committees

Committees of the Board ensured that the Board operated effectively and efficiently.

## Capital Investment and Stakeholder Engagement Committee

The Capital Investment and Stakeholder Engagement Committee oversees and advises the organisation on growth strategies and stakeholder engagement related matters. The role of the Capital Investment & Stakeholder Engagement Committee is to assist the Board and Executive Management to ensure that:

- Appropriate capital investment, stakeholder communication, business development, and customer services policies are developed and implemented;
- It makes recommendations to the Board and advises on the implementation of strategies to ensure success in operations, capital infrastructure delivery and socio-economic development;
- Proper communication guidelines and strategies are adopted; and
- All approved policies are fair, transparent and implemented.

The Capital Investment & Stakeholder Engagement Committee held all the meetings set for the 2020/21 financial year.

**Table 5: Capital Investment and Stakeholder Engagement Committee meeting attendance**

Member	Attendance
Dr KL Sebegu (Chairperson)	4/4
Ms MET Malaka	4/4
Dr TG Twalo	4/4
Ms B Mahluthshana	4/4
Mr I Mosala	4/4
Mr LD Morienyane	3/3

\*\* Mr LD Morienyane was reassigned to the Audit & Risk Committee during the Board meeting of 25 March 2021

Finance Committee

The Finance Committee shall play an oversight role over financial management policies and practice of the entity and makes recommendations on a variety of financial matters and policies to the Board for consideration and final approval. The role of the Finance Committee is to assist the Board and Executive Management to ensure that:

- Appropriate finance policies are developed and implemented;
- Proper internal controls are developed and monitored to maintain the sustainability of the organisation;
- It makes recommendations to the Board and advises on the budgeting and financial planning of the organisation; and
- All approved finance policies are fair, transparent and implemented.

The Finance Committee held all the meetings set for the 2020/21 financial year.

Table 6: Finance Committee meeting attendance

Member	Attendance
Ms B Mahlutshana (Chairperson)	6/6
Mr I Mosala	6/6
Dr KL Sebego	6/6
Ms MET Malaka	5/5*
Mr MG Shoahle	6/6

\* Ms MET Malaka was reassigned to the HR, Social & Ethics Committee on 25 March 2021

Table 7: Board members who attended Finance Committee meetings by invitation

Member	Attendance
Ms NR Mokoto	1/1
Dr TG Twalo	2/2

Audit & Risk Committee

The Audit & Risk Committee is responsible to assist the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control and management of financial risks, the assurance process, enterprise-wide risk management and Magalies Water's process for monitoring compliance with laws and regulations and its own code of business conduct.

The roles and responsibilities of the Audit & Risk Committee are in accordance with the PFMA and Treasury Regulation 27.1.

The committee oversees corporate governance, integrated reporting and management of internal controls. It reports on its evaluation of financial statements and effectiveness of internal controls prior to the finalisation of the entity's annual sustainability and integrated report. Furthermore, it:

- Recommends risk areas of the entity to be covered in the scope of internal audit;
- Assesses the adequacy, reliability and accuracy of financials provided to users of financial information;
- Addresses accounting and auditing concerns identified during internal and external audit; and
- Ensures that the entity complies with legal and statutory provisions.

The Audit & Risk Committee held all the meetings set for the 2020/21 financial year.

**Table 8: Audit & Risk Committee meeting attendance**

Member	Attendance
Ms EB Mokgatle (Chairperson)	6/6
Mr VAM Magqabi#	3/3
Mr LD Morienyane*	3/3
Mr SM Mamotheti	5/5
Ms K Moodley	4/5
Ms Z Tshabalala**	1/1
Ms N Shabalala**	1/1
Mr SN Ngobeni**	1/1

# Mr VAM Magqabi passed away on 16 January 2021

\* Mr LD Morienyane was reassigned to the Audit & Risk Committee on 25 March 2021

\*\* The following members were appointed as external Audit & Risk Committee members effective from 01 March 2021:

- Ms Z Tshabalala
- Ms N Shabalala
- Mr SN Ngobeni

**Table 9: Board members who attended Audit & Risk Committee meetings by invitation**

Member	Attendance
Dr TG Twalo	1/1

## Human Resource, Social and Ethics Committee

The Human Resources, Social and Ethics Committee oversees and advises the organisation on human resource and human resource-related matters. The role of the committee is to assist the Board and Executive Management to ensure that:

- Appropriate human resources policies are developed and implemented;
- It makes recommendations to the Board and advises on the implementation of affordable, competitive and fair remuneration practices throughout the organisation;

- All approved human resource and remuneration policies are fair, transparent and implemented;
- Magalies Water has the appropriate human capital to deliver on its mandate; and
- Magalies Water is transparent and representative in terms of equity.

The Human Resource, Social and Ethics Committee held all the meetings set for the 2020/21 financial year.

**Table 10: Human Resource, Social and Ethics Committee meeting attendance**

Member	Attendance
Mr LD Morienyane (Chairperson)	5/5
Mr MG Shoahle	4/5
Dr TG Twalo	5/5
Ms EB Mokgatle	4/5
Mr VAM Magqabi#	3/3
Ms MET Malaka*	1/1

# Mr VAM Magqabi passed away on 16 January 2021

\* Ms MET Malaka was reassigned to the Human Resource, Social & Ethics Committee on 25 March 2021

**Table 11: Board members who attended HR, Social & Ethics Committee meetings by invitation**

Member	Attendance
Ms NR Mokoto	1/1

## Chairpersons Coordinating Committee

The Chairpersons Coordinating Committee oversees the statutory compliance to ensure submission of the Quarterly Performance Information Report to the Shareholder's Office to comply with the legislative mandate imposed through Paragraph 29 of the Treasury Regulations of the Public Finance Management Act, 1999 (Act 1 of 1999) (PFMA) and other applicable frameworks pertaining to reporting the status of Magalies Water as a state-owned entity's performance monitoring information.

The role of the Chairpersons Coordinating Committee is to assist the Board and Executive Management to ensure that: The agreed principles as contained in the performance agreement between Magalies Water and the Shareholder are adhered to and monitored;

- The information contained in the Quarterly Performance Information Report is an accurate reflection of the organisations' actual performance for the specific quarter under review; and
- Other mandates or undertakings as might be required from time to time by the Board are considered and implemented.
- The Chairpersons Coordinating Committee held all the meetings scheduled for the 2020/21 financial year.

**Table 12: Chairpersons Coordinating Committee meeting attendance**

Member	Attendance
Ms NR Mokoto (Chairperson)	4/5
Dr TG Twalo	5/5
Ms B Mahluthshana	5/5
Ms EB Mokgatle	5/5
Dr KL Sebego	5/5
Mr LD Morienyane	4/5

**Table 13: Board members who attended Chairpersons Coordinating Committee meetings by invitation**

Member	Attendance
Mr MG Shoahle	1/1

### Code of conduct and promotion of ethical culture

The accounting officer promoted the implementation of the Magalies Water Code of Conduct and the processes were delegated between the Risk Specialist and the Company Secretary. The Risk Specialist focused on internal operation and tactical levels, while the company secretary's focus was at strategic Board level. Declarations of financial interests, confidentiality, and conflict of interests and disclosures were made by employees as provided for in the government's 1997 Code of Conduct for the public service.

The Company Secretary – as the provider of advice to the Board and the organisation on any matter of ethics, conflict of interest and good governance – handled the Board members' declarations. Magalies Water regards ethical conduct as mandatory for all employees.

The objectives of the Magalies Water Code of Conduct include:

- Administrative management of remunerative work conducted by employees outside their delegated duties;
- Enforcing Regulation 13(c) of the Public Service Regulations, 2016 (PSR), which prohibits employees from contracting/conducting business with any South African organ of state, as of 07 August 2016;
- Promotion of transparency and prevention of conflicts of interest among all involved in bid evaluation and adjudication, even those drafting and/or sourcing services based on the specification;
- Managing errors in sourcing quotations from companies not on the National Treasury's Central Supplier Database;
- Referring to recorded portfolios of evidence to protect the company and individuals who may be implicated in or facing charges of misconduct;
- Enabling individuals always to be conscious of disclosure requirements as they acquire, practise or pursue personal financial interests; and
- Ensuring that employees execute the company's delegated duties and/or avoid improper influence/ biased judgments etc. when acting on behalf of the company.

In summary, governance at Magalies Water is consistently kept in line with applicable legislation. The company secretary and EXCO assist the Board to implement business plans and exercise executive control over day-to-day operations. Magalies Water is diligent in ensuring that it adheres to regulations and ensures synergies with other key role-players and statutory stakeholders. The Magalies Water Board – supported by its committees, EXCO and the company secretary – fully owns the governance



responsibility and fiduciary duties for driving good corporate citizenship.

The 2020/21 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 chief executive officer whose oversight of the six operating divisions is supported by five general managers, a chief operations officer and a chief financial officer, who constitute EXCO.



---

# EXECUTIVE COMMITTEE MEMBERS



**Mr Sandile Psychology Mkhize – Chief Executive Officer**

***Academic qualifications:***

MBA (Milpark Business School)  
MTech Environmental Biotechnology (Durban University of Technology)  
Management Advancement Programme (Wits Business School)  
BSc Chemistry and Microbiology (University of KwaZulu-Natal)  
BTech Biotechnology (Durban University of Technology)  
Senior Executive Programme (Harvard Business School)  
Diploma in Advanced Project Management (Damelin)



**Mr Ofentse Nthutang (PrEng) – Acting Chief Operations Officer**

***Academic qualifications:***

Bachelor of Science in Civil Engineering (University of Witwatersrand)  
Certificate in Municipal Finance Management Programme (Kgolo Institute)



**Ms Matshidiso Tabane CA(SA) – Chief Financial Officer**

***Academic qualifications:***

Bachelor of Accounting Science (University of South Africa)  
Postgraduate Diploma in Applied Accounting Science (University of South Africa)



### **Ms Kele Mogamisi – General Manager: Stakeholder and Customer Services**

#### **Academic qualifications:**

MBA – (Milpark Business School)  
BSc Chemistry (MEDUNSA)  
BSc Hons Water Utilisation (University of Pretoria)  
National Diploma in Water Care (Pretoria Technikon)  
Senior Management Programme Certificate (University of Pretoria)  
Municipal Finance and Supply Chain Management (Wits School of Governance)



### **Ms Buyiswa Bingwa – Acting General Manager: Corporate Services**

#### **Academic qualifications:**

MBL (University of South Africa)  
Bachelor of Laws – LLB (University of South Africa)  
Bachelor of Arts Honours Industrial Psychology (University of South Africa)  
BTech Human Resources (Cape Technikon)  
Certificate Alternative Dispute Resolution – Arbitration Foundation of South Africa



### **Mr Mukesh Dayanand – Acting General Manager: Water Services**

#### **Academic qualifications:**

BSc Hons Engineering and Technology (University of Pretoria)  
BTech Water Care (Pretoria Technikon)  
NDIP Water Care (Pretoria Technikon)  
Certificate In Labour Law (University of Natal)



### **Mr Tshiamo Mpane (PrTechni) – Acting General Manager: Project Management Unit**

#### **Academic qualifications:**

Bachelor of Technology Civil Engineering (Tshwane University of Technology)  
Bachelor of Technology Project Management (Tshwane University of Technology)

# STRATEGIC OVERVIEW

## Vision

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

## 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 areas of operation.

## 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.

## Policy statement

The Magalies Water Board has the authority to set policies and to delegate the implementation stages to the executive committee members. The organisation uses the intranet among other platforms to store such policies within the reach of all stakeholders (interested / affected parties).

## Core values

Magalies Water is guided by its values that 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.



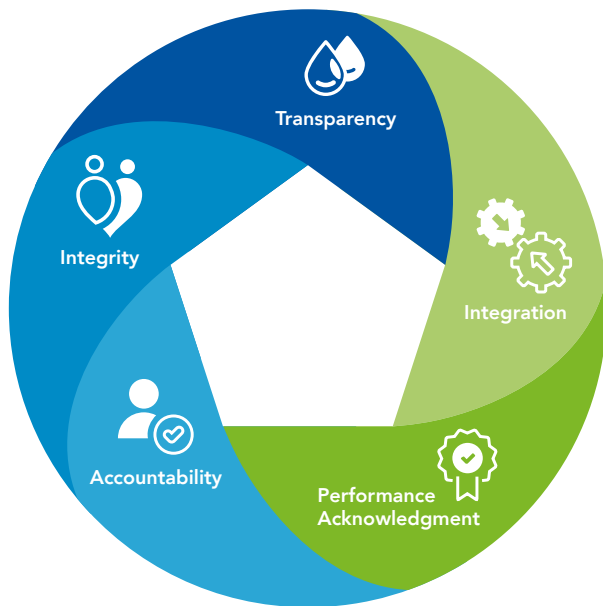
Figure 1: Values of Magalies Water

# THE CULTURE OF MAGALIES WATER IS GUIDED BY ITS **VALUES**



Magalies Water relies on the commitment and dedication of each staff member to fulfil its vision and mission. The entity aspires to be both a leader in the delivery of quality services and an employer of choice.

Figure 2: Summary of cultural behaviours at Magalies Water



## THEMATIC CORE VALUES OF THE MAGALIES WATER OF THE FUTURE

### Integration

- Cohesion
- Teamwork
- Trust
- Breaking down the silo mentality

### Performance acknowledgment

- Financial incentives
- Verbal acknowledgment
- Creation of opportunities for career development

### Accountability

- Ownership
- Brand consciousness and pride
- Understanding of how individual actions impact the organisation

### Integrity

- Openness
- Consistency

### Transparency

- Open and more frequent internal communication

Magalies Water has committed to revive the internal communication mechanisms in order to foster trust and to ensure synergy and coherence between internally and externally disseminated information. Magalies Water will continue to maintain a responsive, timeous and proactive consumer-centric service approach to fulfil our aspirations to excel in delivering services to customers. The set standards and performance measures will strategically rebuild the Magalies Water brand, reputation, good standing and in the medium to long term to ensure expansion of the entity's footprint.

# THEMATIC CORE VALUES OF THE MAGALIES WATER OF THE FUTURE

## Purpose of the public entity

Magalies Water is a water board established in terms of Section 28 of the Water Services Act, 1997 (Act 108 of 1997, as amended) and is classified as a government business enterprise as per Schedule 3B of the Public Finance Management Act, 1999 (Act 1 of 1999, as amended). The service area of Magalies Water, as determined by the Minister, stretches over Pienaars River and Crocodile River, these being two of its major service area catchments.

The mandate of Magalies Water is to provide water services in terms of Section 29 and ensure viable Section 30 initiatives as prescribed in the Water Services Act, 1997 (Act 108 of 1997, as amended). Magalies Water will continue to contribute to the socioeconomic development within the service areas.

## Operating principles

Magalies Water is a Schedule 3B: state-owned enterprise (SOE) and like all the businesses operating in the country (the Republic of South Africa), it is governed by all applicable country's legislation. The Magalies Water's operating relevance and its critical role is grounded in the legislative mandate imposed through the Water Services Act, 1997 (Act 108 of 1997), which is to ensure that the State complies with the Bill of Rights enshrined in Chapter 2 of the Constitution.

## Overview of business activities

The Minister of Water and Sanitation is the custodian of water resources, including the dams from which Magalies Water abstracts and channels water to its own Water Treatment Plants for treatment before distributing through pipelines to water service authorities and other users (customers).

### Primary activities (Section 29)

The primary activity of a water board is to provide water services to other water services institutions within its service area (Section 29). Raw water is obtained through various intermediaries (e.g., dams, mining associated sources, etc.) that are linked to two (2) major catchments of the Crocodile and the Pienaars Rivers.

Section (29) states that the primary activity of a water board is to provide water services to other water services institutions within its service area. Magalies Water service area covers 42 000 km<sup>2</sup> across the three provinces of North West, Limpopo and Gauteng.

### Magalies Water Customers

Magalies Water provides bulk potable water to water service authorities (Section 29 Activities) as depicted in table 14.

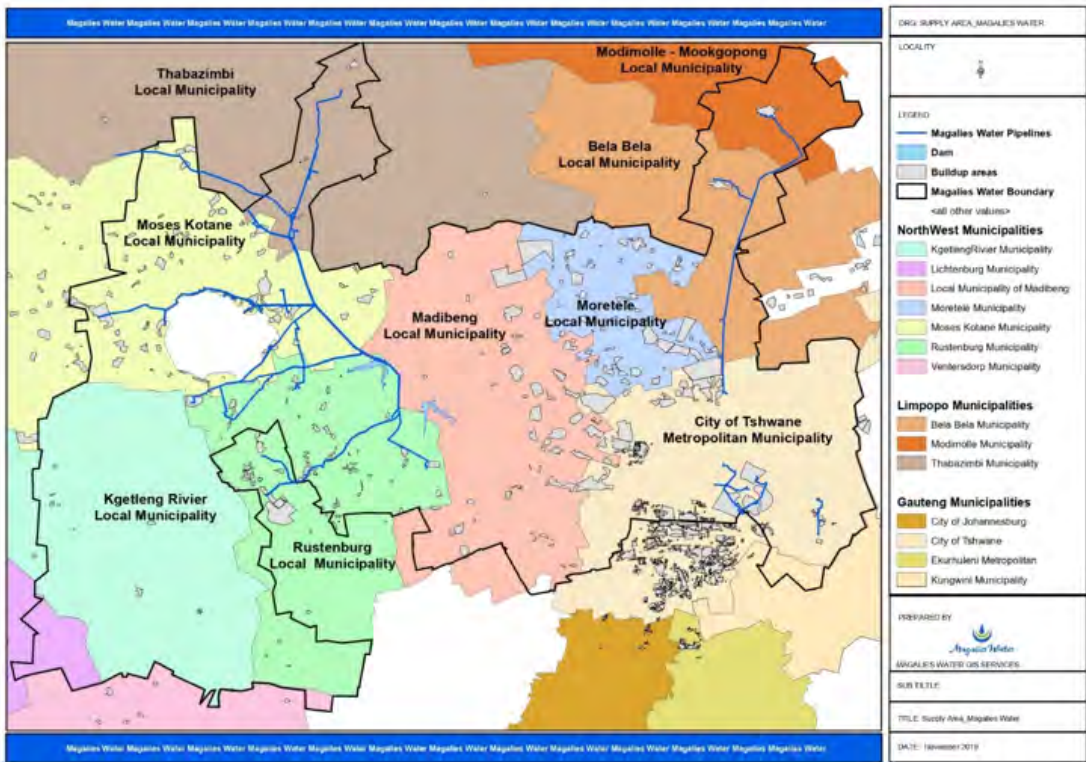
Table 14: Key customers – water services authorities

Water Services Authorities and Water Services Institutions
Rustenburg Local Municipality
Modimolle-Mookgophong Local Municipality
Bela Bela Local Municipality
City of Tshwane Metropolitan Municipality
Moses Kotane Local Municipality
Rand Water
Royal Bafokeng Administration
Thabazimbi Local Municipality

Table 15: Other major customers

Customer Name	Customer Name
Bafokeng Rasimone Platinum Mine	Pilansberg Platinum Mine
Bakubung Minerals	Rhino Andalusite Mine
Carousel Diamond Mine	SA Ferrochrome (PTY)Ltd
Impala Platinum Mine	Sun City
Northam Platinum Limited	Union Section Joint Venture
Rustenburg Platinum Mines Limited – Amadelbult section	Rustenburg Platinum mines Ltd – Boshkoppie
PPC - Dwaalboom	Siyanda Bakgatla Platinum
Glencor smelter	Maseve mine
Bakubung Wesizwe Mine	Cronimet

Figure 3: Magalies Water service area map



---

### Vaalkop Water Treatment Plant

Vaalkop Water Treatment Plant (VWTP) has a design capacity of 270ML/day, abstracting raw water from the Vaalkop Dam in the Crocodile River Catchment. Potable water produced from this plant is distributed to the North West and Limpopo Provinces, with a pipeline of 613 km in length.

---

Figure 4: Photographic view of the Vaalkop Water Treatment Plant



---

### Klipdrift Water Treatment Plant (KWTP)

Klipdrift Water Treatment Plant (KWTP) has a design capacity of 42 Ml/day abstracting raw water from the Rooodeplaas Dam in the Pienaar River Catchment area. Potable water from this plant is supplied across Limpopo, North West and Gauteng provinces through a 97 km pipeline.

---

Figure 5: Photographic view of the Klipdrift Water Treatment Plant





### Cullinan Water Treatment Plant (CWTP)

Cullinan Water Treatment Plant (CWTP) has a design capacity of 16 Mℓ/day, abstracting raw water from the Wilge Dam that is also in the Pienaars River Catchment. Cullinan Plant's raw water pump station and its 45 km pipeline is owned, operated and maintained by the Cullinan Diamond Mine. Potable water produced from this plant is supplied to the Cullinan Diamond Mine and the City of Tshwane through an 11 km pipeline.

Figure 6: Photographic view of the Cullinan Water Treatment Plant



### Wallmannsthal Water Treatment Plant (WWTP)

Wallmannsthal Water Treatment Plant (WWTP) has a design capacity of 12 Mℓ/day, and abstracts raw water from the Roodeplaat Dam in the Pienaars River Catchment. Potable water from this plant is supplied to the City of Tshwane and individual customers through a 51.9 km pipeline.

Figure 7: Photographic view of the Wallmannsthal Water Treatment Plant



## Other activities (Section 30)

In partnership with the Department of Water and Sanitation (DWS) and municipalities, Magalies Water concludes contracts and agreements to perform Section 30 duties as the Implementing Agent, or as per the Minister's directive. With regards to Section 30 activities, Magalies Water has the capability and experience to carry out and or perform the following activities:

1. Infrastructure refurbishment;
2. Potable water and wastewater treatment solutions ranging from consultancy services, treatment, monitoring, operation and maintenance 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; and
6. Magalies Water Scientific Services: the SANAS 17025 accredited laboratory-offering services in chemical, environmental and microbiological analysis to the water industry.

Magalies Water is capacitated and capable to perform secondary activities to enhance the optimisation of the value chain of the water services business in South Africa.

## Environmental scan

Magalies Water continuously conducts an environmental scan to assess external and internal factors to determine risks and key capabilities. Through environmental scanning, strategic operating conditions confronting Magalies Water are described. Gathering information on several variables of the environment facilitates alignment between Magalies Water's strategic plans and the operational environment in which it operates.

It is imperative for Magalies Water to understand the forces of change so to develop effective response mechanisms that could secure or improve the entity's position in the future.

## External environmental analysis

Magalies Water uses the P-E-S-T-E-L (Political, Economic, Social, Technological, Environmental and Legislation) approach during the analysis of external environmental conditions / changes.

**Table 16: The macro operating environment**

Aspect	Key outcome
Political	<p>The political landscape, particularly the policy position on Institutional Reforms and Realignment (IRR) provides a strategic imperative for Magalies Water to grow. The general perception that municipalities' capabilities in water services delivery and operations of water and sanitation infrastructure are highly or extremely vulnerable provides an opportunity for Magalies Water to grow through providing the necessary (e.g., Section 30) interventions.</p>
	<p>The different proposed approaches to land redistribution call for Magalies Water's vigilance in ensuring that alternative plausible servitudes and land asset pockets necessary for its operations are kept intact / measured in line with the growth (expansion) plans.</p>
	<p>The sixth Parliament will in all likelihood amend Section 25 of the Constitution which strikes a delicate balance between the interest of existing property owners and the interests of society as a whole. This amendment may in short to long term affect the agriculture sector client-base and their obligations to Magalies Water. The redistribution of land may affect some of the mining houses we provide service to. Some of the land which might be redistributed in the Koster area, for example, is under-served and might require us to provide own resources, among others, if to make the land productive.</p>
	<p>The ongoing various commissions of enquiries may change how the shareholders manage state-owned entities (SOEs) with the good intentions to enhance controls to avoid a repeat of the allegations of corruption. If that happens, it might not be good for our already enabling corporate governance processes or controls.</p>
	<p>The first two years of this Five-year Plan will be politically challenging due to the upcoming elections. Already, the elections manifestos of the competing political parties seem to be highlighting the weaknesses in the water service delivery promises, among other.</p>
	<p>The evident dynamics in local government political environment seem to lead to the advent of split ruling constituencies. Political instability in municipalities is a threat to Magalies Water and so are the mineworkers' strikes and the associated possible closures' adverse effects to the value chain of our industry.</p>
	<p>The maturing of democracy inevitably results in the possible change of political administrations as witnessed in the 2016 Local Government elections. Magalies Water must factor into the long-term planning the possibility that new administrations may not be willing to honour or proceed with prior agreements; this may affect revenue base.</p>
	<p>Many municipalities remain dysfunctional or distressed because of systemic and management issues associated with the alleged "political interference, corruption and incompetence". If this situation persists, Magalies Water and similar entities may be forced to take some of the responsibilities of these municipalities, i.e. sanitation. This possibility might strain the capacity of entities to deliver water services.</p>
	<p>At ground level, the Magalies Water role and its brand is not 'recognised' separately from the role of the municipalities we sell water to, and this calls for an intense marketing of our business as well as increased awareness on the fact that Tap Water is an easy 'road' to great life.</p> <p>Magalies Water needs to aggressively support black economic empowerment through its procurement process and programmes. Failure to do so might create an impression that we deliberately undermine our government's stated objectives. The answer to these scenarios lie in Magalies Water's reviewing of its approach towards having clearly designed proactive response plans including careful mapping of its stakeholder segments towards uniting everyone under a common service excellence banner and reliable consumers. Magalies Water needs to apply its mind to how the utility could engage and operate better, where the party political ideologies differ in the same local landscape.</p>

Aspect	Key outcome
Economic	<p>Constrained economic growth, tight fiscal policies, effects of monetary policy and the recent sovereign credit rating downgrades have already shown their impact on the desired future capital structures particularly in light of the implementation of high austerity measures, to mention a few. Government may not be in a position to provide funding for the social component of projects to the required levels. Yet Magalies Water has to explore other areas to improve operational efficiencies (realise cost savings) and drive its growth aspirations by establishing itself in rural rather than feature high unemployment (the inability to pay) rates.</p>
	<p>SOEs have a crucial role in maintaining the basic infrastructure of South Africa to deliver services. Numerous SOEs are facing financial difficulties, which has led to credit rating downgrades and, in turn, increased financial deficits. The downgrades limit SOEs funding options, since it deters risk adverse investors and investors with specific limitations to investing funds in sub-investment rated entities. The effects of the Covid-19 virus needs to be critically analysed as the operations of all entities will be affected as and when the pandemic escalates. Magalies Water need to have a response plan to be put in place in supporting National Government in containing the spread of the virus. The inability to raise funding for implementation of infrastructure projects needs to be considered.</p>
	<p>A funding mix will be required, which is capital contributions by customers, grant funding and borrowings only to the extent of improved cash flows and bankable projects. Net cash flows will therefore need improvements to bring investments to optimal levels within the constraints of the latest significant factor of the increase in VAT and the exchange rate (the Rand volatility) with respect to the cost of importing the necessary equipment)</p>
Social	<p>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 address the demand and progressively reach areas that do not have access to water services. Magalies Water takes into account the affordability impact due to the income levels in the area serviced during the tariff review process.</p>
	<p>The radical economic transformation theme articulated by the State President/s bring about an opportunity for the transformation profile of Magalies Water; it should give rise to inclusive socio-economic benefits in the targeted areas of operation as well. The current levels of poverty, low-income levels and unemployment, however, continue to pose threats on financial sustainability of Magalies Water; ill-affordability levels of consumers to pay municipal services has a domino effect in the revenue of the bulk water services.</p>
	<p>Further to this, Magalies Water should position itself as the service provider of choice through, not only expanding its service footprint, but also creating job opportunities and skills development / youth capacitation. Corporate social investment initiatives designs need to encourage 'innovation' as well as research publication based Industry Specific adaptation views to changing environment (best practices within and among water services and water boards). Learnerships and internships programmes strive to grow our social license to operate and expand the economic base of the municipalities in which we have a presence. The net effect should improve the rural and informal surrounding consumers' unemployment / affordability challenges.</p>

Aspect	Key outcome
Technological	<p>Technology, when used to support business needs, should be considered as an asset to be invested in, not a cost to be borne. When implemented properly, good technology investments resulting in a measurable return on investment (ROI). That ROI might well be achieved through lower running costs, better productivity, better customer service or simply increased sales due to increased capacity. Technology is a business enabler that doubles up as a disruptor to most business models – consider the “internet of things”. Globally, the water sector is utilising big data to optimise business models that evolve along with times. The technologies advancement require enhancement of research and development capabilities; operations must respond to ‘business unusual’ model – hackers pose a serious threat to our business blueprints.</p> <p>Now, as much as Magalies Water operates within fresh surface water resources constrained landscape, we are set to grow our customer base, raw water sources, and spatial footprint. We therefore, take cognisance of the need to adopt the emerging diversification strategic trends. Our Strategy Growth Plan already includes the use of boreholes and ground water in recent future. In the end, we might consider a mix such as, for example, innovative initiatives like:</p> <ol style="list-style-type: none"> <li>1. The zero effluent / zero discharge strategy,</li> <li>2. The re-engineering of brown water / sanitation water through a closed cycle process similar to the Israel’s greening or water re-use – refer to some of the cruise ships,</li> <li>3. Desalination that may reduce fresh raw water use, and</li> <li>4. Adoption of energy efficient technologies to generate power from wastewater in order to lower the costs of production and increase competitiveness.</li> </ol>
Environmental	<p>Global warming and climate change requires adaptation strategies as they have an adverse impact on the hydrological systems. Groundwater resource diminishes at a faster rate than it can be naturally replenish and this translates to the surface water scarcity; one of the key business disruptors within the emergent concept of the water-food-energy nexus.</p> <p>Now, in keeping with Magalies Water’s vision to be the leader in the delivery of bulk water services in the country, the expansion of services plans need not add pressure to natural ecological systems.</p> <p>To understand the human factors to the catchment areas we draw raw water from, research and development efforts will include innovative technologies for the laboratories. Currently, it is possible that the emerging ‘strains’ of contaminants from the pharmaceutical industry and other ecological disruptors need smarter detection techniques.</p> <p>Magalies Water activities that could contribute negatively to the carbon footprint or potentially be legally constrained due to the surrounding natural environment’s protection requirements fall within our eco-efficiency / friendly values and we see opportunities for the future, in exploring initiatives based on water sources associated with the closing mines and the ‘raw’ polluted water from disused mining facilities. Pollution control, involvement in catchment management and environmental impact assessments are important areas where environmental impact is managed.</p> <p>In addition, critical environmental management threats (SWOT) arising from:</p> <ol style="list-style-type: none"> <li>1. Municipalities with weak internal control to deal with the quality of waste water released to the environment, and which increases the Magalies Water’s production costs could be addressed through partnerships that could re-direct such polluted water feedstock to electricity generation and ultimately drive tariffs down;</li> <li>2. Emerging trends in severe climatic conditions including droughts and floods, which can potentially cripple any Water Board’s business continuity.</li> </ol>



Aspect	Key outcome
Legal	The current review of water sector legislation provides an opportunistic environment conducive to business growth. Magalies Water will need to prepare itself with respect to the DWS' Institutional Reform and Realignment (IRR) processes.
	Furthermore, the DWS process of establishing an independent regulator for water as well as Nation Water Infrastructure Agency may change the modes of interaction between the water boards and the DWS, particularly the benefits associated with Section 30.
	These factors are on the planning radar and monitored in order to strengthen Magalies Waters' business framework. The same applies to the continued efforts to monitor the ministerial deployments and the continued planning of different engagement approaches to various constituencies or stakeholder segments include this phenomenon.

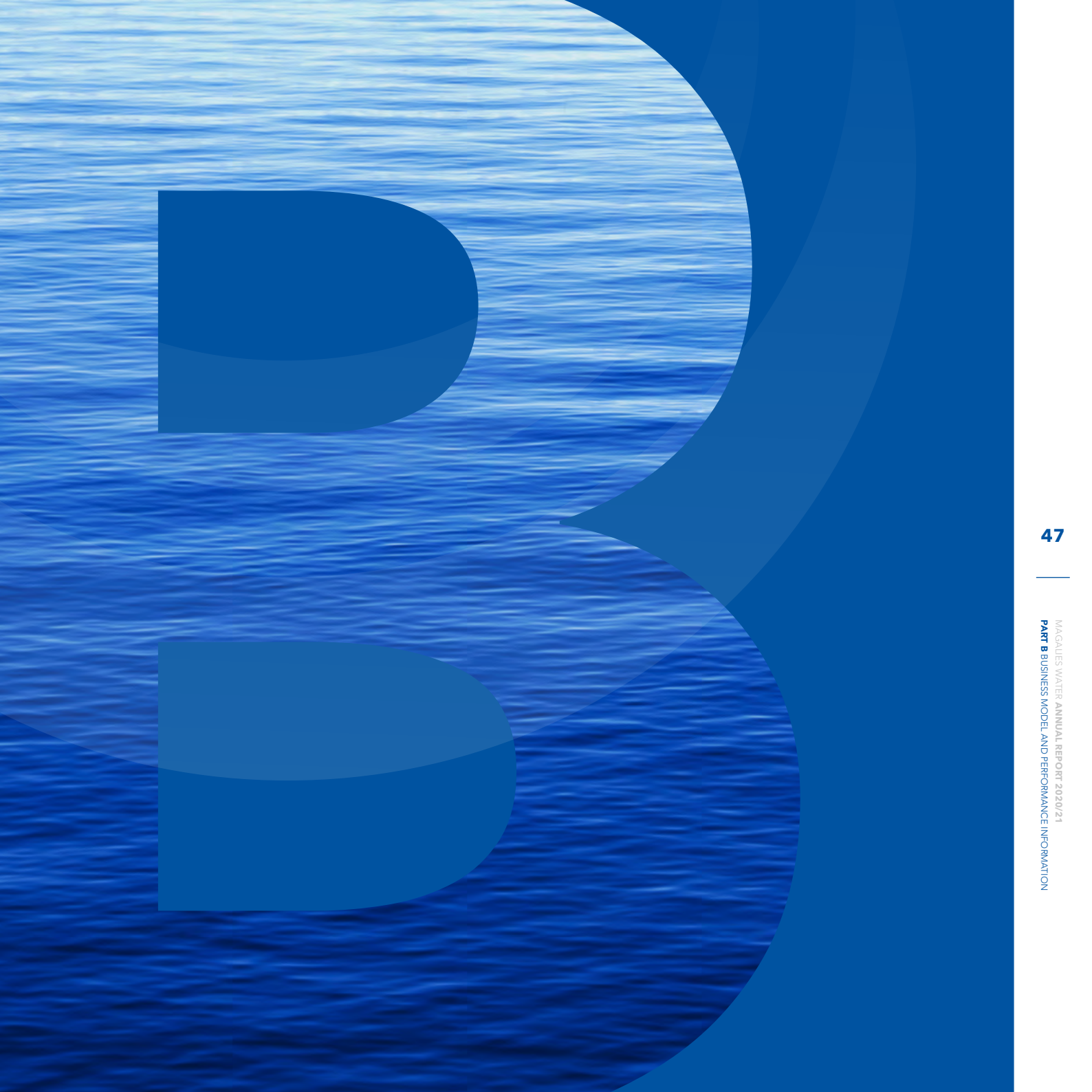
Outcomes of the environmental analysis

The environmental analysis revealed the following:

1. Economic and population growth in our service area presents Magalies Water with an opportunity to grow the business and infrastructure to address the increasing demand and progressively reach areas that do not have access to water and sanitation services.
2. There is increasing availability of modern water services technologies globally and in South Africa.
3. There is an ongoing increase in opportunities to render secondary services.
4. Policy positions by government present opportunities for Magalies Water to position itself to be relevant in achievement of government's service delivery mandate.
5. Increasing attention to environmental impacts is required.

# PART B

## BUSINESS MODEL AND PERFORMANCE INFORMATION

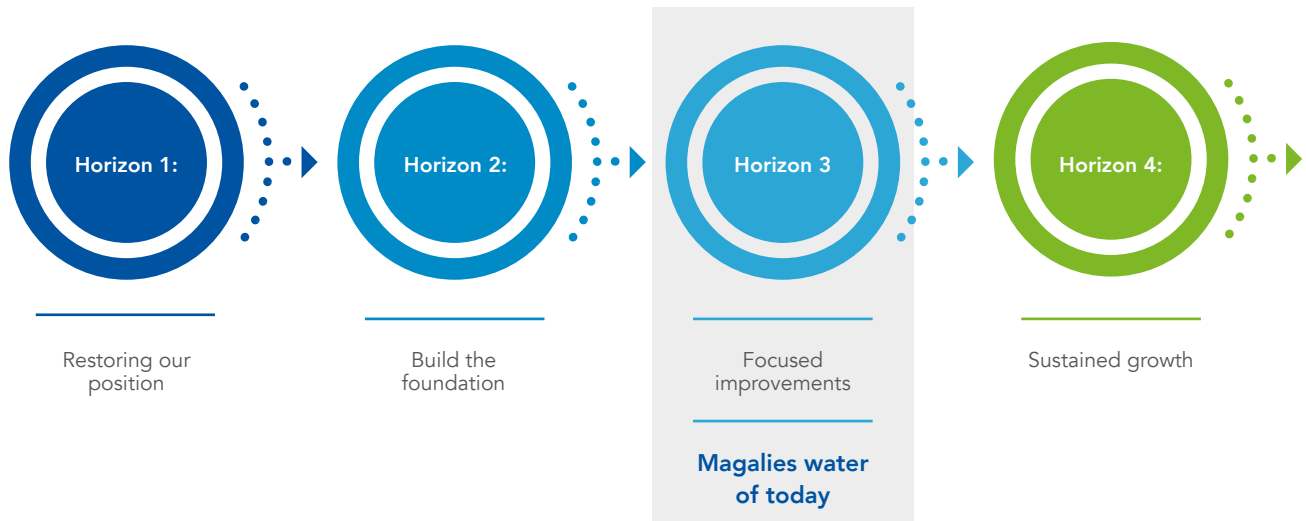


# STRATEGIC POSITIONING

Over the past few years, Magalies Water has been on a process of building the foundations necessary for sustained growth. This process began when the entity had to restore its position as a functioning water board and subsequently

shifted the focus to sustainable growth. Part of the process included implementing specific improvements, as illustrated in Figure 8.

**Figure 8: Building the foundations for sustained growth**



An assessment into the competitive landscape was conducted to inform how Magalies Water could best position itself within the current context for sustained growth. The outcome of the assessment highlights that, the threat of product substitution is very low, given that water cannot be manufactured nor replaced.

In terms of Magalies Water's operational activities, the competitive environment is limited for Section 29 activities due to the high barriers to new entrants into the industry. However, for Section 30 activities, there are low barriers to entry and there are several market participants in this segment. Magalies Water needs to operate strictly within the defined parameters of Section 29 activities. With regards to Section 30, it needs to position itself competitively in the market.

## Internal environmental analysis

**Table 17: The micro environment (Strengths, Weaknesses, Opportunities and Threats matrix)**

STRENGTHS	OPPORTUNITIES
<ul style="list-style-type: none"> <li>Fully effective Board</li> <li>A good blend of experienced, knowledgeable and innovative staff</li> <li>Values driven internal stakeholder relationships (labour union and employees in general)</li> <li>(Critical) skills development and retention</li> <li>Readiness for Institutional Reforms and Realignment process</li> <li>Readily crafted Growth Response Plan: ability, capacity and capabilities to respond to the increasing spatial patterns, population growth, urbanisation and increasing demand in the service area</li> <li>Ability to utilise new generation technologies in the value chain</li> <li>Ownership of assets - water treatment and distribution infrastructure processes</li> </ul>	<ul style="list-style-type: none"> <li>Strategic partnerships: Engage in partnerships and SLAs with municipalities</li> <li>Extending Implementing Agent projects</li> <li>Innovation, technology, research and development</li> <li>State-of-the-art laboratory and scientific services</li> <li>Retention and optimisation of youth-based skills and organisational memory</li> <li>Institutional Reforms and Realignment process</li> <li>Introduction of Independent Water Regulator</li> <li>Political environment and legislative amendments provide a conducive environment for business growth</li> <li>Innovation around treatment processes</li> <li>Increasing spatial patterns, population growth, urbanisation and increasing demand in the service area</li> <li>Adaptation of new generation technologies in the value chain</li> </ul>
WEAKNESSES	THREATS
<ul style="list-style-type: none"> <li>Containment of operational costs</li> <li>Financial resources constraints to implement capital expansions</li> <li>Plant capacities constraints to meet the water demand</li> <li>Fiscal consolidation and austerity measures in relation to the business growth plans</li> <li>Brand and reputation protection and preservation (e.g. matching Stakeholder Communication Strategy to the media / social media developments)</li> <li>Ageing infrastructure</li> <li>Funding delays</li> </ul>	<ul style="list-style-type: none"> <li>Technological changes (rate and frequency)</li> <li>Vandalism of infrastructure</li> <li>Covid-19 pandemic and national lockdown.</li> <li>Business / industry inherent risks (labour demands, Rand volatility (exchange rates, interest rates, VAT changes, etc.)</li> <li>Global economic conditions and sovereign credit downgrade</li> <li>Fiscal consolidation stance and sluggish economic growth</li> <li>Skills lie in the younger generation.</li> <li>Poor quality of raw water due to pollution/contamination of water resources.</li> <li>Environmental impacts due to the effects of global warming</li> <li>Reputational threat due to lack of understanding by communities of the organisational mandate</li> <li>Excessive debtors days</li> </ul>

Magalies Water's response to the outcomes of the internal environmental analysis is the implementation of the following key action plans:

1. Prioritise increased volumes of potable water and extend services in terms of the Capital Expansion Masterplan.
2. Improve research and development capabilities.
3. Enhance capabilities to perform Section 30 activities.
4. Perform a credit rating and enhance capability to borrow against the strength of cash flows.
5. Pay particular attention to threats posed by the natural environment.

The risk management process provides another layer of the tools we use to mitigate the impacts of the risks actually materialising.



Processes and workflow

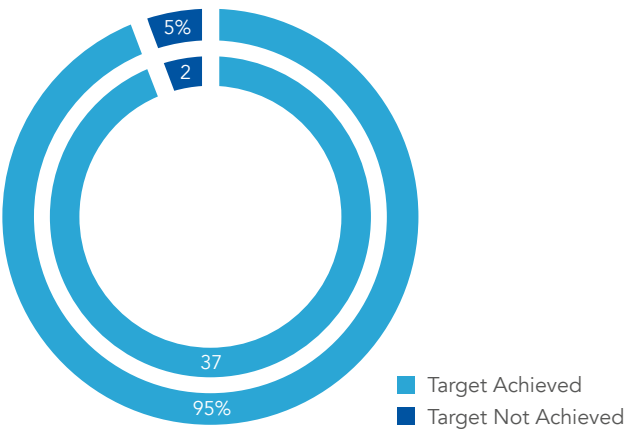
Key performance areas

Magalies Water shall continue with the management focus on the following key performance areas (KPIs):

- 1. Bulk potable water quality compliance
- 2. Management of water losses
- 3. Reliability of supply
- 4. Financial sustainability
- 5. Efficiency of capital expenditure
- 6. Appropriate support for public policy: rural development, broad based black economic empowerment (BBBEE), skills development and job creation
- 7. Stakeholder engagement and interaction.

Overall performance on the Shareholder Compact

Figure 9: Overall performance 2020/21



Year-to-date performance of Magalies Water is 95% achievement calculated from the achieved 37 KPIs versus the 39 KPIs measurable as at the end of the financial year.

Table 18: Annual achievements and non-achievements of targets per perspective

Performance Perspective	Annual Targets	Targets Achieved	% achievement
Organisational Efficiency and Effectiveness	8	8	100%
Financial Performance	12	10	83%
Customer and Stakeholder Interaction	3	3	100%
Organisational Capacity	8	8	100%
General Performance	8	8	100%
Totals	39	37	95%

Table 19: Organisational efficiency and effectiveness against pre-determined objectives

Key: ■ Achieved ■ Not Achieved

Strategic Objective	Key Performance Indicator	Annual Target	Year-to-date Actual Performance	Reasons for non-achievement and corrective actions
To provide quality potable water	Acute health microbiological risk $\geq 97\%$	Acute health microbiological risk $\geq 97\%$	100%	Target achieved
	Acute health chemical risk $\geq 97\%$	Acute health chemical risk $\geq 97\%$	100%	Target achieved
	Chronic health chemical risk $\geq 95\%$	Chronic health chemical risk $\geq 95\%$	99.55%	Target achieved
	Operational Risk $\geq 93\%$	Operational Risk $\geq 93\%$	94.06%	Target achieved
	Aesthetic risk $\geq 93\%$	Aesthetic risk $\geq 93\%$	99.09%	Target achieved
To provide reliable & sustainable water services to customers	Avoidable water lost as a percentage of water produced at Plants	Plants: $\leq 5\%$	4.68%	Target achieved
	Avoidable water lost as a percentage of water produced at distribution	Distribution: $\leq 7\%$	3.37%	Target achieved
	Number of Incidents of continuous service interruption exceeding 48 hours	$\leq 5$ Incidents	0	Target achieved

Detailed financial performance information

In 2020/21, a total of 10 key performance indicators were achieved out of the 12 measured financial key performance indicators. This represents 83% financial performance achievement.

Figure 10: Annual financial performance 2020/21

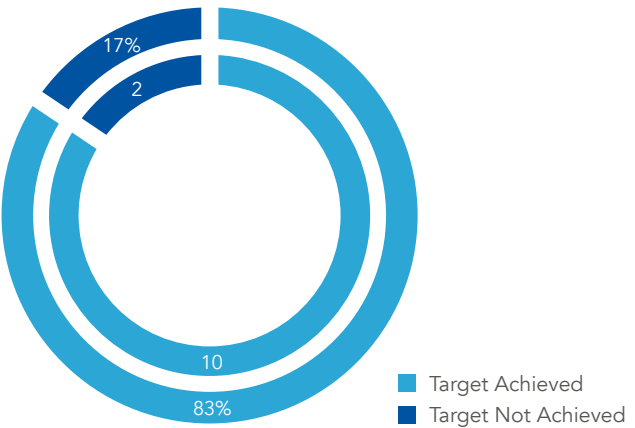


Table 20: Financial performance against pre-determined objectives

Strategic Objective	Key Performance Indicator	Annual Target	Year-to-date Actual Performance	Reasons for non-achievement and corrective actions
To manage financial and business risks	Annual External Audit	Unqualified	Clean Audit	Target exceeded
To achieve growth and sustainable financial returns	Current Ratio	2.3:1	3.0:1	Target achieved
	Gross Profit Margin % (Primary Activity)	≥25%	28%	Target achieved
	Net Profit Margin (primary activity)	≥3%	13%	Target achieved
	Debt / Equity	≤12%	0%	Target achieved
To achieve growth and sustainable financial returns	Return on Assets	≥1%	3%	Target achieved
	Average debtors days	≤ 60 days	76 days	Target not achieved  Customers have been taking longer to pay their accounts due to various financial difficulties. Other customers generally delay payment of their accounts in anticipation of paying when they receive equitable share.
	Repairs and maintenance as a % of Property, Plant & Equipment & Investment Property (carrying Value)	≥1%	1.49%	Target achieved
	Staff remuneration as a % of total revenue	≤30%	27%	Target achieved
To contribute towards transformation and developmental agenda	Spend	≥30%	30.61%	Target achieved
	New Entrants (BBBEE)	50	122	Target achieved
To contribute towards transformation and developmental agenda	Actual CAPEX spend on expansion related projects as % of total CAPEX budget	≥90%	59%	The Moretele South Pipeline Project which constituted 92% of the budget had significant delays. The delays were due to the compliance with the stringent way-leave conditions for the crossing of R101 and Apies River.  To mitigate against this happening again, project team to review project progress and expenditure per quarter and slow moving projects budget to be reallocated to projects that may be expedited.

**Table 21: Recovery plans for KPIs (financial performance) not achieved**

Key Performance Indicator	Reasons for non-achievement	Corrective measures already implemented	Planned corrective measures to be implemented
Average Debtors Days	Customers have been taking longer to pay their accounts due to various financial difficulties. Other customers generally delay payment of their accounts in anticipation of paying when they receive equitable share.	Debt collection procedures have been implemented to make customers pay on time, including issuing restriction notices to municipalities that owe Magalies Water. Disconnections were also carried out in an attempt to collect revenue due.	Disconnection of customers other than municipalities will be implemented monthly and restriction for the municipalities will be implemented more frequently and only reasonable exceptions will be made.
Actual CAPEX spend on expansion related projects as % of total CAPEX budget.	The Moretele South Pipeline Project which constituted 92% of the budget had significant delays.	The contractor related to the Moretele South Project was requested to expedite the project. The project completion date is projected completion is November 2021. The contractor managed to achieve 96.7% at the end of the 2020/21 FY.	Review on Project Progress and Expenditure per quarter. Slow Moving Projects Budget to be reallocated to projects that may be expedited.

# GOVERNANCE

## Board and Board Committee meetings

The Board of Magalies Water drives corporate governance principles across the organisation. Board members have designated portfolio responsibilities reflecting particular strategic priorities. The table below shows Board meetings for 2020/21.

Table 22: Board meetings in 2020/21

Board meetings	Board meetings directed: DWS policy regarding Board practices & the remuneration of Board (members)	Scheduled meetings for the year	Special meetings scheduled for the year	Total number of meetings held	Board member attendance of Board meetings	Ministerial approval (where required)
Board and committee meetings	N/A	27	9	36	93 out of 95 achieved	Not required
Attendance of Board members	N/A	169 attendance out of 173 invitations	56 attendance out of 59 invitations	225 attendance out of 232 invitations	225/232 Thus 97% achieved	Not required



## Reporting on governance activities

**Table 23: General perspective against pre-determined objectives**

Strategic Objective	Key Performance Indicator	Annual Target	Year-to-date Actual Performance	Reasons for non-achievement and corrective actions
To manage customer and stakeholder relations	Board member attendance of all Board / Committee meetings	85%	97%	Target exceeded
	Board and Committee meetings held	24	36	Target exceeded
	Decision-making: % number resolutions taken by the Board vs number of resolutions required	100%	100%	Target achieved
To manage financial and business risks	Number of repeat and unresolved internal audit findings	Repeat ≤10	7	Target achieved
		Unresolved ≤15	10	Target achieved
	Breaches of materiality and significance framework	0	0	Target achieved
To manage customer and stakeholder relations	% compliance with the Stakeholder Engagement Plan	80%	144%	Target exceeded

## Stakeholder engagement performance

Key: ■ Achieved ■ Not Achieved

**Table 24: Customer and stakeholder interaction against pre-determined objectives**

Strategic Objectives	Key Performance Indicator	Annual Target	Year-to-date Actual Performance	Reasons for non-achievement and corrective actions
To manage customer and stakeholder relations	Municipalities / Other customers with bulk supply agreements	80%	92.5%	Target achieved
	Signed contracts, MOUs, etc. NB: This pertains to the "Total number of identified municipalities supported" Outcome/Impact	1	3	Target achieved
	% submission dates met	100%	100%	Target achieved

# ORGANISATIONAL CAPACITY: EMPLOYMENT REPORT

Table 25: Organisational capacity performance against pre-determined objectives

Strategic Objective	Key Performance Indicator	Annual Target	Year-to-date Actual Performance	Reasons for non-achievement and corrective actions
To maintain and retain skills of all employees	Staff turnover	≤3%	1.7%	Target achieved
To contribute towards transformation and developmental agenda	Learnerships	25	26	Target exceeded
	Internships	10	22	Target exceeded
	Number of external bursaries awarded (annual cycle)	5	9	Target exceeded
	Bursaries for employees	20	42	Target exceeded
	Graduate programmes	4	5	Target exceeded
	Total number (direct)	0	0	Target achieved
To contribute towards transformation and developmental agenda	Total number (indirect)	20	214	Target exceeded

# CORPORATE SOCIAL INVESTMENT

Magalies Water implements corporate social investment (CSI) activities in accordance with the CSI Policy. Consultation with local municipalities in the Magalies Water service areas, needs analysis and scoping are conducted in identifying areas of priority.

**Table 26: General performance perspective on corporate social investment**

Strategic Objective	Key Performance Indicator	Annual Target	Year-to-date Actual Performance	Reasons for non-achievement and corrective actions
To contribute towards transformation and developmental agenda	Number of initiatives undertaken	2	2	Target achieved

# PART C

## GENERAL PERFORMANCE AND ASSURANCE



# GENERAL PERFORMANCE AND ASSURANCE

## The Office of the Chief Executive Officer

The Magalies Water Office of the Chief Executive Officer (CEO) includes the Company Secretary, Enterprise Risk Management, Internal Audit, Strategy Management unit, Governance, Compliance and Monitoring. The purpose of the Office of the CE is to oversee and lead the implementation of the organisational strategy.

## Internal audit

The Internal Audit unit provides independent, objective assurance and consulting activities designed to add value and improve Magalies Water's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

## Fraud and corruption

Magalies Water supports and fosters a culture of zero tolerance for concealment of fraudulent, corrupt and illegal acts whether internal or external to the organisation. All allegations of fraud and corruption are investigated fairly and appropriate actions are instituted against wrongdoers. Furthermore, 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 is handled through the independently hosted hotline administrator and other

internal arrangements for walk-ins. Magalies Water views whistle-blowers as crucial in the detection and prevention of fraud and dishonest behaviour. The outsourcing of the whistle-blowing services enables compliance with the provisions of the Protected Disclosures Act, 2000 (Act 26 of 2000) for whistle-blowers and whistleblowing processes. As an SOE, Magalies Water acknowledges and commits itself to its duty to protect whistle-blowers.

## Enterprise risk management

Magalies Water has a dedicated risk management function based in the Office of the Chief Executive Officer. It coordinates and supports the overall organisational risk management process, which includes business continuity, fraud and corruption, related whistleblowing services and compliance management.

The organisation has an approved risk management framework, policy and strategy that guide the risk management process. It also has the effective Audit & Risk Committee of the Board that provides oversight on risk management and the organisation's control environment.

The organisation's approach to risk management is based on established governance processes that 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 emerging risks that could have a negative impact on realisation of organisational goals.



## Risk management (including Treasury risks)

Magalies Water has adopted an enterprise-wide approach to risk management. Risk assessments were continuously conducted during the 2020/21 financial year to identify and manage potential risks that may negatively impact the achievement of the strategic and operational objectives of the organisation. Table 29 depicts Magalies Water's strategic risks for the year ended 30 June 2021.

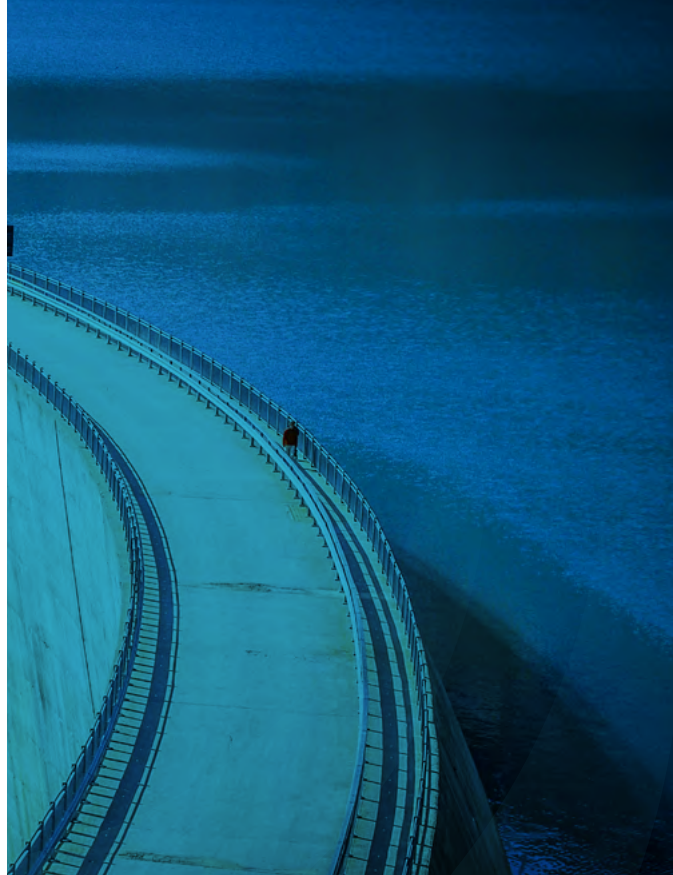


Table 27: Strategic risks

Strategic Objective	Risk name	Residual Risk Exposure			Root Causes/ Background to the risk	Mitigating measures	
		Likelihood	Impact	Exposure			
To achieve growth and sustainable financial returns	1. Escalating debt book	Critical	Common	Critical	1. Customers not paying on time 2. Non-optimal billing cycle 3. Delays in payments by key customers 4. Delays in payments by Section 30 customers 5. Inadequate implementation of SLAs	1. Ensure effective implementation of the debt recovery strategy  <b>Section 30 Customers</b> - Send reminders monthly and after 60 days - After 90 days, the matter will be referred to legal for collection - Activate the withdrawal of services for Section 30 customers after engagements  <b>Small Customers</b> - Implement water restriction after 90 days of non-payment - Refer the non-payment cases to legal for collection - Charge penalty fee  <b>Bulk consumers</b> - Reduce water supply when there is no payment - CFO to follow up telephonically with municipalities - After 90 days of non-payment, a payment agreement should be entered into with the municipalities.  2. The billing date will be changed from the 8th to the 25th of each month  3. Full enforcement of restrictions	

## Status of implementation as at end of the 2020/21 FY

1. Implementation as follows:

### Section 30 Customers

- Send reminders monthly and after 60 days; customer invoices and statements were sent every month during the quarter.
- After 90 days, the matter will be referred to legal for collection: Letters of demand were issued by legal department to customers where payment is overdue
- Activate the withdrawal of services for section 30 customers after engagements: There were no customers where service had to be withdrawn due to non-payment.

### Small Customers

- Implement the water restriction after 90 days of non-payment: Water restrictions were implemented during April for small consumers with long outstanding debt.
- Refer the non-payment cases to legal for collection: Demand letters were sent to customers by legal department where customers had long outstanding debt.
- Charge penalty fee: Connection fees were charged for customers whose service was disconnected for non-payment and customers paid outstanding debt and wanted to be reconnected again.

### Bulk consumers

- Reduce water supply when there is no payment: Restriction notices were issued for municipalities with long outstanding debt. Municipalities responded with payments and payments plans when restriction notices were issued.
- CFO to follow up telephonically with municipalities:  
Follow ups were performed either telephonically or by email from CFO's office with municipalities
- After 90 days of non-payment, a payment agreement should be entered into with municipalities:  
Payment arrangements were made with Thabazimbi LM and Modimolle LM during the quarter.

2. The billing date was changed from the 8th to the 25th of each month.

3. Restrictions are enforced as and when a need arises.

Strategic Objective	Risk name	Residual Risk Exposure			Root Causes/ Background to the risk	Mitigating measures	
		Likelihood	Impact	Exposure			
To achieve growth and sustainable financial returns	2. Inability to sustain and grow the business	Moderate	Critical	High	1. Inadequate debt collection 2. Lack of implementation of Investment strategy 3. Increasing operational costs (utilities, staff, chemicals etc.) 4. Delays in completion of capital projects 5. Insufficient financial resources	1. Conclude an agreement with GTAC and DBSA to assist MW with packaging the projects for borrowing limit  2. Implementation of the debt collection policy/strategy  3. Review the current Investment strategy  4. Update the financial models within the growth strategy  5. Robust cash flow management and reporting  6. Filling of vacant posts when funding is available  7. Consider recommendations of the Feasibility Study on Alternative Energy Sources  8. Investigate new revenue generation streams  9. Develop the Magalies Water cost containment strategy as per National Treasury Framework  10. Develop Bulk Sanitation Master Plan	

## Status of implementation as at end of the 2020/21 FY

1. Agreement: GTAC completed the due diligence and allocated resources for the project, including project manager, legal experts, financial advisor, procurement specialist. There is no financial implication for Magalies Water, the costs will be funded from GTAC grant funding. Awaiting the agreement to be completed and signed.  
DBSA is currently finalising the due diligence on the projects. Draft terms of reference were presented and discussed with management, which will be signed after the due diligence exercise.
2. Debt collection was implemented during the quarter including the following:
  - a) Disconnections - small customers with long outstanding debt were disconnected during April. Their service was only re-connected after they made payment of connection fee and outstanding debt or arranged to settle outstanding debt.
  - b) Restriction notices were issued for municipalities that had long outstanding debt. Municipality made partial payments and made payment arrangements as a response to restriction notices.
  - c) Security deposit has been charged to customers in line with debt collection strategy so that customers have advance payment from which outstanding debt can be recovered should the customer fail to pay.
3. No changes to the investment strategy during the quarter.
4. There were no updates to growth strategy during the quarter.
5. Robust cash flow management and reporting:
  - a) Cash flow management has been performed weekly within finance division.
  - b) Cash flow is included in monthly management report for monitoring at EXCO level.
6. Filling of vacant posts when funding is available:
  - a) Positions were only advertised when there was budget for those positions during the quarter.
  - b) Remuneration budget was not exceeded during the quarter.
7. Consider recommendations of the feasibility study on alternative energy sources:  
Alternative energy sources will be considered in the next financial year.
8. Investigate new revenue generation streams:  
Engagements are ongoing to source new operations and maintenance agreement with Madibeng.
9. Develop the Magalies Water cost containment Strategy as per National Treasury Framework:  
Cost containment measures have been implemented during the quarter in accordance with the National Treasury circular of cost containment measures.
10. Develop Bulk Sanitation Master Plan:  
Development of Bulk Sanitation Master plan will be carried forward to the next financial year and was not completed during quarter 4 of 2020/21.

Strategic Objective	Risk name	Residual Risk Exposure			Root Causes/ Background to the risk	Mitigating measures	
		Likelihood	Impact	Exposure			
To provide quality potable water (Raw water sources)	3. Deterioration of raw water quality	Possible	Moderate	Moderate	1. Droughts and floods  2. Water pollution-effluent  3. Over abstraction of natural resources  4. Poor catchment management by DWS	1. Conduct an assessment of the impact of raw water quality (partner with external party for consultation with DWS)  2. Continuous engagement with DWS on quality challenges affecting the raw water  3. Continuous monitoring and control of dam and abstraction levels	
To provide quality potable water (Raw water sources)	4. Insufficient raw water quantity	Possible	Moderate	Moderate	1. Low dam levels 2. Infrastructure failure 3. Augmentation system restriction or failure 4. Dependency on infrastructure owned by external parties 5. Raw water dam leaks 6. Over abstraction of raw water 7. Droughts and floods 8. Water pollution 9. Inadequate maintenance of raw water infrastructure	<b>VAALKOP RAW WATER SYSTEM</b>  1. Magalies Water to take over Operations and Maintenance of Canal - DWS  2. Engage DWS to maintain flow into the canal by controlling algae growth  3. Request budget for controlling and managing the algae growth  <b>CULLINAN RAW WATER SYSTEM (CDM)</b>  1. Engage the Cullinan Diamond Mine to take over raw water supply system  2. Repair raw water dam leak at Cullinan WTP	



Status of implementation as at end of the 2020/21 FY

- 1. Chlorine dioxide plant has been effective since it was installed and assisted by relative high level of the dam at about 77% full.
- 2. Water quality is monitored daily at plant level and weekly by Scientific Services .
- 3. Catchment monitoring conducted, and technical report submitted.
- 4. Untreated sewage from the Lethabong settlement has been identified to be polluting the Hex River which flows into the Vaalkop Dam and is contributing to poor raw water quality.

VAALKOP RAW WATER SYSTEM

- 1. Dam level is being monitored on a daily basis and weekly reports generated. The canal maintenance is being done to maintain high flow rates into Vaalkop dam with the last one having been done during this quarter.
- 2. Proactive maintenance, refurbishment and replacement of infrastructure is continually being done.
- 3. Raw water abstracted is within the quota and being monitored daily, weekly and monthly basis. Also, application for the abstraction of more raw water has been submitted to DWS.
- 4.Safety measures are in place in case floods and canal provides more than 90% of raw water requirement for the Vaalkop plant as a mitigating step in case of drought.

CULLINAN RAW WATER SYSTEM

- 1. The raw water dam is back in operation.
- 2. Magalies Water is currently using the temporary raw water pump station at Wilge Dam.

Strategic Objective	Risk name	Residual Risk Exposure			Root Causes/ Background to the risk	Mitigating measures
		Likelihood	Impact	Exposure		
To manage financial and business risks	5. Security breaches and incidents	Possible	Moderate	Moderate	1. Lack of security procedures  2. Lack of management of security personnel  3. Inadequate access control measures and monitoring 4. Inadequate security systems and management 5. Lack of security training and awareness	1. Enforce compliance to security measures and report non-compliance to relevant managers for corrective actions 2. Follow up on the implementation of the recommendations on security risks assessment report 3. Finalise fencing for Klipdrift, Wallmansthal and Cullinan  4. Implementation of Bio-metric access controls at all Magalies Water areas - phased approach strategy 5. Conduct safety and security awareness campaign
To manage customer and stakeholder interactions	6. Erosion of reputation	Possible	Moderate	High	1. Inadequate Stakeholder engagements          2. Poor handling of confidential information 3.Ineffective internal and external communication 4.Impact of external events in the business.  5.Bad publicity	1. Holistic implementation of the stakeholder and integrated marketing and communications plans and monitoring  <u>1.1 Internal Stakeholders</u>  1.1.1. Quarterly staff information sessions 1.1.2. Setting up of CEO@magalieswater.co.za 1.1.3. Online newsletter  <u>1.2. External stakeholders</u> 1.2.1. Public relations campaigns 1.2.2. Brand positioning  1.2.3. Social media platforms  1.2.4 Ensure full implementation of Customer and Stakeholder Engagement Plan  2. Develop, implement, and monitor the media strategy  3. Develop, implement, and monitor the media policy 4. Conduct the quarterly and monthly customer & stakeholder engagement meetings as per the Stakeholder Management Plan.

## Status of implementation as at end of the 2020/21 FY

1. Weekly security inspection were conducted in Q3 and form part of security monthly report.

2. No security risk was conducted due to Facilities Coordinator not being available.

3. Fence is currently in good condition in all the plants. Klipdrift fence will be addressed through projects.

4. Bio-metric access - there is no available budget for the 2020/21 FY.

5. Security awareness was not conducted due to Facilities Coordinator position being vacant.

1. A need analysis was conducted and we are currently in the process of developing a communication and media relations strategy, marketing and branding strategy in line with the newly approved organisational strategy.

### 1.1 Internal stakeholders

A crisis communication plan was developed, and a crisis management workshop was conducted for MANCO & EXCO and the Board.

1.1.1 Quarterly staff information sessions conducted by CE are taking place quarterly.

1.1.2 Setting up of CEO@magalieswater.co.za not yet achieved.

1.1.3 The online newsletter is developed and distributed quarterly.

1.1.4. Entire Staff has been workshopped on the Corporate Identity (CI) Manual to create better understanding of the purpose of CI Manual.

### 1.2 External stakeholders

1.2.1. Budget has been approved to conduct awareness campaigns.

1.2.2. Media channels including social media platforms are in place and are being utilised effectively.

- Media monitoring is presently done internally through respective platforms.

- Through media monitoring and Brand positioning, the organisational reputation will be managed.

Website has been redeveloped and fully utilised. Information updates are on-going process.

1.2.3 Stakeholder engagement plan fully implemented and through the call centre queries are attended to. The average resolution rate of queries is above 90%.

2. A media strategy is still in a draft form and will be finalised in alignment with the newly approved corporate strategy.

3. A communication and media relations policy has been developed.  
Stakeholder engagement plan adhered to.

Strategic Objective	Risk name	Residual Risk Exposure			Root Causes/ Background to the risk	Mitigating measures	
		Likelihood	Impact	Exposure			
To provide reliable and sustainable water services to customers	7. Failure of critical infrastructure	Possible	Moderate	Moderate	1. Ageing infrastructure  2. Dependency on infrastructure owned by external parties * Leaking dams 3. Unreliable electricity supply 4. Inadequate asset management 5. Delays in finalising procurement processes	1. Update Bulk Water Master Plan and Develop Bulk Sanitation Master Plan  2. Ensure the Implementation of minor CapEx projects  3. Implementation of Bulk Water Infrastructure Master Plan 4. Repair, installation, and re-commissioning of Sondela pumps 5. Sourcing and installation of Modimolle Pump 3	
To maintain and retain critical skills of all employees	8. Failure to maintain and retain critical and core skills	Possible	Moderate	Moderate	1. Competition for skills 2. Lack of implementation of retention policy 3. Lack of flexibility when budgeting for positions	1. Implement the retention policy 2. Review budgeting for positions  3. Review remuneration policy  4. Conduct workshop on policies	
To provide quality potable water (Raw water sources)	9. Poor quality of potable water  (Non-compliance to SANS Standards)	Possible	Moderate	Moderate	1. Droughts and floods  2. Deteriorating quality of raw water 3. Inadequate distribution system management 4. Over abstraction of natural water resource. 5. Inappropriate and failure of plant treatment processes and technologies 6. Inadequate maintenance of canal	1. Conduct annual technical process audit for each plant and implement recommendations thereof 2. Implementation of online analysers	

	Status of implementation as at end of the 2020/21 FY
	<p>The application for borrowing limit is still in progress. Since the 4th quarter, DBSA has been performing due diligence after which the application process will continue.</p> <p>Vaalkop Water Treatment Plant</p> <p>1. The poor condition of the raw water underground power cable has interrupted plant operations twice in the quarter, accelerations of redundant line budgeted on minor CAPEX was requested.</p> <p>2. Constant power dips experienced at Vaalkop plant were discussed with Eskom, new Eskom substation planned to feed Vaalkop plant in Q1 of 2021/22 FY.</p> <p>3 &amp; 4. Obsolete equipment planned to be removed through the finance asset manager.</p> <p>5. Specifications for appointment of panel of service providers have been presented to BSC.</p>
	<p>1. New offers consider the criticality of the position.</p> <p>2. Workshops on HR policies are ongoing.</p> <p>3. Succession planning and career policy was approved.</p> <p>4. Workshops on policies are being conducted.</p>
	<p>1. Potable water produced for this quarter met the SANS 241:2015 Standards.</p> <p>2. FY2020/21: All plants audited findings (for 4 plants): 87 (100%)</p> <p>3. Completed: 27.59%  Outstanding: 0.00%  On-going: 11.59%  in-progress: 60.92%  Five-year audit done by Khulanonke: all four plants audited  Number of Findings: 179 (100%) C  Completed: 45.25% Outstanding: 5.59%  On-going: 32.96%  In- progress: 16.20%</p>

# ORGANISATIONAL EFFICIENCY AND EFFECTIVENESS

## Operations

Magalies Water's operations forms part of the responsibilities of the Chief Operations Officer, who is assisted by three EXCO members, namely the General Manager: Water Services, General Manager: Project Management Unit, and General Manager: Engineering Services.

## Water Services Division

The Water Services Division manages Laboratory Services, Potable Water Production, maintenance of water services infrastructure, and other related support functions for operations. The state-of-the-art Brits laboratory remains the flagship enabler for analytical services on potable water supplied to customers.

## Laboratory Services

Magalies Water Scientific Services, situated in Brits, provides world-class services to its clients through its state-of-the-art laboratory. The laboratory is comprised of the Organic Chemistry, Inorganic Chemistry, Microbiology, Hydrobiology and Molecular sections. The services are also available to potential clients on commercial basis.

The facility is ISO/IEC 17025 accredited, which demonstrates that the laboratory operates competently and generates valid results, promoting confidence in their work both nationally and internationally. Scientific Services achieved 58 accredited methods – 48 for chemistry and 10 for microbiology.

Highly-skilled scientists conduct more than 50 000 analyses annually to ensure that water quality complies with the national drinking water standards, SANS 241:2015.

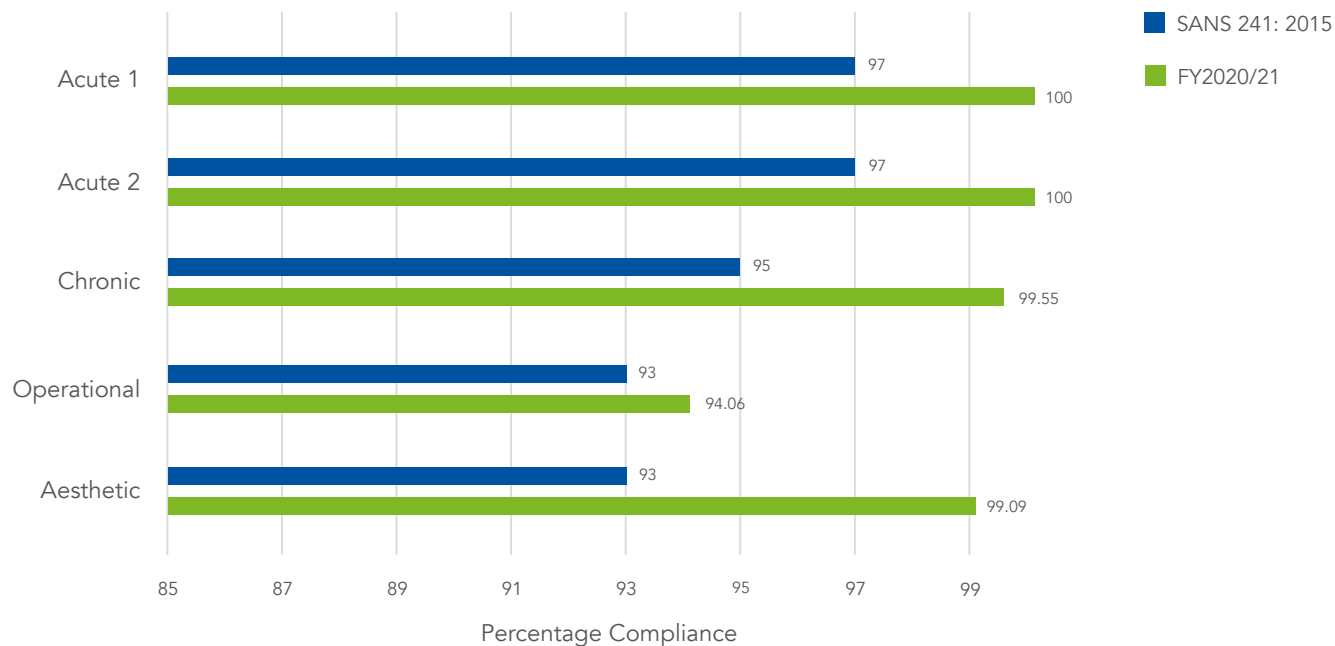
The sampling and monitoring programmes are compliant with the Blue and Green Drop as well as SANS 241:2015 requirements. In addition to potable water quality analyses, the laboratories also conduct analyses on environmental samples of both potable water and wastewater.

## Water Quality Compliance

Magalies Water has set SANS 241:2015-compliant performance indicators to monitor and assess quality of water supplied to customers. The figure below depicts compliance with SANS 241:2015 risk categories, which are key indicators of the quality of potable water for consumption.



Figure 11: Water quality compliance



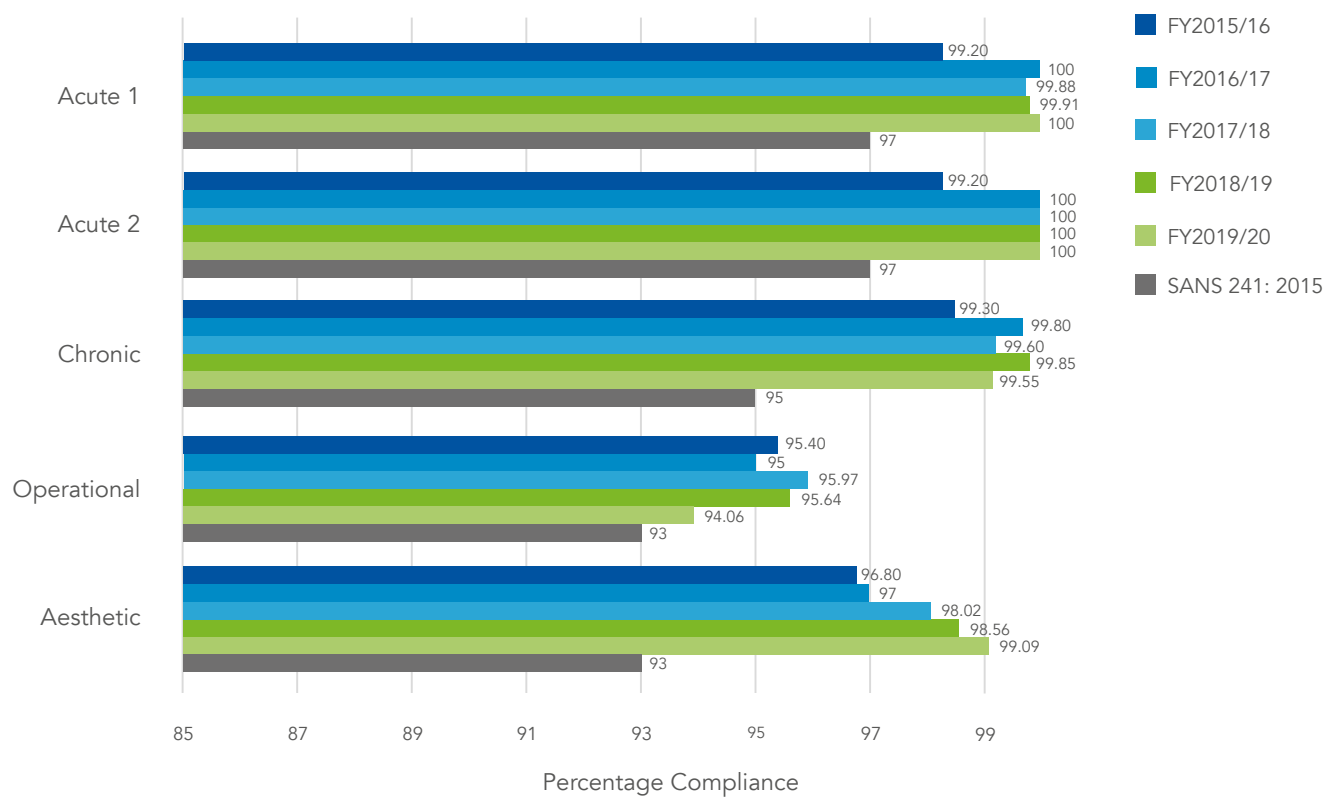
The four water quality determinants referred to above are as follows:

- 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's 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, provided their presence exceeds specified SANS 241:2015 limits.

- Operational health refers to determinants essential for the efficient operation of treatment systems and identification of risk to infrastructure.

The above success levels are attributed to the ability of Magalies Water's laboratory to accurately analyse and timeously report on water quality so that key operational decisions may be taken and implemented at water treatment plants.

Figure 12: Five-year water quality compliance to SANS 241:2015

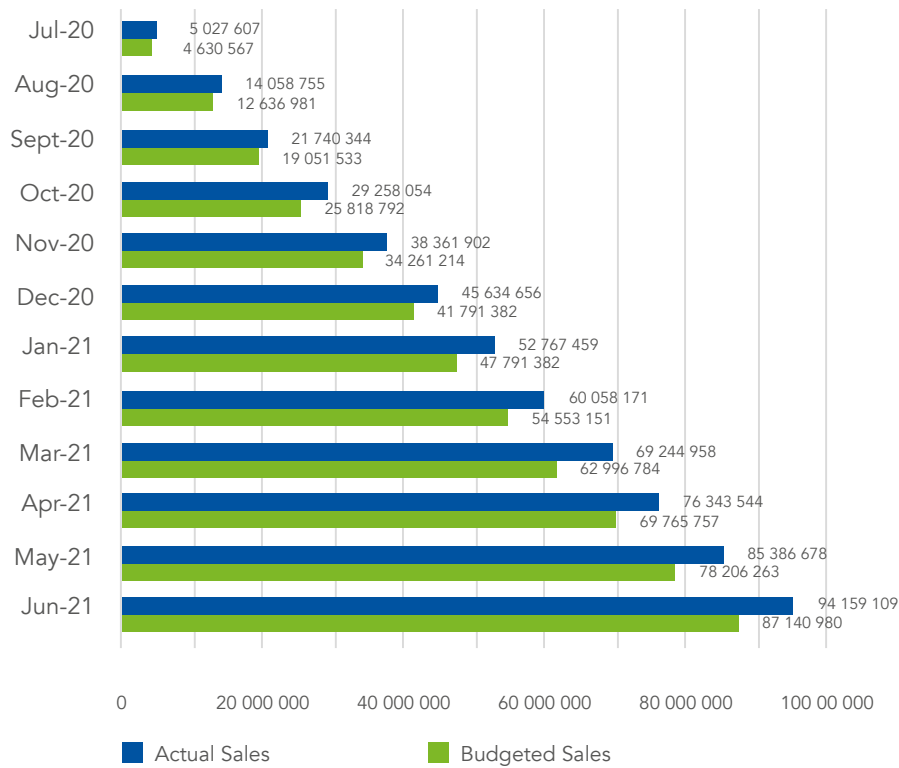


Compliance achievement levels for these years are attributable to the execution of water services targets as per the corporate plan. The audited annual reports for these years demonstrate uninterrupted and consistent compliance to SANS 241:2015.

Water sales volumes

Sales volumes are the primary success factor that drive Magalies Water’s revenue. Figure 13 shows the accumulated total potable water sales volumes against set targets or budgeted sales for the four WTPs. In 2020/21, Magalies Water exceeded its budgeted sales volumes by 8.05%

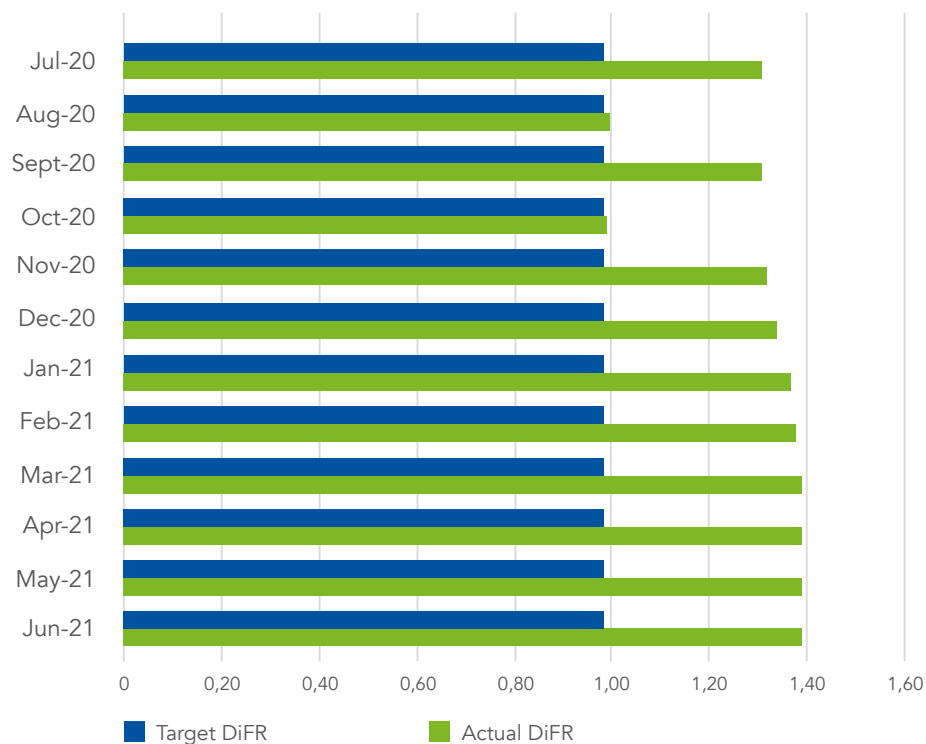
Figure 13: Potable water – accumulated actual sales vs budgeted sales



## Safety and management

The ISO 45001 (2020) management system was implemented in 2020/21. System and safety operating procedures were developed and implemented, and the system was audited internally to evaluate its efficiency and effectiveness. All identified non-conformances were addressed and closed. A health and safety compliance audit was conducted in 2020/21 to evaluate compliance to occupational health and safety legislation, regulation, local by-laws and best practices. During 2020/21, there were seven injuries on duty. The disabling injury frequency rate (DIFR) for the year was 1.39, as shown below.

Figure 14: Disabling injury frequency rate



## Environmental management

An environmental compliance audit was conducted in the year under review to evaluate compliance with environmental legislation, regulations and local by-laws. During 2020/21, a number of Environmental Management Implementation plan based initiatives were rolled out and carried over into 2021:

- **ISO 14001:2015 management system certification**

The ISO 14001 (2015) management system was certified in 2018/19, with an annual surveillance audit conducted by the South African Bureau of Standards in 2019/20 and 2020/21 to ensure the system is still efficient and effective. All non-conformances were cleared within the required three months. The certification is valid until February 2022 for Area East and November 2022 for Area West.

- **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, 1983 (Act 43 of 1983). As a result, during the 2020/21 alien invasive plants were removed both in Area East and West according to the removal and maintenance plan that was developed in the 2019/20 financial year. Monitoring and maintenance are conducted annually.

## Engineering Services Division and the Project Management Unit

The Engineering Services Division and the Project Management Unit (PMU) focused on assisting divisions to successfully complete capital expenditure infrastructural upgrades, refurbishments, construction, monitoring, evaluation and quality compliance. The work included managing the outsourcing of work that Magalies Water is unable to do in-house.

PMU is also responsible for oversight of 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 for water supply. Completed projects enable Magalies Water to increase its asset base and geographical reach for water services provision.

### Self-Funded Projects (Section 29 Projects)

During 2020/21 work continued on the Magalies Water's self-funded projects that were started previously and carried over.

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

This project entails the construction of a 30km bulk pipeline to provide water from the Klipdrift Water Treatment Works to Moretele Local Municipality. The new Moretele South Pipeline is connecting to existing four (4) City of Tshwane (CoT) bulk pipelines that supply water to Moretele Local Municipality villages. The connections are Carousel View connection, Bosplaas connection, Mogogelo connection and lastly Far West connection. At the end of the year under review, the project was 96.7% complete.

#### *Mafenya to Evergreen (Cathodic Protection)*

The project entails the design and installation of a Cathodic Protection and Alternate Current (AC) mitigation measures on the newly constructed steel bulk pipeline from Evergreen junction up to Mafenya reservoir. Project planning was completed in the year under review and implementation planned to start in the coming financial year.

**Pilanesberg Phase 3**

The project entails details the design for bulk water supply from Vaalkop through Mafenya reservoir to supply Pella, Swartruggens, Koster and Derby. Implementation Readiness Study (IRS) was completed in the year under review, and implementation of the project will be guided by funding.

**Vaalkop Chlorine Dosing Building Upgrade**

The project entails upgrade of the Vaalkop Chlorine Dosing plant from a design capacity of 210 Mℓ/day to a capacity of 360 Mℓ/day, including a scrapper system. Planning and detailed design were completed in the year under review, with construction planned for the next financial year.

**Pilanesberg Phase 2: Mafenya to Tlhabane Bulk Water Supply**

The project entails supply of bulk water (70 Mℓ/day) from Mafenya reservoir to supply Phokeng and Tlhabane within the Rustenburg Local Municipality. The Department of Water and Sanitation has in the 2020/21 financial year made allocation through the Regional Bulk Infrastructure Grant (RBIG) for implementation of this project. The project has now moved from planning stage (Implementation Readiness Study) to implementation, and by the end of the financial year, detailed design were completed, with construction planned to commence in the 2021/22 financial year.

**SECTION 30 PROJECTS**

***Brits Water Treatment Plant upgrades***

The project entails upgrade of the raw water system from 60 Mℓ/day to 80 Mℓ/day, including additions of the processing modules to treat deteriorating raw water quality.

At the end of the year under review, upgrading of the mechanical/civil works for the raw water supply system were 100% complete, and the civil works for the upgrade of the water treatment plant were 66% complete. The mechanical/ electrical works for the WTW will be commencing during the 2021/22 financial year.

***Koster WTP***

The project was completed and handed over to Kgetlengrivier Local Municipality at the end of the year under review. The project entailed the construction of a new 3 Mℓ/day wastewater treatment works and associated outfall sewers. The plant is designed for a future upgrade of operational processes and construction of an additional clarifier to a capacity of 6 Mℓ/day.

**PROJECTS WITH IMPLEMENTATION READINESS STUDIES**

The status of the implementation readiness studies reported in previous financial remained due to financial constraints. The programme entails construction of the following:

- A bulk pipeline from La Patrie Reservoir to Moruleng to address the increasing water demand of Moses Kotane Local Municipality;
- A pipeline and pump station between Padda junction and Thabazimbi to augment the current bulk supply to Thabazimbi Local Municipality;
- A gravity pipeline from La Patrie Reservoir to Sandfontein to replace the current pipeline to meet existing and future water demand; and
- A pipeline that connects Padda junction to Swartklip to replace the currently stressed and aged pipeline.



# CORPORATE SERVICES DIVISION

The purpose of the Corporate Services Division is to strengthen the dynamism of Magalies Water for continuous improvement in the human capital management and corporate support functions. In coordinating human resource development, legal services, records management and information communication technology (ICT), the division balances technology and human capital inputs to ensure effective and efficient business operations.

The division creates and maintains an environment that is supportive of employees through targeted high-impact interventions that can enhance performance. The interventions include advancing skills development – namely internships, learnerships, graduate trainee and (internal and external) bursary programmes – to prepare employees for the changing world of work, continuous learning and development and for potential career advancement and to preserve a high-performance culture.

As the wellbeing of staff is a fundamental pillar in talent management, the organisation provides an employee wellness programme that includes health testing and counselling services, managing employee psychosocial challenges, and monitoring and managing employee absenteeism. The division's Employee Relations Unit focuses on maintaining healthy internal stakeholder relationships, engagement plans and consultation with the unionised labour force, among others.

The division also manages compliance to the labour relations-related legislative frameworks and implements initiatives to be integrated into corporate plans. This enables the organisation to achieve the following:

- Attraction, selection and retention of skilled employees;
- Continuous improvement of the organisation's employment equity profile;
- Training and development of employees;
- Retention of skilled and technical staff; and
- Implementation of benchmarked employment best practices and policies.

## Human Capital Management

The Human Capital Management Department comprises three units: Employee Relations Management, Human Resource Management, and Human Resources Development. Human Capital Management assists the organisation on matters relating to remuneration and rewards, absenteeism management, workforce profiling, employment equity, staff turnover and staff retention.

Human Resources Development is responsible for performance management, employee wellness programmes and transformational projects such as bursaries, internships, learnerships and graduate programme. Overall, the department attracts, develops and retains a skilled workforce, which Magalies Water regards as key to achieving its strategic objectives. Hence, this section focuses on human resource planning, which is crucial in ensuring the right people, with the right skills, at the right place and at the right time.

## Workforce profile

Magalies Water complies with the applicable labour and employment prescripts. Plans relating to staffing are

implemented in accordance with Employment Equity Act, 1998 (Act 55 of 1998). The employment equity is realised through recruitment by ensuring that all designated groups are included and that previously disadvantaged persons

(including people living with disabilities) are afforded equal and fair opportunities for employment at Magalies Water. The tables that follow, reflect performance on staff recruitment and employment during the year under review.

Table 28: Employment report

Employment group	Baseline (as start of financial year)	Total	Reasons for variances
Top management	8	4	Resignations End of fixed-term contract Deaths New appointments Conversion of section 30 employees to section 29 employees
Senior management	3	3	
Professional qualified	55	56	
Skilled technical and academically qualified workers, supervisors, foremen and superintendents	70	67	
Semi-skilled and discretionary decision-making	83	85	
Unskilled	69	79	
Total permanent	288	294	

Table 29: Employment report by race and gender

Race	Gender	Total number	Percentage	Male	Female
African	Male	161	54.76%	59.52%	40.48%
	Female	110	37.42%		
Indian	Male	2	0.68%		
	Female	0	0		
Coloured	Male	2	0.68%		
	Female	3	1.02%		
White	Male	10	3.40%		
	Female	6	2.04%		
Total:		294	100%		

Table 30: Equity status – male

Occupational level	Male							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	2	0	0	0	0	0	0	0
Senior management	2	0	0	0	1	0	0	0
Professionally qualified	32	0	1	0	1	0	3	0
Skilled technical	25	0	0	0	0	0	6	0
Semi-skilled	45	0	1	1	0	1	1	0
Unskilled	55	0	0	1	0	1	0	0
<b>Total</b>	<b>161</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>2</b>	<b>10</b>	<b>0</b>

Table 31: Employment equity status - female

Occupational level	Female							
	African		Coloured		Indian		White	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	2	0	0	0	0	0	0	0
Senior management	0	0	0	0	0	0	0	0
Professionally qualified	16	1	0	0	0	0	3	0
Skilled technical	33	0	1	1	0	0	2	0
Semi-skilled	35	0	2	0	0	0	1	0
Unskilled	24	0	0	1	0	0	0	0
<b>Total</b>	<b>110</b>	<b>1</b>	<b>3</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>6</b>	<b>0</b>

Table 32: Employees with disabilities

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

Magalies Water currently employs 1.36% of people living with disability. Continuous efforts are made to employ more people living with disabilities.

## Employee relations management

The Employee Relations Management Unit oversees implementation of mandatory and statutory compliance imperatives specified in the labour laws of South Africa as well as any other binding government instruments.

Unionised staff members belong to either the National Education, Health and Allied Workers Union or the South African Municipal Workers Union. The function handles the disputes and grievances of both unionised and non-unionised staff.

By the end of 2020/21, the organisation had recorded 11 disciplinary and/or misconduct-related cases. Nine were resolved, while two were carried over to 2021/22 (see graph).

**Table 33: Disciplinary/misconduct cases 2020/ 21 replace graphs with tables**

Nature of disciplinary action	Number
Not guilty	1
Written warning	2
Final written warning	4
Dismissal	1

The table below provides a summary of personnel costs.

**Table 34: Personnel costs by item**

Item	Total expenditure	Staff expenditure	Staff expenses/ total expenses	Employees	Average staff cost
Measure unit	(R/m)	(R/m)	%	Number	Rm value
Direct employee costs	212.885	117.543	55.21%	198	0.593
Support services		95.342	44.79%	96	0.993
<b>Total</b>		<b>212.885</b>	<b>100%</b>	<b>294</b>	<b>-</b>

**Table 35: Personnel costs by salary band**

Item	Performance rewards	Personnel expenditure	Performance rewards to total personnel costs
Measure unit	(R/m)	(R/m)	%
Top management	1.761		
Senior management	0.474		
Professionally qualified	3.234		
Skilled, semi-skilled, unskilled	4.974		
<b>Total</b>	<b>10.443</b>	<b>208.852</b>	<b>5%</b>

## Staff turnover monitoring and management

The 2020/21 percentage staff turnover was, as in the past years, lower than the 3% target. The financial year closed at 1.71% compared to 2.91% in the 2019/20 financial year.

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

Throughout 2020/21, Magalies Water continued to strive for its transformation and developmental agenda objectives in terms of Ministerial outcomes 12 and 5 focusing on an efficient, effective and development-oriented public service and an empowered, fair and inclusive citizenship (National Development Plan) and job creation: A skilled and capable workforce to support an inclusive growth path.

This section of the report highlights performance-related achievements for a skilled, capable and capacitated workforce.

## Organisational capacity/job creation management

This section provides a breakdown of alignment initiatives from both an external (communities in which Magalies Water has a presence) and an internal (own employees' career growth) perspective.

### *Direct jobs*

No new jobs were filled in the 2020/21 financial year. Only pre-existing vacancies were filled as and when there were resignations.

### *Indirect/temporary jobs*

For the reporting period ending 30 June 2021, Magalies Water created 214 indirect jobs (against a planned total of 40) through Section 30 contracts. Work was performed by permanent employees and by contracting to BBBEE-compliant service providers, where necessary.

## Human Resources Development

The Human Resources Development unit implements skills development initiatives in compliance with the Skills Development Act, 1998 (Act 97 of 1998) and supports government skills development programmes for young South Africans. For the year under review, the organisation submitted the workplace skills plan (WSP) and the annual training report (ATR) to the Energy and Water Sector Education and Training Authority, detailing various programmes to be implemented during 2020/21 to build capacity and capabilities.

### *Skills development programmes*

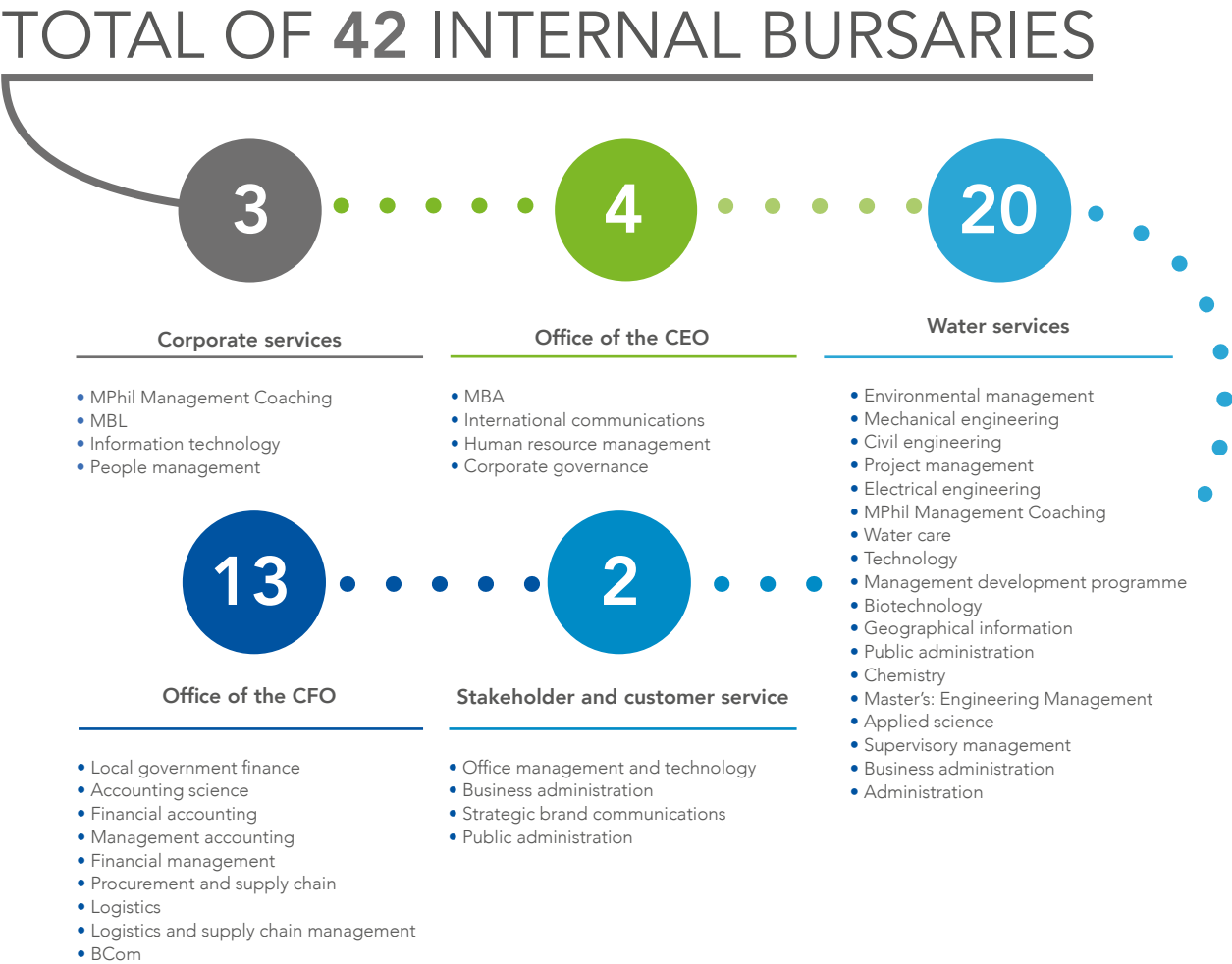
The Human Resources Development objectives are aligned to the strategic objectives to achieve a high-performance culture by building internal skills and capacity and to positively engage stakeholders through the promotion and implementation of initiatives that have a socio-economic development impact. The organisation prioritises capacity-building initiatives that add value and improve business efficiencies and effectiveness.

### *Internal bursaries*

Magalies Water awards bursaries to internal permanent and fixed-term contract employees to enhance business productivity, promote individual career aspirations and facilitate a high-quality, reliable, dependable and ethical staff performance aligned to the desired culture of the organisation.

During the year under review, the target of 20 bursaries was exceeded, with the organisation awarding 42 bursaries in total, 27 of which were carried over from the previous year, including 15 new bursaries for the 2021 academic year.

Figure 15: Approved internal bursaries by department and field of study



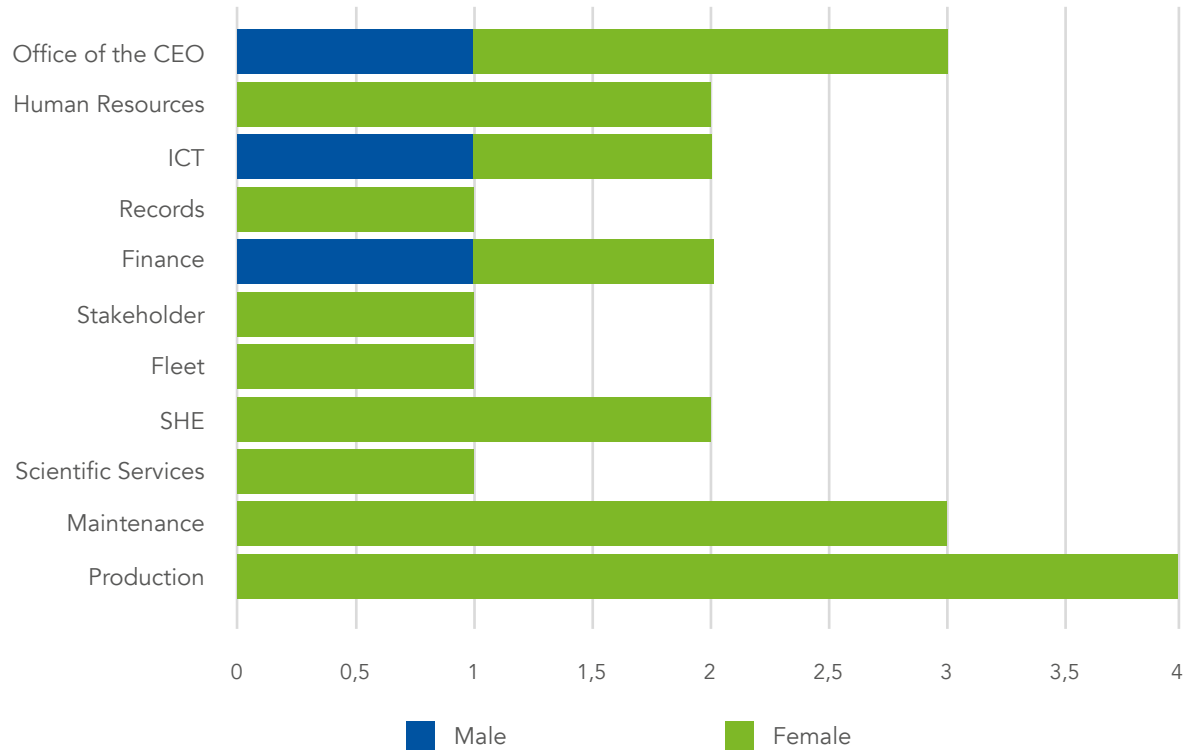
**Contribution to the national capacity-building programme/skills development**

Magalies Water is committed to providing much-needed opportunities to unemployed graduates and to potential entrants to the labour market. During 2020/21, all the indicators for skills development initiatives were either met or exceeded. Candidates were able to apply their knowledge and skills, and gain work experience.

**Internships**

The target of placing 10 interns in 2020/21 was exceeded by 12. The graph below shows the details of the 22 interns and the business functional areas in which they were placed.

**Figure 16: Allocation of internships by department and gender**





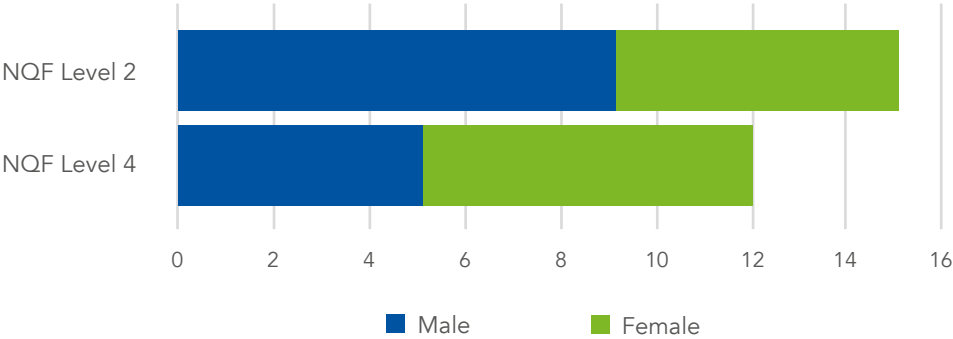
The internship programme is in line with the Skills Development Act, 1997 (Act 97 of 1998), which states that every employer should use the workplace as an active learning environment and that employers should provide young people with workplace experience to enter the job market.

To better achieve these objectives, management approved the appointment of interns for 24 months per candidate. Four interns were appointed into permanent positions.

**Learnerships**

Magalies Water has two external learnership programmes. During the year under review, 12 learners were placed on the process control learnership at National Qualifications Framework (NQF) level 4 while 15 learners were placed on the water treatment and process control learnership at NQF level 2. The qualifications enable the learners to find job opportunities in the water sector. The achievements shown below are also in line with the Skills Development Act, which requires employers to provide opportunities for new labour market entrants to gain work experience and/or (when possible) to employ persons who find it difficult to find jobs.

**Figure 17: Number of learnerships by gender and NQF level**

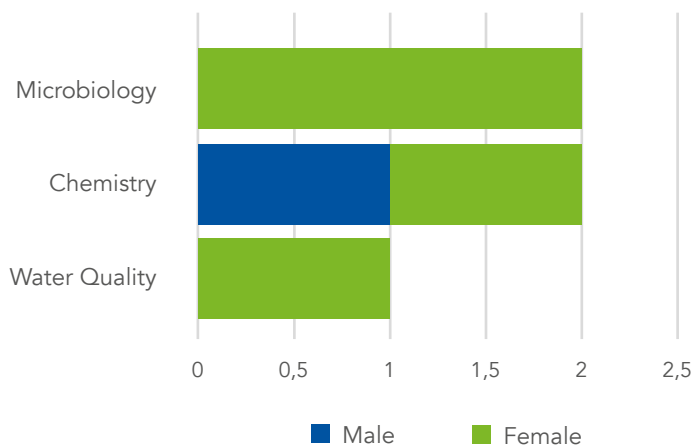


### Graduate capacity-building programme (engineering)

During the 2020/21 financial year, five graduates underwent active learning in accordance with the annual target aimed at exposing youth to practical engineering work experience and to address scarce and critical skills in the water sector.

These graduates were recruited by and placed at different water treatments plants. A breakdown is provided in the figure below. The graduates were mentored by qualified and skilled professionals.

Figure 18: Graduates per department and gender



### External bursaries

Magalies Water has nine external bursars studying through universities; these were all carried over from the previous financial year. By awarding bursaries, the organisation aims to create a medium to long-term pipeline of qualified candidates from which the organisation can recruit scarce skills. The bursaries are in the following fields:

- Electrical engineering (one)
- Chemical engineering (one)
- Civil engineering (two)
- Water care (two)
- BsC Biological Science (one)
- Biotechnology (one)
- Human Resources (one)

External bursaries are awarded to individuals who want to pursue studies in line with Magalies Water's core business.

### Employee wellness programme

The employee wellness programme (EWP) includes a health risk assessment and is made available to all employees and their immediate family members on a 24-hour basis throughout the financial year. For ease of access, it is outsourced to private service providers. The EWP offers several services, individually or in combination, including:

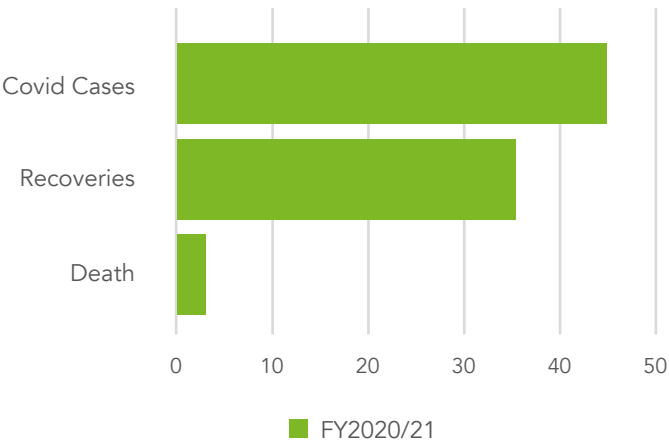
- Face-to-face or telephonic counselling (self-referral or managerial referrals)
- Group trauma intervention
- Awareness and education workshops

The Magalies Water utilisation rate is 8.3% compared to 14.9% average of the service provider. The Employee Wellness Unit consistently communicates to employees the benefits of the programme.

Magalies Water, like other organisations, was affected by the outbreak of Covid-19 and put measures in place to prevent the spread of the virus in the workplace. Below

are the statistics regarding reported cases, recoveries and deaths. May the souls of the fallen colleagues rest in eternal peace.

Figure 19: Covid-19 cases, recoveries and deaths



### Information, Communication and Technology Department

The ICT Department gives effect to the Board’s function in terms of Principle 12 of the King IV Report on Corporate Governance, which states that, ‘The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives’. King IV highlights the following key focus areas for the Board:

- Addressing ICT governance in a manner that moves beyond intimidating technical language;
- Setting the foundation – an overview of the nature of ICT and the rapid advances in technology;
- Aligning strategy from board level to information technology (IT) technical level;
- Discussing methodologies to achieve ICT governance;

- Discussing key IT governance issues relating to ICT assurance and reporting; and
- Addressing key technology issues and challenges facing the organisation’s and topical areas such as disruptive technologies, cloud-computing and cyber-crime, among others.

Throughout the year, Magalies Water leaned on the ICT Department to address stakeholder expectations so that multiple business divisions or departments could use only a company-wide ‘owned’ set of services rather than applications that are separately ‘owned’ or procured by individual business units when controlling budget and staff leave, holding virtual meetings and so on.

The ICT function bolstered the ability of the Board to evaluate, direct and monitor the use of the enterprise’s technology and information resources to achieve strategic objectives. The Board and executive managers – even during the Covid-19 lockdown – continued to be mindful

of the implications of fuzzy business boundaries that result in ICT governance responsibilities extending beyond the traditional corporate boundaries. Magalies Water did not experience such challenges because ICT governance is already integrated and applied in the organisation's value chain.

The ICT Department, staffed by dedicated specialists, effectively monitored and measured business-enabling tools in terms of, among others:

- Systems availability, which was sustained at 96.22%, 1.6% above the target of 95%.
- Wide area network availability, which was at 98.68%, 3.68% above the target of 95%.
- Measures to address emerging cybersecurity risks and threats, which included intrusion detection system and intrusion prevention system.

Further improvements to physical security and internet protocol-based closed-circuit television camera systems were rolled out to all WTPs. Both the dashboard reporting tool integrated with supervisory control and data acquisition and the Android- and iOS-based mobile app built with Survey123 for Arc geographic information system (ArcGIS) were developed and implemented. The app collects maintenance-related fieldwork data and posts it to the ArcGIS server for non-GIS professionals to analyse and generate trends and dashboards.

The modern workplace continues to change as new technologies enter the workplaces and impact the ways we communicate and do business. One of the most impactful technologies implemented was the online collaboration technology which includes video conferencing and presentations. The technology enabled the flexibility of more agile collaboration, saving costs and time on travelling and accommodation.

# STAKEHOLDER AND CUSTOMER SERVICES DIVISION

Stakeholder engagement is considered an integral part of sound governance processes. The King IV Report on Corporate Governance requires that the governing body in its execution of governance roles and responsibilities adopt a stakeholder-inclusive approach into corporate decision-making.

In view of the aforesaid, Magalies Water's primary business makes it imperative to engage with stakeholders on a scheduled and voluntary basis. The Stakeholder and Customer Division's mandate is to continuously engage with key stakeholders with a view to support public policy as well as to advance communication initiatives that elevate the marketing and branding reach of Magalies Water.

Furthermore, the division supports the organisation's main mandate through the fulfilment of the Customer Services Charter (which incorporates the Batho Pele Principles). Overall, the performance of the division during the 2020/21 financial year was above expectations although some areas still require attention.

The division consists of two departments, namely:

- a) the Stakeholder and Customer Services Department and
- b) the Marketing and Communications Department.

## Stakeholder and Customer Services Department

The key functions of the department are the following:

- Stakeholder engagement
- Customer services

- Business development
- Corporate Social investment, which contributes to the government Developmental Agenda through target intervention programmes
- Bulk water supply agreement (BWSA): Performance oversight through service level Balance Score Scorecard.

## Stakeholder engagement

Magalies Water's stakeholder engagement activities take into consideration the operating environment, in particular the external forces that may impact on the reputation and positioning of the organisation. The Stakeholder Engagement Plan (SEP) encompasses planned engagement activities aligned to the Magalies Water Corporate Plan (CP). The planned activities are orientated around the following: Engage Stakeholders (Shareholder, Customers) towards enabling appropriate level of influence to the flexibility of our operations, growth and planning which is one of the key performance areas supporting the corporate plan. The plan is put into action as depicted in Table 36.

**Table 36: Programmes under the Stakeholder Engagement Plan**

SEP alignment to the key performance area	Programmes
a) Identifying stakeholders and objectives for engagement purposes	Stakeholders identified and categorised as follows: Stakeholders that have regulatory oversight over Magalies Water Stakeholders that Magalies Water provides services to Stakeholders who provide services to Magalies Water
b) Identify and facilitate development of critical relationships	Stakeholder whose influence is categorised as: High, medium and low priority
c) Develop relevant channels per influencer group	Engagement approaches: Engagement strategy and techniques
d) Develop a detailed systematic engagement programme	Annual calendar: Medium of engagement strategy, techniques, annual calendar and key milestones achieved
e) Analysis of feedback from engagement programmes	Engagement reports: Reports capture records of decisions and resolutions

The overall achievement for engagements with key stakeholders for the 2020/21 financial year was 143%.

### Customer service

One of the key corporate strategic objectives is to manage customers and stakeholder relations. The management of customers is done through the service level agreement

scorecard and contact centre performance matrix indicator. The overall performance for the year under review scored on average above 80%.

### Business development

During the year under review, Magalies Water was able to secure new business agreements.

**Table 37: New customer under Section 30**

No	Name of municipality	Nature of services	Status
1	Moretele Local Municipality	Operations and maintenance of the municipal rural water supply infrastructure	The agreement expired and was extended for the next three years ending 30 July 2024
2	Kgetlengrivier Local Municipality	Operations and maintenance of the Koster Water Treatment Works, Koster Wastewater Treatment Works, and Swaruggens Water Treatment Works	A three-year agreement is in place ending February 2024

Bulk Water Supply Agreements (BWSA)

Magalies Water entered into bulk water supply agreements with the following Water Services Authorities and Water Services Institutions:

Water Services Authorities

- Bela-Bela Local Municipality
- City of Tshwane Metropolitan Municipality
- Modimolle Local Municipality
- Moses Kotane Local Municipality
- Rustenburg Local Municipality
- Thabazimbi Local Municipality

Water Services Institutions:

- Rand Water
- Royal Bafokeng Administration

At the end of February 2021 one bulk water supply agreement (Royal Bafokeng Administration) expired while seven other agreements are active, which represents 87.5% compliance.

*BWSAs with mines, industries and national government departments*

Magalies Water entered into bulk water supply agreements with fifteen (15) mines. Two agreements had expired and needed to be renewed while thirteen (13) are active, which represents 87% compliance. The duration of the contracts with most of the mines and national departments are open-ended. Magalies Water has started the process of renewing and reviewing the agreements to align them with Section 29 of the Water Services Act, 1997 (Act 108 of 1997).

Corporate social investment (CSI)

The mandate of Magalies Water is set out in Sections 29 and 30 of the Water Services Act, 1997 (Act 108 of 1997). In addition to its mandate, the Shareholder acknowledges that Magalies Water has a strategic developmental role that may require decisions that are not always optimal from a commercial perspective, but should contribute to National Government’s broader objectives of growth and development in Africa, South Africa and in particular its area of operation.

Magalies Water’s corporate social investment (CSI) plan is developed and implemented to:

- enable effective implementation of CSI initiatives and
- give effect the Board’s commitment to corporate citizenship.

CSI linkage to strategy

In line with the Magalies Water Corporate Plan and Annual Performance Plan, the Board approved CSI projects in compliance with the organisation’s commitment to deliver on the key performance indicator to contribute towards transformation and development agenda. This deliverable speaks to the transformation perspective of the balanced scorecard.

Magalies Water annually, commits funding towards CSI initiatives in order to give practical effect to government’s developmental agenda. Additionally, the organisation has also taken further steps to include CSI in its corporate plan under the strategic objective of being “a responsible and contributing corporate citizen”. The focus areas are primarily on basic water supply augmentation and basic sanitation. For the year under review, two projects as outlined on the following page were carried out.



# CSI Projects for 2020/21

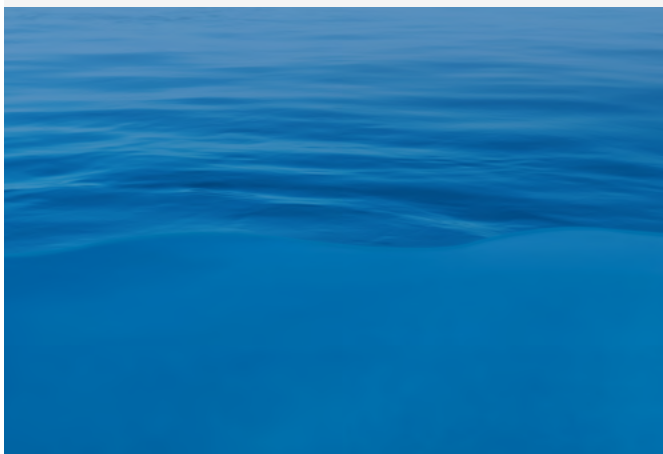
## 1) Energising (electrification) of a borehole in Masakhane RDP housing project in Bela-Bela Local Municipality

The scope entailed installation of a power line to connect to the Eskom grid and erection of a solar power supply back up system to energise a borehole. The impact derived out of the project was increased access to basic water facilities by three hundred and fifty (350) households within the Masakhane informal settlement. Five short-term employment opportunities were created

## 2) Yard connections in Modimolle Local Municipality

The scope entailed connection of fifty (50) households to potable water meters in Extension 9.

The value derived out of the projects was easy access to water inside yards of residents, in addition, the completion of the project assisted the municipality with revenue collection. Materials were sourced locally and four temporary jobs were created.



## Marketing and Communication Department

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. Furthermore, the Marketing and Communication Department plays a strategic and supportive role to other departments within the organisation by coordinating all Magalies Water corporate brand initiatives.

Marketing and communication initiatives seek to elevate the brand by increasing its visibility and making use of messages that communicate the organisation's vision to its stakeholders. Communication is done through the following channels:

- Internal and external publications and outdoor advertising tools for brand elevation
- Content creation through the Magalies Water website, intranet and social media platforms
- Events that aim to enhance existing stakeholder relations whilst providing opportunities for creating new one
- Interviews on local media platforms that aim to broaden the organisation's visibility and reach.

### Corporate identity manual workshops

The department oversees the implementation of corporate identity (CI) manual to inform employees about the acceptable use of Magalies Water's logo and brand.

### Crisis management workshops

The department organises crisis management workshops to inform MANCO and EXCO about communication processes, tools and systems that can be utilised during a period of crisis within and outside the organisation.

**Table 38: Activities undertaken**

EVENT/ACTIVITY	DESCRIPTION
Interim Board Induction	Interim Board induction
Women's Day Celebration	Celebration of National Women's Day in accordance with the national calendar of events.
Staff Information Session	Staff session hosted by the CE to appraise staff on organisational developments
World AIDS Day & 16 Days of Activism	Promoting personal health and supporting initiatives against women and children abuse
Heritage Day	Magalies Water employees dressed in traditional attire representing various cultures and celebrating heritage
External Communication (social media)	Information dissemination via Magalies Water social media platforms and website
Water Conservation, Water Demand management campaign	Awareness campaigns on water savings techniques
Internal Communication	Information dissemination through emails, newsletters, notices and TV screens
Social Media Monitoring	In-house monitoring of social media accounts

### Media relations

Magalies Water informs, engages, educates and mobilises stakeholders through traditional and new media communication channels, which are customised to stakeholders to ensure that accurate and reliable information is shared by the organisation. 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 (ie. liaison with media houses, content management and development and media monitoring etc.)

The Water Conservation and Water Demand management began an awareness campaign on 23 March 2021. The campaign ran over a period of three weeks, on three spots per day on the following radio stations: Motsweding FM, Sekgosese FM, Mafisa FM, Waterberg Stereo and Madibeng FM. The campaign message included Covid-19 related messaging, encouraging the public to wash hands for at least 20 seconds whilst ensuring they save water by keeping the taps closed while they rub their hands with soap (and only turn taps on when they need to rinse their hands).

During the year under review the following articles were published:

- The article titled Magalies Water Poised for Growth Through Robust Governance was published online on 12 April 2021 on three platforms, namely, [www.insidemetro.co.za](http://www.insidemetro.co.za), [www.insidepolitiks.co.za](http://www.insidepolitiks.co.za) and [www.insideeducation.co.za](http://www.insideeducation.co.za) in an effort to profile Magalies Water's achievements and forward outlook. The Chairperson of the Board, Pinky Mokoto, took the interview together with the CEO, Sandile Mkhize. One hundred (100) hard copies of the publication were also made available to Magalies Water and were distributed to various internal and external stakeholders.
- Magalies Water Making Strides in the Water Sector – the article was published in Volume 52: May/June edition of the Municipal Focus magazine. It is a quarterly sector publication that is circulated to all 284 municipalities and departments in the local and provincial spheres of government, the National Assembly National Council of Province Members of Parliament, CEOs, municipal managers and other key decision-makers.

# FINANCIAL PERFORMANCE PERSPECTIVE: CHIEF FINANCIAL OFFICER STATEMENT

## Introduction

Magalies Water is required in terms of the Public Finance Management Act, 1999 (Act 1 of 1999) to prepare financial statements in accordance with the Generally Accepted Accounting Practice 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 2020/21 were prepared and presented as guided by the Public Finance Management Act (PFMA as amended), the Water Services Act, (WSA as amended), and other related prescripts.

During the year under review, Magalies Water reported a decline in the net surplus compared to the 2019/20 financial year, mainly due to the Covid-19 lockdown regulations during which time some businesses did not operate at full capacity, resulting in lower demand for water. In addition, the annual tariff increase for the 2020/21 financial year was not approved by the Minister of Water and Sanitation, while the cost of production continued to increase.

The non-payment of debt by municipalities for bulk water sales remains a concern for the entity, resulting in significant increase in receivables from exchange transactions. The impact of customers not paying on time has been considered in cash flow projections and assessment of the entity's going concern. Management is satisfied with controls implemented to address this risk and has concluded that the organisation is still a going concern.

The entity's current assets exceed its current liabilities by R468.6 million and a net surplus of R84.794 million was realised for the current financial year. We assume that sufficient funds will be available to finance future operational needs, settlement of liabilities in the ordinary course of business. Although Magalies Water reported a surplus of R84.79 million, there is still a need for funds to implement capital projects with an estimate of over R8 billion. The entity's commitments for capital projects amount to R90 million and a budget of R278 million is required for 2021/22 financial year, which should be funded from the entity's reserves.

Accumulated surplus increased year on year as the organisation made profit for the last five years. The organisation remains solvent and total assets exceed total liabilities by R2.7 billion as at 30 June 2021.

The sections below provide a brief analysis of the financial performance and position of the organisation; detailed statements are provided in the Annual Financial Statements.

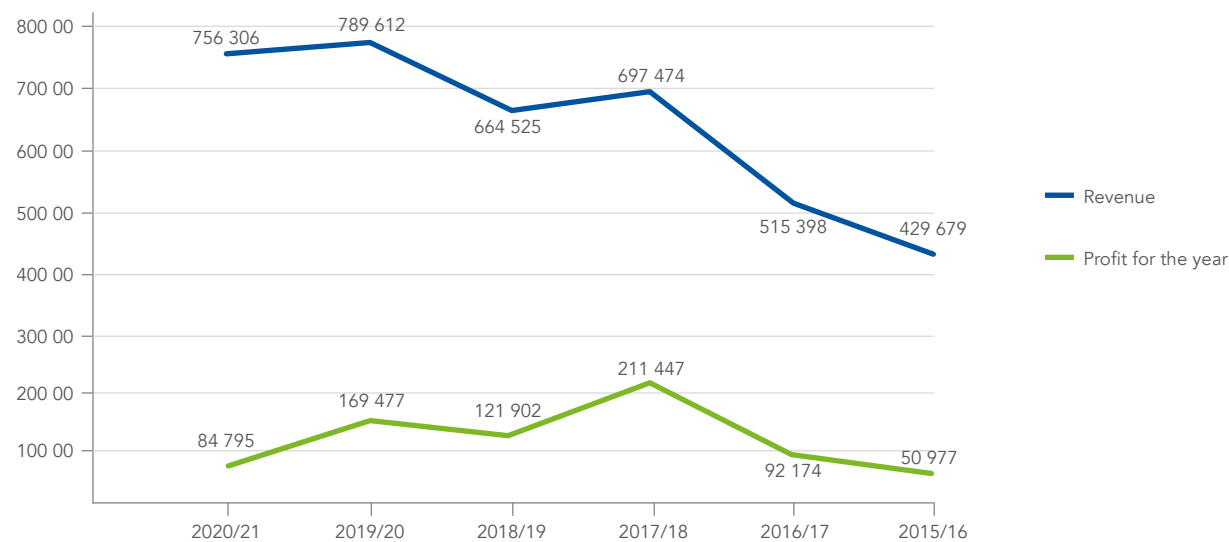
## Financial performance

### Revenue and surplus for the year

Revenue for the year decreased from R789.69 million to R756.3 million. Revenue from sale of water decreased by 1% which is in line with decrease in sales volumes, due to

low demand. Tariff increase for the 2020/21 financial year was not approved, resulting in a decrease in the surplus compared to the 2019/20 financial year, mainly due to the Covid-19 lockdown regulations during which time some businesses did not operate at full capacity, resulting in lower demand for water.

Figure 20: Revenue for the year



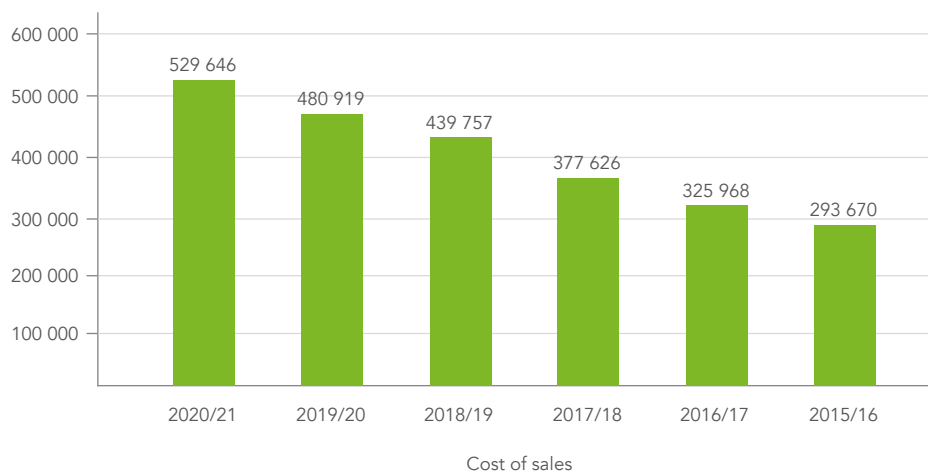
## Cost of sales

The cost of sales increased as production costs continued to increase, even though tariffs for sales did not increase. Raw water cost increased by 7% for the year, as a result of the raw water tariff increase implemented by the Department of Water and Sanitation. Chemical cost increased by 21%, mainly due to the annual increase and

high chemical dosing at Vaalkop Water Treatment Plant due to the poor raw water quality treated.

Other costs included in cost of sales increased in line with inflation or other factors affecting cost, such as salary increases for employee and tariff increases for electricity.

Figure 21: Cost of sales

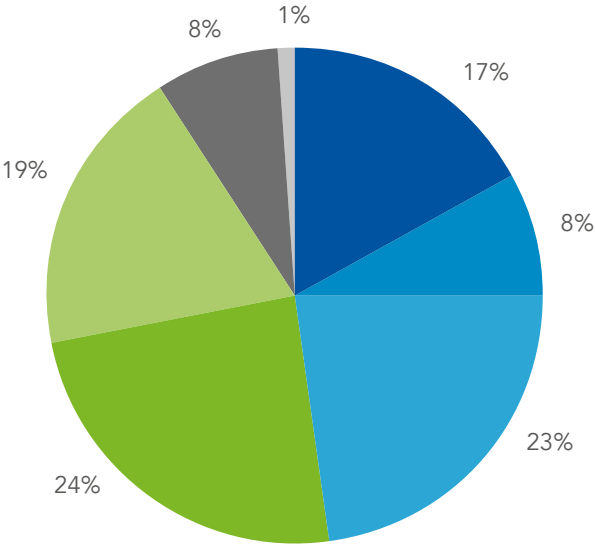


The main cost drivers for cost of sales are raw water, chemicals labour, depreciation, and electricity, as depicted in the chart below.

Figure 22: Main cost drivers for cost of sales

2020/21FY

- Raw water purchases
- Chemicals
- Employee costs
- Electricity
- Depreciation and impairments
- Repairs and maintenance
- Other production overheads

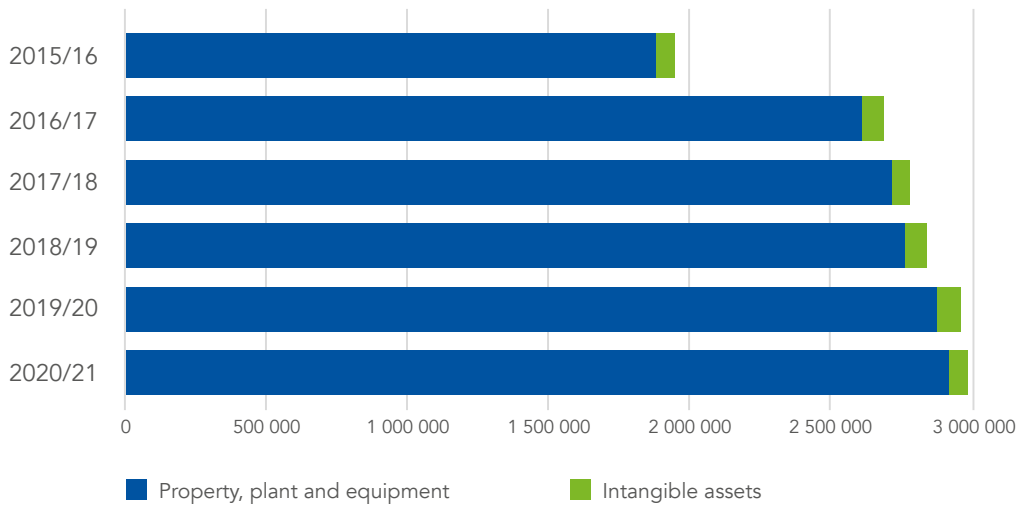


Statement of financial position

Non-current assets

Non-current assets have increased slightly when compared with the previous year, this is due to regular investment made by the organisation to its infrastructure.

Figure 23: Non-current assets





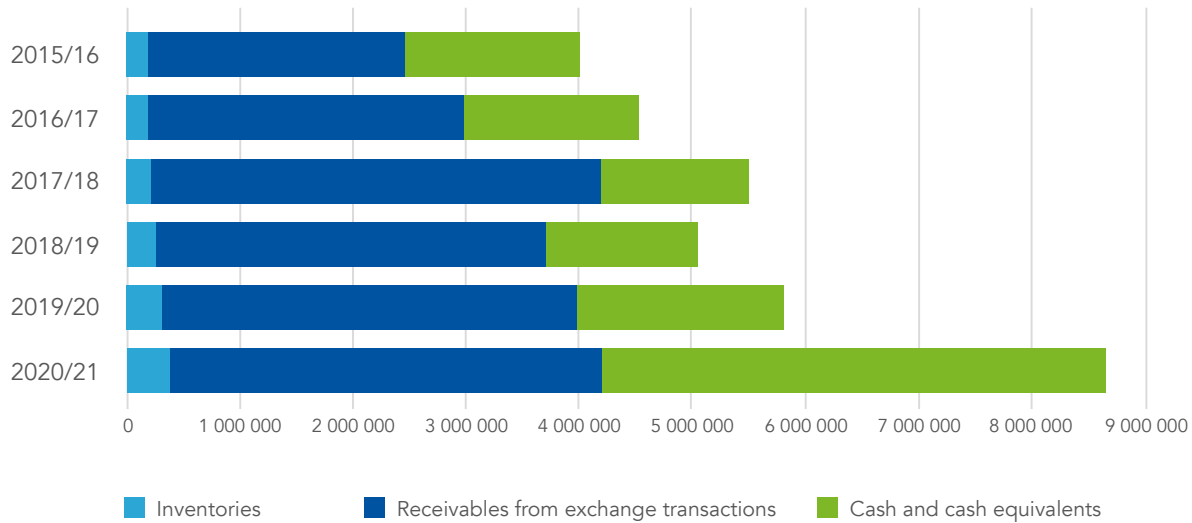
**Current assets**

The receivables from exchange transactions as at 30 June 2021 were R396 million, which increased by 9% compared to the previous year. The non-payment of debt by municipalities has been a concern for Magalies Water, especially the long-outstanding debts exceeding three years in some cases. Plans are in place to improve debt collection including payment agreements made with the defaulting bulk water customers which are monitored

monthly. Management will continuously engage the customers and ensure that payment arrangements are signed and implemented to ensure that the cash flow is sufficient to meet the organisational needs.

Cash and cash equivalents increased by R244 million, mainly due to government grants received from the Department of Water and Sanitation (R98 million) and capital contributions received from Royal Bafokeng Mine and Impala mine (R140 million).

**Figure 24: Current assets**

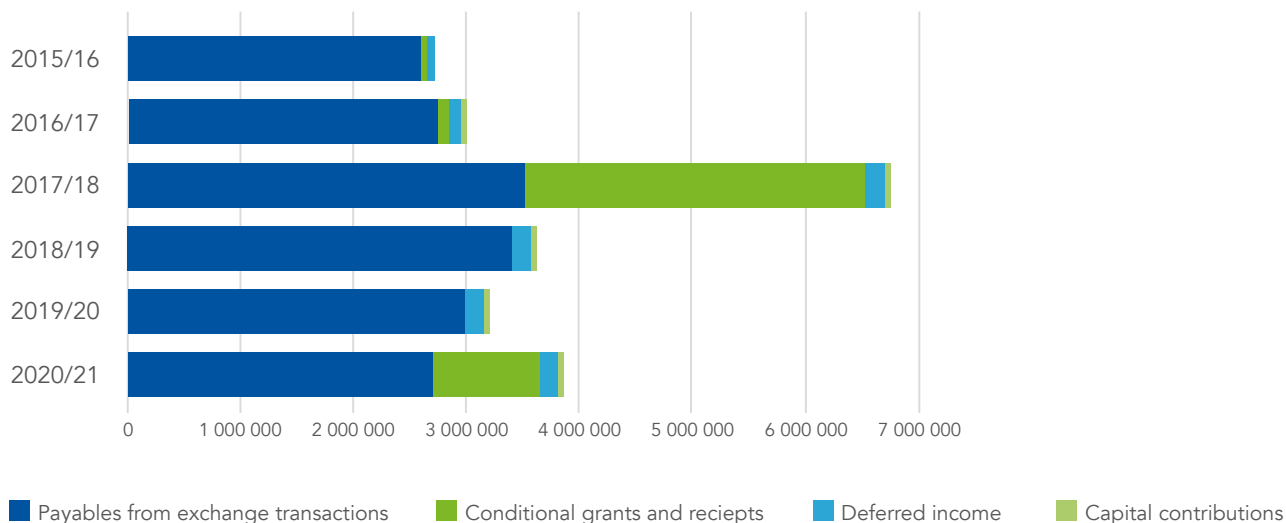


## Current liabilities

Payables from exchange transactions decreased slightly as suppliers are paid. A government grant was received

for infrastructure projects to be implemented in the next financial year. Capital contributions increased slightly as a result of additional contributions received from the mines.

Figure 25: Current liabilities



## Cash flows

The cash and cash equivalents reported at 30 June 2021 is R421.3 million (2019/20: R177.2 million). Liquidity is closely managed daily in line with available cash reserves to ensure that the entity has sufficient cash reserves to pay debts when they fall due in the ordinary course of business.

## Capital funding

Magalies Water developed a growth strategy which identifies numerous growth opportunities. However, the projects could not be implemented due to a lack of funding. The delays in implementing infrastructure projects has a negative impact on service delivery and on the

organisation's ability to deliver on its mandate. The current investments are not sufficient to cover for the capital expenditure required for implementing projects.

Magalies Water is currently engaging the Development Bank of Southern Africa (DBSA) and the Government Technical Advisory Centre (GTAC) to assist with packaging the projects for borrowing limit application.

Ms M. Mabane  
Chief Financial Officer

# AUDIT & RISK COMMITTEE REPORT

## Audit & Risk Committee

The Audit & Risk Committee (the Committee) hereby presents its report for the year ended 30 June 2021. 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.

## Responsibilities of the Audit & Risk Committee

In addition to the PFMA prescripts referred to above, the roles and responsibilities of the Committee are set out in Treasury Regulation 27.1 and the principles of the King IV Report on Corporate Governance (King IV) were adequately entrenched. The Committee plays an independent role in corporate governance, integrated reporting and management of internal controls. The Committee has a charter in place, which regulates both its statutory duties and those assigned to it by the Board. It has, during the year under review, regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein, and the related policies and practices.

The Committee is 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 in the Annual Report 2020/21.

Furthermore, the roles of the Committee comprises of, but is not limited to, the following:

- Review the annual financial statements, interim reports and ensure compliance with Generally Recognised Accounting Principles (GRAP);
- Review and approve the appropriateness of accounting policies, disclosure policies and the effectiveness of internal financial controls;
- Review the effectiveness of internal audit; the risk areas of the Magalies Water's operations to be covered in the scope of internal and external audits;
- Review the accuracy, reliability and adequacy of financial information provided to management and other users of such information;
- Review and recommend the annual report and financial statements for approval by the Board;
- Review any accounting and auditing concerns identified as a result of internal and external audits;
- Review Magalies Water's compliance with legal and regulatory provisions;
- Review where relevant, the independence and objectivity of the internal and external auditors;
- Approve the annual internal audit plan;
- Ensure the internal audit function is subject to independent quality review as deemed appropriate;
- Ensure that the IT Charter and Policies are developed and implemented;
- Ensure that IT risks are addressed;
- Consider the use of technology to improve audit coverage;
- Ensure that an IT control framework is adopted and implemented;
- Receive independent assurance on the effectiveness of the IT internal controls;
- Ensure that IT plans are aligned to Magalies Water's strategy;
- Ensure that there is a process in place to identify and exploit opportunities to improve the performance and sustainability of Magalies Water through the use of IT;

- Ensure that the intellectual property contained in the IT systems is protected;
- Ensure that management has put in place adequate business resilience arrangements through business continuity plans in the event of a disaster;
- Ensure that an information security system is developed and implemented;
- Obtain an understanding of the extent of IT in relation to the evaluation of controls by internal and external audit;
- Approve the terms of engagement and remuneration of the external auditor; and
- Ensure a process is in place for the committee to be informed of any reportable irregularities identified by the external auditor.

The Committee hereby reports that it has complied with its responsibilities in accordance to Section 51 of the PFMA, the provisions of Treasury Regulation 27.1 and the principles of the King IV Report on Corporate Governance (King IV). The Committee plays an independent role in corporate governance, integrated reporting and management of internal controls. The Committee also reports that it has discharged its responsibilities and regulated its affairs in accordance to its 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.

### Composition and attendance of meetings

The Committee consists of a majority of independent non-executive members. The Committee meets at least four times per year in line with its charter. Independent External Audit & Risk Committee members served on the Committee during the period under review as shown in the table below.

**Table 39: Previous external Audit & Risk Committee members**

Member	Qualifications
SM Mamotheti	MBA, BCompt, Post Grad Dip Accounting Science, Higher Dip Taxation, Certified CIA.
S Madikizela*	BCompt, BAcc (Hons), BCompt (Hons), CA (SA)
K Moodley	LLM, Labour Law, LLB, BA, MIS, Dip Advance Banking, University Computer Dip

\*Mr S Madikizela resigned on 3 March 2020

**Table 40: New external Audit & Risk Committee members**

Member	Qualifications
Z Tshabalala	MBA, Post Grad Dip Business Management, BCom (Finance).
N Shabalala	BScience (Hons), BCom (Information Technology), Dip Business Management & Administration, CISA, Corbit 4.1, ITIL
SN Ngobeni	SAIPA, MBA, MCom (International and Domestic Tax), BCom (Distinction in Statistics, Taxation III, Management Accounting III and Financial Accounting III), RGA, Bcompt Honours, Higher Dip in Computer Auditing

The Audit & Risk Committee held all the meetings scheduled for the 2020/21 financial year and the attendance rate is set out in the table.

### Effectiveness of internal control

The system of internal control 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 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 2020/21, management and the Committee also upped the response capacity to mitigate control weaknesses that used to be of concern and are content with the continuous improvements planned for the 2021/22 financial year.

### Evaluation of financial and performance information

The Audit & Risk Committee has reviewed and evaluated financial information and performance information reports on a quarterly basis. Nothing came to the attention of the Committee to suggest that any material breakdown in the financial controls occurred during the financial year under review. The Committee was continuously satisfied with the content and quality of Magalies Water reports.

### 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 Auditor-General, management and the Accounting Authority;
- reviewed changes in accounting policies and practices;
- reviewed the external auditor's management letter and managements' response thereto;
- reviewed adjustments resulting from the audit process; and
- reviewed compliance with legal and regulatory provisions.

The Committee concurs with and accepts the Auditor-General's Report on the Annual Financial Statements and all other governance related internal controls applicable to the performance report for 2020/21.

Evaluation of the expertise and experience of the Chief Financial Officer and the finance function

The Committee has satisfied itself that the Chief Financial Officer has appropriate expertise and experience. The Committee has considered and has satisfied itself of the appropriateness of the expertise and adequacy of resources of the finance function and experience of the senior members of management for the financial function.

### Internal Audit

The Internal Audit Plan was approved during the financial year and the Audit & Risk Committee provided its oversight to the Internal Audit function and approved the Internal Audit Plan and Charter. The Audit & Risk Committee is satisfied that the Internal Audit function is operating effectively and that the function is sufficiently resourced. The Internal Audit function has been open to the idea of subjecting it to independent quality reviews, had the Audit & Risk Committee deemed it appropriate.

### External Audit

The Audit & Risk Committee has studied the report of the AGSA and concurs with and accepts the conclusion and audit opinion of the external auditors on the annual financial statements. The external audit function performed by the AGSA is independent from the entity. The Committee has met with the external auditors to ensure that there are no unresolved issues and acknowledges the diligence and cooperation of the external audit team. The Committee recommends that the audited annual financial statements be accepted and read together with the report of the external auditors.



**Mr. E.B. Mokgatle**  
Chairperson of the Audit & Risk Committee

---

# INTERNAL AUDIT OPINION

The Internal Audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management, and internal control, for the financial year 2020/21, is set out below.

The Board can take "Reasonable Assurance" on the adequacy and effectiveness of governance, risk management and internal control, within those areas that were reviewed. Some matters require management attention in control design or compliance with low to moderate impact on residual risk exposure until they are resolved.



**Mandlenkosi Godlihawu Dhladhla (CIA, CCSA)**  
**Chief Audit Executive**

# PART D

MAGALIES WATER  
ANNUAL FINANCIAL STATEMENTS  
*FOR THE YEAR ENDED 30 JUNE, 2021*



# GENERAL INFORMATION

**Country of incorporation and domicile**

South Africa

**Nature of business and principal activities**

Provision of water services

**Board of Directors**

Ms N.R. Mokoto

Mr S.P. Mkhize

Dr T.G. Twalo

Dr K.L. Sebego

Ms E.B. Mokgatle

Ms M.E.T. Malaka

Mr L.D. Morienyane

Ms B. Mahlutshana

Mr M.G. Shoahle

Mr I. Mosala

**Chief Financial Officer**

Ms M.C. Tabane

**Company Secretary**

Ms D.W. Engelbrecht

**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 parliament:

	Page
Boards’ Responsibilities and Approval	109
Report of the Auditor-General to Parliament on Magalies Water	113
Statement of Financial Position	114
Statement of Financial Performance	115
Statement of Changes in Net Assets	116
Cash Flow Statement	117
Statement of Comparison of Budget and Actual Amounts	118
Accounting Policies	119 - 129
Notes to the Annual Financial Statements	130 - 149

The following supplementary information does not form part of the annual financial statements and is unaudited:

Detailed Income Statement	150
---------------------------	-----

# BOARDS' RESPONSIBILITIES AND APPROVAL

The members are 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 are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the members 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 members acknowledge that they are ultimately responsible for the system of internal financial control established by the entity and place considerable importance on maintaining a strong control environment. To enable the members to meet these responsibilities, the 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.



Ms N.R. Mokoto

Interim Chairperson of the Board

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

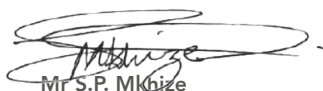
The members have reviewed the entity's cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, they are satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

Although the are primarily responsible for the financial affairs of the entity, they are supported by the entity's external auditors.

The external auditors are 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 110 to 113.

The annual financial statements set out on pages 114 to 149, which have been prepared on the going concern basis, were approved by the accounting authority on 29 October 2021 and were signed on its behalf by:



Mr S.P. Mkhize

Chief Executive Officer

# 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 114 to 149, which comprise the statement of financial position as at 30 June 2021 the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of Magalies Water as at 30 June 2021, and its financial performance and cash flows for the year then ended, in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Public Finance Management Act 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 my report.
4. I am independent of the entity in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### RESPONSIBILITIES OF THE ACCOUNTING AUTHORITY FOR THE FINANCIAL STATEMENTS

6. 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.
7. In preparing the financial statements, the accounting authority is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the 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

8. 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.

9. 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

10. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected objective presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
11. My procedures address the usefulness and reliability of the reported performance information, which must be based on the entity's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the entity enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
12. 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 objective presented in the entity's annual performance report for the year ended 30 June 2021:

Objective	Page in the annual performance report
Objective – to provide quality potable water	51

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

### OTHER MATTER

15. I draw attention to the matter below.

#### Achievement of planned targets

16. Refer to the annual performance report on pages 50 to 57 for information on the achievement of planned targets for the year.

## REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

### INTRODUCTION AND SCOPE

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

### OTHER INFORMATION

19. 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.

20. 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 on it.
21. 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.
22. 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

23. 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. I did not identify any significant deficiencies in internal control.

*Auditor - General*

**Pretoria**  
**11 November 2021**



**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 and on the 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 entity's internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority

- conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the Magalies Water Board to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause an entity to cease operating as a going concern
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also provide the accounting authority with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

Figures in Rand thousand

	Note(s)	2021	2020
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	5	37 394	35 402
Receivables from exchange transactions	6	396 098	363 011
Cash and cash equivalents	7	421 324	177 247
		<b>854 816</b>	<b>575 660</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	2	2 966 521	2 952 232
Intangible assets	3	22 788	28 068
		<b>2 989 309</b>	<b>2 980 300</b>
<b>Total Assets</b>		<b>3 844 125</b>	<b>3 555 960</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	8	270 514	300 472
Unspent conditional grants and receipts	9	98 000	-
Deferred income	10	13 909	13 909
Capital contributions	11	3 714	2 124
		<b>386 137</b>	<b>316 505</b>
<b>Non-Current Liabilities</b>			
Deferred income	10	525 113	539 022
Capital contributions	11	208 047	72 394
Deposit received	12	14 934	2 940
		<b>748 094</b>	<b>614 356</b>
<b>Total Liabilities</b>		<b>1 134 231</b>	<b>930 861</b>
<b>Net Assets</b>		<b>2 709 894</b>	<b>2 625 099</b>
Accumulated surplus		2 709 894	2 625 099



## STATEMENT OF FINANCIAL PERFORMANCE

Figures in Rand thousand	Note(s)	2021	2020
Revenue	13	756 306	789 612
Cost of sales	14	(529 646)	(480 919)
<b>Gross surplus</b>		<b>226 660</b>	<b>308 693</b>
Other income	15	23 646	23 466
Operating expenses	16, 17 & 18	(190 327)	(184 080)
<b>Operating surplus</b>		<b>59 979</b>	<b>148 079</b>
Investment revenue	20	24 816	21 398
<b>Surplus for the year</b>		<b>84 795</b>	<b>169 477</b>

## STATEMENT OF CHANGES IN NET ASSETS

## Figures in Rand thousand

	Accumulated surplus	Total net assets
<b>Balance at 01 July 2019</b>	<b>2 455 622</b>	<b>2 455 622</b>
Changes in net assets		
Surplus for the year	169 477	169 477
Total changes	169 477	169 477
<b>Balance at 01 July 2020</b>	<b>2 625 099</b>	<b>2 625 099</b>
Changes in net assets		
Surplus for the year	84 795	91 459
Total changes	84 795	91 459
<b>Balance at 30 June 2021</b>	<b>2 709 894</b>	<b>2 716 558</b>

# CASH FLOW STATEMENT

Figures in Rand thousand

	Note(s)	2021	2020
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		698 090	716 219
Grants		124 095	51 424
Interest income		24 816	21 398
Other receipts		1 082	1 105
Capital contributions		140 345	9 796
		<b>988 428</b>	<b>799 942</b>
<b>Payments</b>			
Employee costs		(218 150)	(199 165)
Suppliers		(409 424)	(404 866)
		<b>(627 574)</b>	<b>(604 031)</b>
<b>Net cash flows from operating activities</b>	<b>21</b>	<b>360 854</b>	<b>195 911</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	2	(116 477)	(159 919)
Purchase of other intangible assets	3	(300)	(1 066)
<b>Net cash flows from investing activities</b>		<b>(116 777)</b>	<b>(160 985)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>244 077</b>	<b>34 926</b>
Cash and cash equivalents at the beginning of the year		177 247	142 321
<b>Cash and cash equivalents at the end of the year</b>	<b>7</b>	<b>421 324</b>	<b>177 247</b>

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

## Budget on Accrual Basis

Figures in Rand thousand

## Statement of Financial Performance

## Revenue

## Revenue from exchange transactions

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Sale of goods	771 276	(74 053)	697 223	730 211	32 988	33(a)
Management fees	6 376	-	6 376	3 614	(2 762)	33(b)
Tender fees	105	-	105	176	71	33(c)
Cost recovery income	720	-	720	395	(325)	33(d)
Other income	537	-	537	512	(25)	33(e)
Lab analysis	1 681	-	1 681	1 938	257	33(f)
Deferred income	17 052	-	17 052	17 011	(41)	33(g)
Finance income	22 050	-	22 050	24 816	2 766	33(h)

## Total revenue from exchange transactions

819 797	(74 053)	745 744	778 673	32 929
---------	----------	---------	---------	--------

## Revenue from non-exchange transactions

## Transfer revenue

Government grants & subsidies	-	-	-	26 095	26 095	33(i)
-------------------------------	---	---	---	--------	--------	-------

<b>Total revenue</b>	<b>819 797</b>	<b>(74 053)</b>	<b>745 744</b>	<b>804 768</b>	<b>59 024</b>	
----------------------	----------------	-----------------	----------------	----------------	---------------	--

## Expenditure

Personnel	(93 726)	(4 953)	(98 679)	(100 597)	(1 918)	33(j)
Depreciation and amortisation	(8 880)	-	(8 880)	(8 384)	496	33(k)
Impairment of assets	-	-	-	(8)	(8)	33(l)
Cost of sales	(514 809)	(5 845)	(520 654)	(529 646)	(8 992)	33(m)
General Expenses	(96 619)	50	(96 569)	(81 136)	15 433	33(n)

<b>Total expenditure</b>	<b>(714 034)</b>	<b>(10 748)</b>	<b>(724 782)</b>	<b>(719 771)</b>	<b>5 011</b>	
--------------------------	------------------	-----------------	------------------	------------------	--------------	--

<b>Operating surplus</b>	<b>105 763</b>	<b>(84 801)</b>	<b>20 962</b>	<b>84 997</b>	<b>64 035</b>	
--------------------------	----------------	-----------------	---------------	---------------	---------------	--

Loss on disposal of assets	-	-	-	(202)	(202)	33(o)
----------------------------	---	---	---	-------	-------	-------

<b>Net surplus</b>	<b>105 763</b>	<b>(84 801)</b>	<b>20 962</b>	<b>84 795</b>	<b>63 833</b>	
--------------------	----------------	-----------------	---------------	---------------	---------------	--

<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>105 763</b>	<b>(84 801)</b>	<b>20 962</b>	<b>84 795</b>	<b>63 833</b>	
--	----------------	-----------------	---------------	---------------	---------------	--

## ACCOUNTING POLICIES

### 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 in accordance with Section 122(3) of Water Services Act No 108 of 1997 and Section 91(1) of 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, rounded to the nearest thousand, unless stated otherwise.

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.

#### 1.1 Presentation currency

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

#### 1.2 New and amended standards

The following standards became effective for the first time during the financial year ended 30 June 2021 or the standards were amended and the amendments became effective for the first time.

The new standards or amendments do not apply to the entity as the entity does not have transactions or disclosure on which these accounting standards apply, with the exception of IGRAP 20 which provides guidance on application of GRAP 3. The application of IGRAP 20 on Adjustments to Revenue will not have an impact on information presented and disclosed in these annual financial statements.

#### Newly effective GRAP standards or amendments

GRAP 34 on Separate Financial Statements  
 GRAP 35 on Consolidated Financial Statements  
 GRAP 36 on Investments in Associates and Joint Ventures  
 GRAP 37 on Joint Arrangements  
 GRAP 38 on Disclosure of Interests in Other Entities  
 GRAP 110 on Living and Non-living Resources  
 IGRAP 20 on Adjustments to Revenue

#### 1.3 Going concern assumption

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

## ACCOUNTING POLICIES

### 1.4 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

### 1.5 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
- Provision for doubtful debt

#### Trade receivables

The entity assesses its trade receivables, held to maturity investments and loans and 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.

#### Impairment testing

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

#### Allowance for doubtful debts

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

#### 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.

## ACCOUNTING POLICIES

### 1.6 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 and other infrastructure	Straight-line	40 - 55 years
Plant and machinery	Straight-line	18 - 55 years
Furniture and fixtures	Straight-line	6 - 30 years
Mobile equipment and motor vehicles	Straight-line	4 - 35 years
Office equipment	Straight-line	3 - 35 years
IT equipment and accessories	Straight-line	3 - 10 years
Pipelines and 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.

## 1.7 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	Depreciation method	Average useful life
Computer software	Straight-line	3 - 15 years
Servitudes	Straight-line	Indefinite

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.



## ACCOUNTING POLICIES

### 1.8 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 assets measured at fair value.
- 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.

#### 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 of 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.

## ACCOUNTING POLICIES

### Derecognition of 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.

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

### 1.9 Leases

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

#### 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.

### 1.10 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.

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.

## ACCOUNTING POLICIES

### 1.11 Employee benefits

#### Short-term employee benefits

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

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

The 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 plans

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

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.

### 1.12 Contingencies

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 23.

### 1.13 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost; and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts are excluded.

### 1.14 Revenue from exchange transactions

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

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

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

## ACCOUNTING POLICIES

### 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.

### Rendering of services

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

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

126

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

### Interest

Interest is recognised, in surplus or deficit, using the effective interest rate method for financial instruments.

### 1.15 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.

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

### 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.

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

## ACCOUNTING POLICIES

### Measurement

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

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

#### 1.16 Cost of sales

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

#### 1.17 Investment income

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

#### 1.18 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.

#### 1.19 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. Deferred income is recognised as revenue on a systematic basis over the useful life of the asset.

#### 1.20 Capital contributions

Capital contributions are monetary contributions by customers towards development of water infrastructure. Customers that provide capital contributions and the derive benefits from provision of water as well as reduced tariff charges over the useful lives of assets constructed from the contribution.

The contributions are recognised as revenue on a systematic basis over the useful life of the assets when the assets are brought into use

#### 1.21 Comparative figures

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

#### 1.22 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.

## ACCOUNTING POLICIES

### 1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

### 1.24 Offsetting

Financial assets and liabilities are offset and a net amount is reported in the statement of financial position when there is legally enforceable right to set off the recognised amounts and the entity intends either to settle on a net basis, or to realise the net asset and settle the liability.

### 1.25 Budget information

The approved budget is prepared on accrual basis and presented by functional classification.

The approved budget covers the fiscal period from 2020/07/01 to 2021/06/30.

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.

### 1.26 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.

### 1.27 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.

### 1.28 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.

## ACCOUNTING POLICIES

---

### 1.29 Capital contribution

The contributions are recognised as revenue on a systematic basis over the useful life of the assets when the assets are brought into use.

### 1.30 Expenditure

Expenditure is recognised when Magalies Water is deemed to have been supplied or has control of the goods or services supplied.

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand thousand

2021

2020

### 2. Property, plant and equipment

	2021			2020		
	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 and other infrastructure	298 969	(86 453)	212 516	295 872	(79 626)	216 246
Plant and machinery	744 004	(243 069)	500 935	734 787	(206 714)	528 073
Furniture and fixtures	18 465	(10 288)	8 177	18 037	(8 682)	9 355
Mobile equipment and motor vehicles	29 608	(25 647)	3 961	30 431	(24 324)	6 107
IT equipment and accessories	24 870	(19 530)	5 340	23 603	(16 498)	7 105
Pipelines and reservoirs	2 264 060	(539 359)	1 724 701	2 264 044	(489 285)	1 774 759
Capital work in progress	506 327	-	506 327	406 023	-	406 023
<b>Total</b>	<b>3 890 867</b>	<b>(924 346)</b>	<b>2 966 521</b>	<b>3 777 361</b>	<b>(825 129)</b>	<b>2 952 232</b>

#### Property, plant and equipment pledged as security

Property, plant and equipment was not pledged as security.

#### Laboratory equipment

Included in Plant and Machinery is Laboratory Equipment

#### Capital work in progress

Included in Capital work in progress is the cost incurred on capital projects that are still under construction or design stage and have not been brought into use.

#### Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	4 564	-	-	-	-	-	4 564
Buildings and other infrastructure	216 246	3 027	-	70	(6 827)	-	212 516
Plant and machinery	528 073	10 159	(155)	786	(37 920)	(8)	500 935
Furniture and fixtures	9 355	428	-	2	(1 608)	-	8 177
Mobile equipment and motor vehicles	6 107	419	(47)	-	(2 518)	-	3 961
IT equipment accessories	7 105	1 262	-	5	(3 032)	-	5 340
Pipelines and reservoirs	1 774 759	-	-	15	(50 073)	-	1 724 701
Capital work in progress	406 023	101 182	-	(878)	-	-	506 327
<b>Total</b>	<b>2 952 232</b>	<b>116 477</b>	<b>(202)</b>	<b>-</b>	<b>(101 978)</b>	<b>(8)</b>	<b>2 966 521</b>



## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	4 564	-	-	-	-	4 564
Buildings and other infrastructure	219 931	3 300	(138)	-	(6 847)	216 246
Plant and machinery	524 416	14 763	(529)	26 364	(36 941)	528 073
Furniture and fixtures	9 304	1 566	(27)	-	(1 488)	9 355
Mobile equipment and motor vehicles	7 279	1 212	-	-	(2 384)	6 107
IT equipment accessories	10 302	1 196	(136)	17	(4 274)	7 105
Pipelines and reservoirs	1 822 752	497	-	1 517	(50 007)	1 774 759
Capital work in progress	296 536	137 385	-	(27 898)	-	406 023
	<b>2 895 084</b>	<b>159 919</b>	<b>(830)</b>	<b>-</b>	<b>(101 941)</b>	<b>2 952 232</b>

## Disclosure on assets in the process of being constructed

The carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected, including reasons for any delays.

Capital Work in Progress - Moretele South Pipeline	320 977	235 381
--	---------	---------

## Reasons for delay in completion of the project

The project is funded jointly by Magalies Water and Department of Water and Sanitation through grant funding. Funding for the project is allocated on an annual basis for the project, which then result in project time being extended

When the project started, one of the unsuccessful bidders applied for court interdict, which stopped the project from being implemented, which then contributed to extension of project timelines.

There were protest actions by communities where the pipeline is being constructed, which resulted in project being delayed as work does not continue during the protest and engagements need to be held with communities before the project can continue again.

During COVID-19 there were periods where construction work could not be carried out due to lock down regulations.

## 3. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	49 582	(27 983)	21 599	49 282	(22 403)	26 879
Servitudes	1 189	-	1 189	1 189	-	1 189
<b>Total</b>	<b>50 771</b>	<b>(27 983)</b>	<b>22 788</b>	<b>50 471</b>	<b>(22 403)</b>	<b>28 068</b>

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand thousand

2021

2020

### Reconciliation of intangible assets - 2021

	Opening balance	Additions	Amortisation	Total
Computer software, other	26 879	300	(5 580)	21 599
Servitudes	1 189	-	-	1 189
	<b>28 068</b>	<b>300</b>	<b>(5 580)</b>	<b>22 788</b>

### Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Total
Computer software, other	31 305	1 066	(5 492)	26 879
Servitudes	1 189	-	-	1 189
	<b>32 494</b>	<b>1 066</b>	<b>(5 492)</b>	<b>28 068</b>

## 4. Employee benefit obligations

### Defined contribution plan

The entity contributes towards Magalies Water Retirement Fund which is controlled in terms of the Pensions Fund Act 24 of 1956.

The entity is under no obligation to cover any unfunded benefits.

The total economic entity contribution to such schemes	33 110	28 404
The amount recognised as an expense for defined contribution plans is	33 110	28 404

### Other employee benefits

Magalies Water provide long-term service awards to employees but no provision was raised in the financial statement, as employees only become entitled to benefits when they complete long service periods as determined by Magalies Water. The total expenditure incurred for 2020/21 financial year amount to R440 000 (2019/20: R418 250).

Employees that finish five years with the organisation are also entitled to paid leave of four days after completing five years with the organisation as well as monetary awards depending on the period served by the employees. The value of these leave days as at 30 June 2021 is estimated at approximately R1 million for all employees while the value of monetary long service awards is estimated at about R1,3 million.

## 5. Inventories

Spares and consumables	26 303	25 199
Water inventory	2 327	2 321
Chemicals	8 764	7 882
	<b>37 394</b>	<b>35 402</b>

Inventory was not pledged as security.

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### Figures in Rand thousand

#### 6. Receivables from exchange transactions

	2021	2020
Prepayments	1 733	1 671
Trade receivables	420 306	372 879
Impairment of receivables	(43 943)	(30 736)
Sundry debtors	13 777	15 196
Deposits	4 225	4 001
	<b>396 098</b>	<b>363 011</b>

#### Prepayments

Prepayments relate to insurance premiums paid in advance. Insurance premium is paid in November each year covering a period of 12 months.

#### Trade and other receivables past due but not impaired

Trade and other receivables which are less than 3 months past due are not considered to be impaired. As at 30 June 2021, debtors to the value of R 82 207 472 (2020: R 41 365 028) were past due but not impaired.

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

30 days past due	60 007	19 787
60 days past due	22 201	21 578

#### Trade and other receivables impaired

As of 30 June 2021, trade and other receivables of R 253 542 664 (2020: R 228 618 110) were outstanding for more than 3 months and were assessed for impairment and an allowance for impairment was provided for.

The amount of the provision was R 43 942 792 as of 30 June 2021 (2020: R 30 736 215).

The ageing of these receivables is as follows:

3 to 6 months	43 379	65 870
Over 6 months	210 164	162 748

#### Reconciliation of provision for impairment of trade and other receivables

Opening balance	30 736	25 233
Provision for impairment	15 841	5 503
Amounts written off as uncollectible	(2 634)	-
	<b>43 943</b>	<b>30 736</b>

Trade and other receivables were not pledged as security.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## Figures in Rand thousand

2021

2020

## 7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	10	15
Bank balances	111 480	42 954
Short-term deposits	309 834	134 278
	<b>421 324</b>	<b>177 247</b>

Short-term deposits consist of investment held with financial institutions for capital growth. Cash and cash equivalents are not pledged as security

## 8. Payables from exchange transactions

Trade payables	209 750	234 932
Operations and maintenance advances	5 518	10 421
Accrual for bonus	4 453	14 883
Retentions	19 489	28 930
Accrual for leave	21 087	11 210
Other payables	138	96
VAT Payable	10 079	-
	<b>270 514</b>	<b>300 472</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.

**Bonus accrual** for the 2020/21FY relates to provision for thirteenth cheque. Employees have an option to save for thirteenth cheque where a portion of their basic salary is saved on a monthly basis. In the 2019/20FY bonus accrual was made up of provision for thirteenth cheque and provision for performance bonus, however in the 2020/21 there is no provision for performance bonus.

**Accrual for leave** relates to provision for annual leave accrued to employees at year end. The accrual is determined based on the annual leave days due to the employees but limited to 45 days.

**Operations and maintenance advances** relates to funds received in advance or in access of expenditure already incurred for operations and maintenance work where Magalies Water is performing services for other government insitutions.

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand thousand

2021

2020

### 9. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants

98 000

-

#### Movement during the year

Balance at the beginning of the year

-

-

Grants received during the year

98 000

-

**98 000**

**-**

Unspent conditional grants relate to transfers received from Department of Water and Sanitation. Funds received will be used for capital infrastructure investments. Grant will be transferred to revenue from non-exchange transactions as the conditions attached to the grant are satisfied.

### 10. Deferred income

Current liabilities

13 909

13 909

Non-current liability

525 113

539 022

**539 022**

**552 931**

Deferred income consists of assets transferred by the mines to Magalies Water. These assets consist of pipelines and reservoir contributed by the Platinum Mine in line with the off take agreement that was signed in 2008 for R123,4 million and R457,3 million received from Barrick, Maseve and Wesizwe mines in the 2016/17 financial year.

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.

### 11. Capital contributions

Current liabilities

3 714

2 124

Non-current liabilities

208 047

72 394

**211 761**

**74 518**

Capital contributions consists primarily of contributions received from Royal Bafokeng Platinum Mine (Maseve Investments) of R96.8M, Bakabung Minerals of R54.4M and Impala Platinum Mine of R69.4M. These contributions are recognised as revenue when the assets are brought into use over the useful life of the assets as per the agreement.

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**Figures in Rand thousand**

**2021**

**2020**

**12. Deposit received**

Deposit received

14 934

2 940

Deposit received relate to security deposits held by the organisation for active customers. Security deposit is refundable to customers on termination of service if the customer does not have debt due to the organisation.

**13. Revenue**

**The amount included in revenue arising from exchanges of goods or services are as follows:**

Sale of water

730 211

738 188

**The amount included in revenue arising from non-exchange transactions is as follows:**

**Transfer revenue**

Government grants and subsidies

26 095

51 424

**Total revenue**

Revenue from exchange transactions

730 211

738 188

Revenue from non-exchange transactions

26 095

51 424

**756 306**

**789 612**

**14. Cost of sales**

**Sale of goods**

Raw water purchases

87 988

82 315

Chemicals

42 158

34 729

Employee cost

117 553

102 482

Electricity

126 993

114 070

Depreciation

99 176

98 242

Repairs and maintenance

39 743

35 460

Other production overheads

4 086

4 916

Portable water cost (City of Tshwane Augmented)

11 949

8 705

**529 646**

**480 919**

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### Figures in Rand thousand

#### 15. Other operating income

	2021	2020
Management fees	3 614	5 411
Tender fees	176	369
Rental income	267	227
Cost recovery income	395	524
Sundry income *	245	509
Lab analysis	1 938	880
Deferred income recognised	17 011	15 546
	<b>23 646</b>	<b>23 466</b>

\* - Sundry income comprise water connections fees, administration fees and other sundry income.

#### 16. General expenses

Admin overheads	2 010	3 312
Advertising	528	648
Auditors remuneration	2 423	2 389
Bad debts	15 841	5 503
Bank charges	160	172
Catering	317	452
Cleaning	72	83
Computer expenses	395	696
Consulting and professional fees	7 933	10 718
Consumables	2 916	2 678
Corporate social responsibility	670	1 527
Donations	-	541
Electricity	649	717
Insurance	5 106	4 826
Lease rentals on operating lease	643	1 076
Legal expense	3 982	1 765
Licence fees	3 023	2 488
Membership fees	92	291
Other operating expenses	7 459	5 015
Promotions and publications	1 676	5 056
Recruitment costs	517	424
Repairs and maintenance (admin)	1 102	1 290
Security	10 514	9 336
Telephone and fax	4 358	3 822
Training and conferences	5 782	7 779
Travel and accommodation	2 968	4 763
	<b>81 136</b>	<b>77 367</b>

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## Figures in Rand thousand

2021

2020

## 17. Employee related costs

Basic	65 519	62 044
Bonus	4 703	13 410
Medical aid - company contributions	927	896
Settlement allowance	36	293
Company contributions	17 180	14 279
Car allowance - senior management	360	520
Overtime payments	166	623
Acting allowances	466	935
Car allowance	332	92
Housing benefits and allowances	2 402	1 576
Cellphone allowance	1 055	1 044
Other salary expenses	7 159	838
Standby allowance	292	132
	<b>100 597</b>	<b>96 682</b>

## 18. Depreciation and amortisation

Buildings	208	206
Furniture and fixtures	564	515
Motor vehicles	14	14
IT equipment	1 925	2 887
Intangible assets	5 581	5 492
Plant and machinery	92	87
	<b>8 384</b>	<b>9 201</b>

## 19. Repairs and maintenance (included in cost of sales and general expenses)

Buildings	362	-
Plant and machinery	31 570	25 345
Motor vehicles	2 831	2 505
Pipelines and reservoirs	6 082	8 900
	<b>40 845</b>	<b>36 750</b>

## 20. Investment revenue

## Interest revenue

Interest on bank balances	438	1 460
Interest charged on trade and other receivables	16 168	11 534
Interest on short term deposits	8 210	8 404
	<b>24 816</b>	<b>21 398</b>



MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand thousand

### 21. Cash generated from operations

	2021	2020
Surplus	84 795	169 477
<b>Adjustments for:</b>		
Depreciation and amortisation	107 558	107 432
Loss on disposal of assets	202	830
Impairment loss	8	-
<b>Changes in working capital:</b>		
Inventories	(1 992)	(3 383)
Receivables from exchange transactions	(33 087)	(28 809)
Payables from exchange transactions	(29 958)	(43 886)
Unspent conditional grants and receipts	98 000	-
Capital contributions	123 334	(5 750)
Deposits received	11 994	-
	<b>360 854</b>	<b>195 911</b>

### 22. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

• Property, plant and equipment	90 005	162 991
---------------------------------	--------	---------

#### Total capital commitments

Already contracted for but not provided for	90 005	162 991
---	--------	---------

#### Authorised operational expenditure

##### Already contracted for but not provided for

• Operational commitments	67 198	39 986
---------------------------	--------	--------

#### Total operational commitments

Already contracted for but not provided for	67 198	39 986
---	--------	--------

Other commitments not disclosed in the disclosure balance relates to contractual agreements determined on the hours spent on a project and/or rate of items or services procured. The total contractual obligation could not be determined.

#### Operating lease commitments

##### Minimum lease payments due

- within one year	82	133
- in second to fifth year inclusive	18	10
	<b>100</b>	<b>143</b>

Operating lease payments represent rentals payable by the entity for office equipment. Leases are negotiated for an average term of three years. The rental periods are in accordance with the contracts per service provider.

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand thousand

2021

2020

### 23. Contingencies

#### Contingent liabilities

Guarantee issued by the Standard Bank  
Litigations by ex-employees  
Claims by suppliers

512	512
540	540
3 276	3 276
<b>4 328</b>	<b>4 328</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 R540 000. The matter has been dragging of years caused by the being applicants (being ex- employees). The applicants have failed to set the matter down for trial and arguments. MW has instructed its attorneys to apply to Court to have the matter struck off the roll due to the delays caused by the applicants.

Service provider was contracted to build a 20 mega litre reservoir for the Pilanesburg Scheme. The service provider failed to complete the work on time and penalties were imposed by Magalies Water. The service provider is suing Magalies Water for payment of the last invoice of R3 275 891,29 submitted; despite penalties imposed for the delays being higher than the invoice submitted. The service provider issued summons against Magalies Water, in turn Magalies Water raised counter claim. The application by service provider was dismissed. Service provider appealed against the decision of the High Court. The appeal was dismissed with costs. The matter is currently at the Appellate Division at the instance of service provider of which Magalies Water is opposing.

#### Contingent assets

Legal claims

26 891

-

A court interdict was initiated by one of the unsuccessful bidders against Magalies Water to stop the appointed service provider from performing work. The unsuccessful bidder claimed that the procurement process followed for the appointed service provider was not fair, however the court ruled in favour of Magalies Water.

The interdict resulted in Magalies Water incurring cost for standing time and legal cost. Magalies Water initiated a process to recover the cost from the unsuccessful bidder.

### 24. Irregular expenditure

Opening balance as previously reported

5 824

5 824

#### Opening balance as restated

5 824

5 824

Add: Irregular Expenditure - current

76

-

Less: Amounts recoverable - current

-

-

#### Closing balance

5 900

5 824

Irregular expenditure incurred in the current year amounts to R75 681,47. A supplier failed to disclose a close relationship with one of the employees and the supplier was awarded work to the value of R75 681,47. Opening balance relates to the previous financial year's irregular expenditure which was referred to National Treasury for condonation.

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### Figures in Rand thousand

#### 25. Fruitless and wasteful expenditure

	2021	2020
Opening balance as previously reported	-	-
<b>Opening balance as restated</b>	-	-
Add: Expenditure identified - current	-	2
Less: Amounts recoverable - current	-	(2)
<b>Closing balance</b>	-	-

Fruitless expenditure of R 1 979,76 was incurred in prior year due to interest charged for late payment of Telkom account. The responsible official acknowledged and committed to pay, the transaction was transferred to receivables for recovery. The amount was subsequently recovered from the official.

#### 26. Related parties

##### Relationships

Ultimate controlling entity

Controlling entity

National Government

Department of Water and Sanitation

##### Related party balances

##### Amounts included in trade and other receivables

Department of Water and Sanitation	27 272	30 777
Rand Water	20 266	22 906

##### Amounts included in trade and other payables

Department of Water and Sanitation	103 396	119 890
------------------------------------	---------	---------

##### Unspent conditional grants

Department of Water and Sanitation	98 000	-
------------------------------------	--------	---

##### Related party transactions

##### Amounts included in revenue

Department of Water and Sanitation	26 095	51 424
Rand Water	153 899	168 035

##### Amounts included in other operating income

Department of Water and Sanitation	2 183	4 240
------------------------------------	-------	-------

##### Amounts included in cost of sales

Department of Water and Sanitation	87 993	82 560
------------------------------------	--------	--------

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## Figures in Rand thousand

2021

2020

## Compensation to board members and key management personnel

Board members	5 170	5 743
Audit & Risk Committee members	246	218
Executive management	22 098	15 305

## Emoluments

## Emoluments: Board members

## 2021

Name	Board fees	Committee fees	Other fees ^	Expenses ^^	Total
Ms NR Mokoto (Chairperson)	109	46	334	400	889
Dr T Twalo (Deputy Chairperson)	45	124	143	267	579
Dr L Sebegu	53	77	112	258	500
Ms B Mokgatle	55	124	112	234	525
Ms E Malaka	55	74	106	228	463
Mr V Magqabi *	26	37	22	84	169
Mr D Morienyane	49	101	96	229	475
Ms B Mahluthshana	49	86	121	248	504
Mr G Shoahle	49	80	67	227	423
Mr I Mosala	36	81	87	238	442
	<b>526</b>	<b>830</b>	<b>1 200</b>	<b>2 413</b>	<b>4 969</b>

Name	Board fees	Committee fees	Other fees ^	Expenses ^^	Total
Adv M. Petlane (Chairperson) #	-	48	-	-	48
Ms P. Nkwinika (Deputy Chairperson) #	-	23	-	-	23
Mr F. Vilakazi #	-	8	-	-	8
Ms M. Mufamadi #	-	9	-	-	9
Mr S. Suping #	-	27	-	6	33
Ms. Y.M. Matolong #	-	8	-	-	8
Mr R.M. Le Roux #	-	16	-	7	23
Ms K.P.N. Mokoena #	-	21	-	-	21
Ms L. Zitha #	-	8	-	-	8
Ms D.M. Manamela #	-	20	-	-	20
	<b>-</b>	<b>188</b>	<b>-</b>	<b>13</b>	<b>201</b>

The minister appointed an interim board for Magalies Water, with effect from 1 July 2021, refer to general information page for a list of interim board members appointed. The previous board served until 30 June 2020.

^ Other fees consist of compensation for other meeting attended by the Board members

^^ Expenses comprise of stipend, travel and accommodation and general refunds.

# The former board members served until 30 June 2020 and there were payments to be made during July 2021.

\* Mr Magqabi passed away on 16 January 2021.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## 2020

Name	Board fees	Committee fees	Other fees ^	Expenses ^^	Total
Adv. M.M. Petlane (Chairperson)	60	92	377	679	1 208
Ms P.N. Nkwini (Deputy Chairperson)	34	149	243	511	937
Mr F.P. Vilakazi	44	102	108	170	424
Ms M.M. Mufamadi	43	105	63	192	403
Mr S.V. Suping	31	57	133	327	548
Ms Y.M. Matolong	41	97	143	238	519
Mr R.M. Le Roux	36	71	87	227	421
Ms K.P.N. Mokoena	33	81	127	225	466
Ms L. Zitha	33	90	70	196	389
Ms D.M. Manamela	34	76	97	221	428
	<b>389</b>	<b>920</b>	<b>1 448</b>	<b>2 986</b>	<b>5 743</b>

The minister appointed an interim board for Magalies Water, refer to page 1 for a list of interim board members appointed.

The previous board served until end of the 2020 financial year.

^ Other fees consist of compensation for other meeting attended by the Board members

^^ Expenses comprise of stipend, travel and accommodation and general refunds.

## Emoluments: Executive staff members

## 2021

Name	Salary	Acting allowance	Expenses ^	Performance bonus	Other expenses ^^	Total
Mr S. Mkhize - Chief Executive	2 245	-	142	361	455	3 203
Mr M. Mehlo - Chief Operating Officer #1	643	-	10	316	389	1 358
Ms M. Tabane - Chief Financial Officer	1 552	-	43	194	370	2 159
Ms P. Ratlabala - GM Corporate Services #2	1 206	-	32	275	259	1 772
Ms B. Bingwa - Acting GM Corporate Services #3	1 137	45	42	142	274	1 640
Ms T. Zwane - GM PMU #4	1 419	-	39	206	539	2 203
Mr T. Mpane - Acting GM PMU #5	820	24	190	-	212	1 246
Ms L. Morake - GM Water Services #6	1 566	-	102	206	646	2 520
Mr M. Dayanand - Acting GM Water Services #7	1 534	15	34	192	395	2 170
Ms F. Mogamisi - GM Stakeholder & Communications	1 458	-	52	202	270	1 982
Mr O. Nthutang - GM Engineering #8	1 412	111	59	-	263	1 845
	<b>14 992</b>	<b>195</b>	<b>745</b>	<b>2 094</b>	<b>4 072</b>	<b>22 098</b>

^ Expenses comprise of cellphone allowance, travel & accommodation, refunds and settlements.

^^ Other expenses comprise of leave pay-out and company contribution.

#1 Mr Mehlo resigned on 30 September 2020.

#2 Ms Ratlabala resigned on 28 February 2021.

#3 Ms Debeila was appointed as an Acting GM Corporate Services on 1 March 2021.

#4 Ms Zwane's employment contract expired on 30 April 2021.

#5 Mr Mpane was appointed as an Acting GM PMU on 1 April 2021.

#6 Ms Morake resigned on 31 May 2021.

#7 Mr Dayanand was appointed as an Acting GM Water Services on 1 June 2021.

#8 Mr Nthutang has been GM engineering and was also Acting Chief Operations Officer from 1 October 2020.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## 2020

Name	Salary	Acting allowance	Expenses ^	Performance bonus	Other expenses ^^	Total
Mr S. Mkhize - Chief Executive Officer	1 952	-	226	-	372	2 550
Mr M. Mehlo - Chief Operations Officer	1 667	-	255	-	341	2 263
Ms M. Tabane - Chief Financial Officer *	1 388	87	62	64	296	1 897
Ms P. Ratlabala - GM Corporate Services	1 456	-	50	-	280	1 786
Ms T. Zwane - GM PMU	1 454	-	82	-	285	1 821
Ms L. Morake - GM Water Services	1 454	-	101	-	323	1 878
Ms F. Mogamisi - GM Stakeholder & Communications	1 138	-	75	-	191	1 404
Mr J. Leburu - Acting GM Engineering **	608	317	63	59	121	1 168
Mr O. Nthutang - GM Engineering ***	445	-	17	-	76	538
	<b>11 562</b>	<b>404</b>	<b>931</b>	<b>123</b>	<b>2 285</b>	<b>15 305</b>

^ Expenses comprise of cellphone allowance, travel & accommodation, refunds and settlements.

^^ Other expenses comprise of leave pay-out and company contribution.

\* Ms M. Tabane was Acting CFO from July to August then appointed as CFO from 1 September 2019.

\*\*Mr J. Leburu was Acting GM Engineering until February 2020.

\*\*\*Mr O. Nthutang was appointed GM Engineering from 1 March 2020.

## Emoluments: Independent Audit &amp; Risk Committee Members

## 2021

Name	**Committee fees	^Other fees	^^Expenses	Total
Mr S. Mamothethi #	34	9	2	45
Ms K. Moodley #	29	17	7	53
Mr S. Ngobeni *	16	16	2	34
Ms N. Shabalala *	16	39	1	56
Ms Z. Tshabalala *	16	38	4	58
	<b>111</b>	<b>119</b>	<b>16</b>	<b>246</b>

\* Appointed on 1 March 2021.

# Appointment expired on 28 February 2021.

\*\*Committee fees consist of all audit committee meetings.

^Other fees comprise of induction meeting and other non-committee meetings.

^^Expenses comprise of travel and accommodation costs.

## 2020

Name	**Committee fees	^Other fees	^^Expenses	Total
Mr S. Mamothethi	68	11	13	92
Mr S. Madikizela*	29	-	4	33
Ms K. Moodley	69	11	13	93
	<b>166</b>	<b>22</b>	<b>30</b>	<b>218</b>

\*Mr S.P Madikizela resigned from the committee on 3 March 2020.

\*\*Committee fees consist of all audit committee meetings.

^Other fees comprise of induction meeting and other non-committee meetings.

^^Expenses comprise of travel and accommodation costs.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 27. Financial instruments disclosure

#### Categories of financial instruments

The carrying values of financial assets and liabilities are presented by class in the tables below:

#### 2021

##### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	396 098	396 098
Cash and cash equivalents	421 324	-	421 324
	<b>421 324</b>	<b>396 098</b>	<b>817 422</b>

##### Financial liabilities

	At amortised cost	At cost	Total
Trade and other payables from exchange transactions	270 514	-	270 514
Deposit received	-	14 934	14 934
	<b>270 514</b>	<b>14 934</b>	<b>285 448</b>

#### 2020

##### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	363 011	363 011
Cash and cash equivalents	177 247	-	177 247
	<b>177 247</b>	<b>363 011</b>	<b>540 258</b>

##### Financial liabilities

	At amortised cost	At cost	Total
Trade and other payables from exchange transactions	300 472	-	300 472
Deposit received	-	2 940	2 940
	<b>300 472</b>	<b>2 940</b>	<b>303 412</b>

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand thousand

2021

2020

### 28. Risk management

#### 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	129 661	38 352	102 501	270 514
Deposit received	14 934	-	-	14 934
	<b>144 595</b>	<b>38 352</b>	<b>102 501</b>	<b>285 448</b>

#### 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.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2021	2020
Trade and other receivables	396 098	363 011
Cash and cash equivalents	421 324	177 247



MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand thousand

2021

2020

### 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.

The following table illustrates the sensitivity of the entity to interest rate changes by 1%:

#### 1% decrease

Decrease in financial assets  
Decrease in comprehensive income

(3 098)	(1 343)
(3 098)	(1 343)
<b>(6 196)</b>	<b>(2 686)</b>

#### 1% increase

Increase in financial assets  
Increase in comprehensive income

3 098	1 343
3 098	1 343
<b>6 196</b>	<b>2 686</b>

## 29. Change in estimate

### Property, plant and equipment

The useful life of certain plant and machinery was revised during the year. The change in estimate of useful lives of plant and machinery resulted in decrease in depreciation by R224 053,12 for the year.

MAGALIES WATER ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand thousand

2021

2020

### 30. Prior-year adjustments

#### Reclassifications

The organisation holds security deposit from customers. Deposit is refundable to customers when the customer is no longer receiving services and there is no debt due to Magalies Water. Security deposit was included in trade payables in the previous year, while in the current year security deposit has been classified as a non - current liability.

The effect of reclassification on figures reported in the previous year is as follows:

Deposit received - current liability	-	2 940
Deposit received - non-current liability	-	(2 940)
	-	-

### 31. Going concern

These Annual Financial Statements have been prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months

The going concern assessment was undertaken, taking into consideration the cash flow, budget projections, key financial performance indicators, risks and mitigating controls

The non-payment of debt by municipalities for bulk water sales remain a concern for entity, resulting in significant increase in receivables from exchange transactions. The impact of customers not paying on time has been considered in cash flow projections used in the assessment of going concern. Management is satisfied with controls implemented to address this risk and has concluded that the organisation is still a going concern.

The impact of Covid-19 on the ability of the organisation to continue as a going concern has been assessed. In the 2020/21 financial year, actual sales volumes were lower when compared to the previous financial year, which was caused by Covid-19 lockdown regulations where some businesses did not operate at full capacity and demand for water was reduced. The annual tariff increase for the 2020/21 financial year was not approved by the Minister of Human Settlements, Water and Sanitation, while the cost of production continued to increase. Another challenge has been the inability of customers to pay for services provided, as a result of negative economic impact of Covid-19.

The annual tariff increase has been implemented for 2021/22 financial year. Collection of revenue from customers continue to be a challenge, but this is expected to improve going forward. The impact of Covid-19 on the ability of the organisation to continue as a going concern has been assessed and management has reached a conclusion that the organisation will continue as a going concern.

We draw attention to the fact that as at 30 June 2021, Magalies Water had an accumulated surplus of R2,7 billion. The entity's current assets exceed its current liabilities by R468,6 million and a net surplus of R84,7 million was realised for the current financial year.

The basis assumes that sufficient funds will be available to finance future operational needs that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 32. Events after the reporting date

No subsequent events were identified by management.

### 33. Budget differences

#### Material differences between budget and actual amounts

- (a) **Sale of goods** - sale of goods relate to water sales. The budget was revised down from R771 million to R697 million because Covid-19 affected demand for water and tariff increases were not implemented because of withdrawal of approval to increase tariffs. The demand for water increased due to lockdown regulations which were changing from time to time, which resulted in budget for the year being exceeded by R33 million (actual water sales amounted to R730,2 million compared with budget of R697,2 million). Demand for water has been unpredictable during the year as a result of lockdown regulations.
- (b) **Management fees** - management fees were lower during the year because key projects where Magalies Water charges management fees were not progressing very fast and expenditure incurred on these projects was low, resulting in lower management fees being charged. In addition, the organisation was unable to source additional operations and maintenance contracts as planned, which also contributed towards lower management fees.
- (c) **Tender fees** - tender fees received exceeded budget for the year. Tender fee income is based on the number of tenders advertised as well as the number of suppliers buying tender documents. During the year there were more suppliers buying tenders documents resulting in tender fee income exceeding budget
- (d) **Cost recovery income** - cost incurred on employees that have been allocated to Swartdam project were lower during the year, resulting in lower cost recovery income.
- (e) **Other income** - other income is mainly commission or administration fees earned when the organisation administers payment process of employees' premiums. Variance between budget and actual is within acceptable range.
- (f) **Lab analysis** - lab analysis income is depended on customer requests for services. During the year requests for lab analysis services were slightly higher than anticipated at the time of budgeting and much higher than lab analysis in prior years, which was used as a base for budgeting.
- (g) **Deferred income** - deferred income is earned during the year exceed budget. The reason for more deferred income is because of additional capital contributions that were received during the year which were not included in the budget.
- (h) **Finance income** - finance income was higher than budgeted because of customers paying late for services provided. Higher interest was charged on customers with long outstanding debt, which have increased during the year.
- (i) **Government grants and subsidies** - the department provided grants that had not been budgeted for resulting in a positive variance.
- (j) **Personnel** - personnel cost is 1,9% above budget. The main contributor to over expenditure is the accrual for leave and accrual for bonus at year end, these expenses have not been paid but were accrued for at year end. The payments to employees were lower than budget due to vacancies or vacancies being filled late during the year.
- (k) **Depreciation and amortisation** - variance between actual amount and budgeted amount is not material.
- (l) **Impairment of assets** - impairment to the value of R8 415,59 was incurred during the year. The impairment was not known at the time of budgeting and no budget was made for impairment.
- (m) **Cost of sales** - cost of sales were higher than budget due to higher sales volumes which resulted in more raw water purchases and more water purification cost.
- (n) **General expenses** - there were savings on general expenses as a result of lockdown regulations where some activities were put on hold. There were savings in activities such as consulting fees, board and meetings cost, training and conferences cost, travel cost etc.
- (o) **Loss of disposal of assets** - assets that were no longer in a working condition were disposed of during the year, resulting in loss that was not budgeted.

## NOTES TO THE ANNUAL FINANCIAL STATEMENTS

Figures in Rand thousand

## Detailed Income Statement

## Revenue

## Revenue from exchange transactions

Sale of goods	13	730 211	738 188
Management fees	15	3 614	5 411
Tender fees	15	176	369
Rental income	15	267	227
Cost recovery income	15	395	524
Sundry income	15	245	509
Lab analysis	15	1 938	880
Deferred income recognised	15	17 011	15 546
Interest received	20	24 816	21 398

## Total revenue from exchange transactions

778 673 783 052

## Revenue from non-exchange transactions

## Transfer revenue

Government grants and subsidies	13	26 095	51 424
---------------------------------	----	--------	--------

## Total revenue

804 768 834 476

## Expenditure

Employee related costs	17	(100 597)	(96 682)
Depreciation and amortisation	18	(8 384)	(9 201)
Impairment of assets	2	(8)	-
Loss on disposal of assets	2	(202)	(830)
Sale of goods/Inventory	14	(529 646)	(480 919)
General Expenses	16	(81 136)	(77 367)

## Total expenditure

(719 973) (664 999)

## Surplus for the year

84 795 169 477