Joburg

Johannesburg Water

INTEGRATED ANNUAL REPORT 2018/19

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ANNUAL REPORT 2018/19

in terms of Section 121 of the Local Government: Municipal Finance Management Act, No. 56 of 2003
and
Section 46 and of the Local Government: Municipal Systems Act, No. 32 of 2000

Joburg

Johannesburg Water

JOHANNESBURG WATER (SOC) LIMITED

COMPANY INFORMATION:

Registration number	2000/029271/30
Registered address	17 Harrison Street Marshalltown Johannesburg 2107
Postal address	P O Box 61542 Marshalltown Johannesburg 2107
Telephone number	011 688 1400
Website	www.johannesburgwater.co.za
Bankers	Standard Bank of South Africa
Auditors	Auditor-General of South Africa

VISION

To be a water and sanitation utility that works.

MISSION

To provide all people of Johannesburg with access to quality water and sanitation services.

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ABBREVIATIONS AND ACRONYMS

AET	Adult Education Training
AGSA	Auditor-General of South Africa
AIDS	Acquired Immune Deficiency Syndrome
ARC	Audit and Risk Committee
ARPL	Artisan Recognition of Prior Learning
ATR	Annual Training Report
AWOL	Absence Without Leave
B-BBEE	Broad Based Black Economic Empowerment
BMI	Body Mass Index
Capex	Capital Expenditure
CDS	Central Database System
CIDB	Construction Industry Development Board
CJMM	City of Johannesburg Metropolitan Municipality
CoJ	City of Johannesburg
COBIT	Control Objectives for Information and Related Technologies
COSO	Committee of Sponsoring Organisations
CSD	Central Supplier Database
DIFR	Disabling Injury Frequency Rate
DWS	Department of Water and Sanitation
EAP	Employee Assistance Programme
ECSA	Engineering Council of South Africa
EE	Employment Equity
EEP	Employment Equity Plan
EISD	Environment, Infrastructure and Services Department
EME	Exempted Micro-enterprise
EPL	Employers Practices Liability
EPWP	Expanded Public Works Programme
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
ERWAT	East Rand Water Care Company
ESP	Expanded Social Package
EWSETA	Energy and Water Sector Education Authority
FMCG	Fast-moving Consumer Goods
GIS	Geographical Information System
GDPRT	Gauteng Department of Agriculture and Rural Development
GDS	Joburg 2040 Growth and Development Strategy
GFIS	Group Forensic and Investigative Services
GRAP	Generally Recognised Accounting Practice
GSAR	Gross Sickness Absenteeism Rate
HR	Human Resources
HIV	Human Immunodeficiency Virus
IIA	Institute of Internal Auditors
ICT	Information and Communications Technology
IDP	Integrated Development Plan
IIRC	International Integrated Reporting Council
IFRS	International Financial Reporting Standards
IMS	Information Management System
ISO	International Organisation for Standardisation
ISPPIA	International Standards for the Professional Practice for Internal Auditing

IT	Information Technology
ITIL	Information Technology Infrastructure Library
IVRS	Integrated Vaal River System
JRA	Johannesburg Roads Agency
JW	Johannesburg Water
MFMA	Local Government: Municipal Finance Management Act, No. 56 of 2003
MLD	Management Leadership Development
MRD	Meter Reading Department
MSA	Local Government: Municipal Systems Act, No. 32 of 2000
MTEF	Medium-term Expenditure Framework
MMC	Member of the Mayoral Committee
NEMA	National Environmental Management Act
NGO	Non-governmental Organisation
NOSA	National Occupational Safety Association
NPA	National Prosecuting Authority
NQF	National Qualification Framework
NRW	Non-Revenue Water
OECD	Organisation for Economic Cooperation and Development
PAIA	Promotion of Access to Information Act
PoPIA	Protection of Personal Information Act
PPPFA	Preferential Procurement Policy Framework Act, No 5 of 2000
PWD	People with Disabilities
QSE	Qualifying Small Enterprise
RFQ	Request for Quotation
RPL	Recognition of Prior Learning
SACNASP	South African Council for Natural Scientific Professions
SANS	South African National Standard
SCM	Supply Chain Management
SDA	Service Delivery Agreement
SDBIP	Service Delivery Budget Implementation Plan
SETA	Sector Education and Training Authority
SIC	Statement of Internal Controls
SLA	Service Level Agreement
SMME	Small, Micro and Medium Enterprises
SSC	Sustainable Services Cluster
TOD	Transit-oriented development
UCT	University of Cape Town
UIF	Unemployment Insurance Fund
ULP	Unlocking Leadership Potential
UPS	Uninterruptible Power Supply
USDG	Urban Settlement Development Grant
VIP	Ventilated Improved Pit
WAN	Wide Area Network
WDMS	Water Demand Management Strategy
WRC	Water Research Commission
WSA	Water Services Act
WSP	Workplace Skills Plan
WUL	Water User Licence
WWTW	Wastewater Treatment Works

ABOUT THIS REPORT

Johannesburg Water, a municipal entity wholly owned by the City of Johannesburg (CoJ), is pleased to present its Integrated Annual Report for the period 1 July 2018 to 30 June 2019

This report aligns with best practice in integrated reporting. It includes the principles of integrated reporting contained in the international Integrated Reporting Council (IIRC) Framework, published by the IIRC in December 2013, and is guided by various codes and standards including the King IV Report on Corporate Governance for South Africa, and the accompanying Code on Corporate Governance for South Africa.

Johannesburg Water has applied Circular 63 of the Municipal Finance Management Act, No. 56 of 2003 (MFMA), issued by National Treasury, in the preparation of the Integrated Annual Report. The circular prescribes the content municipalities should cover in their annual reports. The 2018/19 Integrated Annual Report provides all the required data and tables.

To comply with local and international sustainable reporting best practice guidelines, the report also takes financial, social and economic factors into account in reporting on Johannesburg Water's operations. The guidelines applied include the following:

- Reporting requirements as per the MFMA Circular 63
- The South African Statements of General Recognised Accounting Practice (GRAP)
- Section 46(1) of the Municipal Systems Act, No. 32 of 2000.
- The IIRC's Integrated Report Framework
- The King IV Report on Corporate Governance for South Africa
- National Treasury Guidelines and Regulations

Johannesburg Water's outcomes are aligned with those set out in the CoJ's 2016–2021 Integrated Development Plan (IDP) and the Joburg 2040 Growth and Development Strategy (GDS), the collective and shared vision for the future of Johannesburg.

Basis of preparation and presentation

Materiality in relation to the inclusion of information in the report refers to matters that could substantively affect the organisation's ability to create value over the short, medium and long term.

Johannesburg Water has premised its framework under two main categories: quantitative and qualitative materiality.

Quantitative materiality

Detailed in the table below are financial indicators that are indicative of the type of indicators widely used and accepted in the accounting profession as a basis for calculating materiality.

Element	Range to be applied
Gross profit	1–2%
Net profit	2–5%
Total assets	0.5–2%
Total revenue	0.25–1%

Johannesburg Water has assessed its operational activities in terms of the above indicators. Based upon the understanding of the nature of the operations, it is our opinion that the categories stated below reflect the material classes of transactions more accurately for the entity in determining the 2018/19 materiality.

Element	Range to be applied	Minimum	Maximum
Gross profit	1–2%	R60 million	R119 million
Net profit	2–5%	R28 million	R69 million
Total assets	0.5–2%	R69 million	R278 million
Total revenue	0.25–1%	R29 million	R116 million

The nature of the business was considered in determining the materiality levels. The following factors were considered:

- Gross profit incorporates the service charges and the bulk purchases. The gross profit highlights the performance of the main function of Johannesburg Water and gives a good indication of the financial health of the company.
- The company operates as a subsidiary of the CoJ and is part of the local sphere of government. The size of the budget is therefore a critical indicator of delivery of services . Materiality was therefore also considered by looking at the net profit that summarises the operational revenue and expenditure budget for the year.
- Johannesburg Water's main function is to provide water and sanitation services to the residents of Johannesburg through the bulk infrastructure. It was therefore appropriate to consider total asset value in determining materiality.
- The generation of service revenue is a key objective of the company due to it being the key source of funding the infrastructure used to provide services.

The overall materiality level was determined to cover all ranges of the elements listed above. The maximum level was determined to be R69 million, based on the net profit, and the same level was determined as a minimum based on total assets. This therefore represents an appropriate level to be used. This level is within the lower range of the other two elements. This encourages accountability for the company and promotes good governance. The overall materiality was set at R69 million for the 2018/19 financial year (2017/18: R52 million), which represents a fair representation of quantitative materiality.

Qualitative materiality

Materiality is not only related to the size of the entity and the elements of its financial statements. Misstatements that are critical either individually or in the aggregate may have a material effect on the company.

Qualitative materiality premised on the company's risk assessment is set as follows:

- Any item or event for which specific disclosure is required by legislation, the King IV Report or accounting standards
- Any fact discovered of which its omission or misstatement, in the Board's opinion, could influence the decisions or actions of the executive authority or Council
- Any matter that could substantively affect the organisation's ability to create value over the short, medium and long term
- Any participation outside of the approved strategic plan
- All losses in respect of criminal conduct
- Any criminal or disciplinary steps taken as a consequence of such losses
- Any material irregular expenditure, and fruitless and wasteful expenditure

Assurance process for the Integrated Annual Report

The Board, assisted by the Audit and Risk Committee (ARC), Human Resources and Social and Ethics Committee, and the Service Delivery, Procurement and Information Communications and Technology Oversight Committee, is ultimately responsible for the integrity and completeness of the Integrated Annual Report and any supplementary information. The Board has applied its collective mind to the preparation of the Integrated Annual Report and has concluded that it is presented in accordance with the applicable legislation and the International Integrated Reporting Framework.

The Board considered the 2018/19 Integrated Annual Report, together with the annual financial statements, taking into account the completeness of material items it deals with and the reliability of information presented in line with the combined assurance process.

Legislative and policy sources for the framework

In compiling this report, the following were taken into account:

- Local Government: Municipal Finance Management Act, No. 56 of 2003
- National Treasury Circular 63
- Principles of Generally Recognised Accounting Practice
- Section 46(1) of the Local Government: Municipal Systems Act, No. 32 of 2000 (MSA)
- King IV Code on Corporate Governance
- Discussion papers issued by the South African Integrated Reporting Committee and the International Integrated Reporting Council
- International Financial Reporting Standards (IFRS)
- Millennium Development Goals
- Joburg 2040 Growth and Development Strategy
- Integrated Development Plan

*A leader is one who knows the way,
goes the way, and shows the way.*

John C. Maxwell

CHAPTER 1

LEADERSHIP AND CORPORATE PROFILE

Stakeholders impacted: Shareholder, Communities and Business
Response to Strategic Goal 4

SECTION 1: FOREWORD BY MEMBER OF THE MAYORAL COMMITTEE

Over the past three years, I have witnessed positive growth and an upwards trajectory in Johannesburg Water's performance. This entity's positive change was not only on the implementation of capital projects, but also as far as service delivery objectives was concerned. This change did not only affect the delivery of improved services to our clients, but also contributed to the positive financial sustainability of Johannesburg Water. Johannesburg Water has taken a positive step with the finance team of the CoJ to take collective responsibility and joint accountability for the billing and revenue process.

With that in mind, it gives me great pleasure to submit the Johannesburg Water 2018/19 Integrated Annual Report covering the period 1 July 2018 to 30 June 2019. This report tracks the performance of the entity in relation to the 2016–2021 IDP, the 2018/19 Service Delivery and Budget Implementation Plan (SDBIP) and the GDS.

The Integrated Annual Report deals with the water and sanitation aspects of service delivery within the CoJ. As a pro-poor government, we cover aspects of service delivery to marginalised communities, adhere to compliance standards, the development of small, micro and medium enterprises (SMME), the monitoring of expenditure of the capital budget, stakeholder engagement, responsiveness to infrastructure failure and the financial performance of the municipal entity.

Across the country, municipalities are consistently faced with the triple challenge of unemployment, poverty and inequality. The challenge we are faced with as municipalities across the country is how to balance service delivery of the same quality to all paying residents and to those that cannot afford to pay for services.

It is in view of this that Johannesburg Water continues to prioritise socio-economic empowerment through the creation of an enabling environment, which culminated in the development and support of 120 SMMEs. In addition to this, the entity continues to roll out and implement its infrastructure projects, which simultaneously created 2 630 job opportunities as part of the Expanded Public Works Programme (EPWP).

During the fiscal year under review, Johannesburg Water spent 99.7% of its capital budget of R929 million. This is a clear indication of our capability to spend in order to ensure that service delivery is not compromised in any way.

Our biggest investment of R460 million went to the Infrastructure Upgrade and Renewal Portfolio to enhance infra-

The challenge we are faced with as municipalities across the country is how to balance service delivery of the same quality to all paying residents and to those that cannot afford to pay for services.

structure performance, thus ensuring that customers are not frequently interrupted by water bursts and sewer blockages.

It is worth noting that, despite this positive trajectory, the road was not a smooth one on the project implementation side due to a number of community protests and "conditional requirements" by business forums.

In order to overcome this, we have placed high value on public participation through various stakeholder engagement platforms to create a sense of ownership and ensure that the communities feel that they are part of these projects, which were implemented to improve their livelihoods and quality of living.

The entity has done very well in achieving most of the strategic goals and objectives detailed in the Business Plan, the IDP, the SDBIP, and the Service Delivery Agreement (SDA) with the Shareholder. I must admit that this would not have been easy to achieve without building seamless and streamlined collaborations with the various role players. Despite the fact that we have done very well in most areas of the business, challenges were encountered.

However, more interventions have been put in place to turn these challenges into development opportunities as we enter the new fiscal year.

I am pleased to report that both the Board of Johannesburg Water and the management team were most accommodating to make my job easier in reporting to the CoJ's Environment, Infrastructure and Services Department (EISD), Section 79 Oversight Committee, Mayoral Committee and the Council.

I am confident that I have executed my responsibility in ensuring that the objectives and budget in the company's Business Plan are strictly aligned to the CoJ's IDP.

As I look forward to the task ahead, I would like to thank the Board for its commitment in achieving the goal of improving the lives of our people, and the Metropolitan Municipality for the support given to the entity. I would further thank the hard-working managers and their teams at Johannesburg Water who, despite all challenges, continue to focus on the task at hand. I am, together with the team, geared up and ready to tackle new challenges as we take on this task in the new financial year.

I thank you.

Councillor Nico de Jager
Member of Mayoral Committee (MMC)
Environmental and Infrastructure Services Department
City of Johannesburg
27 November 2019

SECTION 2: FOREWORD OF THE THE CHAIRMAN

It is my great pleasure to present the Integrated Annual Report for the financial year 2018/19. This report is meant to communicate how the organisation's strategy, governance, performance and prospects lead to the creation of value in the short, medium and long term. The year under review remained challenging for the water sector from a global perspective. Climate change is having and will continue to have a significant impact on the availability and demand for water resources worldwide. It is now more critical than ever how we manage our water demand in order to achieve our goals. Any threat to the stability of water supply or capacity to treat wastewater is a problem for the water sector that necessitates planning and response.

The global economy continues to be in tumult, with interest rates on the rise, a high unemployment rate, rising inequalities and turbulent inflation. These events have put the water consumer in a difficult position to keep up with the pace of rising costs. As a result of this, our payment levels have been negatively impacted on. Financial sustainability is very critical to the entity's ability to achieve its strategic objectives.

Business overview

The key drivers of the business are the company's six strategic goals:

- Utilise infrastructure delivery to create jobs, support SMMEs and attract investment
- Deliver water and sanitation of good quality that is accessible, reliable and efficient in an environmentally responsible and sustainable way
- Improve customer and stakeholder satisfaction
- Enhance sound financial management, sustainability and clean governance
- Use technology for effective and efficient operations
- Invest in our staff to sustain optimal performance and a service-focused culture with committed people

Johannesburg Water achieved overall good results, indicating that we are on track to achieve our strategic goals in service delivery. However, it should be noted that challenges were experienced in the strategic goals of improving customer and stakeholder satisfaction, and the use of technology for effective and efficient operations. Mitigations are already in place to ensure improvement in these areas. The capital allocation enabled the organisation to meet the capital plans for the year, as well as to make adequate preparations in readiness for the following year, particularly in areas where projects require longer lead times. The positive results could not be achieved without the dedication and diligence of the management and staff.

Sustainable development

The company is committed to conducting business with the highest standards of professional ethics, integrity, and compliance with applicable legislation. Over the last few years, a concerted effort has been made to heighten the focus on social and ethical matters. As a responsible corporate citizen, Johannesburg Water is committed to treating its employees, customers and other stakeholders in an ethical and fair manner. The Board remains the focal point and custodian of corporate governance within the company.

The provision of water and sanitation services to which the company is entrusted, demands that it conducts its operations in way that promotes greater environmental responsibility.

Key to entrenching such responsibility is the prioritisation of wastewater infrastructure maintenance in order to ensure that the treatment processes comply with the Water User License (WUL) conditions issued by the Department of Water and Sanitation (DWS). We have also accelerated the Water Demand Management Strategy (WDMS) to comply with the allocation of the water abstraction licence.

Future focus

The year ahead presents its own challenges and opportunities, which we believe are not insurmountable. The biggest focus will be to fast track the eradication of the infrastructure backlog. Johannesburg Water will continue with its infrastructure upgrade and renewal programme to meet the needs of a growing city and the increasing demand for services by our communities.

We aim to maintain the level of service where it is already acceptable and improve in areas where they are still below acceptable levels, in particular in the marginalised areas.

Conclusion

My gratitude goes to my colleagues, especially those who have retired and who have spent a long time on the Board. We are grateful for their dedication and contribution to the success of the organisation. Let me also welcome the new members who joined us since the 2019 Annual General Meeting and who, together with my continuing Board colleagues, are looking forward to being part of the team and serving Johannesburg Water to the best of their abilities.

Lastly, we acknowledge the support given by MMC for the Environment, Infrastructure and Services Department, Councillor Nico de Jager, Group Governance, for guidance, as well as the Shareholder for entrusting us with the company.

Ms Getty Simelane
Chairman of the Board
27 November 2019

SECTION 3: REPORT OF THE **MANAGING DIRECTOR**

Johannesburg Water is a municipal-owned entity, whose powers and functions are devolved through the SDA with the parent municipality. The year under review presented much-improved performance in most areas of the business, including those at strategic level, when compared to the 2017/18 financial year. A brief synopsis of our performance against some of the key areas of the business, coupled with progress on the national strategic empowerment initiatives, are outlined below.

Financial performance

The revenue for the year was R11.7 billion, which is R1.6 billion more from the R10.1 billion achieved in the 2017/18 financial year. This revenue is made up of basic water sales of R7.4 billion (2017/18: R6.3 billion) and basic sanitation services of R4.3 billion (2017/18: R3.8 billion). Borrowings for the year to fund capital expenditure was R502 million.

The financial position of the organisation has improved with current and solvency ratios of 1.09 and 2.37 respectively. The former was mainly affected by the declining payment levels. This is evident throughout the entity's critical financial indicators. In May 2019, the Group Finance Department deployed a Billing Improvement and Financial Sustainability Strategy to improve payment levels. The results of this initiative should be visible in the next financial year.

Infrastructure upgrading and renewal

The company managed to spend 99.7% of its allocated capital budget. This is a clear indication that service delivery was not compromised.

Our infrastructure is gradually ageing and the entity remains with backlog challenges in respect of water and sewer pipes replacement. The entity managed to replace 131.6 km of water pipes and 42.8 km of sewer pipes against the targets of 80 km and 42 km, respectively. A positive trend in terms of the sewer pipe replacement is also visible through improved response times as reflected below.

The response time for water pipe bursts repaired within 48 hours of notification was 90.53% against the target of 95%, while the corresponding sewer blockages cleared within 24 hours of notification was 95.57% against a target of 96%. Through a productivity study, the company has identified areas that need to be addressed in order to improve on the response times, especially with respect to water bursts.

Procurement and small business development

The total spend on SMME procurement was R182.3 million (2017/18: R142 million) with a broad-based black economic empowerment (B-BBEE) recognition of 126% (2017/18: 126%) against a target of 125%. The SMME spend target has been met for the year under review. The entity's procurement spend for all supplier categories for the year under review was R367 million (2017/18: R320 million) with a B-BBEE recognition level of 97% (2017/18: 100%).

Employment equity

The percentage of staff designated as people with disabilities (PWD) was 3.87% (2017/18: 3.93%) against a target of 3.93%, while the corresponding measure to address the gap on the company's employment of females was 29.97% (2017/18: 28.84%) against a target of 30.47%. These numbers signify the company's commitment to employment equity and is in line with the national strategic objectives and governing legislation. While marginal variances have been noted on the performance above when compared to the targets, it is worth noting that the achievements are in line with the company's targets for the Employment Equity Plan (EEP). The company's targets were higher than those set on the national EEP. A number of interventions have been put in place to ensure that these stretched targets can be achieved in the next financial year.

Other matters

Related parties are restricted to the CoJ through the cluster system and there is no sharing of power or functions with these entities, nor the EISD.

The entity achieved a resolution rate of 89% on the audit findings of the Auditor-General of South Africa (AGSA). This is a significant achievement when compared to that of the previous financial year of 79.2%. The resolution rate on internal audit matters was 78%, which is an improvement on the 74.4% of the previous financial year. However, the state of internal control remained adequate, but ineffective. The entity explored various mechanisms to bring about improvement in this area. During the 2017/18 financial year, the entity achieved an unqualified audit opinion. The AGSA has again expressed an unqualified audit opinion for the period under review.

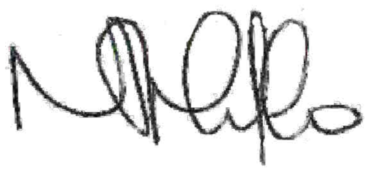
The top management changes are the retirement of the Executive Manager: Governance and Legal Services and the appointments of Chief Operations Officer and Financial Director. The process to fill other vacant executive manager positions has commenced.

Risk assessment, including the development and implementation of measures to mitigate the top five risks, was monitored on a quarterly basis and reported to the Board.

Looking forward and appreciation

We need to expand the capacity of our wastewater treatment works with an additional 50 Ml in the next three years, which will support an additional 50 000 household equivalent. In addition, we will be looking at increasing the reservoir storage capacity to 59 Ml, which will support an additional 57 750 household equivalent. Our compliance level in terms of wastewater treatment closed at 78%. This has negative implications. Therefore, the entity will be looking to improve the compliance level to 90%.

My thanks go to the Board, the management team and the entire staff of Johannesburg Water for upholding the service delivery imperatives of the Shareholder over the past year. Going into the 2019/20 financial year, we are excited about addressing challenges encountered during the year under review; and our new focus into action will ensure that we put a smile on the faces of those we serve. There can be no doubt that we have the ambition to thrive in what we do.



Ntshavheni Mukwevho
Managing Director
Johannesburg Water
27 November 2019

SECTION 4: REPORT OF THE **FINANCIAL DIRECTOR**

The strategic priorities for the current financial year were revenue management, financial management and financial sustainability. The outcomes of these priorities are contained in this report.

The South African economy produced growth figures that were consistently below planned expectations during the period under review. This factor continued to place increasing financial pressure on the wider economic citizenry, and Johannesburg Water was impacted on by these conditions. Despite the negative economic climate, the entity reflected a surplus of R1.75 billion for the financial year ending 30 June 2019. This compared favourably to a budgeted surplus of R1.3 billion, reflecting a material positive variance, which compares well with the surplus of R1.4 billion achieved during the previous financial year.

The entity reflected a growing positive bank balance through the CoJ's sweeping account with a balance of R375 million. This was in view of a budgeted balance of R307 million. This is a material improvement on the prior year's closing balance of R107 million. Tight Treasury controls with increased levels of interaction with the CoJ to ensure the implementation of working capital efficiencies contributed to the higher cash balance at year-end. The entity is proud to announce that capital expenditure of 99.7% (R927 million) was realised, compared to a budget (R929 million) for the 2018/19 financial year. This achievement can be attributed to increased efforts in planning procedures and increased efficiencies in the procurement process.

Financial performance overview

The key financial performance indicators are summarised in Table 1.

Table 1: Financial performance

	2017 (R'000)	2018 (R'000)	2019 (R'000)	Percentage change to prior year	2019 budget (R'000)
Revenue	R8,501,222	R10,088,096	R11,718,323	16.16%	R11,585,560
Bulk purchases	R4,259,064	R4,799,538	R5,593,972	16.55%	R5,624,094
Gross margin	R4,242,158	R5,288,558	R6,124,351	15,80%	R5,961,466
Other income	R418,584	R534,305	R483,588	-9.49%	R203,704
Operating cost and interest	R4,477,704	R4,454,781	R4,854,214	8.97%	R4,913,690
Net profit	R183,038	R1,368,082	R 1,753,725	28.19%	R1,251,480

The revenue of R11.7 billion is indicative of a 16% increase on the prior year and compares favourably to the budget of R11.6 billion. The positive growth can mainly be attributed to increased efforts in meter reading, which resulted in consumers being billed regularly on actual meter readings, as well as the implemented tariff increase of 9.9%. The continuous improvement in the number of meters with actual meter readings was a key priority for the past financial year and we achieved an 88.7% success rate, reflecting an 8% increase on the 83% baseline from the previous financial year. The persistent efforts in improving the meter readings directly affected the ability of the entity to increase revenue. It thus remains a strategic agenda item for the next financial year.

Bulk purchases increased by 16.6% to R5.6 billion. However, this is in line with the expected budget of R5.6 billion. The factors that influenced bulk purchases are the Rand Water tariff, as well as increased consumer patterns, which slowly showed signs of recovery after the 2016 water restrictions.

The gross margin was marginally higher than planned at 52% and consistent with the prior year. Operating expenditure increased by 9% to R4.8 billion for the current financial year due to normal inflation-related increases and a larger contribution to the bad debt contribution based on payment levels. Continuous cost control measures are required to manage expenditure within budgeted levels.

The payment levels worsened, which gave rise to increased provision for doubtful debts required. The contribution to the provision was R2 billion, of which a budget of only R1.7 billion was available. Savings on operating expenditure elsewhere were utilised to compensate for the increase in the required provision. This item remains a concern for the entity and more stringent enforcement of the Service Level Agreement (SLA) with the CoJ's Revenue Shared Services Centre in terms of credit control measures will be required in an attempt to improve consumer payment levels and thus reduce the provision for doubtful debt.

Salaries were well contained and comprised 23% of total operating expenditure, which compares extremely well to the National Treasury benchmark of 30%. The key financial ratios are reflected in Table 2.

Table 2: Key financial ratios

Operating risk indicators	2017	2018	2019	Percentage change
Rate of return on assets	1.82	12.91%	15.44%	19.58%
Debtors collection period	82.3	84.34	89.67	6.32%
Bad debts as a percentage of revenue	22.57%	18.23%	17.44%	-4.35%
Current ratio	0.67	0.82	1.09	32.61%
Interest cover	7.81%	7.39%	5.72%	-22.63%
Debts to asset ratio	0.27	0.26	0.24	-5.89%
Cash cover (in days)	5	4	13	2.09%

Successful and unsuccessful initiatives

During the year, the entity successfully implemented the Revenue and Metering Project with a resultant additional invoicing of R116 million. However, the initiative to reuse old pre-paid meters as conventional meters was unsuccessful, resulting in them being written off.

Future outlook

The entity plans to continue building on the positive results achieved during the previous two financial years with a budgeted surplus of R1.5 billion, as well as improved cash at hand, forecasted for R564 million by 30 June 2020, with the objective of improving cash cover to 90 days over the longer term.

The accelerated capital expenditure trend is anticipated to continue for the new financial year, and it is likely that a motivation will be submitted to request an additional capital budget to supplement the current capital budget of R1 billion. The percentage of non-revenue water at 38.6% remains higher than the accepted norm and the entity continues to focus on reducing this factor.

I would like to take this opportunity to thank the Johannesburg Water Board, the Board committees and the Executive Committee members for their unwavering support throughout the financial year. Their commitment was reflected in the positive outcomes achieved by the entity.

Johan Koekemoer
Financial Director
27 November 2019

SECTION 5: **CORPORATE PROFILE AND OVERVIEW OF THE ENTITY**

Vision

To be a water and sanitation utility that works.

Mission

To provide all the people of Johannesburg with access to quality water and sanitation services by doing the following:

- Delivering a professional, sustainable, affordable and cost-effective service
- Upgrading services in marginalised areas (pro-poor development)
- Creating a customer-focused culture that responds to the needs of citizens, customers and business
- Valuing and developing its employees to build a sustainable capacity
- Safeguarding public health and safety within the CoJ
- Preserving natural resources for future generations
- Managing assets and leveraging on technology

Values

- We value and promote **Teamwork**
- We take **Accountability** for our individual and team performance
- We deliver a **Customer Service** that we have promised
- We ensure that **Communication** with our stakeholders is a priority
- We build **Cost Effectiveness** in our business activities

Core mandate

Johannesburg Water SOC Ltd was incorporated on 21 November 2000 and commenced business on 1 January 2001.

Johannesburg Water is a municipal entity, wholly owned by the CoJ and is mandated to provide water and sanitation services to the residents of Johannesburg.

The company's strategic objectives are linked to the Shareholder's objectives through the SDBIP and cluster plans whereby Johannesburg Water is assigned to the Sustainable Services Cluster. In addition, the relationship between the company and the Shareholder is governed through the SDA, which is reviewed from time to time and prescribes the company's mandate.

The entity provides services to an area stretching from Orange Farm in the south to Midrand in the north, Roodepoort in the west and Alexandra in the east. The entity has no competitors to the services offered.

However, it should be noted that the provision of water and sanitation services were ranked number one and number two, respectively in the 2018 CoJ Customer Satisfaction Survey.

The company employs 2 716 people and functions within six operating regions, with ten network depots and six wastewater treatment plants.

The entity supplies 1.6 billion litres of potable water per day, procured from Rand Water, through a water distribution network of 12 288 km, 127 reservoirs and water towers, and 37 water pump stations. Wastewater is then collected and reticulated via 11 710 km of wastewater networks and 38 sewer pump stations. Johannesburg Water treats 926 Ml per day of sewage at its six wastewater treatment works (WWTW), which includes two of its biogas-to-energy plants, where methane gas is converted to energy.

Demographics of Johannesburg

Gauteng is the fastest-growing province in the country, with Johannesburg contributing an estimated 5.05 million people to the total population of the province. Currently, there are at least 3,000 people migrating into the city every month. The influx of people has contributed to a city population growth rate averaging 3% over the past 10 years.

This is double that of the national average, with Johannesburg's population doubling since 1996. It is estimated that Johannesburg's population could reach 5.3 million by 2021. This requires sufficient plans for the CoJ to deal with the challenges of an increasing city population, according to the CoJ 2018/19 IDP Review.

Significant factors affecting the external environment

During the year under review, load shedding was implemented due to limited power generation, which impacted on the entire country. The impact for Johannesburg Water was that water supply was interrupted in areas where water needed to be pumped into supply towers or directly into the network. Although the water interruption was not more than two hours at a time in the majority of the areas, challenges were experienced in the Crosby and Brixton reservoir supply areas. In these areas, load shedding resulted in water interruptions of longer than eight hours in some cases.

These two reservoir complexes are linked in that water is pumped from the Crosby Reservoir to the Brixton Reservoir and then from the Brixton Reservoir to Brixton Tower. Since both complexes were on the same load-shedding schedule, water could not be pumped from Crosby to Brixton and to the tower. This resulted in the Brixton Reservoir running low. Once power was restored, the reservoir had to recover before pumping could commence to the tower. This led to water outages for more than eight hours in the tower area. Long-term mitigation measures are discussed in Chapter 3.

Figure 1: Regions

Johannesburg Water depots and CoJ regions

	Johannesburg Water depots	CoJ regions
	Midrand	A and E
	Randburg	A, B, C and E
	Zandfontein North	A, B and E
	Zandfontein South	B, E and F
	Hamburg	B and C
	Langlaagte	B, C and F
	Southdale	F and G
	Klipspruit	C, D and F
	Avalon	D and G
	Ennerdale	G

Ethics statement

The Board of Directors has adopted a Board Charter, which encapsulates the CoJ's Governance Protocol and includes matters of ethics, procedure and the conduct of Board members. Further to the Charter, the Board's Human Resources and Social and Ethics Committee maintains oversight of the company's activities in a way that ensures that it remains a responsible and ethical employer, while ensuring that its constituent communities are treated fairly.

The company has a code of conduct (the Code) that has been fully endorsed by the Board and applies to all directors and employees. The Code is consistent with Schedule 1 and Schedule 2 of the Local Government: Municipal Systems Act, No. 32 of 2000 and, inter alia, prescribes that all employees and directors should act with utmost integrity and objectivity and in compliance with the letter and spirit of both the law and company policies. In addition to the Code, management is responsible for the submission of all policies to the Board for review and/or approval and accounts to the Board in respect of policies designed to achieve effective ethics management. Company policies are reviewed and updated regularly to ensure that they reflect the highest standards of ethics, behaviour and professionalism.

Any breach of the Code or policies is considered a serious offence and is dealt with accordingly. As a result, the Code and policies serve as deterrents. Non-adherence to the Code, company policies and to ethical standards can be reported anonymously through a telephone facility managed by the CoJ.

Furthermore, all employees are required to declare their interest each year and a register is circulated at every Board meeting and Board Committee meeting for the directors to declare any interest related to every matter discussed at a particular meeting. These and other related initiatives contribute to the entrenchment of accountability, which in turn promotes an ethical culture.

Johannesburg Water consistently operates in a manner that endeavours to minimise detrimental impacts on society and the environment. Its social responsibility activities are aligned to the ten principles of the United Nations Global Compact, the recommendations of the Organisation for Economic Cooperation and Development (OECD) and the provisions of the Companies Act, No. 71 of 2008, which asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption. During the year under review, areas such as the environment, anti-corruption, and enterprise development remained among the key focus areas to which the company paid particular attention. The company will continue to focus on these areas, but will endeavour to broaden its focus to include stakeholder relations, employment equity and B-BBEE.

The Board's social and ethical awareness serves as a framework and focused guide in support of day-to-day decision making regarding ethical conduct within the company, and underscores its commitment to promoting and maintaining an ethical culture.

SECTION 6: **STRATEGIC OBJECTIVES AND GOALS**

Johannesburg Water's vision is to become a water and sanitation utility that works. To deliver on this vision, Johannesburg Water links its six strategic goals to the revised strategic course of the Shareholder, as outlined in the IDP.

In addition, the entity has taken cognisance of King IV's principles 4 and 5, which postulate that the governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process, and that the governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short-, medium- and long-term prospects. Table 3 indicates the short-, medium- and long-term goals.

Table 3: Strategic goals

Short-term goals

Replace and renew infrastructure	Increase access to services	Understand our customer and stakeholder needs	Establish the customer base	Gaining efficiencies and service quality through IT standardisation	Motivated employees

Medium-term goals

Expand infrastructure to increase capacity	Maintain a high level of access to services of good quality	Establish our customer and stakeholder satisfaction needs.	Convert all consumers into customers	Managing IT like a business; customer-focused; proven; competitive and trusted service provider	High-performance culture inculcated

Long-term goals

Utilise infrastructure delivery to create jobs, support SMMEs and attract investments	Deliver water and sanitation services of a good quality that is accessible, reliable and efficient in an environmentally responsible and sustainable way	Improve customer and stakeholder satisfaction	Enhance sound financial management, sustainability and clean governance	Use of technology for effective and efficient operations	Invest in our staff to sustain optimal performance and a service-focused culture with committed people

Impacted outcome

Jobs created SMMEs developed	Access to quality services	Stakeholder satisfaction	Sound financially stable entity	Effective and efficient entity	Productive workforce

The short-term performance achievements and target outcomes are measured through the Balanced Scorecard. The medium-term achievements and target outcomes are measured through the mid-term scorecard. The long-term achievements and target outcomes will be measured in 2020/21 at the end of the 2016/21 IDP period.

The Mayoral priorities in Table 4 have been considered in developing the company's strategic objectives and goals.

Table 4: Mayoral priorities

Priority 1	Promote economic development and attract investment towards achieving 5% economic growth that reduces unemployment by 2021
Priority 2	Ensure pro-poor development that addresses inequality and poverty, and provides meaningful redress
Priority 3	Create a culture of enhanced service delivery with pride
Priority 4	Create a sense of security through improved public safety
Priority 5	Create an honest and transparent city that fights corruption
Priority 6	Create a city that responds to the needs of citizens, customers, stakeholders and businesses
Priority 7	Enhance our financial sustainability
Priority 8	Encourage innovation and efficiency through the Smart City Programme
Priority 9	Preserve our resources for future generations

For ease of implementation and reporting on the Mayoral priorities, the shareholder has divided the IDP into clusters, with the Sustainable Services Cluster (SSC) being the one applicable to Johannesburg Water. The SSC's deliverables are affiliated with all the above priorities, except Priority 4.

Johannesburg Water has developed the following strategic goals that align to the CoJ's strategic direction and the achievement of game changers, which, when translated into Setswana, means "Diphetogo", to address the Mayoral priorities.

Table 4.1: Alignment of Mayoral priorities, game changers and strategic goals

STRATEGIC GOAL	CITY PRIORITY AND GAME CHANGER		
Strategic Goal 1 Utilise infrastructure delivery to create jobs, support SMMEs and attract investments	**Priority 1** Promote economic development and attract investment towards achieving 5% economic growth that reduces unemployment by 2021.	**Priority 2** Ensure pro-poor development that addresses inequality and poverty, and provides meaningful redress	**Diphetogo – game changer** Jobs, infrastructure and economic development
Strategic Goal 2 Deliver water and sanitation of good quality that is accessible, reliable and efficient in an environmentally responsible/ sustainable way	**Priority 3** Create a culture of enhanced service delivery with pride **Priority 9** Preserve our resources for future generations	**Priority 6** Create a city that responds to the needs of citizens, customers, stakeholders and businesses	**Diphetogo – game changer** Jobs, housing and infrastructure
Strategic Goal 3 Improve customer and stakeholder satisfaction	**Priority 3** Create a culture of enhanced service delivery with pride **Priority 9** Preserve our resources for future generations	**Priority 6** Create a city that responds to the needs of citizens, customers, stakeholders and businesses	**Diphetogo – game changer** Jobs, housing and infrastructure
Strategic Goal 4 Enhance sound financial management, sustainability and clean governance	**Priority 5** Create an honest and transparent city that fights corruption	**Priority 7** Enhance our financial sustainability	**Diphetogo – game changer** Finance
Strategic Goal 5 Use of technology for effective and efficient operations	**Priority 8** Encourage innovation and efficiency through the Smart City Programme		
Strategic Goal 6 Invest in our staff to sustain optimal performance and service-focused culture with committed people	**Priority 3** Create a culture of enhanced service delivery with pride		

Value creation

In 2011, the CoJ committed to building a promising future for the communities of Johannesburg. Through an intensive consultative process, the CoJ and its people adopted a Growth and Developmental Strategy (GDS 2040) that reflected the aspirations of a city that is liveable, sustainable and resilient. These aspirations were solidified in the 2016–2021 IDP. These plans are executed on an annual basis through the SDBIP, which is informed by the annual city priority programmes.

Johannesburg Water has set out its business model with inputs, business processes and outputs in line with principles 4 and 5 of the King IV report. Figure 2 demonstrates the value creation process in support of the CoJ's strategy. It further describes how we create value for our stakeholders through our core processes, and deliver on our mandate.

As part of our business ethos, the entity recognises the interdependencies between the business and a range of inputs that include human, social and natural capital. In turn, the business delivers meaningful impact on society and its various communities that goes beyond mere financial performance. The value creation process is linked the entity's SDBIP and GDS performance. The resource plans for implementing the strategy are detailed in chapters 3 and 4.

Johannesburg Water's business model is premised on the need to provide water and sanitation services, while providing the Shareholder with a revenue stream. The value proposition is to provide potable water and sanitation services to formal and informal households, as well as business and industries. The company has defined communication channels and the relationship is premised on the annual IDP public participation process, which holds the company accountable to these communities served as required by legislation. The company has achieved this through key activities supported by key resources. Rand Water Board, City Power, Eskom and DWS are valued as four key partners. At the beginning of the year, the company committed to produce revenue of R11.585 billion, while keeping its cost at R10.4 billion, aiming at a gross margin of 51.5% and profit before bad debts of R2.855 billion as shareholder value. The financial results are discussed in Section 4 of Chapter 1.

Figure 2: Johannesburg Water value-creation process

JOHANNESBURG WATER'S **VALUE-CREATION PROCESS**

Inputs

MANUFACTURED CAPITAL
- 12 069 km of water distribution networks
- 11 621 km of wastewater networks
- networks
- 127 reservoirs and water towers
- 37 water pump stations
- 38 sewer pump stations.
- 6 wastewater treatment works.

INTELLECTUAL CAPITAL
- Joburg 2040 GDS strategy
- Integrated Development Plan 2016–2021
- Smart City Strategy
- City reputation, branding and investment attraction potential
- Specialist knowledge and resources (e.g. resource planning and management)
- The community-based planning programme
- Business Plan.

HUMAN CAPITAL
- 2 645 skilled employees
- Staff retention stands at 98%
- 43.61 hours of training per employee

SOCIAL AND RELATIONSHIP CAPITAL
- Residents and rate payers
- Vulnerable communities
- Targeted stakeholder groups (e.g. women, youth and the elderly)
- Media, NGOs and academic stakeholders
- Cooperative relationship with the Shareholder

NATURAL CAPITAL
Natural resources consumed:
- Water
- Energy (electricity and fuel)

VISION
Johannesburg Water's vision is to be a water and sanitation utility that works.

MISSION
To provide all City of Johannesburg citizens with quality water and sanitation services by:
- Delivering a sustainable, affordable and cost-effective service
- Upgrading services in marginalised areas
- Creating a customer-focused culture
- Valuing and developing employees to build sustainable capacity
- Safeguarding the health and safety of Johannesburg Water's employees, contractors and the general public
- Improving the protection of the environment
- Managing assets and leveraging technology to enhance the level of security and quality of supply

CORPORATE VALUES
- We value and promote teamwork
- We take accountability for our individual and team performance
- We deliver a customer service that we have promised
- We ensure that communication with our stakeholders is a priority
- We build cost effectiveness in our business activities

CONTEXT
- Six national outcomes
- Six SDGs
- Joburg 2040 Growth and Development Strategy
- GDS outcomes driven through four clusters
- Two IDP flagship priorities

KEY RISKS
- Delayed infrastructure delivery
- Lack of accessibility of services
- Security of supply and demand outstripping supply
- Financial sustainability and governance
- Public health, safety and environment
- Service quality/ delivery perception
- Information Management System (IMS) and technology
- Unethical behaviour
- Ineffective human capital

OPPORTUNITIES
- Improved investment attraction
- Optimal use of city's key assets
- Creation of sustainable human settlements
- Eco mobility
- Improved citizen participation
- Improved social cohesion through transit-oriented developments
- Growth of the informal business sector
- Enhanced support for SMMEs and cooperatives.

Strategy/GDS principles

ECONOMIC SUSTAINABILITY
- Build and grow an inclusive economy

ADMINISTRATIVE SUSTAINABILITY
- Promote good governance

SOCIAL SUSTAINABILITY
- Eradicate poverty
- Achieve social inclusion through support and enablement

ENVIRONMENTAL SUSTAINABILITY
- Build sustainable human settlements
- Ensure resource security and environmental sustainability

Outputs/programmes

- Leverage optimum value from Johannesburg Water-owned assets
- Resuscitate declining and decaying economic nodes within the city
- Develop a dynamic entrepreneurial spirit and innovation to promote increased investment though SMME support
- Promote multi-level skills development programmes
- Promote citizen participation and empowerment
- Enable 'smart city' initiatives
- Promote human capital development and management
- Ensure integrated planning
- Promote innovation and knowledge sharing
- Institutionalise strong governance, risk management and compliance
- Ensure financial sustainability
- Maintain strong administrative governance
- Promote strategic communications and marketing
- Ensure positive strategic relations

Outcomes

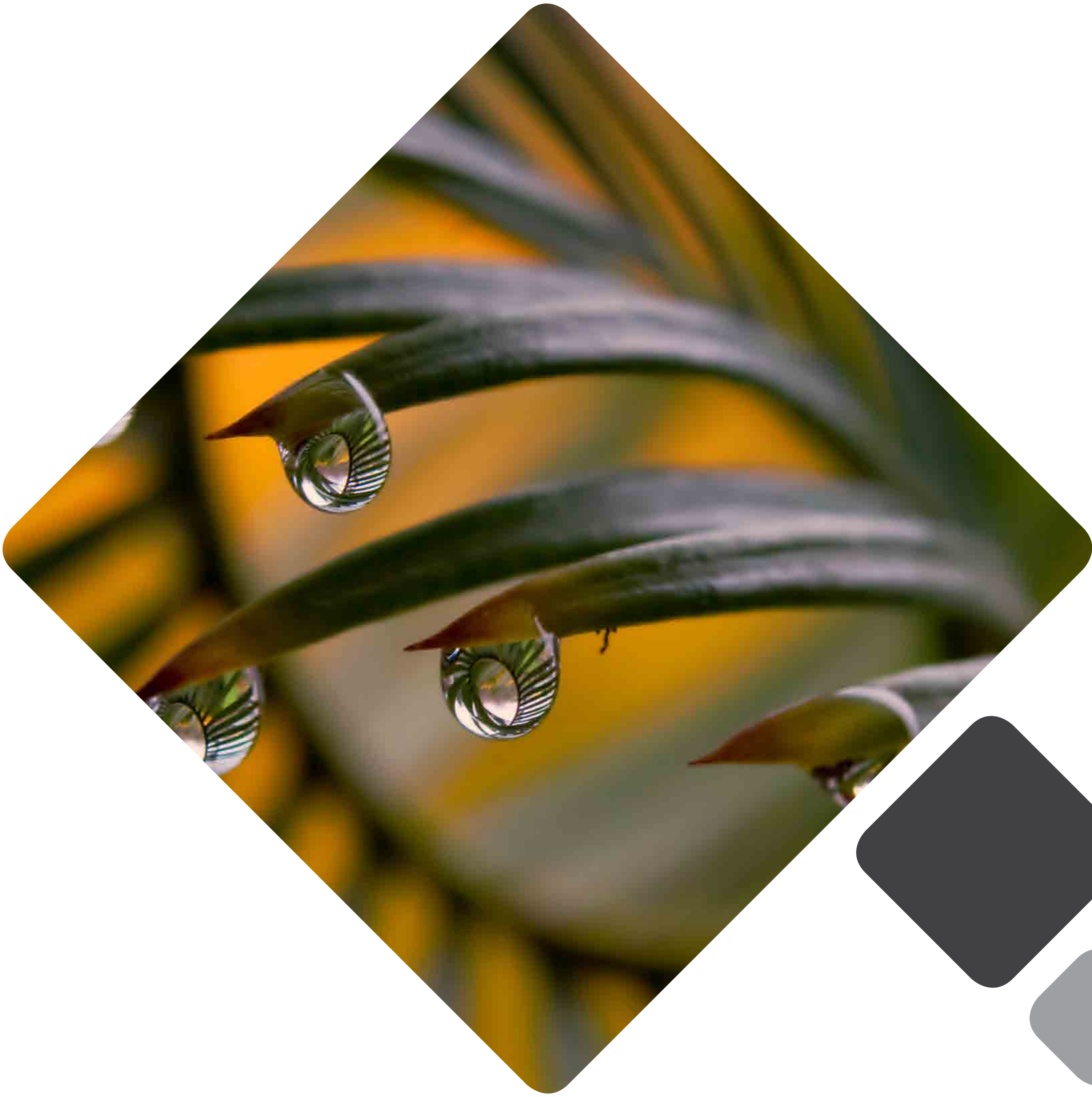
ECONOMIC SUSTAINABILITY
- R375 million cash in the bank
- R11.7 billion in sales revenue
- 2 630 EPWP jobs created
- 120 SMMEs were supported

ADMINISTRATIVE SUSTAINABILITY
- 78.4% cash collection or payment level
- 88.7% accounts billed on actual reading
- 126% of procurement recognition spent on B-BBEE.

SOCIAL SUSTAINABILITY
- 6 528 households in informal settlements were provided with access to basic sanitation.
- 8 287 households in informal settlements were provided with access to basic water.

ENVIRONMENTAL SUSTAINABILITY
- 100% compliance with sludge guidelines
- 99.7% water quality
- 78% effluent compliance

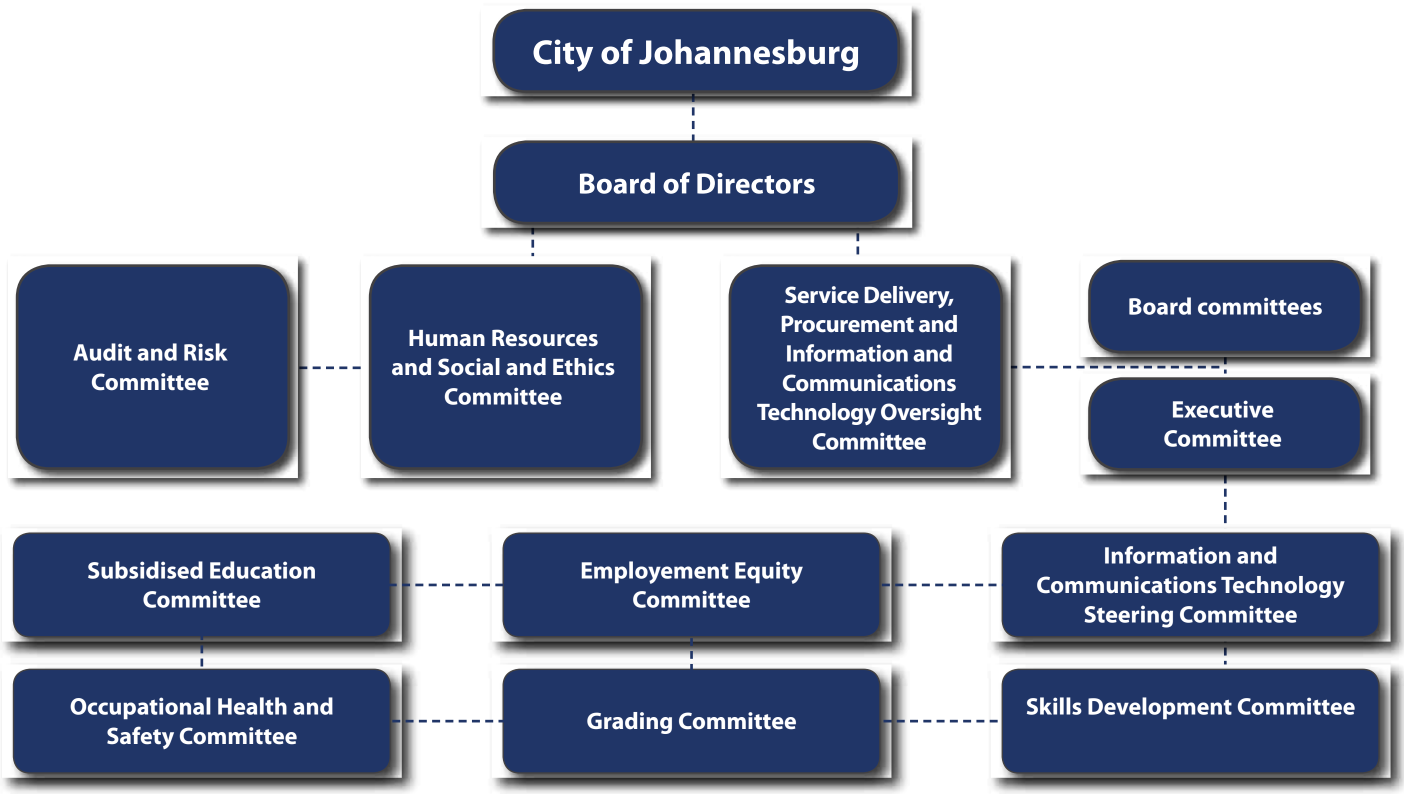
CHAPTER 2
GOVERNANCE



Stakeholders impacted: Shareholder
Response to Strategic Goals 4 and 5

SECTION 1: COMPOSITION, KEY ACTIVITIES AND REMUNERATION OF BOARD OF DIRECTORS

Governance structure



Board composition

Johannesburg Water has a unitary Board, which consists of executive and non-executive directors. In accordance with Principle 7 of King IV, the Board is chaired by a non-executive director, Ms Getty Simelane. The Board meets regularly (at least quarterly) and retains full control of the company. It remains accountable to the CoJ Metropolitan Municipality as its single shareholder.

In terms of the company's Articles of Association, there may not be more than 11 directors on the Board, of which two shall be executive directors. The Board is currently fully capacitated with nine non-executive directors and two executive directors. The design of the entity's governance structure is influenced by the MSA, MFMA and the Companies Act.

As Chairman of the Board, Ms Getty Simelane is a non-executive director and remains independent. She has no pecuniary interests in Johannesburg Water.

The composition of the Board is as follows:

- Ms Getty Simelane (Chairman)
- Mr Ntshavheni Mukwevho (Managing Director and Executive Director)
- Mr Johan Koekemoer (Financial Director and Executive Director appointed 1 December 2018)
- Ms Khanyisa Mdutshane
- Ms Sylvia Tshivhunge
- Mr Brandon Furstenburg
- Prof Bhekisipho Twala
- Ms Dimakatso Sebotsa (appointed 17 April 2019)
- Dr Jack Maduna (appointed 17 April 2019)
- Mr Ryan Mudliar (appointed 17 April 2019)
- Mr Marco van Dijk (appointed 17 April 2019)

The following directors retired on 17 April 2019 in accordance with the CoJ's Group Policy on the Governance of the Group Advisory Committees, Interim Municipal Entities Boards of Directors and Independent Audit Committees' principle of rotation:

- Adv. Honey Mateya
- Mr Maselaganye Matji

The Board is satisfied that it is comprised of the appropriate mix of knowledge, skills, experience and diversity, and that it is sufficiently independent for it to discharge its fiduciary duties. The Board is appointed by the Shareholder, which, among other things, considers gender balance for the appointments.

The Board has considered and is content that the entity's remuneration and incentives are linked to value creation in the short to medium and long term in that human capital remains focused and motivated. This is evident from the entity's 98% staff retention.

Table 5: Board members

Ms Getty Simelane (Chairman)

Role: Non-executive Director
Period of service: 1 March 2014 to date
Age: 60

Qualifications

- BA Social Work
- Higher Diploma in Personnel Management
- MPhil in Social Policy
- Executive Development Programme
- Board Leadership Programme

Other directorships

- Co-founder and Director, The HR Touch
- Tshikululu Social Investment NPC
- KLT Automotive & Tubular Products (Pty) Ltd
- Deltamune Pty Ltd
- South African National Blood Services
- T Systems SA
- St Mungos Diepsloot Social Action NPC

Skills and expertise

- Strategy development
- Governance
- People and talent strategy, including remuneration, succession and transformation; municipal and national government structures experience; global entities exposure – Europe, USA
- Exposure to industries – telecommunication, industrial, manufacturing, financial services, energy, fast-moving consumer goods (FMCG), infrastructure development

Professional membership

- SIRDAR Governance Panellist
- SABPP Master HR Practitioner (MHRP) and HR Auditor
- Fellow of the Institute of Directors of South Africa (IoD) (F Inst D)

Mr Ntshavheni Mukwevho

Role: Managing Director (Executive Director)
Period of service: 1 September 2017 to date
Age: 43

Qualifications

- BTech: Eng (Civil)
- Master of Business Leadership (MBL) degree
- Pr Tech Eng
- Certificate in Municipal Finance Management

Skills and expertise

- Engineering and operations management
- Construction management
- Project management
- Water purification and distribution system
- Sewerage collection systems

Other directorships

None

Professional membership

- The South African Institute of Civil Engineering (SAICE)

Mr Johan Koekemoer

Role: Financial Director (Executive Director)
Period of service: 1 December 2018 to date
Age: 52

Qualifications

- BCom
- BCom Honours (CTA)
- BCom Honours Accounting
- CA (SA)
- Certificate in Municipal Finance Management

Skills and expertise

- Financial and management accounting
- Meter reading
- Supply chain management
- Debt counselling
- IT and telecommunication sector

Other directorships

None

Professional membership

- South African Institute of Chartered Accountants.

Ms Sylvia Tshivhunge

Role: Non-executive Director
Period of service: 20 April 2018 to date
Age: 42

Qualifications

- Master in Business Administration (MBA – General)
- Management Development Programme (MDP)
- Certificate in Labour-intensive Construction (NQF 5 and 7)
- Certificate in Project Management
- Certificate in Total Quality Management (TQM)
- Master of Science (Biochemistry)
- Bachelor of Science Honours (Biochemistry)
- Bachelor of Science (Mathematics, Chemistry and Biochemistry)

Other directorships

- Water and Sanitation Services South Africa (Pty) Ltd
- Water Solution in Southern Africa (Pty) Ltd
- Proxa South Africa (Pty) Ltd

Skills and expertise

- Operations and maintenance of water and wastewater infrastructure
- Policy and by-laws development
- Strategy development and facilitation
- Marketing
- Technical advisor and operational support
- Financial and HR management

Mr Brandon Furstenburg

Role: Non-executive Director
Period of service: 20 April 2018 to date
Age: 44

Qualifications

- Master of Science (Financial Management)
- Master of Commerce (Economics)
- BCom Honours (Economics)
- BCom (Economics)

Other directorships

- Ashbourne Homeowners Association

Skills and expertise

- Governance, audit and risk
- Financial services and executive management
- Research and consulting
- Strategic planning
- Asset management
- Education and training

Professional membership

- Institute of Directors Southern Africa (IODSA)

Ms Khanyisa Mdutshane

Role: Non-executive Director
Period of service: 1 March 2014 to date
Age: 46

Qualifications

- Bachelor of Commerce Honours (Accounting)
- Higher Diploma in Tax Law
- CA (SA)

Other directorships

- K and M Consult – Director

Skills and expertise

- Taxation
- Auditing
- Financial management

Professional membership

- South African Institute of Chartered Accountants

Prof Bhekisipho Twala

Role: Non-executive Director
Period of service: 24 August 2018 to date
Age: 50

Qualifications

- PhD (Machine Learning and Statistical Science)
- MSc (Statistics)
- Postgraduate Certificate (Statistics)
- BA (Economics and Statistics)

Other directorships

- Leadership Institute
- Valio Technologies

Skills and expertise

- Applied and theoretical machine learning
- Big data analytics
- Image and signal processing
- Intelligent systems
- Knowledge discovery and reasoning under uncertainty

Professional membership

- Fellow of the Royal Statistical Society (RSS)
- Association of Computing Machinery (ACM)
- Chartered Institute of Transport South Africa (CITSA)
- Senior Member of the Institute of Electrical and Electronics Engineers (IEEE)
- International Association of Engineers (IAENG)
- South African Council for Automation and Control (SACAC)
- Institute of Directors Southern Africa (IODSA)
- International Federation of Automatic Control (IFAC)
- Professional Natural Scientist (Pr.Sc.Nat)

Mr Ryan Mudliar

Role: Non-executive Director
Period of service: 17 April 2019 to date
Age: 36

Qualifications
- BSc (Chemical Engineering)

Other directorships
- None

Skills and expertise
- Project management and project controls
- Project change management
- Project risk management
- Project execution and managing to the baseline
- Planning and scheduling
- Cost management
- Estimating
- Material management
- Contracts management
- Construction management
- Integrated project delivery

Mr Marco van Dijk

Role: Non-executive Director
Period of service: 17 April 2019 to date
Age: 45

Qualifications
- BEng (Civil Engineering)
- BEng Honours
- MEng (Water Resource Engineering)
- Pr Eng

Other directorships
- Green Hippo Innovations

Skills and expertise
- Hydraulic engineering
- Hydrological engineering
- Hydropower development
- Research and consulting
- Engineering software development
- Technical advisor
- Education and training

Professional membership
- Engineering Council of South Africa (Professional Engineer)
- South African Institution of Civil Engineering (Member)
- Water Institute of South Africa (Member)
- South African Committee on Large Dams (Member)

Ms Dimakatso Sebotsa

Role: Non-executive Director
Period of service: 17 April 2019 to date
Age: 37

Qualifications
- NQF Level 4 – Real Estate

Other directorships
- None

Skills and expertise
- Human resources information software: Softline VIP
- Property management, sales and evaluation
- Marketing and advertising
- Communication
- Capital assets
- Credit risk

Dr Jack Maduna

Role: Non-executive Director
Period of service: 17 April 2019 to date
Age: 51

Qualifications
- MBChB (Medunsa)
- MBA

Other directorships
- None

Skills and expertise
- Health
- Wellness
- Strategic thinking
- Human resources

Adv Honey Mateya

Role: Non-executive Director
Period of service: 1 May 2012 to 17 April 2019
Age: 66

Qualifications
- BCom
- Master in Business Administration (MBA)
- Higher Diploma in Company Law
- LLB
- Senior Executive Programme – SEP

Other directorships
- None

Skills and expertise
- Law
- Industrial relations
- Risk and HR management

Mr Maselaganye Matji

Role: Non-executive Director
Period of service: February 2015 to 17 April 2019
Age: 53

Qualifications
- Master of Science (Engineering Sciences)(Civil)
- Master of Business Leadership (MBL) (Corporate Strategy)
- BSc Honours (Computational Fluid Dynamics)
- BSc (Applied Mathematics and Physics)
- Management Advanced Programme
- Diploma in Business Management
- Certificate in Project Management
- Pr Construction and Project Management
- Pr Nat Sci.(Hydrology)

Other directorships
- Roads Agency Limpopo (Chief Executive)

Skills and expertise
- Water services and water resource planning
- Water infrastructure finance and planning
- Water conservation and water demand management
- Strategy formulation and implementation leadership

For the period 1 July 2018 to 17 April 2019, the Board Committees were as follows:

- Audit and Risk Committee
- Human Resources and Social and Ethics Committee
- Service Delivery, Procurement and ICT Oversight Committee (established 29 March 2019)
- Nominations Committee

The composition of the Board committees was as follows:

Audit and Risk Committee
- Brandon Furstenburg (Chairman)
- Maseleganye Matji (non-executive director)
- Rudolf Buys (independent member)
- Vusi Mokwena (independent member)
- Zukisani Samsam (independent member)

Human Resources and Social and Ethics Committee
- Honey Mateya (Chairman)
- Brandon Furstenburg (non-executive director)
- Getty Simelane (non-executive director)
- Ntshavheni Mukwevho (managing director)
- Johan Koekemoer (financial director – appointed 1 December 2019)

Service Delivery, Procurement and ICT Oversight Committee (established 29 March 2019)
- Sylvia Tshivhunge (Chairman)
- Khanyisa Mdutshane (non-executive director)
- Prof Bhekisipho Twala (non-executive director)
- Ntshavheni Mukwevho (managing director)
- Johan Koekemoer (financial director)

The Board also established ad hoc Nominations committees for the filling of Section 56 positions in terms of the Municipal Systems Act Regulations on Appointment and Conditions of Employment of Senior Managers.

The ad hoc Nominations committees were as follows:

Nominations Committee (for the filling of the Executive Manager: Risk and Compliance position)
- Ntshavheni Mukwevho (managing director) (Chairman)
- Brandon Furstenburg (non-executive director)
- Ryan Mudliar (non-executive director)
- Lindiwe Hleza (City representative)
- Enoch Zulu-Xaba (independent member)

Nominations Committee (for the filling of the Financial Director position)
- Getty Simelane (Chairman)
- Ntshavheni Mukwevho (managing director)
- Manu Padiaychee (independent member)
- Khanyisa Mdutshane (non-executive director)
- Samantha Pather (City representative)

Following the Annual General Meeting of 17 April 2019, Board committees were composed as follows:

Audit and Risk Committee

- Khanyisa Mdutshane (Chairman)
- Brandon Furstenburg (non-executive director)
- Patrick Makape (independent member)
- Cassim Tilly (independent member)
- Robert Hill (independent member)

Human Resources and Social and Ethics Committee

- Dr Jack Maduna (Chairman)
- Prof Bhekisipho Twala (non-executive director)
- Getty Simelane (non-executive director)
- Ntshavheni Mukwevho (managing director)
- Johan Koekemoer (financial director)

Service Delivery, Procurement and ICT Oversight Committee

- Sylvia Tshivhunge (Chairman)
- Dimakatso Sebotsa (non-executive director)
- Marco van Dijk (non-executive director)
- Ryan Mudliar (non-executive director)
- Ntshavheni Mukwevho (managing director)
- Johan Koekemoer (financial director)

The Board established further ad hoc Nominations committees for the filling of vacant Section 56 positions in terms of the Municipal Systems Act Regulations on Appointment and Conditions of Employment of Senior Managers.

The ad hoc Nominations committees are the following:

Nominations Committee (for the filling of the Executive Manager: Risk and Compliance position)

- Ntshavheni Mukwevho (Chairman)
- Brandon Furstenburg (non-executive director)
- Ryan Mudliar (non-executive director)
- Dr Enoch Zulu Xaba (independent member)

Nominations Committee (for the filling of the Executive Manager: Human Resources and Corporate Services)

- Ntshavheni Mukwevho (Chairman)
- Dr Jack Maduna (non-executive director)
- Prof Bhekisipho Twala (non-executive director)
- Elizabeth Dhlamini-Kumalo (independent member)

Nominations Committee (for the filling of the Executive Manager: Governance and Legal Services

- Ntshavheni Mukwevho (Chairman)
- Getty Simelane (non-executive director)
- Khanyisa Mdutshane (non-executive director)
- Motlatsi Lekhesa (independent member)

Nominations Committee (for the filling of the Executive Manager: Stakeholder Relations and Communications)

- Ntshavheni Mukwevho (Chairman)
- Sylvia Tshivhunge (non-executive director)
- Dimakatso Sebotsa (non-executive director)
- William Gumede (independent member)

The Board, as the custodian of the company, serves as the focal point of governance. The Board has established necessary Board committees with specific terms of reference and delegated powers.

The day-to-day running of the company has been devolved to the managing director through a formal schedule of delegated powers. The Board is satisfied that this system of delegation contributes effectively to role clarity.

Roles and functions of various Board committees

The Service Delivery, Procurement, Information and Communications Technology Oversight Committee's roles and responsibilities include, among others, overseeing matters concerning the following:

- The operations, capital expenditure, customers and communications of the company
- The implementation, monitoring and review of the ICT strategy and related policies

The Human Resources and Social and Ethics Committee's role and responsibilities include, among others, the following:

- Overseeing that the company is compliant with labour laws and ensuring the development and implementation of a human resources plan
- Monitoring the company's activities, with regard to matters relating to social and economic development and good corporate citizenship

In addition, the Audit and Risk Committee's roles and responsibilities include, but are not limited to the following:

- Ensuring that a combined assurance model is applied to provide a coordinated approach to all assurance activities
- Ensuring that the combined assurance received is appropriate to address all the significant financial reporting risks facing the company
- Overseeing internal audit
- Assessing the company's performance on a quarterly and annual basis
- Overseeing the development and annual review of the company's enterprise-wide risk strategy policy and plan for recommendation to the Board
- Monitoring implementation of the enterprise-wide risk management policy and plan by means of risk management systems and processes
- Overseeing that the risk management plan is widely disseminated throughout the company and integrated in its day-to-day activities
- Ensuring that management considers and implements appropriate risk responses

The Audit and Risk Committee considered the annual financial statements and made the following changes:

- Certain disclosures should be enhanced in the annual financial statements in order to provide further clarification of the disclosure
- Recommendations were made that further controls be implemented to reduce irregular, fruitless and wasteful expenditure

Key focus areas of Board committees

- Recommended 2019/20 Business Plan to Board for approval
- Recommended Integrated Annual Report to Board for approval
- Approval of Social and Ethics Quarterly Report
- Review of Strategic Risk Register
- Making input into setting of strategic direction
- Maintaining oversight over compliance with relevant legislation

The committees are satisfied that they have fulfilled their responsibilities in accordance with their respective terms of reference.

Board assessment 2018/19

A formal assessment of the Board was conducted by the Shareholder through its Group Governance Department. The purpose of the assessment was to establish insight into how well the Board could be improved or enhanced. The outcome reflected that the Board had been meetings its performance objectives.

Schedule of attendance of meetings

Table 6: Meeting attendance

The attendance of meetings held during the year under review, in terms of the ratio of attendance per meeting convened, was as follows:

Directors and independent members*	Board 7	Audit and Risk Committee 6	Human Resources and Social and Ethics Committee 5	Service Delivery, Procurement and ICT Oversight Committee 1	Nominations Committee (Financial Director position) 1	Nominations Committee (Executive Manager: Risk and Compliance position 3	Total
Getty Simelane	7/7	–	3/5	–	1/1		11/13
Honey Mateya (retired 17 April 2019)	5/5	–	5/5	–	–	–	10/10
Khanyisa Mdutshane	7/7	–	–	1/1	1/1		9/9
Sylvia Tshivhunge	6/7	–	–	1/1			7/8
Brandon Furstenburg	7/7	5/6	5/5	–		3/3	20/21
Maselaganye Matji (retired 17 April 2019)	2/5	4/6	–	–	–	–	6/11
Prof Bhekisipho Twala (appointed 17 April 2019)	6/7	–		1/1	–	–	7/8
Marco van Dijk (appointed 17 April 2019)	2/2	–	–	–	–	–	2/2
Dr Jack Maduna (appointed 17 April 2019)	2/2	–	–	–	–	–	2/2
Ryan Mudliar (appointed 17 April 2019)	2/2	–	–	–	–	–	2/2

Directors and independent members*	Board 7	Audit and Risk Committee 6	Human Resources and Social and Ethics Committee 5	Service Delivery, Procurement and ICT Oversight Committee 1	Nominations Committee (Financial Director position) 1	Nominations Committee (Executive Manager: Risk and Compliance position 3	Total
Dimakatso Sebotsa (appointed 17 April 2019)	2/2	–	–	–	–	–	2/2
Ntshavheni Mukwevho	2/2	–	4/5	1/1	1/1	3/3	11/12
Johan Koekemoer (appointed 1 December 2018)	7/7	–	4/5	1/1	1/1	3/3	16/17
* Zukisani Samsam (retired 17 April 2019)		6/6	–	–	–	–	6/6
* Rudolf Buys (retired 17 April 2019)		2/6	–	–	–	–	2/6
* Vusi Mokwena (retired 17 April 2019)		5/6	–	–	–	–	5/6

**Independent members of the Audit Committee*

During the year under review, the Auditor-General and the Shareholder representative were invitees to the meetings of the Audit and Risk Committee, the Service Delivery, Procurement and ICT Committee and the Human Resources and Social and Ethics Committee.

Directors' remuneration

Directors' remuneration is regulated through the City of Johannesburg's Group Policy on Governance of Interim Municipal Entities' Boards of Directors and Independent Audit Committee.

The fees paid to non-executive directors and independent Audit and Risk Committee members for the period 1 July 2018 to 30 June 2019 were as indicated in Table 7.

Table 7: Fee structure

Type of meeting	Fees: 1 July 2018 to 17 April 2019	Fees: 17 April 2019 to 30 June 2019
Board		
Chairman – Meeting	R16,000	R16,000
Member – Meeting	R12,000	R12,000
Audit and Risk Committee		
Chairman – Meeting	R7,000	R8,000
Member – Meeting	R5,000	R6,000
Human Resources and Social and Ethics Committee		
Chairman – Meeting	R7,000	R8,000
Member – Meeting	R5,000	R6,000
Service Delivery, Procurement and ICT Oversight Committee		
Chairman	N/A	R8,000
Member – Meeting	N/A	R6,000

Table 8: Non-executive directors

Description (all amounts are before tax)	Non-executive Director: Getty Simelane	Non-executive Director: Honey Mateya (retired)	Non-executive Director: Khanyisa Mdutshane	Non-executive Director: Sylvia Tshivhunge	Non-executive Director: Maselaganye Matji (retired)	Non-executive Director: Brandon Furstenburg	Non-executive Director: Prof Bhekisipho Twala	Non-executive Director: Marco van Dijk	Non-executive Director: Ryan Mudliar	Non-executive Director: Dr Jack Maduna	Non-executive Director: Dimakatso Sebotsa
Salaries and wages Normal Overtime	–	–	–	–	–	–	–	–		–	–
Contributions Pensions Medical Aid Other	–	–	–	–	–	–	–	–		–	–
Allowances Travel and motor car Accommodation Subsistence	–	–	–	–	–	–	–	–		–	–
Other benefits (specify) Bonus	–	–	–	–	–	–	–	–		–	–
Meeting fees paid to non-executive directors	R166,000	R100,000	R106,000	R91,000	R5,000	R166,000	R89,000	R24,000	R24,000	R24,000	R24,000
Retainer paid to non-executive directors for 2017/18	–	–	–	–	–	–	–	–		–	–
Total	**R166,000**	**R100,000**	**R106,000**	**R91,000**	**R5,000**	**R166,000**	**R89,000**	**R24,000**	**R24,000**	**R24,000**	**R24,000**

Board induction and information

An induction for directors was held at the CoJ on 6 June 2019 after the Annual General meeting of 17 April 2019.

All company information is captured in a document management system under the control of the Company Secretary. Board members have unrestricted access to the Company Secretary, as well as all company records and documents.

Disclosure of interest

Each time the meeting of the Board or one of its subcommittees was convened, a specific item was included in the agenda on declaration of interest. During the period under review, there were no conflicts of interest. The attendance and declaration of records are kept in one register and are open for scrutiny.

Policy review and adoption

The entity reviews policies periodically for internal control to enhance accountability. In order to ensure the alignment of the review dates of company policies, the Board considered the following policies during the year under review.

- Anti-fraud and Corruption Policy
- Compliance Policy
- Johannesburg Water ICT Backup Policy
- Records Management Policy
- Provision for Doubtful Debt Policy
- Supply Chain Management Policy
- HIV and Aids Policy
- Environmental Management Policy
- Internship Policy
- Bursary Policy
- Policy on Attendance of Conferences, Study Tours, Seminars, Summits and Symposiums
- ICT Backup and Recovery Policy
- Servitude Policy
- Risk Management Policy
- Recruitment and Selection Policy

SECTION 2: HIGH-LEVEL ORGANISATIONAL STRUCTURE

The management structure depicted in Figure 3 relates to those managers deemed to be appointed in terms of the provisions of Section 56 of the Municipal Systems Act, No. 32 of 2000. A summary of the executive management team is provided in Figure 3. The structure is reviewed, amended and enhanced where necessary. The following organogram demonstrates how the entity's core business feeds into the different departments.

Figure 3: Executive management

Note: General Manager: Strategy, Monitoring and Evaluation is not on a fixed-term contract.

Table 9 depicts the executive management. Managers acting in vacant executive manager positions are detailed in Chapter 4.

Table 9: Executive management

Name	Position	Contract type	Qualifications	Skills and expertise
Ntshavheni Mukwevho	Managing Director	Fixed term expiring on 31 August 2022	• BTech: Eng (Civil) • Master of Business Leadership (MBL) • Pr Tech Eng • Certificate in Municipal Finance Management	• Engineering and operations management • Construction management • Project management • Water purification and distribution system • Sewerage collection systems
Derrick Kgwale (appointed 1 November 2018)	Chief Operations Officer	Fixed term expiring on 31 October 2023	• BTech: Eng (Civil) • Master of Business Leadership (MBL) • Project Management Diploma • Programme in Asset and Maintenance Management • Project Management Programme (PMP) Certificate	• Engineering and operations • Project management • Construction management
Johan Koekemoer (appointed 1 December 2018)	Financial Director	Fixed term expiring on 30 November 2023	• BCom Honours • CA (SA) • Certificate in Municipal Finance Management	• Financial and management accounting • Meter reading • Supply chain management • Debt counselling • IT and telecommunications sector
Shaniseka Mathebula	Chief Audit Executive	Fixed term expiring on 31 July 2021	• BCompt • Postgraduate Diploma: Internal Auditing • Certified Internal Auditor (CIA) • Associate General Accountant (AGA) SAICA	• Internal audit • Financial management • Governance, risk management and internal control

SECTION 3: GOVERNANCE OF STAKEHOLDER RELATIONSHIPS

The management of stakeholder relationships was arranged in such a way that the board maintained oversight, while management remained the contact point for the approximately 590 000 domestic, commercial and industrial customers, and the entity served an estimated consumer base, according to the General Household Survey 2016 of Statistics South Africa, of about 5.1 million people, which has been growing at a rate of about 3% per annum.

All the communities and businesses that the company served were invited to various regional IDP sessions to obtain their input on the programmes that were included in the current year's IDP review. The results from these sessions were incorporated into the company's planning for the provision of water and sanitation services.

Provision of basic services to the community of Johannesburg is comparatively high with about 95% of households (both formal and informal) enjoying access to piped water, flush toilets and electricity. However, there continues to be a deficit, particularly in informal settlements where less than half the households have access to basic sanitation.

The CoJ has been successful in decreasing the water backlog (represented by the number of households that do not have piped water within 200 metres of their dwelling) over time. The following are some of the key stakeholders of Johannesburg Water:

- Ward councillors
- Residential consumers

- CoJ regional officials and entities
- Johannesburg Water employees
- Organised labour
- Residents association
- Local business forums
- Top 100 customers
- Non-governmental organisations and community-based organisations
- Faith-based organisations
- Academic institutions
- Rand Water and Department of Water and Sanitation
- Professional organisations such as the Engineering Council of South Africa (ECSA),the Water Research Commission (WRC), the Construction Industry Development Board (CIDB) and the South African Council for Natural Scientific Professions (SACNASP)
- Media houses
- Government departments

Johannesburg Water stakeholders were updated regularly on planned and unplanned service disruptions. They wanted to be notified well in advance about any planned service disruptions to be able to plan properly for their households and their businesses. They needed to be informed of upcoming infrastructure upgrading projects in their area. The entity's stakeholders were interested to know that the water provided meets the SANS 241 water quality standard. They were also interested to know that the daily operations did not impact negatively on the environment.

Stakeholders were interested to know what updates were posted on the company's social media platforms, hence the acquisition of an increasing number of followers from month to month. They were also interested to know about the water tariffs and the various water and sanitation by-laws.

The entity maintained regular contact with different stakeholders using different platforms of communication. Daily communication with ward councillors was maintained through the use of regional groups on the mobile application WhatsApp that was utilised to maintain communication on planned and unplanned service disruptions. This platform was also used for escalating service disruptions to the relevant depots that needed urgent attention.

The entity maintained a healthy working relationship with the various media houses to ensure that its reputation and public opinion remained positive. Regular press statements were issued on planned and unplanned service disruptions and the entity responded promptly to all media queries forwarded to Johannesburg Water. Its social media following increased from month to month, which made communication with external stakeholders more effective and efficient.

On average, the company's call centre received about 5 000 calls a month, which were dispatched to the relevant depots for their immediate attention. The call centre also played a critical role in ensuring that the entity's customers were kept informed of planned and unplanned service disruptions.

Furthermore, regular stakeholder forums with targeted stakeholders, such as the large water users, top 100 customers, prepaid water vendors, faith-based organisations and other stakeholders, were held at regular intervals to deal with pertinent issues relating to the company.

More than 80 public meetings were held to inform community members of upcoming projects in their areas. In addition, more than 70 visible service delivery meetings were attended. They were aimed at discussing service delivery challenges experienced in each of the seven regions of the city.

Internal stakeholders were kept informed of internal developments through the effective use of the quarterly general staff communication sessions. This platform enabled the managing director and his executives to engage directly with employees on the company's overall performance on a quarterly basis.

Furthermore, quarterly Top 100 Managers' forums were held to update and engage managers on the company's overall performance and to discuss ways of improving poor performance in identified areas.

This engagement allowed managers to disseminate performance information to all staff members and contributed to an improvement in the company's overall performance. This initiative was further extended to the Local Labour Forum.

There were fewer long-term work stoppages in communities, resulting in most projects being implemented smoothly and running on schedule, compared to the previous financial year. This was due to extensive engagement with external stakeholders to acquire community buy-in and to maintain ongoing engagement throughout the implementation of projects.

Stakeholder engagement was guided by the approved Stakeholder Engagement Strategy. The company guided communication channels with both internal and external stakeholders through the Communication Strategy.

The company maintained a healthy working relationship with various government departments, such as the Department of Water and Sanitation, National Treasury, the Gauteng Provincial Government and the sister departments within the CoJ.

Furthermore, the company focused on communicating infrastructure upgrading projects, planned and unplanned service disruptions, information on the proper use of the sewer infrastructure to prevent sewer blockages, water conservation registration for the Expanded Social Package (ESP), and providing a list of vending points for prepaid water customers.

Customers were also educated on the various municipal by-laws, as well as the importance of paying for services.

Future areas of focus are improving on the areas that scored low during the engagements with stakeholders, as discussed in Chapter 3.

SECTION 4: RISK MANAGEMENT

The Enterprise Risk Management (ERM) Framework provided a structured, dynamic and consistent approach to risk management. It is an integrated approach and recognises that effective risk management is critical to the achievement of strategic objectives and the long-term sustainable growth of the business.

The process was continuous and risks were updated throughout the year. The framework is in line with relevant standards, including ISO 31000, the Committee of Sponsoring Organisations (COSO) of the Treadway Commission Framework and the King IV Report.

During the year under review, the Board reviewed the effectiveness of the systems of risk management and internal control and conducted a robust assessment of the strategic risks affecting the company's strategic goals in line with the company's risk appetite. These activities met the Board's responsibilities in connection with risk management and internal control.

The aim of the risk appetite remained to highlight the risks that the entity was willing to take, as well as those that were unacceptable. The risk appetite included a series of risks that were aligned to the company's strategy, together with the risk parameters within which the employees were expected to work.

Compliance with the risk appetite was monitored through the company's functional and frontline controls, including oversight and reporting mechanisms. The company recognised that not all risks were controllable or foreseeable, and the response to such risks was having controls to lessen the impact to the business should they occur.

The ERM process continued to function as intended and in support of the company's strategic goals. A risk management maturity assessment exercise was conducted to determine the progress registered by Johannesburg Water in implementing risk management. The assessment translated into a proposed risk maturity level of 3.6 or "controlled" and showed an improvement since the 2016 review, which was at level 2.7 or "developed". The company will continue to implement the Risk Implementation Plan, which is aligned to the three-year Risk Management Strategy 2018–2021.

The Board conducted an assessment of the strategic risks, alongside the risk appetite, meeting the Board's responsibilities in connection with risk management and internal control detailed in King IV. Each of the strategic risks was assigned an owner, and a summary of principal risks and the mitigating controls was presented at every Audit and Risk Committee meeting.

The Board confirms that the company's risk management, mitigation and monitoring processes were effective in limiting the potential impact of risks on the business during the year under review.

Approach to risk management

The management of risks was at the core of the company's internal control environment. There was a risk management policy that defined how risks were expected to be identified, assessed and managed throughout the company. Risks were assessed and quantified in terms of their impact and likelihood of occurrence, both before and after control mitigation.

Assessing the inherent risk before control mitigation allowed the business to review the relative impact of the existing controls by comparing the gross and net risk assessment. This also allowed the business to avoid wasting resources on mitigating controls and actions, which have a negligible impact on risk assessment.

The impact of the risks was quantified across a range of factors, including financial, strategy, reputation, people, ability to perform services, regulation, safety, health and environment. The risk management policy includes defined criteria for each risk impact factor, supporting a consistent measurement approach. Risk management took place at all levels, providing an integrated bottom-up and top-down approach.

Ultimately, the Board was responsible for the company's risk and internal control framework. It set out the decisions, and hence the level of risk that can be delegated to the executive management, departmental and operational management without requiring escalation. This was articulated in a series of the company's policies and delegated authority matrices, as well as the parameters within the approved risk appetite.

The Board was accountable to ensure that risks were effectively managed, and delegated the oversight of risk management to the Audit and Risk Committee in terms of two combined mandates: the Committee reviews significant risks and their related mitigations and reports back to the Board at each meeting. The Committee also focuses on the financial risks and reviews the effectiveness of the risk process.

The Audit and Risk Committee monitored quarterly risk dashboard reports from the strategic, project and operational risk assessments. In addition, it had oversight of the risk dashboard, along with a routine review of key controls identified to manage each risk and the sources of control assurance, providing an update to the Board at each Board meeting. The Board obtained assurance over risks and risk management through the internal control framework.

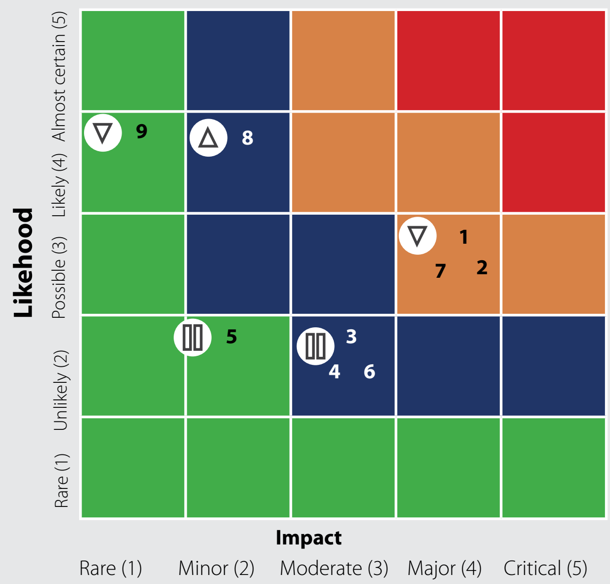
Annual risk workshops were held across the company and identified risks were documented in a risk register and assessed on the basis of likelihood of occurrence and potential impact on the risk exposure of the company. Mitigations were identified against each risk and the remaining residual risk was assessed based on defined criteria. The risks with the highest exposure attribution were presented to the executive management to be reviewed, ahead of being submitted to the Audit and Risk Committee, and ultimately the Board for review.

Strategic risks and significant uncertainties

The Board reviewed the Strategic Risk Register, reassessed the validity of the strategic risks identified in the previous year and considered whether any new strategic risks had emerged or whether a risk was no longer considered strategic. The identified strategic risks were subjected to a detailed assessment based on the considerations as set out in the company's risk management policy. The risk "organisational uncertainty" was subsequently removed from the risk register.

Figure 4 outlines nine strategic risks that could have an impact on the company. Measures have been established to mitigate each risk.

Figure 4: Strategic risks



Strategic risks
1 Delayed infrastructure
2 Financial sustainability and governance
3 Inadequate IMS and technology capability
4 Ineffective human capital
5 Lack of accessibility of services
6 Public health, safety and environment
7 Security of supply
8 Service quality/delivery perceptions
9 Unethical behaviour

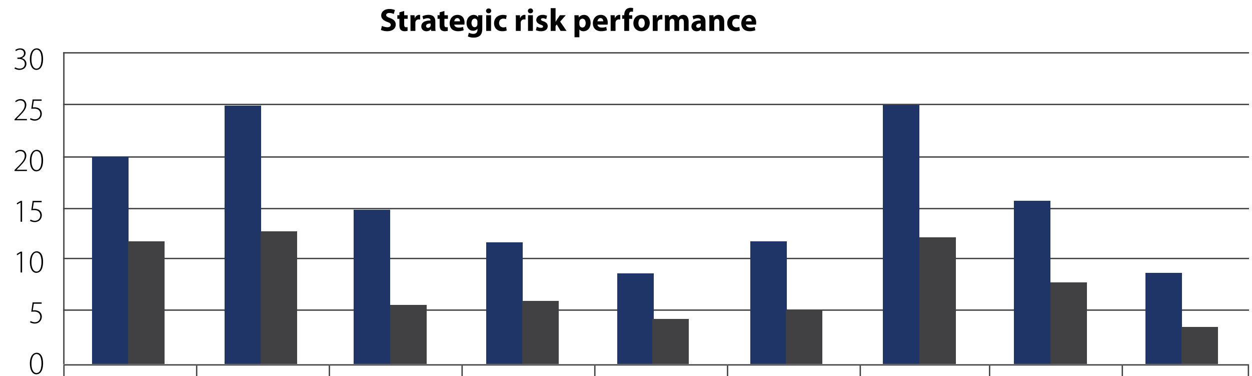
Very high risk
High risk
Medium risk
Low risk

Increasing
Decreasing
No change

Mapping our risks
As part of the risk profile assessments we map our risks in terms of likelihood and impact, based on a defined rating of 1 (rare) to 5 (almost certain or critical). Likelihood ratings are defined based on the period in which we expect that a risk could materialise. Impact ratings consider factors including strategic, financial, reputational, regulatory, service delivery, human capital, technology and environmental.
All risks are assessed, including an assessment of any emerging risks, each time the risk profiles are reviewed. The risk trend is monitored over time and further mitigating controls identified where appropriate. Consideration is also given to the relative priority of each risk in the overall risk profile.

Figure 4.1 is the movement of the nine strategic risks according to their inherent risk rating at the beginning of the year, as well as their residual risk rating as at the end of June 2019. These ratings are based on a scale of 1 to 25.

Figure 4.1 Graphic representation of strategic risks



	Delayed infrastructure delivery	Financial sustainability and governance	Inadequate IMS and technology capability	Ineffective human capital	Lack of accessibility of services	Public health, safety and environment	Security of supply	Service quality/ delivery perception	Unethical behaviour
Inherent risk	20	25	15	12	9	12	25	16	9
Residual risk	12	13	6	6	5	6	13	8	4

During the year under review, the net strategic position of the risks improved. This was as a result of the successful implementation of mitigation plans that were identified for implementation during the year, which had a significant impact on risk exposure.

Table 10 illustrates the entity's risk, likelihood of occurrence and impact at inherent stage, and current mitigations.

Table 10: Risk and opportunities in the short- to medium- and long-term

Risk	Likelihood	Impact	Mitigations	Horizon
Security of supply/ demand outstripping supply	Almost certain	Critical	• Review of water conservation and demand management strategy • Implementation of measures in line with DWS's Project 1600	Long-term
Inadequate IMS and technology capability	Possible	Major	• Develop and implement an umbrella Business Continuity Plan • Establish alternative or recovering site	Medium-term
Delayed infrastructure delivery	Almost certain	Major	• A Communication Plan is in place to address and inform communities upfront before implementation on future or upcoming projects and local content development • Review of procurement process to include subcontracting	Long-term
Lack of accessibility of services	Possible	Moderate	• Continuous enhancement of adjudication and evaluation committees • Implementation of alternative technologies on sanitation focusing on off-grid systems	Medium-term
Public health, safety and environment	Possible	Major	• Adherence to standard operating procedure that affects public health and safety • Water safety planning –catchment, treatment and distribution	Long-term
Financial sustainability and governance	Almost certain	Critical	• Main pipeline replacement across the city of 228 km over the next three years • Progressive review of implementation of cost-reflective water tariffs	Long-term
Unethical behaviour	Possible	Moderate	• Anti-fraud awareness campaigns • Declaration of interest by all staff and service providers	Long-term
Service quality/ delivery perception	Likely	Major	• Customer Service Charter in place • Consultations prior to, during and after project implementation meetings	Long-term
Ineffective human capital	Possible	Major	• Performance management policy and framework • Succession planning policy	Medium-term

SECTION 5: ANTI-CORRUPTION AND FRAUD INVESTIGATIONS

Fraud risk management

Section 195 of the Constitution requires institutions to develop policies and entrench practices to manage integrity and promote good governance. Pursuant to this goal, Johannesburg Water has implemented the following policies, procedures and mechanisms:

- Anti-fraud and Anti-corruption Policy
- Whistle-blowing Policy
- Standard Operating Procedures: management request for investigations
- Hotline (anonymous tip-off line) – managed by the CoJ

The fraud investigation function is performed by the Group Forensic and Investigative Services (GFIS). According to the status report submitted for Johannesburg Water for the year ended 30 June 2019, 30 cases were received for investigation. Of these 30 cases received by GFIS, a high number remained unresolved. The Shareholder has however referred the investigation of matters involving irregular expenditure and fruitless and wasteful expenditure to the entity which should improve accountability.

The Board and the executive management has adopted an integrated approach to ensure that effective measures are in place to ensure the prevention and detection of fraud and to manage the risk of fraud to within tolerable levels. During the year under review, Johannesburg Water implemented the following activities:

Managing the risk of supply chain management/ procurement fraud:

- To minimise the risk associated with supply chain management/procurement fraud like corruption, all tenders above R5 million are referred to Internal Audit for a probity audit prior to the resolutions of the Bid Adjudication Committee being approved by the Accounting Officer. This process is a key control measure in preventing irregularities prior to the awarding of tenders.

- The annual declaration of interest by all employees of Johannesburg Water is overseen by the Governance and Legal Services Department, and a status report is sent to the Executive Committee.

Reporting and investigations of irregular, fruitless and wasteful expenditure:

- The Audit and Risk Committee provided oversight on reporting and investigations of instances of irregular, fruitless and wasteful Expenditures. To expedite the process of investigation, the Audit and Risk Committee mandated Internal Audit to review and/or investigate all compliance matters identified as irregular, fruitless and wasteful expenditure in collaboration with the GFIS Office. Table 11 depicts matters investigated by GFIS.

Table 11: Progress on cases

Category	Number of cases received	Number of cases in progress
Fraud and corruption	0	0
Maladministration (includes unauthorised, irregular, fruitless and wasteful expenditure)	9	9
Theft	1	1
Illegal water connections (theft of water)	20	20
Total	**30**	**30**

Status on disciplinary matters
There were no cases in which disciplinary action was recommended.

Cases referred to Group Legal for recovery of losses
No cases were referred to Legal and Contracts for recoveries

Cases referred for criminal prosecution
Only one criminal case was opened.

SECTION 6: ICT GOVERNANCE AND PERFORMANCE

The Board acknowledges its responsibility for promoting and enabling innovation. In doing so, it has embraced innovation under Strategic Goal 5: The use of technology for effective operations. The effective management of information technology and information systems was key to achieving the strategic objectives, particularly in delivering quality services to customers and stakeholders. Information and communications technology (ICT) was viewed as a key enabler of the entity's strategic objectives and, as such, required robust governance. For the year under review, the Risk and ICT Steering Committee met three times, and ICT governance, including ICT risks, was reported quarterly to the Board of Directors for the financial year. The entity's ICT governance objectives included the following:

- Monitoring the alignment of the short-, medium and long-term strategies of the business and technology
- Maintaining formalised information technology (IT) governance at Johannesburg Water, aligned to existing corporate governance structures and leading practices
- Monitoring the integrity and availability of technology and information to meet business needs in a timely manner
- Developing and maintaining appropriate organisational structures, service contracts and processes to support ICT governance
- Measuring and managing the cost expended and the value received from technology
- Managing technology resources and assets, including information, in an efficient and effective manner, such that the value derived from these resources is maximised
- Safeguarding technology resources and information
- Monitoring adherence to legislative requirements and other guidance as it pertains to IT management relevant to Johannesburg Water, including, but not limited to King IV, Control Objectives for Information and Related Technologies (COBIT), the Information Technology Infrastructure Library (ITIL) and the International Organisation for Standardisation (ISO) 27000 series supporting information security (ISO 27002)
- Establishing appropriate polices and frameworks pertaining to managing IT across the business, and monitoring adherence to it, and establishing performance criteria aligned with operational expectations and the periodic measurement of actual versus desired performance levels.

In terms of Principle 7 of the Protection of Personal Information Act (PoPIA), security safeguards have been implemented on the entity's information systems, including user authentication and access control, password security and review of user access on a periodic basis. Johannesburg Water has initiated a process to address PoPIA compliance.

In line with King IV, the Board delegated to management the responsibility to implement and execute effective technology and management. Management approved the direction of how IT was managed and supported by the Risk and ICT Steering Committee, the Executive Committee and the Service Delivery, Procurement Oversight and ICT Board Committee. In addition, the Audit and Risk Committee oversaw adequate and effective risk management and the system of internal control, including those pertaining to technology.

Action taken to monitor the effectiveness of technology and information management

The effectiveness of technology is measured against business requirements and risks. For example, has the technology improved a business process and/or has it addressed weakness in controls in the business process. The other aspect that is used to measure effectiveness of technology is against operational and strategic risks. Has the technology mitigated or resolved the risk? In terms of information management, this is measured against four key principles: confidentiality, integrity, availability and compliance. Confidentiality speaks to the prevention of unauthorised disclosure of data and information. Integrity speaks to the prevention of the unauthorised amendment or deletion of data and information.

Availability speaks to the prevention of the unauthorised withholding of data, information or resources. Compliance speaks to regulations and legislation such as the Promotion of Access to Information Act (PAIA) and PoPIA. Controls are in place for Johannesburg Water's information systems for user access, authorisation, including the segregation of duties, annual review of user access and rights, etc.

Key areas of focus in 2018/19

To further our strategic objective of providing innovative and quality services, the company maintained the drive to deliver on key projects, all of which ultimately contributed to an improved service and mitigation of risks, including cyber threats. For the year under review, the major focus areas were as follows:

Business analytics

In pursuance and support of the Smart City Strategy, a multi-year project was initiated to develop and deploy business unit dashboards covering key performance areas and indicators of business.

Three dashboards (supply chain, operations and meter reading) were successfully developed. In addition to the delivery of the dashboards, the project included the training and development of internal resources in business analytics and business intelligence tools to support business.

Automation and technology innovation

Johannesburg Water manages huge capital budgets averaging R1 billion a year. A project was initiated for the implementation of an integrated project management solution.

The solution complements the entity's SAP enterprise resource planning (ERP) system and aimed at delivering benefits that included improved project governance and efficiencies in managing the implementation of capital project deliverables that were linked to infrastructure development, as contained in the Business Plan and the SDBIP.

Johannesburg Water has a sewer preventative maintenance schedule, which involves the cleaning of the sewer network in areas that experience high blockages. The purpose of the cleaning programme is to proactively clean the sewer network to prevent blockages from occurring.

A system solution was developed to enhance and semi-automate the maintenance schedule. Using the entity's geographical information system (GIS), assets were identified and selected for maintenance. This information was then sent via an interface to SAP Plant Maintenance for scheduling.

The solution has significantly improved the process through automation and reducing the time it takes to perform the scheduling activities.

Future focus areas

Digital transformation (workforce optimisation)

To implement a technology platform that optimises the service delivery value chain end to end from the time a customer engages with Johannesburg Water through to the fulfilment of a service request, workforce teams will be equipped with ruggedised mobile devices to attend to water service requests and incidents with real-time access to information systems.

Throughout the value chain, customers are informed and receive notifications on the progress of their service requests.

Business analytics

The Business Analytics Project to develop dashboards for business units will continue. The project will deliver an additional three dashboards in the year.

Enterprise asset management

An integrated enterprise asset management solution will be implemented for the effective and efficient management of the entity's assets, enabling compliance with GRAP 17.

Centralisation and rationalisation of ICT services

The performance and reliability of the network is paramount to provide reliable and high performance access to ICT services.

The increase in bandwidth will meet business demand, enable the deployment of new technology services and rationalise operating costs through the centralisation of ICT hardware and services.

IT challenges

The year under review represented various challenges in supplying reliable IT services to business. While a number of interventions have been put in place to address operational risks and some technology challenges, the key challenges for ICT for the financial year included the uptime of information systems, and access and performance to information systems.

Uptime of information systems

The ageing infrastructure to provide emergency power to the entity's data centres and Eskom's load-shedding schedule severely impacted the availability of information systems. While core systems were kept running as best as possible, secondary systems needed to be shut down as a result of limited capacity on the generator.

The delivery of a new 350 kVA diesel generator and new uninterruptible power supply (UPS) units have resulted in almost more than double generator capacity to power the data centres and improve uptime of the information systems.

Access and performance to information systems

Johannesburg Water largely operates a centralised computing environment, where its core information systems are accessed through the wide area network (WAN). Due to the addition of new systems and limited bandwidth, user access to information systems suffered poor performance. Interventions were put in place to increase the bandwidth, which resulted in overall improved user access performance to information systems.

In the world of ever-increasing cyber attacks, the protection of the entity's information systems against cyber attacks and malware remained at the forefront.

During the year, new security controls were implemented to improve email security against malware attacks, such as Ransomware.

SECTION 7: COMPLIANCE WITH LAWS AND REGULATIONS

The Board provides quarterly and annual integrated reports on its performance and service delivery to the parent municipality as prescribed in the SDA, the MFMA and the MSA. The SDA was concluded in accordance with the provisions of the MSA, which governs the entity's relationship with the CoJ.

Non-executive directors contribute an independent view to matters under consideration and add to the depth of experience of the Board. The roles of Chairman and Managing Director are separate, with responsibilities divided between them. The Chairman has no executive functions. The Board is satisfied that this separation of powers is effective in ensuring that the necessary checks and balances are in place.

The Board ensured that management complied strictly with the relevant sections of the MFMA, with specific reference to Chapter 12, and the preparation of the annual financial statements. The annual financial statements, together with the Integrated Annual Report and the company's performance results were delivered to the parent municipality and the Auditor-General two months after the close of the financial year (on 31 August 2019).

The Board and executive management ensured that there was compliance with the relevant legislation. The Company Secretary has certified, in terms of Section 88(2)(e) of the Companies Act, that all statutory returns have been submitted to the Registrar of Companies.

The Board or any of its members may, in appropriate circumstances and at the expense of the company, obtain the advice of independent professionals. Directors had unlimited access to the Company Secretary, who acts as an advisor to the Board and its committees on matters relating to, inter alia, compliance with the company's rules and procedures, statutory regulations and best corporate practices. The Board is satisfied that these arrangements are effective in supporting the discharge of its responsibilities.

At each Audit and Risk Committee meeting, an update on legal compliance was presented. This update included a legislative radar or forecast of significant legislative developments within the environment Johannesburg Water operate in. Key areas of non-compliance, if any, were also brought to the attention of this committee.

The focus areas were on MFMA Circular 68 (unauthorised, irregular, fruitless and wasteful expenditure), MFMA Section 65(2)(e) (thirty-day late payment reporting), as well as on Johannesburg Water's 33 Acts, of which 10 are priority Acts.

All irregular expenditure was reported as required by MFMA Circular 68. The 33 Acts were also monitored and reported on during the year under review.

As at year-end, four priority Acts were not 100% compliant. However, their compliance was 85% and above, and remedial actions are being taken to ensure that they reach 100% compliance.

During the financial year, no fines and/or other forms of sanction were issued against the company and no directors or senior management members were accused of or held liable for non-compliance with any laws, regulations or codes of conduct.

In order to monitor the effectiveness of compliance management and how the outcomes were addressed, all late payment invoices reported their corrective strategies, as well as the non-compliant Acts' remedial actions, as indicated in Table 12, were monitored for implementation.

Planned areas of future focus will strengthen the monitoring with evidence for the implemented corrective actions.

During the financial year, no fines and/or other forms of sanction were issued against the company and no directors or senior management members were accused of or held liable for non-compliance with any laws, regulations or codes of conduct.

Table 12: Compliance with legislations

Act	Comments	Remedial actions
Basic Conditions of Employment Act, No. 75 of 1997	Compliance with the Basic Conditions of Employment Act has remained at 99.1% due to 204 employees who exceeded the maximum overtime limit by 2 171 hours.	Business will continue to drive the implementation of the identified corrective action to ensure 100% compliance
National Environmental Management Act, No. 107 of 1998	Section 24G that relates to fine regulation and Section 49A that relate to offences have not been assessed.	Assessment scheduled for completion in the next reporting period
Water Services Act, No. 108 of 1997 (WSA)	Non-compliance to Regulation 8 of the WSA that requires every tap or point of access through which effluent or non-potable water can be accessed to be clearly marked with a durable notice indicating that the effluent or non-potable water is not suitable for potable purposes. Although Johannesburg Water places notices, it only uses one official language as opposed to Regulation 8(3) that requires that notices should be in more than one official language.	The outstanding notice signs at year end will be procured during the new financial year.
Broad-based Black Economic Empowerment Act, No. 53 of 2003 and 2014 Code	Section 13G, Regulation 12(2), requires the sphere of government, public entity or organ of state to ensure that it reports on its compliance with B-BBEE in their audited annual financial statements and annual reports, and file the aforementioned reports compiled in terms of Section 13G(1), with the Commission, on the prescribed B-BBEE 1 form within 30 days of the approval of such reports. The B-BBEE certificate was renewed during June 2018, but was not submitted to the Commissioner. Neither of the reports for 2017/18 or 2018/19 have been submitted.	Business is attending to mitigation strategies and compliance will be met by December 2019.

Table 13 indicates the applications for information in terms of the Promotion of Access to Information Act, No. 2 of 2000.

Table 13: Applications

Date requested	The request	Requested by
29 April 2019	Copy of agreement concluded between the former Southern Pretoria Metropolitan Structure/former Midrand/Rabie Ridge/ Ivory Park Metropolitan Structures.	Ivan Pauw & Partners (Samrand Development)
3 June 2019	Municipality's tariff policy on the levying of fees for the Local Government: Municipal Systems Act, No. 32 of 2000 The written agreement between the municipality and the registered owners of Portion 1 of Erf 103 Birnam Township, registration Division IR Province of Gauteng, in extent 3 399 m2, in terms of which the municipality renders water and sewer services to the owner.	Murray van Rensburg Inc Attorneys

Corporate governance statement

Johannesburg Water practices 16 of the 17 principles in four governance outcomes found in King IV. The governance outcomes are highlighted through the adherence to the principles found throughout the Integrated Report. As a municipal entity, Johannesburg Water does not invest, as contemplated in Principle 17.

Johannesburg Water strives to achieve the following governance outcomes:

- An ethical culture
- Good performance
- Effective control
- Legitimacy

King IV reporting

The entity applies the governance principles contained in King IV and continues to further entrench and strengthen recommended practices in its governance structures, systems, processes and procedures. The Board of Directors and executives recognise and are committed to the principles of openness, integrity and accountability advocated by the King IV Code on Corporate Governance.

Through this process, the Shareholder and other stakeholders will derive assurance that the entity is being ethically managed according to prudently determined risk parameters in compliance with generally accepted corporate practices.

The company has complied with the King IV Report during the year under review. Ongoing steps are taken to align practices with the report's recommendations, and the Board continually reviews the company's progress to ensure that there is an improvement in corporate governance. During the year under review, Johannesburg Water entrenched its risk management reviews and reporting, and compliance assessments were conducted in terms of the Companies Act, No. 71 of 2008, the MSA, and the MFMA. The annual Board assessments and evaluations were conducted, and an Integrated Annual Report for the previous year was effectively completed in accordance with Section 121 of the MFMA.

Importantly, in respect of the Audit and Risk Committee, the provisions of Part 5 of the King Report have been applied. In the main, this would refer to the independence of the Audit and Risk Committee being formally appointed by the Shareholder at its Annual General Meeting. Furthermore, the majority of members are independent and not represented on the Board.

Group Governance Framework

The City's Governance Framework assists the CoJ, as a group, to better understand the governance structure and principles required to ensure effectiveness and accountability. The framework clarifies governance roles and responsibilities, and enhances oversight, monitoring and evaluation within the group's functions in the city. The framework also aims to improve the capacity and capability of the Board of Directors and executives to effectively manage the entity and efficiently account to the CoJ as sole Shareholder. This reinforces the concept of the CoJ as a "holding company" with "subsidiaries" and ensures the alignment and consistency of the CoJ's group policies through the setting of consistent performance standards.

The Board of Directors has incorporated the CoJ's Corporate Governance Protocol in its Board Charter, which inter alia regulates its relationship with the CoJ as its sole member and parent municipality in the interest of good corporate governance and good ethics.

In this regard, the Chairman of the Audit and Risk Committee, or nominated representative, attends the CoJ's Group Committee meetings, the main committees being the Group Audit and Group Risk committees.

The Board and management recognise that the company has a mandate to deliver services derived from a political structure and aligned to the strategy of the CoJ. During the year under review, the company conducted its risk management reviews, and reporting and compliance assessments were conducted in terms of the Companies Act, No. 71 of 2008, the MSA and the MFMA.

CHAPTER 3

SERVICE DELIVERY PERFORMANCE

Stakeholders impacted: Shareholder, Communities and Business
Response to Strategic Goals 1, 2 and 3

SECTION 1: HIGHLIGHTS AND ACHIEVEMENTS

During the year under review, the following key service delivery achievements, milestones and other unexpected occurrences were realised:

- An average of 1.61 billion litres of water, complying with acceptable drinking water standards (SANS 241), was distributed to households within the city on a daily basis.
- A total of 42 977 water pipe bursts were repaired.
- Staff attended to 60 563 meters and connection failures.
- A total of 61 928 sewer blockages were cleared.
- Over 57 000 ventilated improved pit latrines were de-sludged.
- A total of 9 464 chemical toilets were provided and serviced (twice weekly on average).
- A total of 231 million litres of water was transported to stationary tanks in informal settlements.
- A total capital expenditure of 99.7% was realised
- Water bursts restored within 48 hours of notification achieved 90.53%.
- Sewer blockages cleared within 24 hours of notification achieved 95.57%.
- A total of 349.75 water pipe bursts were experienced per 100 km of pipe length.
- A total of 527.26 sewer pipe blockages were experienced per 100 km of pipe length.
- A total of 8 287 households were provided with access to basic water.
- A total of 6 528 households were provided with access to basic sanitation
- Some 131.63 km of water pipes were replaced.
- Some 42.8 km of sewer pipes were replaced.
- The demand for rudimentary services increased by 100%.

SECTION 2: SERVICE DELIVERY CHALLENGES

Water demand management

The non-revenue water (NRW) for 2018/19 was 38.6% (commercial losses at 7%, unbilled authorised consumption at 13.5% and physical losses at 18.1%) against a target of 35%. This is a 0.2% increase when compared to the 38.4% of the previous financial year, which is a major concern for management. Also of concern is the billing volumes that do not track the system input volume and appeared to be reducing year on year. Water demand, which is linked to system input volume, is closely linked to NRW. This was mainly experienced in the Soweto Region (analysis indicates an overall increase of 10.9% in total consumption for this region, which can mainly be ascribed to property leaks and leaking reservoirs), Zandfontein South (an increase of 11.05%, was experienced in the North East Areas bulk meter, which was due to the rezoning of the Alexandra zone, which has now been extended to supply zones 2, 3 and 4, which include a high number of internal property leaks, as well as the Dunkeld Reservoir) and Deep South-Orange Farm (the Old Compound/Traditional registered an increase of 32.17% in comparison to the previous year, which can be ascribed to illegal connections by the Phumula Mqashi informal settlement, which is growing rapidly), where consumption was authorised without the corresponding revenue. This issue was given attention via by-law enforcement, a revenue enhancement project and the Soweto and Orange Farm metering projects.

Another contributing factor was the deemed customer category within the CoJ, which is unique to the city. These customers are being billed at a flat rate of 20 kl, 10 kl or 6 kl. Investigations, however, indicated that the actual consumption to these deemed customers range between 50 kl and 60 kl. The difference between the flat rate being billed and the actual consumption is therefore NRW, and is catered for under unbilled authorised consumption. The contribution of these deemed customers to the city's NRW is 11.8% of the total system input volume. The areas affected in this category are Soweto, Orange Farm and Alexandra.

Bulk water supply

The delay in Phase II of the Lesotho Highlands Water Scheme Project has placed a challenge and pressure on the current available water resources. Phase II was required to be completed in 2018. However, due to various delays, it will now only be completed in 2026. Due to this delay, no further increases are allowed on the water abstraction licenses from the Integrated Vaal River System. The implication for the city is that the water demand needs to be reduced to 1 300 Ml per day to comply with the company's allocation of the water abstraction license. To address this challenge, Johannesburg Water is part of a Project 1600 steering committee driven by Rand Water to improve the water use efficiencies of the city. This will enable a reduction of water demand. The bulk water supply in 2017/18 was 1 553 Ml per day, which was an increase of 2.5% compared to 2016/17. However, consideration should be taken of the water restrictions, which were implemented during that year. Comparing 2017/18 with 2015/16 (the year before restrictions were imposed) the bulk supply decreased by 1.2%. Furthermore, the bulk supply increased to 1 612 Ml per day year-to-date for the current financial year, which is a 3.8% increase compared to 2017/18.

Figure 5: Water consumption

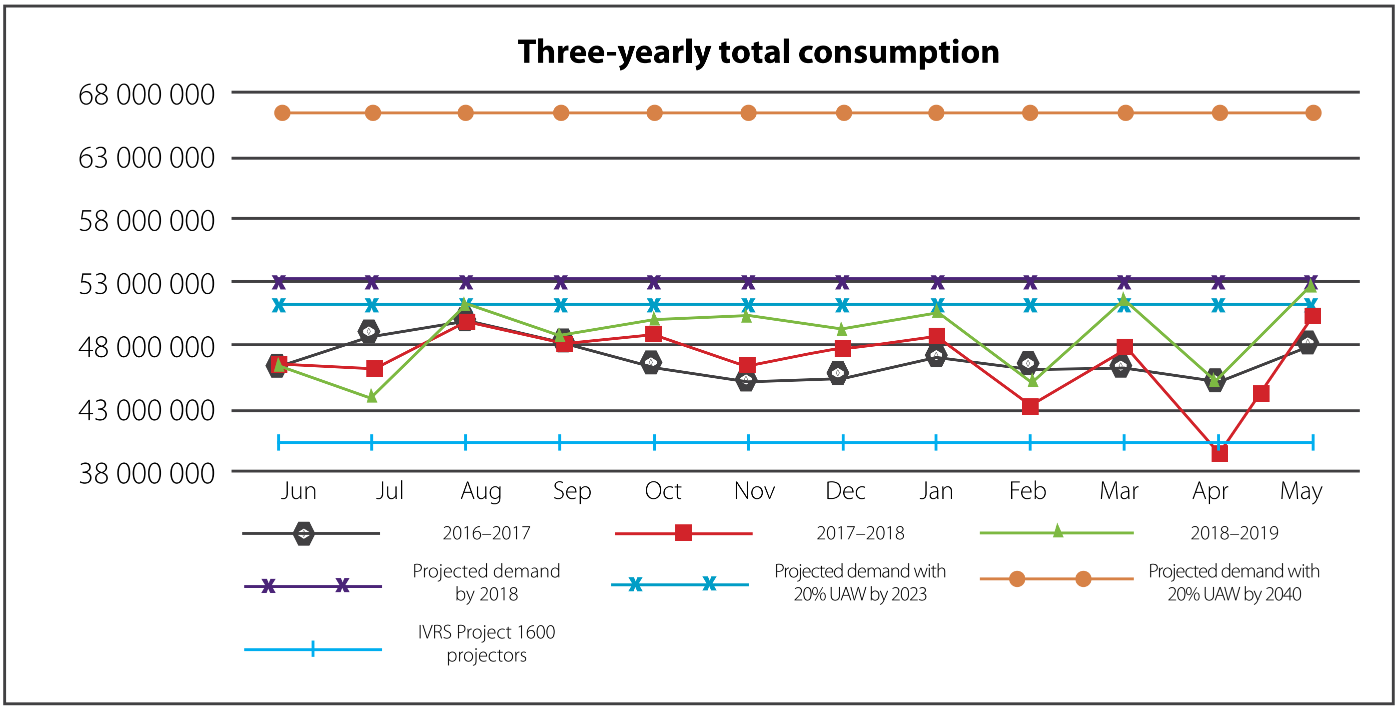


Figure 5 indicates the total monthly water demand for the CoJ over the past three years, as well as the projected water demand for 2018, 2023 and 2040, with 20% NRW. The water demand over the past three years is below the projected water demand for all three projections, which is a good sign for the initiatives being implemented. The challenge, however, is that the company is 18% above the Project 1600 target set, which was meant to enable compliance with the abstraction license until the Lesotho Phase II comes on line in 2026.

On-site services

Johannesburg Water provides on-site water and sanitation services to households residing in informal settlements. These services include the desludging of ventilated improved pit (VIP) latrines, which poses a challenge due to the misuse of sewer infrastructure. This infrastructure is being used as a disposal place for solid waste and grey water.

This results in an increased frequency of desludging, as well as increased time for desludging per toilet due to the manual removal of solid waste. In mitigating this, the company conducted public awareness campaigns in the affected areas to sensitise the community about the importance of correct sewer infrastructure utilisation.

Sewer infrastructure

The drastic increase in sewer blockages, especially in the hotspot areas including Ivory Park, Diepsloot, Alexandra, some portions of Soweto and Orange Farm, posed a challenge to service delivery. This increase placed service delivery under pressure and negatively affected the response times as teams have to deal with more work than they are able to perform.

The main reason for this increase was the incorrect use of the sewer infrastructure by communities.

Ageing sewer infrastructure is also posing a challenge, culminating in increased blockages resulting from infrastructure failure. Johannesburg Water has placed major emphasis on the renewal of the sewer infrastructure. This will assist in improving infrastructure performance, especially in the hotspot areas.

Water infrastructure

Theft and vandalism of the water infrastructure, especially brass water meters, posed service delivery challenges to the entity's Infrastructure Improvement Programme. Water meters were stolen, which created frequent water interruptions that negatively affected customers as water teams had to attend to meter replacements, as well as water bursts.

This further impacted negatively on overall water response times in that teams were spending a lot of time replacing the meters, and other failures were only addressed later. The company mitigated this by replacing all brass domestic meters with plastic ones, which would reduce theft in the medium to long term. Furthermore, the company established relationships with local community policing forums to assist in arresting the culprits. The approach had a positive effect.

Ageing water infrastructure also posed a challenge with the high number of bursts due to infrastructure failure.

The company placed major emphasis on the renewal of water infrastructure, which assisted in improving infrastructure performance, especially in the hotspot areas.

Load shedding

Load shedding was implemented during the second half of the year due to limited power generation, which impacted the entire country. The impact for Johannesburg Water was that water supply was also interrupted in areas where water had to be pumped into supply towers or directly into the network. Although the water interruption did not last for more than two hours at a time in the majority of the areas, challenges were experienced in the Crosby and Brixton reservoir supply areas.

In these areas, load shedding resulted in water interruptions of longer than eight hours in some cases. These two reservoir complexes are linked in that water is pumped from the Crosby Reservoir to the Brixton Reservoir and again from the Brixton Reservoir to the Brixton Tower. Since both the complexes were on the same load-shedding schedule, water could not be pumped from the Crosby to Brixton reservoirs and then to the tower. This resulted in the Brixton Reservoir running low. Once power was restored, the reservoir had to be recovered before pumping could commence to the tower. This led to water outages for more than eight hours in the vicinity of the tower.

To mitigate this in the short term, City Power amended the load-shedding schedules to ensure that the two complexes were not on the same schedule. Johannesburg Water also initiated a process to provide generators to these two complexes.

Wastewater treatment

The current operation and handling of sand ingress into the sewer network system negatively affected the entire bulk wastewater operations of Johannesburg Water. Apart from continuous blockages and sewer pump station failures, it caused failures at some sections of the WWTW. In most cases, it reduced the treatment capacity and lifespan of equipment, caused premature failure, and increased the demand for infrastructure replacement on an already stringent budget.

To implement preventative measures in the sewer network, and to protect and extend the lifespan of the WWTW and the sewer pump stations, the following preventative measures ought to be implemented to remove sand from the sewer system before it reaches the WWTW:

- Sufficient staff should be appointed for gulley inspections, as required by the WWTW's Water Use License.
- The sewer network should be investigated for the design and construction of more sand traps on all outfall sewers for the removal of sand upstream of the sewer pump stations and the WWTW.
- The outfall sewers network should be assessed to identify areas where stormwater would enter the sewers during rainstorm events. Manholes should also be sealed and/or sewer lines diverted where possible.
- The useful lifespan of equipment on the asset register of the Head of the Works should be reduced.
  The database should also be aligned with the replacement need of the grit removal system.
- A full preventative action plan for sand removal in the sewer network system should be implemented.

Failures at the WWTW due to sand ingress have increased to such an extent that all the WWTW are continually affected, even in winter when there are low flow conditions.

Community unrest

During the year, community unrest in various areas in the CoJ resulted in the company not being able to do work in these areas due to staff safety concerns. Johannesburg Water staff were assaulted, mugged and intimidated in areas including Devland, Westbury, Eldorado Park, Kliptown and Klipspruit West, as well as at the hostels of the CoJ. This resulted in staff no longer being able to work in those areas, which impacted negatively on service delivery.

To mitigate this situation, stakeholder engagements took place between Johannesburg Water (management and staff), councillors, community representatives and community policing forums in these areas.

The meetings resulted in a positive outcome in that the councillors and community members committed to assisting Johannesburg Water staff to perform their duties. This assistance included members of the community policing forum going out with staff when infrastructure failures needed to be addressed and dealing with any intimidation. Johannesburg Water also communicated via the local media to request communities to allow staff to carry out their work without interference.

Community protests in areas like Rabie Ridge and Alexandra resulted in prolonged periods in which Johannesburg Water could not render any repair and maintenance services.
In mitigating these situations, the Shareholder engaged communities, and once the areas were declared safe, Johannesburg Water could go into the areas and address the water and sanitation failures.

Reinstatements

The entity has experienced some challenges in terms of initiated reinstatement, especially in relation to back-filling. For this financial year, 21 465 back-filling requests were initiated, of which 85.62% were done within five days.

The tender to assist with the reinstatement work was restarted following the non-award of the previous tender due to the said tender being non-responsive. Johannesburg Roads Agency (JRA) managed to appoint Level 1 and Level 2 contractors, who were utilised to address the backlog on reinstatements.

SECTION 3: RESPONSE TO STRATEGIC DIRECTION

Table 14 indicates how the entity responded to the strategic goals and objectives during the period under review. These goals are aligned to the Mayoral priorities as depicted in Chapter 1.

Table 14: Strategic goals and achievements

Strategic goals or objectives	Achievements 2018/19	Achievements 2017/18
Strategic Goal 1	• 527 sewer blockages per 100 km of pipe length • 350 pipe bursts per 100 km of pipe length • 1.23% renewal rate on the network and WWTW • 120 SMMEs supported • 126% B-BBEE procurement spend • 99.7% capital expenditure spent • 2 630 EPWP job opportunities created	• 539.39 sewer blockages per 100 km of pipe length • 358.09 pipe bursts per 100 km of pipe length • 0.87% renewal rate on the network and WWTW • 81 SMMEs supported • 126% B-BBEE procurement spend • 84.33% capital expenditure spent • 995 EPWP job opportunities created
Strategic Goal 2	• 99.7% water quality compliance • 87.18% households provided with access to basic water • 41.61% households provided with basic sanitation	• 99.9% water quality compliance • 82.68% households provided with access to basic water • 38.06% households provided with basic sanitation
Strategic Goal 3	• 286 water consumption per capita (l/c/d) • 96% response time to sewer blockages • 91% response time to water bursts • 89% of accounts billed on actual consumption	• 285 water consumption per capita (l/c/d) • 96% response time to sewer blockages • 90% response time to water bursts • 83% of accounts billed on actual consumption
Strategic Goal 4	• 89% resolution of AGSA's findings • R11.7 billion in revenue • R3.8 billion net profit before bad debt provision • Improved solvency ratio of 2.37 • R375 million cash in the bank	• 79.2% resolution of AGSA's findings • R10.1 billion in revenue • R3.2 billion net profit before bad debt provision • Improved solvency ratio of 2.11 • R107 million cash in the bank
Strategic Goal 5	• Two business units deployed with dashboard analytics	• No business units deployed with dashboard analytics
Strategic Goal 6	• 45 hours of training per employee • 3.87% of staff with disabilities • 29.97% of female employees	• 43.61 hours of training per employee • 3.93% of staff with disabilities • 28.95% of female employees

Table 15 illustrates the linkages of the entity's SDBIP performance against the Mayoral priorities and GDS 2040.

Table 15: Linkages to SDBIP performance, Mayoral priorities and GDS 2040

Service Delivery Budget Implementation Plan	Growth and Development Strategy	Mayoral Priorities	Key performance indicators	Target	Actual
Access to basic services	An inclusive society with enhanced quality of life that provides meaningful redress through pro-poor development	**Priority 2:** Ensure pro-poor development that addresses inequality and poverty and provides meaningful redress	Percentage of informal households with access to water at a minimum Level of Service 1 (cumulative number of households)	87.03% (156 481)	87.18% (160 325)
			Percentage of informal households with access to sanitation at a minimum Level of Service 1 (cumulative number of households)	40.69% (74 349)	41.61% (76 524)

SECTION 4: PERFORMANCE AGAINST SERVICE STANDARDS

The company has committed to achieving the service standards that have been published as part of the Shareholder's service standards. The entity achieved six of the 12 standards. Of those that were not achieved, four were above 90% and only two were below 90%. The entity has put mitigation plans in place to address the service standards that were not achieved, going into the new financial year. A summary of the performance on the service delivery indicators is provided in Table 16:

Table 16: Service standards

Service standard indicator	Service standard	2018/19 Actual	Rating
Missing manhole covers replaced **within 24 hours**	95%	93%	😐
Sewer blockages cleared **within 24 hours**	96%	96%	☺
Defective water meters repaired **within three days**	95%	92%	😐
New water connections within 15 days	95%	75%	☹
Burst water pipes repaired **within 48 hours**	95%	91%	😐
Fire hydrants repaired **within 48 hours**	95%	81%	☹
Stolen water meters replaced **within 24 hours**	95%	96%	☺
Leaking valves repaired **within 48 hours**	95%	96%	☺
Actual reading of water meters **at end of the quarter**	95%	90%	😐
Planned water service interruptions completed **within 12 hours (diameter > 350 mm)**	95%	99%	☺
Communication of planned service interruptions sent **within seven days**	95%	100%	☺
Communication of unplanned service interruptions **sent immediately**	95%	100%	☺

Legend

100% and above ☺	**90% and above** 😐	**Below 90%** ☹

Performance against Batho Pele principles

The Batho Pele ("People First") principles (know the service you are entitled to) are aligned to the Constitution. Government officials must follow the Batho Pele principles, which require public servants to be polite, open and transparent, and to deliver good services to the public. In executing the principles, the organisation's focus areas are as follows:

Consultation

The organisation consults residents about the level and quality of the public services they receive through public meetings, petitions, visible service delivery meetings, councillor consultation and project support, Wherever possible, residents will be given choices about the services that are offered.

Access

Access to water and sanitation is provided through piped water and water-borne sewerage in formal households and standpipes, and VIP latrines and chemical toilets in informal settlements. Some 6 528 households were provided with access to basic sanitation during the period under review, thereby increasing coverage in informal settlements to 41.61% against a target of 40.69%. The cumulative households with access to basic sanitation is 69 936 of the total 183 895 households in informal settlements.

A sum of 8 287 households were provided with access to basic water against a target of 8 004, increasing the number of households with access to basic water to 160 325 of the total 183 895 households in informal settlements, thus representing coverage of 87.18% against a target of 87.03%.

Information

The company ensures that citizens are given full and accurate information about the public services they are entitled to receive through the annual publication of the Business Plan, Mid-term Report and Integrated Annual Report on the website.

Redress

Within the CoJ, the Ombudsman investigates complaints against administrative actions, procedures and practices such as improper conduct, unfair treatment, poor service, failure to follow procedures, disregard of Batho Pele principles and failure to respond to an enquiry, complaint or other correspondence.

Value for money

In terms of Regulation 28 (1) of the MFMA and the Municipal Supply Chain Management Regulations, the Bid Evaluation Committee must evaluate bids in accordance with the achievement of the best value for money. Clause 27.8 of the company's Supply Chain Management Policy ascribes to the aforementioned regulation, which is applied in the evaluation of bids.

SECTION 5: PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

Table 17 indicates the business scorecard with both targets and actual annual performance.

Table 17: Balanced Scorecard

Strategic goal	Key performance indicator	Baseline 2017/18	Target 2018/19	Quarter 1		Quarter 2		Quarter 3		Quarter 4		Reference
				Target	Actual	Target	Actual	Target	Actual	Target	Actual	
Strategic Goal 1: Utilise infrastructure delivery to create jobs, support SMMEs and attract nvestments Weight: 25%	Number of sewer blockages per 100 km of network length Weight: 20%	540.72	545	139	132. 63	278	267.11	417	399.93	545	527.26	1
	pipe bursts per 100 km on network length Weight: 20%	358.77	350	87	90.77	173	170.39	260	259.75	350	349.75	2
	Renewal rate of water and sewer networks, and WWTW's electro-mechanical components based on value Weight: 20%	1.1%	1.4%	014%	0.14%	0.14%	0.17%	0.96%	0.56%	1.4%	1.23 %	3
	Percentage of capital expenditure spend Weight: 10%	86.6%	95%	10%	10%	10%	27%	60%	48%	95%	99.7%	4

Strategic goal	Key performance indicator	Baseline 2017/18	Target 2018/19	Quarter 1		Quarter 2		Quarter 3		Quarter 4		Reference
				Target	Actual	Target	Actual	Target	Actual	Target	Actual	
Strategic Goal 1: Utilise infrastructure delivery to create jobs, support SMMEs and attract investments Weight: 25%	Total B-BBEE procurement recognition spent on qualifying SMMEs Weight: 10%	126%	125%	125%	125%	125%	126%	125%	127%	125%	126%	5
	Number of jobs created based on EPWP Weight: 10%	1 114	2 022	413	656	929	1 293	1 548	1 578	2 022	2 630	6
	Number of SMMEs supported through community upliftment projects Weight: 10%	81	90	20	47	40	85	40	88	90	120	7
Strategic Goal 2: Deliver water and sanitation service of good quality that is accessible, reliable and efficient in an environmentally responsible/sustainable way Weight: 21%	Percentage compliance with drinking water quality standard on *E. Coli* (SANS 241) Weight: 10%	99.9%	99%	99%	99.90%	99%	99.7%	99%	99.7%	99%	99.7%	8

Strategic goal	Key performance indicator	Baseline 2017/18	Target 2018/19	Quarter 1		Quarter 2		Quarter 3		Quarter 4		Reference
				Target	Actual	Target	Actual	Target	Actual	Target	Actual	
Strategic Goal 2: Deliver water and sanitation service of good quality that is accessible, reliable and efficient in an environmentally responsible/sustainable way Weight: 21%	Percentage informal households with access to water at a minimum Level of Service 1 (cumulative number of households) Weight: 32.5%	82.86%	87.03%	83.89%	82.68% (152 038)	85.11% (156 438)	83.37% (153 322)	85.11%	83.73%	87.03% (156 481)	87.18% (160 325)	9
	Percentage informal households with access to sanitation at a minimum Level of Service 1 (cumulative number of households) Weight: 32.5%	38.06%	40.69%	38.94%	38.03% (69 936)	39.34% (73 013)	40.17%	39.34%	40H.17%	40.69% (74 349)	41.61% (76 524)	10
	Percentage of final effluent compliance in all WWTW Weight: 25%	72%	92%	92%	79.3%	92%	76.8%	92%	78%	92%	78%	11

Strategic goal	Key performance indicator	Baseline 2017/18	Target 2018/19	Quarter 1		Quarter 2		Quarter 3		Quarter 4		Reference
				Target	Actual	Target	Actual	Target	Actual	Target	Actual	
Strategic Goal 3: Improve customer and stakeholder satisfaction Weight: 20%	Water consumption per capita Weight: 30%	285 l/c/d	297 l/c/d	297 l/c/d	305.3 l/c/d	297 l/c/d	283.52 l/c/d	297 l/c/d	284.64 l/c/d	297 l/c/d	285.58 l/c/d	12
	Percentage of water bursts restored within 48 hours of notification Weight: 30%	89.09%	95%	95%	87.36%	95%	90.15%	95%	90.34%	95%	90.53%	13
	Percentage of sewer blockages cleared within 24 hours of notification Weight: 30%	94.94%	96%	96%	95.68%	96%	95.58%	96%	95.60%	96%	95.57%	14
	Percentage of accounts billed on actual reading Weight: 20%	83.01%	95%	95%	85.32%	95%	85.89%	95%	88.49%	95%	88.7%	15

Strategic goal	Key performance indicator	Baseline 2017/18	Target 2018/19	Quarter 1		Quarter 2		Quarter 3		Quarter 4		Reference
				Target	Actual	Target	Actual	Target	Actual	Target	Actual	
Strategic Goal 4: Enhance sound financial management, sustainability and clean governance Weight: 20%	Percentage of NRW Weight: 40%	38.40%	35%	A/T	A/T	A/T	A/T	A/T	A/T	35%	38.6%	16
	Rand net provision net profit before bad debt provision Weight: 40%	R3,197 billion	R2,855 million	R714 million	R556 million	R1,428 million	R1,405 million	R2,142 million	R2,465 million	R2,855 million	R3,797 million	17
	Audit opinion Weight: 20%	Unqualified audit opinion	Clean audit opinion	A/T	A/T	A/T	A/T	A/T	A/T	Clean audit opinion	Pending AGSA audit results	18
Strategic Goal 5: Use of technology for effective and efficient operations Weight: 4%	Number of business units fully deployed with Business Analytics Dashboard Weight: 100%	Mock dashboards for Meter Reading Department (MRD) and Operations completed. Technology platform to be enabled in July 2018	Three business units (Capital Expenditure, Operations and MRD) fully deployed with Business Analytics Dashboard	Operations Unit 25% deployed with Business Analytics Dashboard	Operations Unit 25% deployed with Business Analytics Dashboard	Operations Unit fully deployed with Business Analytics Dashboard	Operations Unit fully deployed with Business Analytics Dashboard	One business unit (Operations) fully deployed and one (MRD) 25% deployed with Business Analytics Dashboard	0	Three business units (Capital Expenditure, Operations and MRD) fully deployed with Business Analytics Dashboard	Two business units (Operations and MRD) fully deployed with Business Analytics Dashboard	19

Strategic goal	Key performance indicator	Baseline 2017/18	Target 2018/19	Quarter 1		Quarter 2		Quarter 3		Quarter 4		Reference
				Target	Actual	Target	Actual	Target	Actual	Target	Actual	
Strategic Goal 6: Invest in our staff to sustain optimal performance and a service- focused culture with committed people Weight: 10%	Percentage of female employees Weight: 25%	28.95	30.47 %	29.15%	29.09%	29.15%	29.55%	30.47%	29.55%	30.47%	29.97%	20
	Percentage designated as people with disabilities (PWD) Weight: 25%	3.93%	3.93%	3.87%	3.95%	3.87%	3.88%	3.93%	3.89%	3.93%	3.87%	21
	Total training hours per person spent on formal training events Weight: 25%	43.63	50 training hours	15 training hours	15 training hours	25 training hours	10 training hours	35 training hours	34.16 training hours	50 training hours	44.94 training hours	22
	National Occupational Safety Association (NOSA) star rating achievement Weight: 25%	NOSA 4 star rating achieve-ment	NOSA 4 star rating	A/T	A/T	A/T	A/T	A/T	A/T	NOSA 4 star rating	NOSA 4 star rating	23

Table 17.1: Action plans on non-achieved targets

Ref	Key performance indicator	Annual performance		Mitigating actions
		Target	Actual	
3	Renewal rate of water and sewer networks, and wastewater treatment works' electro-mechanical components based on value	1.4%	1.23 %	Target will be aligned to budget in 2019/20.
11	Percentage of final effluent compliance in all WWTW	92%	78%	Continue to engage DWS to expedite the license amendments required for Olifantsvlei, Bushkoppies, and Goudkoppies. Expedite projects on the refurbishment of the electro-mechanical equipment to reduce infrastructure failures. Continue to clear sand ingress, which impacts negatively on the infrastructure failure rate. Expedite preventative maintenance by hydro-jetting and gulley inspections to identify and address illegal stormwater connections.
13	Percentage of water bursts restored within 48 hours of notification	95%	90.53%	Expedite the pipe replacement programme and pressure management to reduce the number of water pipe bursts.
14	Percentage of sewer blockages cleared within 24 hours of notification	96%	95.57%	Expedite the pipe replacement programme and create awareness on the wise use of the sewer infrastructure.
15	Percentage of accounts billed on actual reading	95%	88.7%	Route optimisation is in progress to increase meter reading efficiency. Re-implementation of Route Master will improve the management of data and route planning. Sim cards for hand-held units have been requested from Information Technology to enhance route management and meter reading monitoring. Continuous monitoring and coaching will continue to improve the quality of meter readings. Deleted reading are monitored and mitigations put in place to reduce these every billing cycle.
16	Percentage NRW	35%	38.6%	Complete the retrofitting of leaking plumbing fittings with the Soweto project and commence with a similar project in Orange Farm. Commence with projects to repair four leaking reservoirs. Retrofit pressure management stations with smart pressure-reducing valve controllers. Water pipe replacement will continue at an accelerated pace and bulk maintenance will also be expedited. Continue with the meter and revenue project to ensure all consumers are converted to customers.
18	Audit opinion	Clean audit opinion	Pending AGSA's audit results	The Managing Director's weekly dashboard will continue in the next financial year to address all issues raised by Internal Audit and the AGSA. Internal controls will be continually monitored with a view to ensuring that they are strengthened to eradicate any gaps that may lead to audit findings.

Ref	Key performance indicator	Annual performance		Mitigating actions
		Target	Actual	
19	Number of business units fully deployed with Business Analytics Dashboard	Three business units (Capital Expenditure. Operations and Meter Reading Department) fully deployed with Business Analytics Dashboard	Two business units (Operations and Meter Reading Department) fully deployed with Business Analytics Dashboard	Due to the late award of the tender and the implementation of a new Integrated project management system, which would significantly affect the data for the Capital Investment (Capex) dashboard, the development of the Capex dashboard was replanned for the following year. The development of the Capex dashboard is in progress and expected to be completed by the end of December 2019.
20	Percentage of female employees	30.47%	29.97%	As positions became vacant, an opportunity will be used to fill the positions with females.
21	Percentage designated as people with disabilities	3.93%	3.87%	As positions became vacant, depending on the main job specifications of the positions, preference will be given to people with disabilities.
22	Total training hours per person spent on formal training events	50 training hours	44.94 training hours	This KPI will not form part of the scorecard in the next financial year. Managers will be persuaded to release employees for training while not compromising service delivery.

SECTION 6: PUBLIC SATISFACTION ON MUNICIPAL SERVICES

The entity obtained feedback through the stakeholder audit, customer satisfaction survey and the Gauteng 2018 Quality of Life survey on services it provided.

Stakeholder audit

An annual stakeholder audit was conducted, which indicated that, of the 100 stakeholders interviewed, 78% were happy with Johannesburg Water's overall performance, although a number of stakeholders indicated that they were unhappy. The proportion that totally disagreed dropped by 1% (from 8% to 7%) in the respective years. Issues that were being experienced by stakeholders and that led to the negative ratings included challenges they faced, especially with sanitation issues, as well as service interruption without prior notification. Failure by Johannesburg Water to resolve stakeholders' concerns within the stated turnaround times and inaccurate meter readings were also identified as areas of concern. Furthermore, for the year under review, Johannesburg Water maintained its customer satisfaction level at 71%, compared to the previous financial year. While customers attest to the good quality and uninterrupted supply of water, concern remains for the fault reporting services. Communication platforms are available, but are not fully efficient to support customer demands, thereby affecting views on service excellence, particularly when a query is logged.

Customer satisfaction survey

The company conducted a customer satisfaction survey for the year under review and achieved a 71% customer satisfaction level. While customers attest to the good quality and uninterrupted supply of water, concern remains for the fault-reporting services. Customers further stated that communication platforms are available, but not fully efficient to support customer demands, thereby affecting views on service excellence, particularly when a query is logged. Efforts will be made to address the concerns raised by residents in accordance with the outcomes of the survey.

Gauteng quality of life survey

The Gauteng Provincial Government also conducted a quality of life survey in 2018, which confirmed the above satisfaction level results, indicating that 94% of CoJ's residents have access to piped water in their dwellings or properties. Furthermore, 84% of residents believe that the water they get is clean and of a good quality. Results indicated that 95% of residents are considered to have adequate sanitation.

The results also indicated that overall service access measures are stable, albeit with some reductions in some quarters, that residents of Johannesburg have the lowest dissatisfaction with local government, and that the overall Quality of Life Index is up from 6.27 to 6.34 out of a possible 10.

SECTION 7: RECOMMENDATIONS AND PLANS FOR THE NEXT FINANCIAL YEAR

Capital budget (2019/20 to 2021/22)

In line with National Treasury's Medium-term Expenditure Framework (MTEF), Johannesburg Water has allocated a total capital budget of R3.2 billion in the coming three financial years. Table 18 provides a detailed breakdown per year.

Table 18: Capital expenditure budget: 2019/20 to 2020/21

Financial year	2019/20 R' million	2020/21 R' million	2021/22 R' million
Capital budget	1,050	958	1,212

In line with its mandate, Johannesburg Water's capital expenditure will be spent mainly on the following programmes:

- Wastewater Treatment Works
- Pipe Replacement and Upgrades
- Construction of Reservoirs

In the 2019/20 financial year Johannesburg Water's capital expenditure will focus on the following projects:

- Upgrades and renewal of WWTW, including Olifantsvlei WWTW, Bushkoppies's balancing tanks, Goudkoppies's refurbishment, Northern Works expansion of Unit 5 Module 2 and planning for new Lanseria WWTW, which will service an additional 50 000 household equivalent.
- Continuing with both the water and sewer pipe replacement programmes. The plan for the 2019/20 financial year is to replace 70 km of water pipes. Similarly, the entity plans to replace 37 km of sewer pipes.
- Construction of three reservoirs and five water towers, yielding a storage capacity of 59.3 Ml.

Contractor Development Programme

The Contractor Development Programme will complete its second phase (Phase 2a and Phase 2b) and enter its third phase in 2019/20, through which learner contractors will be expected to complete the programme. It is expected that, after completion, all learner contractors should be equipped to achieve CIDB Level 4.

Transit-oriented developments

The CoJ has prioritised three transit-oriented developments (TODs) as development focus areas: Empire-Perth, Louis Botha and Turffontein. Johannesburg Water has identified capital projects that are geared to support the expected population and economic activities within this transit-oriented development. The projects entail the upgrading of water mains and sewer mains, and the upgrade of water storage with R10 million allocated in 2019/20. Over three financial years, Johannesburg Water has planned capital infrastructure projects to a total value of R125 million.

Table 19: Transit-oriented development infrastructure projects

Project	Water (R'000)	Sewer (R'000)	Total (R'000)
Empire-Perth	45,000	10,000	55,000
Louis Botha	30,000	20,000	50,000
Turffontein	10,000	10,000	20,000
Total	**85,000**	**40,000**	**125,000**

CHAPTER 4

HUMAN RESOURCES AND ORGANISATIONAL MANAGEMENT

Stakeholders impacted: Employees
Response to Strategic Goal 6

SECTION 1: EMPLOYEE REMUNERATION (TOTAL COSTS INCLUDING EXECUTIVES)

Table 20 reflects the total cost to company of employee remuneration for the year under review. Total gross remuneration was R1,090 million, reflecting an under-expenditure of R11 million. The under-expenditure is due to vacancies that were in the process of being filled.

INTERNAL AND EXTERNAL FACTORS THAT INFLUENCED REMUNERATION

Remuneration policy changes

The material change to the policy had to do with an inclusion of a clause that excluded the payment of performance bonuses to employees who would have resigned from the company before December 2018 when the performance bonuses were payable.

The annual cost of living adjustment

The annual cost of living increase was implemented as per the directive received from the Shareholder, which was in line with the requirements of the Sectoral Collective Agreement. The annual salary increase for the bargaining staff was paid. The increase for section 56 employees will be implemented as soon as a directive is received from the Shareholder.

Table 20: Employee remuneration

Budgeted salaries	Budget 2018/19 (R'000)	Actual (R'000)	Variance (R'000)	Percentage variance
Employee costs	1,100, 630	1,090, 096	10,534	0.96%

Table 21 outlines salaries paid to the executive management during the 2018/19 financial year, including paid acting allowances in respect of positions that were vacant.

Table 21: Executive management remuneration

Executive	Basic salary	Acting allowance	Bonuses and performance-related payments	Travel and housing allowances	Other contributions to pension funds	Contributions to pension and medical aid	Total
Ntshavheni Mukwevho – Managing Director	R2,241,761		R158,408	R175,865		R378,420	R2,954,454
Johan Koekemoer – Financial Director (appointed December 2018)	R966,778			R184,800	-	R152,588	R1,304,166
Johan Koekemoer – Acting Financial Director		R63,302		-	-		R63,302
Derrick Kgwale – Chief Operations Officer	R826,435		-	R96,000		R124,064	R1,046,499
Graham Luden – Executive Manager: Governance and Legal Services	R611,755		R29,055	R3,454		R109,219	R753,483
Shaniseka Mathebula – Chief Audit Executive	R1,065,636		R31,552	R168,000		R239,856	R1,505,044
Sipho Sibiya – Acting Executive Manager: Governance and Legal Services		R56,176					R56,176
Reginah Malatji – Acting Executive: Manager HR and Corporate Services		R105,596					R105,596
Nontsikelelo Loteni – Acting Executive: Manager HR and Corporate Services		R5,369					R5,369
Bonginkosi Xaba – Acting Executive Manager: Stakeholder Relations and Communications		R71,591					R71,591
Isaac Dhludhlu – Acting Executive Manager: Stakeholder Relations and Communications		R32,914					R32,914
Etienne Hugo – Acting Chief Operations Officer		R44,218					R44,218
Jones Mnisi – Acting Executive Manager: Risk and Compliance		117,326					R117,326
Thembelihle Matsoso – Acting Executive Manager: Risk and Compliance		R7,514					R7,514
Total	**R5,712,365**	**R504,006**	**R219,015**	**R628,119**		**R1,004,147**	**R8,067,652**

SECTION 2: KEY VACANCIES

As of 30 June 2019, there were 18 critical vacancies. Four of those were executive managers in Human Resources (HR) and Corporate Services, Risk and Compliance, Stakeholder Relations and Communications, and Governance and Legal Services. Seven were manager positions in the following departments: Supply Chain Management, Finance, Electrical, Mechanical, IT Audit, Depot Manager and Works Laboratory Manager. Two were specialists in Legal Services and IT Audit. Five were artisans.

The interim executive management arrangement was as follows:

- The Executive Manager: Human Resources and Corporate Services position became vacant on 1 March 2017. The Senior Manager: Human Resources has been acting in the vacant position since 12 March 2017.
- The Chief Operations Officer position became vacant on 1 September 2017. The General Manager: Operations acted in the position until it was filled on 1 November 2018.
- The Executive Manager: Stakeholder Relations and Communications position became vacant on 1 August 2017. The Manager: Marketing and Communication, and the Manager: Stakeholder Relations have been acting in this position on a rotational basis.
- The Executive Manager: Risk and Compliance position became vacant on 30 June 2018. The General Manager: Strategy, Monitoring and Evaluation has been acting in the vacant position since 1 July 2018.
- The Financial Director position became vacant on 31 December 2017. The General Manager: Finance acted in this position until the position was filled on 1 December 2018.
- The Executive Manager: Governance and Legal Services position became vacant on 1 November 2018. The Manager: Governance and Legal Services has been acting in this position.

The other vacant positions were occupied on a rotational acting basis.

On average, the 18 positions have been vacant for 21 months and the recruitment process has been initiated. The positions are in different stages of recruitment (advertising, shortlisting and interviews), with three of them in the offer of employment stage.

The main reason for the delay in filling these vacancies can be attributed to putting the recruitment process of executives on hold due to a reintegration of the entities into the CoJ, as was then announced. There was a temporary moratorium on the filling of vacancies pending a possible reintegration. Positions that were finalised during this period were filled within 12 weeks.

SECTION 3: EMPLOYMENT EQUITY

The company approved a five-year plan in December 2017, which commenced in January 2018. Within this plan, the company prioritised the two primary targets: representation by females and people with a disability.

The representation of females has grown to 29.97% against a target of 30.47%. The representation of females increased from the 28.85% that was achieved in 2017/18. Although ablution facilities pose a challenge to the employment of females, in particular in the Operations Department, measures are put in place to ensure that this will not become a barrier.

The company also rolled out awareness sessions on the integration of recruitment and employment equity to all new managers and supervisors. The purpose of these sessions was to ensure that managers and supervisors who participate in the recruitment process are well equipped to prioritise employment equity in the process.

The representation of employees with a disability in the company was at 3.87% as opposed to the target of 3.93%.

The company opened an opportunity to all persons with a disability to register their application on the Johannesburg Water database.

This was utilised when vacancies were advertised. The demographic distribution is captured in Table 22.

Table 22: Percentage demographic staff distribution

Population group	Male	Female	Total	People with a disability
African	62.48%	27.13%	89.62%	3.35%
Coloured	3.31%	1.84%	5.15%	0.26%
Asian	1.14%	0.48%	1.62%	0.07%
White	3.09%	0.52%	3.61%	0.18%
Total	**70.02%**	**29.97%**	**100.00%**	**3.87%**

SECTION 4: SKILLS DEVELOPMENT AND TRAINING

The company had a total of 2,716 employees (as at 30 June 2019), of which 1,084 occupied positions at an unskilled level, while 1,632 employees were at a skilled level. It should be noted that the figure of 1,084 does not reflect the level of unskilled employees in the company. It is a reflection of the unemployment rate in the country as employees in these positions had qualifications above matric or NQF Level 4.

As part of its development of engineers, the company is managing a programme that is aimed at fast-tracking professional registration for all its engineers and technologists with ECSA. Johannesburg Water has now managed to build its engineering capacity to 37 professionally registered with ECSA.

This has been partially achieved by the ability to attract and recruit registered professionals, as well as specific programmes that have been put in place, such as the Engineering Capacitation Programme and the Specialist Career Grade. Of the 37 professionals, four are registered as professional engineers, 27 are registered as professional engineering technologists and six are registered as professional engineering technicians.

The company has an ongoing bursary and internship scheme to supplement the skills pipeline and enhance service delivery.

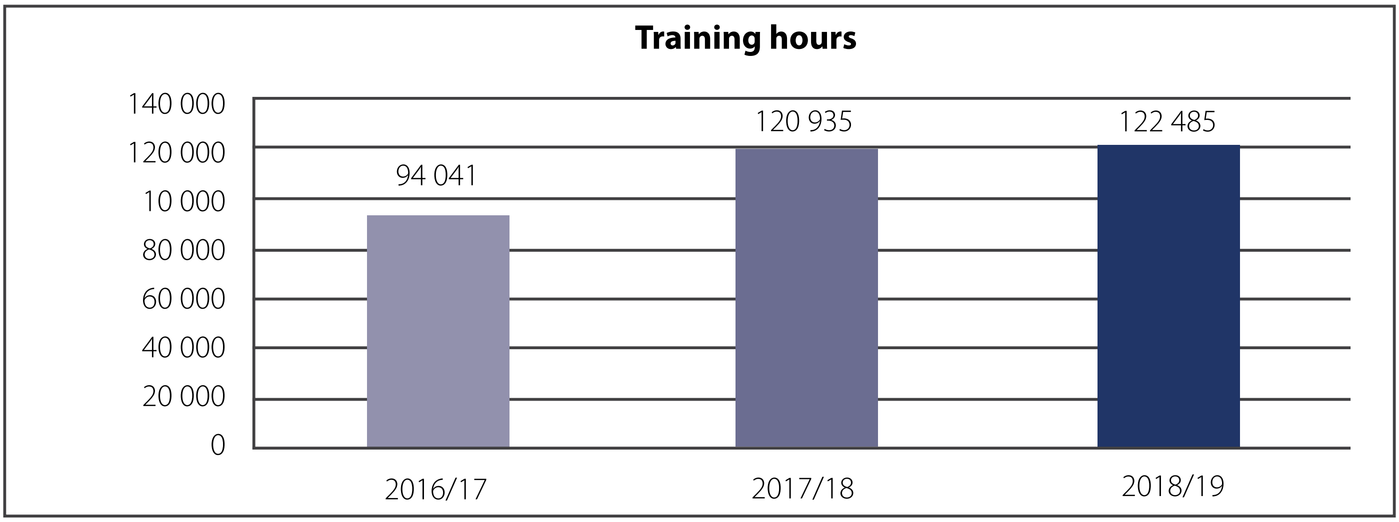
There are currently 13 bursars in various fields, but predominantly in the field of civil engineering. In addition, one-year internships have been provided to 16 graduates in various disciplines as part of the company's social responsibility activities.

Workplace Skills Plan

The reporting period for the implementation of the Workplace Skills Plan (WSP) to the Energy and Water Sector Education and Training Authority (EWSETA) was from 1 January to 31 December 2018. In terms of the approved EWSETA annual training report (ATR), the company exceeded its planned training by 20% for the implementation of the WSP for this period.

Due to the different reporting and financial year cycles between the company and EWSETA, the company's Balanced Scorecard set a key performance indicator to achieve an average of 50 training hours per employee for 2018/19. A total of 122,485 training hours were spent on training. This translates into an average of 45 training hours per employee.

Figure 6: Training hours



Training and development highlights

As part of its productivity improvement programme, the company identified the importance of appropriate leadership skills that are required to support the achievement of the company's strategic goals and objectives. A total of 38 employees at supervisory and junior management levels were enrolled for the Unlocking Leadership Potential (ULP) Programme, of which 37 successfully completed the programme. A cohort of 29 employees on middle management were enrolled for the Management Leadership Development (MLD) Programme, of which 28 employees successfully completed the programme.

Seven employees successfully completed the Municipal Finance Management Programme. This programme is a National Treasury requirement for employees in finance and in key positions, and has thus been treated as a compliance training requirement. Employees learned to apply strategic financial management competencies to ensure the effective utilisation of public funds at local government level.

The Coaching for Organisational Performance Programme for seven employees on senior and executive management level was implemented with delegates attending the programme at the University of Cape Town (UCT) after a successful skills audit intervention was conducted. The programme is based on gaps that were identified as a result of the skills audit.

An ongoing Artisan Recognition of Prior Learning (ARPL) Programme resulted in 19 employees achieving an artisan trade qualification without attending a formal apprenticeship training programme. These qualifications were achieved through assessments, gap training and trade test preparation training conducted for employees who had qualified for ARPL.

All 15 apprentices who had initially been recruited by the company for a plumbing apprenticeship in August 2015, successfully completed their trade tests and are now qualified plumbers.

The company also implemented a diesel mechanic apprenticeship for general workers of the Technical Services Section of the Operations Department. All 14 employees passed Phase 1 of the apprenticeship and are currently continuing with Phase 2.

Johannesburg Water's subsidised education scheme is aimed at providing employees with the opportunity to further their studies at a tertiary level, specifically in terms of qualifications aligned to the strategic objectives, skills requirements and relevance to the employees' line of work in the company. A total of 44 new applications were approved for 2018/19. Of these applications, 23 were male and 21 were female. The fields of study included civil engineering, mechanical engineering, electrical engineering, supply chain management, health and safety, transport and logistics, marketing, project management, biotechnology, finance, business management, strategic management, administration, public procurement, environmental management, accounting and technical matric, as well as many others.

The WSP for 2018 has been successfully implemented and the ATR indicated an over-achievement of more than 20%. The 2019 WSP was compiled and submitted to EWSETA.

Adult education and training (AET) is a priority flagship programme, with 56 employees participating in communication and numeracy from Level 1 to Level 4 subjects. The company not only offered AET as part of its social responsibility initiatives, but also to improve the skills of its employees. Employees were requested to attend AET classes based on their need for self-development, as well as the fact that certain positions in the company require specified levels of numeracy and literacy to progress.

The company was actively involved in social responsibility Initiatives in the form of unemployed youth development. A total of 36 unemployed youth enrolled in various projects (plumbing and water and wastewater learnership) that were funded by different sector education and training authorities (SETAs) and implemented by Johannesburg Water. A total of 22 unemployed youth successfully completed the NQF 3 qualification in water and wastewater and 14 unemployed youth completed their first year of the plumbing apprenticeship. These initiatives empowered these youth with marketable qualifications that will improve their chances of employment or enable them to start their own SMMEs.

A budget of R8.9 million was allocated for training courses for 2018/19, and an expenditure of 100% was achieved.

Training and development Interventions for 2018/19 consisted of apprenticeships, learnerships, skills programmes, recognition of prior learning (RPL), ARPL, AET and subsidised education. A total of 122,485 hours were spent on training, translating to an average of 45 hours per employee. Various learning interventions for unemployed youth were also implemented as part of the company's social responsibility initiatives.

Despite a few challenges, the improvement of productivity remained topical during the year, with interventions showing improvements in some areas. There is a need to focus on areas that require improvement by setting productivity target in line with the depot or regional baseline, based on the 2018/19 performance. The company granted general salary increases for 2018/19 in line with those negotiated at the South African Local Government Bargaining Council. This resulted in an increase of 6.5% across the Board with effect from 1 July 2019.

The past year also focused on the entrenchment of core leadership practices and skills: the alignment of training to deliver the training of technical staff and coaching for managers.

Standard deliverables in the HR environment focused on, among others, the review of certain practices to entrench employee value proposition and expand the pool of women in the business, strengthening the employee wellness programme, the continued roll-out of internships, bursaries and subsidised education programmes, other skills development initiatives and refining the recruitment and selection processes. The percentage of employees with disabilities was 3.87%, which exceeded the requirements of the Department of Labour. This was as a result of a concerted effort to recruit persons with disabilities. The increase in the percentage of women progressed slowly. This was, to an extent, due to the fact that the turnover in staff was low at less than 3%. This means that there were fewer opportunities to recruit females. The overall female representation moved from 28.85% in 2017/18 to 29.97% in 2018/19. Skills retention was within target for the year, with the attrition of scarce skills at 1.56%.

SECTION 5: PERFORMANCE MANAGEMENT

Staff performance

Johannesburg Water's performance management policy dictates that each employee sign a performance contract at the inception of each financial year. They will be reviewed against this performance contract at the end of the financial year. The policy further prescribes that two formal performance reviews be conducted against the performance contract.

The performance management system allows for the effective, consistent and fair implementation of the Remuneration Policy in terms of rewards for acceptable performance. To enforce this, the company introduced and approved terms of reference for performance moderation, which functions at two levels – departmental and company-wide – to ensure alignment with both internal and external benchmarks, as well as industry practices. Both the performance management and the remuneration policies where reviewed in the year under review.

The Top 100 Managers Forum continued its engagements on the sharing of ideas, increasing productivity and problem solving, and there was a positive trend based on the results.

Remuneration and incentives

The entity strived to be competitive in its remuneration structures for all levels of employees. As such, it has adopted a policy that targets the 50th percentile of the remuneration market, against which it benchmarked basic salaries and total cost to entity levels.

The remuneration levels for the executive management team, including upper limits, are determined by the Shareholder in line with the provisions of Section 89 of the MFMA.

Employees below executive level are incentivised in line with the performance management and remuneration policies. This provides for formal performance evaluations and the adjudication of bonus payments and salary progression based on performance, after the adoption by the Board of the entity's performance results for the financial year.
The payment of performance bonuses to executive management is determined as provided for in the Local Government: Municipal Performance Regulations for Municipal Managers and Managers Directly Accountable to Municipal Managers, 2006. This is subject to the meeting of annual targets for both the entity and the individual employee.

Staff turnover was low, with the retention of all staff for the year at 98.5%, while the retention of scarce skills categories was at 98.44%.

Variable remuneration, including short- and long-term incentives and deferrals

The company has an approved remuneration policy that deals with the salary structure and how the company should benchmark its salaries with relevant institutions that are similar to Johannesburg Water. The salary structure provides for the minimum, median and maximum payable salary for each grade or salary level. All positions were graded and the incumbent of the positions were paid in line with the salary level or grade for their positions. Depending on a number of variables, employees could be paid a salary anywhere between the minimum and the maximum of the salary level for their position. No employees earned a salary below or above the salary level for their position.

Payments on termination of employment or office

Upon termination, employees were paid their last month's salary. The annual leave balance due to employees was encashed and paid out with their last salary. In the case of death, the pay-out was made to the employee's beneficiaries. Paperwork for the pension fund was completed and submitted to the relevant pension fund.

Commissions and allowances

No employees were paid on commission. Some employees, depending on the positions they occupied, received a locomotion allowance. This was paid in instances where an employee occupied a position that required them to have a vehicle as a tool of trade and, as a result, instead of the company providing a company vehicle, the employees were given an allowance to enable them to purchase a vehicle and use it for work-related matters.

SECTION 6: DISCIPLINARY MATTERS AND OUTCOMES

For the year under review, 57 cases were reported, 24 were finalised, and 33 were in the process of being addressed through disciplinary processes. Out the 24 finalised cases, eight resulted in dismissals. There were capacity challenges in terms of presiding officers to deal with dismissible offences, which caused a delay in finalising disciplinary cases. However, a plan has been put in place to expedite the finality of these cases.

SECTION 7: LEAVE AND PRODUCTIVITY MANAGEMENT

Gross sickness absenteeism rate

The industry benchmark for gross sickness absenteeism rate (GSAR) is 2%, while the company target is 3%. The age profile of Johannesburg Water's employees and the fact that the company provides more sick leave than the norm makes it very difficult to achieve this benchmark. It is envisaged that once the company achieves 2.5%, it should be satisfied that an acceptable level has been reached.

The GSAR was 3.33%. In comparison to the 3.38% for 2017/18, there was an improvement of 0.05%, which was attributed to the attendance management programmes that were introduced in the company. The improvement is minimal, but is a positive trend.

Absence without leave

The benchmark for absence without leave (AWOL) was to maintain AWOL below 1%. The total AWOL rate was 0.23% as opposed to 1.19% in 2017/18, showing an improvement of 0.96%. Both AWOL and sick leave utilisation were at a manageable level and it is the intension of the company to continue improving in these areas to avoid impact on productivity.

Annual leave

Employees were granted statutory leave as provided for in the Basic Conditions of Employment Act, No. 75 of 1997, and controls are in place to ensure compliance with the provisions of Section 20 of the Act. In the year under review, 47 581 days of annual leave days were utilised.

SECTION 8: EMPLOYEE WELLNESS

Johannesburg Water provided a comprehensive wellness support to its employees through various programmes. The programmes focused on the Human Immunodeficiency Virus (HIV) and Acquired Immune Deficiency Syndrome (Aids), chronic illnesses or diseases and other matters that might have an impact on the areas of operations, legal risk, financial risk and health risk.

The company adopted the provision of HIV counselling and testing opportunities as a basis for HIV and Aids support to all employees in order to continuously assess the risks posed by HIV and Aids on the business and empower employees living with HIV and Aids through education, care and support.

The company also assisted employees in determining their health risk and its management by introducing programmes or initiatives that would assist in managing the identified health risks. The company also embarked on a Wellness Week, where employees underwent health risk assessments. The outcome from these programmes assist in determining focus areas for the following financial year.

HIV counselling and testing and prevalence survey

HIV counselling and testing (HCT) campaigns were conducted at 22 work sites. A total of 2,000 participants were drawn to HCT throughout the two campaigns. In November 2018, there were 1,019 participants, with an HIV prevalence level of 3.0%, and 981 participants in May 2019, with an HIV prevalence level of 1.9%.

Employee Assistance Programme

Apart from the above interventions aimed at the HIV and Aids risk, the company also offered an Employee Assistance Programme (EAP) service to employees and their immediate families. This provided counselling for any issue that could impact on the employee psychosocially. An external EAP service provider rendered the EAP, and all employees were eligible to use the service as and when required.

Wellness Week

A total of 1,517 employees participated in Wellness Week 2019.

The complementary services offered following the Wellness Week event were flu vaccinations, which attracted 690 recipients, and multivitamin booster injections, which attracted 752 participants.

The major findings of the Wellness Week event included the determination of the Body Mass Index (BMI), which measures obesity and the risks for diabetes, hypertension and cardiovascular diseases.

This was high in most work sites. As a result of this, the company designed programmes to improve employee risks associated with an elevated BMI.

Gym membership remained at 170 at year-end, and was 6% lower than the previous financial year. This trend was attributed to the gym closing for six weeks to effect renovations.

It is anticipated that some staff members might have taken memberships with outside gyms during that period, thus cancelling their in-house membership.

SECTION 9: EMPLOYEE BENEFITS

Medical fund membership

It is compulsory for all employees to join one of the five accredited medical aid funds: Bonitas, Hosmed, Key Health, LA Health and Samwu Med. There are 134 employees who are non-members, of which 104 have medical aid cover with their spouses, and 30 are contractors who are not compelled to join a medical fund.

Retirement funds

The entity has five retirement funds for members: the City of Johannesburg Pension Fund, the e-Joburg Retirement Fund, the Joint Municipal Pension Fund, the Municipal Gratuity Fund and the Municipal Employee Pension Fund. The majority of employees belong to the e-Joburg Retirement Fund. Actuarially, there are no liabilities to these funds over and above the monthly contribution.

Table 23: Trends on total personnel expenditure

Year	Total payroll expenditure R'000	Total operating expenditure R'000	Percentage compared to operating expenditure	Training and development spend as percentage of total payroll cost
2018/19	1,090,096	4,773,860	22.83%	2.28%
2017/18	973,536	4,292,805	22.58%	1.58%

The total expenditure on payroll is under control when compared to the total operating expenditure. This has been made possible by introducing efficiencies such as reductions in overtime expenditure in real terms.

SECTION 10: OCCUPATIONAL HEALTH AND SAFETY PROGRAMMES

The company has recorded a Disabling Injury Frequency Rate (DIFR) of 1. This achievement reflects an improvement in health and safety performance when compared to the 1.15 achieved in the last financial year. This was attributed to company-wide health, safety and environment awareness in all sites during the financial year, the commitment to safety compliance and the attention to findings made by regional managers, depot managers and works managers in the previous year. The DIFR qualified Johannesburg Water to retain the 4 star rating issued by NOSA during the reporting period.

A total of 152 contractors were inducted and audited during the reporting period. The safety inductions and compliance audits were aimed at instilling a safety culture within the contractors appointed by the company and safeguarding compliance with the Occupational Health and Safety Act and its regulations. The company has reinforced its awareness programmes around construction safety to prevent injuries and fatalities around construction sites

The organisation will continue to introduce mechanisms to address basic causes of all incidents and come up with measures to eliminate and prevent them. This will enable the health and safety performance of all sites and the achievement of the DIFR of less than 1 in the next financial year.

All the interventions in this chapter have ensured that the company retained motivated employees in the short term, resulting in improved performance in the medium term, and ultimately leading to a performing and committed workforce in the long term.
All these matters are material in affecting the organisation's ability to create value over the short, medium and long term.

CHAPTER 5

FINANCIAL PERFORMANCE AND EXPOSURE

Stakeholders impacted: Shareholder
Response to Strategic Goal 4

The going concern has been evaluated and considered by the Audit and Risk Committee and the Board. The forecast indicates that the company will be a going concern in the short term, medium term and ultimately leading to financial sustainability in the long term. This is material in affecting the organisation's ability to create value.

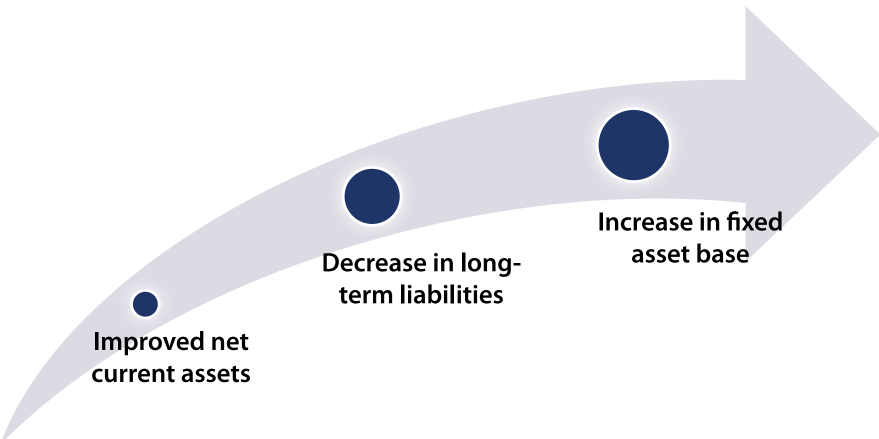
SECTION 1: STATEMENT OF FINANCIAL POSITION AND HIGH-LEVEL NOTES

Table 24 reflects the main items in the Statement of Financial Position for the 2018/19 financial year.

Table 24: Statement of Financial Position

	2018 (R'000)	2019 (R'000)
Current assets	R3,114,070	R4,125,029
Non-current assets	R10,599,065	R11,361,582
Total assets	**R13,713,135**	**R15,486,611**
Current liabilities	R3,792,519	R3,788,274
Non-current liabilities	R2,713,956	R2,737,952
Total liabilities	**R6,506,475**	**R6,526,226**
Net assets	R7,206,660	R8,960,385

High-level notes



The financial position of the entity remains positive for the company with a growing asset base and liabilities maintained at a constant level. The fixed assets increased to R11.4 billion (2017/18: R10.6 billion) as a result of the successful implementation of the capital expenditure programme. Consumer debtors continue to grow, based on a higher revenue base and lower payment levels. The net current asset value increased from the previous year with the current ratio improving from 0.82 to 1.09.

SECTION 2: STATEMENT OF FINANCIAL PERFORMANCE AND HIGH-LEVEL NOTES

Table 25 reflects the key financial information contained in the Statement of Financial Performance

Table 25: Statement of Financial Performance

	2018 (R'000)	2019 (R'000)
Revenue	R10,088,096	R11,718,323
Bulk purchases	(R4,799,538)	(R5,593,972)
Gross margin	**R5,288,558**	**R6,124,351**
Other income	R534,305	R483,588
Operating cost and interest	(R4,454,781)	(R4,854,214)
Net profit	**R1,368,082**	**R 1,753,725**

High-level notes

The entity posted revenue of R11.7 billion for the year, an increase of 16.2% compared to the previous year (2018: R10.1 billion). The revenue compared to the budget reflected 101% performance compared to 97.7% and 95.9% in the 2017/18 and 2016/17 financial years respectively. The sale of water remained the biggest contributor to revenue, having generated R7.4 billion in the 2018/19 financial year. The sanitation revenue also constitutes a large share of revenue, reflecting R4.3 billion. It is the main contributor to the realised surplus for the entity. The stable customer base and adding new customers to the billing database were considered to be material to achieve the short- and medium-term goals, resulting in the aforementioned revenue levels.

Expenditure was well managed within the budget in the year under review, while ensuring that service delivery is not hampered. The company made significant savings on certain expenditure line items by insourcing certain services. The provision for bad debts remains the biggest contributor to over-expenditure due to payment levels being lower than previously budgeted for. The profit realised was within the material range to substantively affect the organisation's ability to create value over the short, medium and long term.

Collections are still under pressure as customers are continuing to default on their current and historic debts. The payment level for the financial year was 78%, compared to the budgeted payment level of 85%. The entity is working closely with the shareholder in intensifying credit control measures to ensure that appropriate actions are taken against defaulting customers in order to maximise revenue collection.

SECTION 3: CASH FLOW STATEMENT

Table 26: Key financial information from the Cash Flow Statement

	2018 (R'000)	2019 (R'000)
Cash receipts from operating activities	R9,248,316	R10,856,418
Cash payments from operating activities	(R8,197,299)	(R9,877,530)
Net cash flows from operating activities	R1,051,017	R978,888
Net cash flows from investing activities	(R580,047)	(R895,155)
Net cash flows from financing activities	(R470,971)	(R83,733)
Net cash movements	0	0
Balance of bank account as at 30 June	R30	R30

Johannesburg Water closed on higher cash reserves of R375 million (2018: R107 million) as at 30 June 2019, and achieved the highest closing balance over the past five years. The company has a sweeping arrangement with the CoJ Metropolitan Municipality, whereby all cash is swept on a daily basis to the CoJ. The balance of R30 000 is the remaining petty cash on hand.

Johannesburg Water generated cash mainly from the sale of water and sanitation services. In addition, the entity receives grant funding from the Urban Settlement Development Grant (USDG) to assist with the funding of capital projects. Other sources of funding specifically for capital projects are external loans and cash reserves.

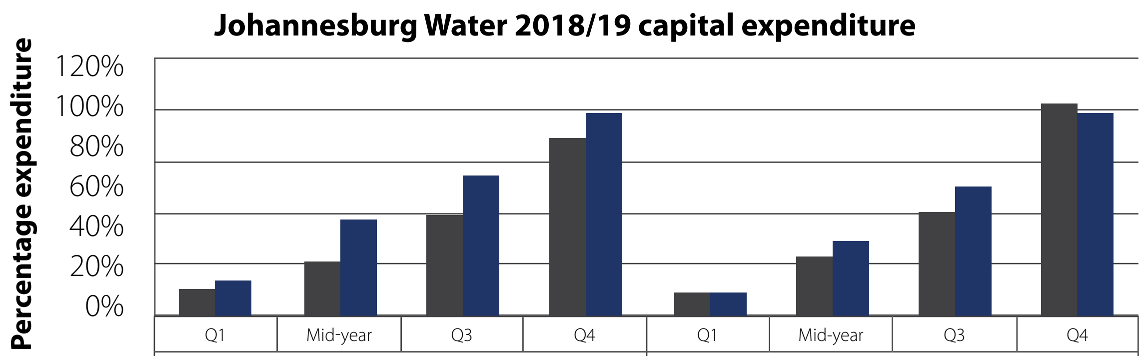
High-level notes

Johannesburg Water closed on higher cash reserves of R375 million (2018: R107 million) as at 30 June 2019 and achieved the highest closing balance over the past five years. The positive cash flow Johannesburg Water generated was mainly from the sale of water and sanitation services. In addition, the entity receives grant funding from the USDG to assist with the funding of capital projects. Other sources of funding, specifically for capital projects, are external loans and cash reserves.

SECTION 4: CAPITAL PROJECTS AND EXPENDITURE

The total capital expenditure for the year under review was R926.137 million against a target of R929 million. This represents 99.7% of the overall capital spent against a target of 95%. Figure 7 is a graphic depiction of Johannesburg Water's annual capital expenditure.

Figure 7: Capital expenditure



	Q1	Mid-year	Q3	Q4	Q1	Mid-year	Q3	Q4
	2017/18				2018/19			
Actual	11%	25%	47%	84%	10%	27%	48%	99.7%
Target	15%	45%	65%	95%	10%	35%	60%	95%

The expenditure breakdown per capital budget category is reflected in Table 28.

Table 28: Capital expenditure

Category	Approved budget (R 000)	Actual (R 000)	Comments
Corporate requirements	11,037	12,585	Achieved
Water demand management	17,998	11,550	Five contracts; portfolio behind schedule due to non-awards and site camp challenges.
Operate and maintain	127,163	125,853	Meter replacements are performing well and exceeded the target, budget lifting from Water Conservation/Water Demand Management.
Upgrading and renewal	460, 252	460,332	Pipe replacement projects in construction phase. Delays were experienced with sewer. This is to be closely monitored in the next financial year.
New infrastructure	29,405	29,699	Achieved
Planning and engineering studies	8,963	8,444	Achieved
Information technology	17,454	17,841	Achieved
Special projects	92,712	96,003	Achieved
Bulk wastewater	163,656	163,831	Achieved
Total	**928,640**	**926,137**	

Projects completed

Table 29 depicts projects that were completed successfully.

Table 29: Completed projects

No.	Contract number	Project description	Total contract value (R'000)	Total expenditure (R'000)	Comment
1.	JW13835	Weltevreden sewer pipe replacement Phase 2	19,010	18,130	Completed project to Johannesburg Water's satisfaction
2.	JW13837	Roodekrans sewer pipe replacement Phase 1	9,239	7,590	Completed project to Johannesburg Water's satisfaction
3.	JW13838	Roodekrans sewer pipe replacement Phase 2	10,302	10,025	Completed project to Johannesburg Water's satisfaction
4.	JW6033RR	Dam 01 – construction of high-rate settling tanks, pumping mains, dam liner	115,059	113,357	Completed project to Johannesburg Water's satisfaction
5.	JW13811	Vuk'uphile Phase 2: Sandown (A and B) water pipe replacement	19,156	16,834	Completed project to Johannesburg Water's satisfaction
6.	JW13806	Ivory Park sewer upgrade 3	9,151	8,215	Completed project to Johannesburg Water's satisfaction
7.	JW13843	Mtipa sewer upgrade	7,119	6,119	Completed project to Johannesburg Water's satisfaction
8.	JW13523	Thembalihle sewer upgrade	14,713	13,473	Completed project to Johannesburg Water's satisfaction
9.	JW13830	Foresthill Phase 1 sewer pipe replacement	11,904	11,899	Completed project to Johannesburg Water's satisfaction
10.	JW13831	Foresthill Phase 2 sewer pipe replacement	12,005	11,986	Completed project to Johannesburg Water's satisfaction
11.	JW13832	Foresthill Phase 3 sewer pipe replacement	12,116	12,099	Completed project to Johannesburg Water's satisfaction
12.	JW13833	Foresthill Phase 4 sewer pipe replacement	11,847	11,781	Completed project to Johannesburg Water's satisfaction
13.	JW13841	Yeoville sewer pipe replacement	8,543	8, 477	Completed project to Johannesburg Water's satisfaction
14.	JW13802	Ennerdale water upgrade Phase 2	8,344	7,481	Completed project to Johannesburg Water's satisfaction
15.	JW13784	Belt presses emergency work (mechanical refurbishment)	6,960	6,368	Completed project to Johannesburg Water's satisfaction
16.	JW13623	Bulk meter replacement as and when	27,060	21,172	Completed project to Johannesburg Water's satisfaction

Water pipe replacement

The Water Pipe Replacement Programme was geared towards the reduction of physical losses within the CoJ. The water network has consumed 45% of its design life. In order to improve the water network's remaining useful life, Johannesburg Water planned to replace 80 km of old water pipe. A total of 131.63 km has been replaced, which represents a 164% performance against a financial year target of 80 km. Table 30 provides details of the pipes planned and replaced per region.

Table 30: Water pipe replacement

2018/19 Water Pipe Replacement Programme			
Johannesburg Water regions (CoJ regions)	**Annual plan (metres)**	**Actual (metres)**	**Comments**
Midrand Region (A)	7,344	5,303	Two emergency projects have been completed. Two water pipe replacement projects are under construction and will be completed in the next financial year.
Sandton – Alex Region (E)	10,019	25,893	Achieved
Roodeport-Diepsloot-Randburg Region (B and C)	32,010	56,168	Achieved
Johannesburg Central Region (F)	10,326	18,183	Achieved
Soweto Region (D)	20,300	5,516	Meadowlands Zone 7 pipe replacement progressed well. Additional work packages were allocated in Orlando East and West as well as Diepkloof. However, low progress was attributed to delays with community processes. Project to be expedited in the next financial year.
Deep South Region (G)	0	20,567	Six work packages were allocated to accelerate the water pipe replacement programme; hence reduce the backlog. Works commenced in February 2019 and progressed well.
Total	**79,999**	**131,630**	

Sewer pipe replacement

Johannesburg Water intends to reduce the number of blockages per 100 km of sewer network infrastructure in order to improve the level of service to its customers. In an effort to improve the level of service, a target of 42 km of sewer pipe replacement was planned. A cumulative total of 42.8 km was replaced, which represents 101.9% performance against an annual target of 42 km. Table 31 reflects planned and actual lengths of sewer replaced in each of the Johannesburg Water regions.

Table 31: Sewer pipe replacement

2018/2019 Sewer Pipe Replacement Programme			
Johannesburg Water regions (CoJ regions)	**Annual plan (metres)**	**Actual (metres)**	**Comments**
Midrand Region (A)	1,916	50	Work was planned to commence with sewer pipe replacement in Carlswald. Land had not been acquired. The length planned for sewer pipe replacement was substituted and implemented where projects were progressing well in other regions. The project is to be expedited in the next financial year.
Sandton-Alex Region (E)	10,705	154	The Louis Botha and Homestead sewer projects were allocated to contractors in March 2019. The Houghton sewer pipeline work allocation is awaiting environmental authorisation. The project is to be expedited in the next financial year.
Roodepoort-Diepsloot-Randburg Region (B and C)	17,884	21,853	Achieved
Johannesburg Central Region (F)	958	20,662	Achieved
Soweto Region (D)	10,238	120	The Thulani sewer 1 and 2 were allocated and in the construction phase. Physical works commenced in April 2019. The project is to be expedited in the next financial year.
Deep South Region (D)	0	0	Two Orange Farm Ext 1 sewer projects were recently allocated.
Total	**41,701**	**42,839**	

Bulk wastewater major capital projects

Table 32 provides some of major bulk wastewater capital projects that Johannesburg Water implemented and their progress status. It should be noted that these are multi-year capital projects.

Table 32: Major bulk wastewater capital projects

Project description	Project objective	Completion date	Total value (R'000)	Progress status
Dam 01: Construction of high- rate settling tanks, pumping mains, dam liner, M&E and C&I equipment for pumping installations. Northern WWTW.	To de-sludge Dam 01 at Northern WWTW and to reduce the rate of future sludge ingress.	April 2019	138,000	The remedial work on this project was 100% completed and a practical completion certificate was issued.
Digester heating and mixing upgrade at Olifantsvlei WWTW.	To ensure a sustained and improved sludge treatment capacity.	April 2020	115,000	The project is at 62% physical progress. Works are progressing well.
BWW602 BK: balancing tanks	To regulate the incoming flow of sewage to the works	November 2019	102,800	93% physical progress achieved. Works are progressing well.
Driefontein Works: concrete lining of overflow dam	Environmental compliance, to minimise the risk of groundwater contamination	February 2020	124,265	The project is on schedule and 94% progress has been achieved to date. The project is progressing well and is on schedule.

Water reservoirs

Johannesburg Water has embarked on the construction of new reservoirs to increase the storage capacity within the CoJ. Table 33 provides detailed progress on reservoir projects.

Table 33: Reservoir projects

Name and capacity	Cost estimate (R'000)	Status	Planned completion date	Comments
Lenasia 12.5 (Ml) high reservoir	38,000	Construction/ procurement	TBA	Phased implementation. Phase 1 comprising the pump station at 30% physical completion. Phase 2 comprising of the rising main was a non-award, re-advertised in June 2019. Phase 3 reservoir was advertised in June 2019.
Erand Tower 0.75 (Ml)	50,000	Procurement	December 2020	Tender re-advertised in June 2019. Planned award is September 2019.
Crown Gardens Tower 1.1 (Ml)	55,000	Construction	December 2019	Construction works progressing well at 40% physical works.
Robertsville Tower 2.25 (Ml)	65,000	Procurement	December 2020	Tender was re-advertised in April 2019 and is at the bid evaluation stage. Planned award is August 2019.
Woodmead Reservoir 22 (Ml)	55,000	Procurement	TBA	Designs were completed. Procurement process is pending approval of the pipe route servitude by Gauteng Department of Agriculture and Rural Development (GDPRT). Application to be resubmitted at the end of August 2019 pending field investigations and community engagement.

Name and capacity	Cost estimate (R'000)	Status	Planned completion date	Comments
Aeroton Direct Tower 1.4 (Ml)	55,000	Construction	December 2020	Construction works progressing well at 40% physical works.
Halfway House reservoir 20 (Ml)	55,000	Design	TBA	Designs almost complete. Delays encountered in land acquisition processes and pipe route servitude by GDPRT. Application to be re-submitted by the end of June 2019.
Blue Hills Tower 1.8 (Ml)	58,000	Planning	TBA	Awaiting appointment of a panel of consultants. Planned for award in November 2019.

SMME development through capital expenditure projects

The SMME development programme aims to empower and support emerging contractors to reduce unemployment within the city and empower local communities through the implementation of operational and capital programmes. In the year under review, the company planned to support 90 SMMEs, but 120 SMMEs were supported. Some 67 SMMEs were created through standard sub-contracting within the respective areas where projects were implemented, whereas 53 SMMEs were implemented through the Vuk'uphile learnership programme. Table 34 details the progress.

Table 34: SMME development programme progress per programme

SMME Programme	Planned number of SMMEs supported	Actual number of SMMEs supported	Number of jobs created	Expenditure on SMMEs (R'000)	CoJ regions	Comments
Vuk'uphile Learnership Contractor Development	50	53	621	61,531	B, C and E	Phase 2b for Sandowns completed while Jukskei Phase 2b is at final inspection. Greenside at 99% completion.
Operation and maintenance (SMMEs development)	6	2	11	440	F	SMME opportunities have been created in Region F for the maintenance of pressure-reducing valves.
Installation of basic services infrastructure	6	0	157	0	B, D and G	Both VIP toilets and basic water projects were in construction in regions B, D and G, and were progressing well.
Pipe renewal and other	20	65	1 097	4,461	City-wide	Local SMMEs were appointed on various projects city-wide and works progressed well.
Water demand management	8	0	744	0	G	Delays were experienced to commence with construction works on two Orange Farm projects due to community issues on site camp establishment. The contractor is in the process to appoint SMMEs.
Total	**90**	**120**	**2 630**	**66,432**		

Expanded Public Works Programme

Johannesburg Water had aimed to create 2,022 job opportunities within the 2018/19 financial year. A total of 2 630 job opportunities were created for the financial year. This represents an achievement of 127% against the annual target.

Marginalised Areas Programme

Johannesburg Water initiated a programme called the "Marginalised Areas Programme". This programme tracks the projects and progress within the areas of Ivory Park, Diepsloot, Alexandra, Orange Farm, Soweto and all informal settlements. During the year under review, 21 projects were implemented within marginalised areas. Table 35 provides details of the projects, including project progress status per region.

Table 35: Marginalised areas

Region	Name of project	Contract value (excluding VAT and contigencies, R'000)	Start date	End date	Project status
D	Protea Glen pump station water upgrade	29,401	16 February 2018	30 July 2019	96% completion. Progressing well, tie-ins completed, commissioning underway.
G	Lenasia water pump station	14,342	25 February 2019	1 October 2019	30% completion. Implementation to continue in the next financial year.
G	Ennerdale Phase 1 water pipe replacement	11,798	25 February 2019	1 November 2019	40% completion. Implementation to continue in the next financial year.
G	Ennerdale Phase 2 water pipe replacement	11,310	25 February 2019	1 November 2019	30% completion. Implementation to continue in the next financial year.
G	Lenasia Ext. 5 Phase 1 water pipe replacement	7,799	1 February 2019	1 September 2019	60% completion. Implementation to continue in the next financial year.
G	Lenasia Ext. 5 Phase 2 water pipe replacement	7,913	1 February 2019	1 September 2019	50% completion. Implementation to continue in the next financial year.
G	Lenasia Ext. 5 Phase 3 water pipe replacement	7,986	1 February 2019	1 September 2019	75% completion. Implementation to continue in the next financial year.
G	Lenasia Ext. 5 Phase 4 water pipe replacement	10,597	1 February 2019	1 September 2019	45% completion. Implementation to continue in the next financial year.
G	Lenasia Ext. 5 Phase 5 water pipe replacement	8,190	1 February 2019	1 September 2019	55% completion. Implementation to continue in the next financial year.
G	Lenasia Ext. 5 Phase 6 water pipe replacement	7,101	1 February 2019	1 September 2019	50% completion. Implementation to continue in the next financial year.
D and G	Provision of basic water in informal settlements	20,000	2 September 2018	Ongoing	95% completion. Implementation to continue in the next financial year.
G	STS prepaid meters Cosmo City	29,959	6 June 2019	6 June 2022	5% completion. Contractor has delivered all the STS meters to site, established site and employed labour and SMMEs.

Region	Name of project	Contract value (excluding VAT and contigencies, R'000)	Start date	End date	Project status
G	Orange Farm 1A sewer pipe replacement	15,434	20 June 2019	1 December 2019	5% completion. Site establishment completed.
G	Orange Farm 2A sewer pipe replacement	19,840	19 June 2019	1 December 2019	5% completion. Site establishment completed.
G	Orlando water pipe replacement	10,845	1 February 2019	1 November 2019	10% completion. Horizontal drilling of connections progressing well, hard rock encountered.
G	Soweto infrastructure upgrade Diepkloof water upgrade	14,069	1 February 2019	1 November 2019	10% completion. Implementation to continue in the next financial year.
G	Ennerdale water pipe replacement Phase 2	8,543	28 March 2019	30 August 2019	99% completion. The contractor had problems to initiate the project due to cash flow challenges.
G	Cosmo City sewer replacement	8,304	1 December 2019	30 November 2019	70% completion. Behind schedule due to cash flow problems as the contractor was not complying with CSD, tax non-compliance. The matter has been resolved and payments due were processed.
D	Thulani Hotspot sewer pipe replacement	9,351	28 March 2019	30 November 2019	20% completion. Cash flow challenges were experienced. Implementation to continue in the next financial year.
D	Thulani Ward 129 sewer pipe replacement	11,478	29 April 2019	10 November 2019	15% completion. Implementation to continue in the next financial year.
D	Orange Farm Ext. 1 sewer pipe replacement Phase 1	9,124	29 April 2019	10 November 2019	5% completion. Public participation done awaiting Community Liaison Officer appointment. Implementation to continue in the next financial year.
E	Alexandra infrastructure upgrade and renewal	18,294	12 June 2019	30 June 2022	80% of field verification of the network done by consultant. Validating scope for secondary mains, retrofitting and metering. Construction planned to commence with pipe replacement in September 2019 from the panel of water contractors. The contract value to be confirmed on award.

Basic services

Johannesburg Water continually provides basic water and basic sanitation to communities living within the informal settlements. The basic water and basic sanitation contracts were underway in various informal settlements.

Basic water: The plan for the financial year was to provide access to basic water to 8 004 households. The target included the number of households (2 290) that should have been provided with access in the previous financial year. A total of 8 287 households were provided with access to basic water against a target of 8 004, increasing the number of households with access to basic water to 160 325 of the 183 895 households, thus representing a coverage of 87.18% in informal settlements against a target of 87.03%.

Basic sanitation: The plan for the financial year was to provide access to basic sanitation to 4 834 households. The target includes the number of households (2 240) that should have been provided access in the previous financial year. A total of 6 528 were provided with access to sanitation against a target of 4 825, increasing access to basic sanitation to 76 524 of the total 183 895 households in informal settlements. This represented a coverage of 41.61% in informal settlements against a target of 40.69%.

SECTION 5: RATIO ANALYSIS

Table 36 provides an analysis of risk indicators.

Table 36: Financial risk indicators

Financial risk indicators	Target	Norm	2018	2019	Percentage change	Interpretation
Gross profit margin	51.46%	None	52.42%	52.26%	-0.31%	The gross profit was within the targeted range. However, it was slightly lower than the previous year. This indicates a healthy mark-up on revenue billed. The margin decreased due to an increase in NRW compared to the previous year.
Net profit margin	10.80%	Above 0%	13.56%	14.97%	10.35%	The margin increased from the previous year and is above the target and norms. This indicates positive performance on operational expenditure resulting in a higher net surplus.
Rate of return on assets	11.36%	None	12.91%	15.44%	19.58%	The margin increased from the previous year and is above the target. This indicates a significant surplus achieved in relation to the overall asset resources employed, and reflects an improved utilisation of the asset base.
Salaries as a percentage of operating costs	23.20%	25–40%	22.73%	22.83%	0.48%	The margin is below the target and the industry norm and reflects both the effective utilisation of the existing staff resources, as well as capacity challenges within the company.
Debtors collection period (days)	90.21	30 days	84.34	89.67	6.32%	The ratio is significantly above the target and indicates poor payment levels by customers, as well as credit control strategies not yielding the desired results.
Bad debts as a percentage of revenue	15.00%	None	18.25%	17.44%	-4.35%	This indicates the poor payment levels by customers on revenue billed. Although both the bad debts and revenue grew in the year under review, the decrease in the percentage indicates a relatively better collection compared to the previous year.

Financial risk indicators	Target	Norm	2018	2019	Percentage change	Interpretation
Current ratio	0.99	1.5–2.1	0.82	1.09	32.61%	This ratio increased, reflecting an improvement in the liquidity and ability to settle the debts as they fall due. The ratio is still below 1 and continues to be a risk of the company having insufficient resources to fulfill current obligations.
Solvency ratio	2.36	2.2	2,11	2,37	12,33%	The ratio is above the target and norm, and reflects a stable financial position where assets are twice the size of existing debt.
Interest cover	6.50%	6–8%	7.39%	5.72%	-22.63%	The ratio is below the norm and reflects the company's capacity to take on additional funding due to the minimal cost of interest in relation to operational costs.
Debts to asset ratio	0.22	None	0.26	0.24	-5.89%	This indicates the low financial leverage of the company due to minimal assets being funded by debt.
Debts to equity ratio	0.28	None	0.38	0.31	-18.86%	The ratio indicates how the company's funding of operations is largely from own-generated funds rather than from debt and loans.
Cash cover (in days)	10	30–90	4	13	209%	The ratio is below the norms and indicates that in a financial shock or setback, there is a high risk of defaulting on liabilities and not fulfilling basic services.

SECTION 6: SUPPLY CHAIN MANAGEMENT AND B-BBEE

New tender and contract awards

Overall awards

The total overall contracts and tenders awarded for the year under review includes all commitments (i.e. new tenders, additional funding, extension of contracts, deviations and purchase orders for amounts above R200 000) was R1.8 billion (2017/18: R1.1 billion) with a B-BBEE recognition compliance rate of 117% (2017/18: 102%) against the entity's target of 95%.

Tender awards

For the year under review, 88 new tenders were awarded to the value of R1.7 million (2017/18: R889.2 million).

Cancelled tenders

The entity experienced 54 non-awards in new tenders for the year. The reasons vary widely from non-responsive tenders received to deficient tender documents and the incorrect application of subcontracting clauses.

Disputed award

One tender was in dispute during the current year. This occurred in December 2018 and relates to the delivery of potable water. This tender dispute was successfully reviewed via a mediation process and found to have been awarded fairly. The contract has since been implemented.

Disputed tenders are defined as those where legal processes have been initiated and/or are in the process being instituted by a bidder against Johannesburg Water.

Awards to black designated groups

As part of tender awards made for the year, a further breakdown into various designated groups is outlined below.

It should be noted that these amounts form part of the awards made for the year and are reported to indicate empowerment contributions made to various black designated groups:

- Youth owned (enterprises of which more than 50% is owned by black youth): R34.2 million (2017/18: R9.7 million)
- Women owned (enterprises of which more than 30% is owned by black women): R337.8 million (2017/18: R88.6 million)
- SMME owned (exempted micro and small enterprises that have a turnover of up to R50 million): R496.5 million (2017/18: R396.5 million)

- Black owned (enterprises of which more than 50% is owned by black people): R652.9 million (2017/18: R496.7 million)
- Black disabled owned (enterprises of which more than 50% is owned by black people with a disability): R0 (2017/18: R0)

Actual procurement expenditure

Overall procurement spend

The entity's procurement spend for all supplier categories for the year was R367 million (2017/18: R320 million) with a B-BBEE recognition level of 97% (2017/18: 100%) against the entity's target of 95%.

Total SMME spend

The total actual spend on SMMEs for the year was R182.3 million (2017/18: R142 million) with a B-BBEE recognition level of 126% (2017/18: 126%) against a target of 125%.

Procurement spend on black designated groups

The total actual procurement spend for the various designated groups was as follows:

- Black youth owned (enterprises of which more than 50% is owned by black youth): R17.4 million (2017/18: R17.2 million).
- Black women owned (enterprises of which more than 30% is owned by black women): R 83.1 million (2017/18: R69.3 million).
- SMME owned (enterprises that are classified as exempted micro enterprises (EMEs) and qualifying small enterprises (QSEs) with turnovers not exceeding R50 million): R182.3 million (2017/18: R142 million).
- Black owned (enterprises of which more than 50% is owned by black people): R244.8 million (2017/18: R203.5 million).
- Black disabled owned (enterprises of which more than 30% is owned by black people with a disability): R4.2 million (2017/18: R1.4 million).

Contractor performance

There were six poor performing contractors for the year, of which three were capital expenditure and three were operating expenditure related, as depicted in Table 37.

Table 37: Operating expenditure

Contract number	Description	Name of contractor	Contract value R'000	Problem statement	Contract status
RJ2/6/2006	Building Lease 17 Harrison Street	Delta Fund Properties	R93,000	Lifts and reception area not done, and maintenance repairs take long to be executed.	Landlord commenced rectifying breaches and progress can be seen.
JW OPS44/13	Hire of mechanical plant	Teloc Waste Management	R46,000	Contractor is using trucks that are not roadworthy.	On terms while meetings are being held to resolve the matter.
JW 01/16 MCS	Community engagement and social services	Thembalethu Development	R42,000	Late and /or non-submission of reports	Contractor to be put on terms.

Table 38: Capital expenditure

Contract number	Description	Name of contractor	Contract value R'000	Problem statement	Contract status
JW 13801	Ennerdale Ext. 5 water pipe replacement project	Blue Stone Trench Technologies	R8,500	Cash flow problems	Termination being considered.
CO6036	Desludge Dam 01 at Northern WWTW	Johannesburg Water Wastewater Partnership	R22,800	Consultant negligent in checking quality on site and taking corrective action.	Penalties to be imposed. The amount will be determined once the dispute between the consultant and Johannesburg Water has been resolved.
JW 6033RR	Dam 01 – construction of high-rate settling tanks, pumping mains, dam liner, etc	Raubex/L&R joint venture	R115,000	Quality standards not met in respect of the by-pass line valued at approximately R4 million	Penalties to be imposed. However, the amount will be determined once the dispute between Johannesburg Water and the contractor has been resolved.

Although service delivery was disrupted, no actual losses were incurred since the entity covers and/or mitigates its risks by means of performance guarantees and an additional 10% retention in construction-related contracts. Furthermore, the entity only pays for goods and services delivered or on presentation of a progress certificate in construction contracts.

Procurement deviations

Total procurement awards via a deviation process for the full year under review was R359.3 million (2017/18: R325.9 million), constituting 19.9% of total procurement awards. The breakdown of these deviations was R40.8 million sourced via the request for quotation process and R318.5 million sourced through a negotiations process, as indicated in the tables below.

The major contributors to the increase in deviations made during the year are as follows:

- Sole supplier deviation appointment for the supply and delivery of spare parts for water meters for the repair and maintenance of prepayment meters to the value of R37.5 million.
- Deviation appointment for the hire of mechanical plant due to delays experienced in the renewal of the contract amounting to R112 million. Two tenders that were previously advertised resulted in a non-award.
- Deviation appointment for the Microsoft Premier Support services to the value of R23.6 million.
- Deviation appointment for the human-based security services to the value of R64.6 million due to delays from the CoJ on the insourcing of security services.
- Deviation appointment of various learner contractors under the Vuk'uphile Contractor Development Programme to the value of R61.5 million.
- Deviation appointment for the transportation of potable water due to a delay experienced in the renewal of the contract amounting to R11.5 million. The delay in the renewal of the contract was due a tender that was a non- award.
- Deviation appointment for the implementation of the integrated project management system amounting to R17.5 million.
- Deviation procurement of inventory items through the RFQ process due to delays experienced in the renewal of contracts amounting to R7.9 million. This includes six non-awards.

Deviations below the R200,000 threshold, however, declined due to deviations above R200,000 being reported under the tendered procurement section.

A breakdown of these deviations was in respect of the following categories made:

- Emergencies: R39.9 million (2017/18: R92.8 million)
- Sole suppliers: R91.2 million (2017/18: R35.5 million)
- Impracticality: R228.2 million (2016/17: R197.6 million)

The entity's Supply Chain Management Policy and the MFMA Regulation, No. 36 allow the Accounting Officer to dispense with the official procurement processes established in exceptional cases (i.e. emergencies, sole suppliers, or impracticality) as indicated above.

Furthermore, no unsolicited bids were received or awarded by the entity during this period.

Table 39 provides a summary of purchases procured via the company's deviation processes in terms of set delegations as required by the Supply Chain Management Policy and Standard Operating Procedures.

Table 39: Details of deviations above the R200,000 threshold

Deviations type	2018/19 R'million	2017/18 R'million
Emergencies	23.6	39.7
Sole suppliers	86.3	30.8
Impracticality	208.6	169.3
Total	**318.4**	**239.8**

Table 40: Details of deviations below the R200,000 threshold

Deviations type	2018/19 R'million	2017/18 R'million
Emergencies	16.3	53.1
Sole suppliers	4.9	4.7
Impracticality	19.6	28.3
Total	**40.8**	**86.1**

Enterprise development

Some 3,021 applications have been received for the unemployed youth development programme. The programme aims to shortlist and train only 90 (2016/17: 80) unemployed matriculants in plumbing, welding and bricklaying. The programme will be concluded with entrepreneurial skills training. The tender recruitment for service providers to conduct the technical training could unfortunately not be awarded, since all the bidders were non-responsive. This delayed the commencement of the programme during the year under review.

As part of the entity's outreach programmes to emerging suppliers, Vuk'uphile Contractors was assisted with meeting the compliance requirements (i.e. to register on the Central Supplier Database (CSD), to be tax compliance, to register with the Department of Labour for the Unemployment Insurance Fund (UIF) and to obtain a B-BBEE rating) in preparation for the contract award of Phase 3 to conclude this development programme. Nine of the 60 learner contractors are still at CIDB Grading Level 1 and are in the process of registering with the CIDB.

Irregular, fruitless and wasteful expenditure

Irregular expenditure identified in the current year

Treasury Guidelines on irregular expenditure provide that such can only be recognised when payment pertaining to the non-compliance is actually made. Any irregular expenditure determined prior to a payment being made shall only be regarded as non-compliance until payment is made; at which point the irregular expenditure shall be recorded.

During the year under review, R2.6 million with respect to the procurement on an RFQ basis of support and maintenance services for CYDNA laboratory machinery without a valid contract was declared as irregular, as depicted in Table 41.

Irregular expenditure identified in the previous financial year

Irregular expenditure incurred and paid in the current year was identified in the previous financial year as a result of additional payments made on contracts to the value of R178.3 million.

This related to additional irregular expenditure incurred from the continuous use of active contracts declared irregular in the prior financial years in respect of the following:

- **R15.4 million:** Provision of human resource-based security services to guard the entity's infrastructure. This contract expired in October 2018.
- **R18.2 million:** Tender JW 13804 Basic Sanitation Services due to the incorrect application of PPPFA Regulation 9.
- **R45.1 million:** Tender JW 13504 Construction of Balancing Tank at Bushkoppies WWTW due to an incorrect application of the CIDB prscripts.
- **R44.4 million:** Fleet services. This is a CoJ group contract.
- **R55.1 million:** Vuk'uphile Learner Contractor Development Programme. A forensic investigation into the programme revealed that the recruitment of learner contractors into the programme was flawed.

Fruitless and wasteful expenditure

Fruitless and wasteful expenditure refers to expenditure that was made in vain and would have been avoided had reasonable care been exercised. For the year under review, an amount of R330,000 was reported as fruitless and wasteful expenditure as it related to interest on late payments on capital expenditure projects.

Table 41: Irregular expenditure identified in the current year

Item	Item description	Amount R'000
RFQ – Support and Maintenance Services	Support and maintenance services for laboratory machinery without a valid contract	R 2.600
Total		**R 2.600**

Irregular expenditure for the current year identified in the previous financial year as a result of additional payments made on these contracts

Treasury Guidelines on irregular expenditure provide that this is only recognised when payment pertaining to the non-compliance is actually made. Any irregular expenditure determined prior to a payment being made shall only be regarded as non-compliance until the payment is made; at which point the irregular expenditure shall be recorded.

Table 42: Irregular expenditure for the current year identified in the previous financial year

No.	Item	Item description	Amount R'000
1.	Provision of human resource-based security services	Provision of human resource-based security services to guard the entity's infrastructure. Part of the evaluation criteria of the bid evaluation process involved a site visit to qualifying bidders. This specific part of the evaluation was not executed in a manner that is considered fair. The contract expired at the end of October 2018.	R15,446
2.	Vuk'uphile Learner Contractor Development Programme	The Vuk'uphile programme was developed to build capacity among emerging contractors to execute an increasing amount of labour-intensive work. Learner contractors in the programme received the training required as part of the EPWP Guidelines, so that when they exit the programme, they are fully qualified to tender for and execute labour-intensive projects. An independent investigation, performed by an external forensic investigating firm, was conducted in three phases. The last phase concluded during the 2018/19 financial year and found that the programme did not follow the correct recruitment processes for the 65 learner contractors, and there was a lack of documentary evidence to substantiate the appointment of these learner contractors. The investigation further revealed evidence of bribery, corruption and extortion committed by two Johannesburg Water officials. These officials have since resigned from the entity. A criminal case has been instituted against these officials. (SAPS case number 442/02/2018). The case has been escalated to the National Prosecuting Authority (NPA), who will make a decision as to whether to prosecute or not. Investigations with regard to the remaining internal employees alleged to have failed to follow company guidelines for the programme were finalised and one disciplinary case is currently in progress.	R55,125
3.	Tender JW 13804 Basic Sanitation Services	The entity did not correctly apply Regulation 9 of the PPPFA, which stipulates that in contracts with a value of R30 million and more, a minimum of 30% must be stipulated during the tender phase for subcontracting. The value of this contract was more than R30 million, but the entity specified a lower percentage available for subcontracting. The reasons for this decision have been discussed with the AGSA. However, the opinion of AGSA is that the regulation has been applied incorrectly and thus leads to irregular expenditure. This was a two-year contract	R18,230
4.	Tender JW 13504 Construction of Balancing Tank in Bushkoppies WWTW	The entity did not meet the CIDB conditions relating to an award to a contractor with a 6 CEPE grading.	R45,136
5.	Fleet Services	Implementation of the centralised city-wide fleet contract without a valid contract. A valid contract has been put in place as from 1 February 2019.	R44,373
Total			**R178,310**

The reported items above have been referred for investigations and the outcome is pending for remedial action, which may include disciplinary measures, recovery and/or condonement.

The following is a summary of total irregular, fruitless and wasteful expenditure:

• Fruitless and wasteful – prior years: opening balance	R6.3 million
Fruitless and wasteful – current year:	R0.3 million
Reversal of prior-year Rand Water transaction	R2 million
Closing balance	**R4.7 million**

• Irregular expenditure – prior years: opening balance	R418.million
Expenditure declared in the current year	R2.6 million
Irregular expenditure – paid in current year for prior-year contracts	R178.3 million
Closing balance	**R598.9 million**

Broad-based black economic empowerment

The entity's B-BBEE status for its level of contribution for the period under review was non-compliant. In other words, the entity contributes no B-BBEE percentage points in instances where it conducts business with other entities.

Contractor payment within 30 days

The tables below reflect total payments made to all vendors amounting to just over R11,4 billion. Some R146 million (1.29%) of the R11.4 billion is regarded as being overdue in terms of the payment terms applicable to the vendors. Some R89 million (61%) relates to operating expenditure amounts overdue, and R57 million (39%) relates to capital expenditure amounts overdue.

Table 43: Summary of all payments made

	Operating expenditure R'000	Capital expenditure R'000	Other R'000	Total R'000
Total payments	8,317,402	912,877	2,187,209	11,417,489
Percentage split of total payments	73%	8%	19%	100%
Total payments – overdue	88,900	57,927		146,827
Payments due as a percentage of total payments	1,07%	6,35%		1,29%

Late payments to suppliers are mainly due to the following key reasons:

- Late receipt of statement and/or invoices for processing of payment by the company.
- Tax invoices issued that are not compliant with the VAT Regulations, or non-compliant with internal controls.
- Internal delays in authorisation of invoices for work completed or delivered that is not to standard.
- National Treasury CSD compliance considerations that arose, which prevents payment from being released until compliance has been satisfactorily remedied.

SECTION 7: PENDING LITIGATIONS AND POSSIBLE LIABILITIES

For the year under review, there were six litigation cases with possible liabilities. These did not trigger any major litigation concerns for the entity.

SECTION 8: INSURANCE CLAIMS

Table 44 depicts the number of claims against the company and the net amount claimed. The settled amount included prior years as some matters take longer than a financial year to be finalised. The Employers Practices Liability (EPL) claims are still at dispute stage and no claim amounts have been finalised.

Table 44: Insurance claims and settled amounts

Insurance category	Number of claims	Settled amount (R)
Assets	8	358,813
Contract works	3	50,000
Employers Practices Liability	9	0
Group Personal Accident	4	9,041
Motor – fleet	700	11,416,766
SASRIA	7	1,093
Public liability	212	906,008.23
	943	**12,741,721**

SECTION 9: STATEMENT ON AMOUNTS OWED BY AND TO GOVERNMENT DEPARTMENTS AND PUBLIC ENTITIES

The amounts reflected below are owed to the entity by government departments and public entities. These accounts are highlighted to the CoJ's Revenue Collection Department for collection as part of the regular engagement with the Revenue Shared Service Centre.

Table 45: Amounts owed by government departments and public entities

Department	Amounts owed	Account status
Department of Infrastructure and Development	R77,690,209	More than 90 days overdue
Department of Health	R51,094,051	More than 90 days overdue
Department of Education	R58,055,896	More than 90 days overdue
Department of Housing	R50,355,832	More than 90 days overdue
Department of Public Works	R11,135,171	More than 90 days overdue
Department of Finance	R103,613	More than 30 days overdue
Transnet	R27 072 513	More than 90 days overdue
Passenger Rail Agency	R18,938,091	More than 90 days overdue
Spoornet	R3,122,900	More than 90 days overdue
SABC	R1,154,662	More than 90 days overdue
Eskom	R749,510	More than 90 days overdue
National Roads Agency	R500,738	More than 90 days overdue
Spoorpendel Korporasie	R494,991	More than 90 days overdue
National Association of the Blind	R65,175	More than 90 days overdue
National Housing Finance Corporation	R55,209	More than 90 days overdue
Rand Water	R41,212	More than 90 days overdue
Denel	R9,238	More than 90 days overdue
Total	**R323,976,224**	

Table 46 indicates amounts owed to the group for service fees incurred from the Revenue Shared Service Centre, as well as other service charges.

Table 46: Amounts owed

Entity	Amount owed	Status	Comments
Johannesburg Water	R1.3 billion	Amount provided for in the entity's books	Confirmed inter-company balances with all entities and the shareholder.

CHAPTER 6

INTERNAL AND EXTERNAL AUDIT FINDINGS

Stakeholders impacted: Shareholder
Response to Strategic Goal 4

SECTION 1: PROGRESS ON INTERNAL AUDIT PLAN

A total of 35 audit projects were planned and scheduled for 2018/19 financial year, with no carry-over from 2017/18. Two ad-hoc audit requests were received from management. The audit projects were completed during the year as indicated in Table 47.

Table 47: Internal audit plan

Quarterly projects	Planned audits	Carried over from previous quarter	Ad hoc	Total expected	Actual audits	Variances
Quarter 1	8	0	1	9	9	**0**
Quarter 2	9			9	8	**-1#**
Quarter 3	9			9	9	
Quarter 4	9		1	10	10	
Total per annual audit plan	**35**		***2**	**37**	**36**	-1
Probity projects			27	27	**27**	0
Total output for the year	**35**		**29**	**64**	**63**	**-1**

* *The total planned audits have been adjusted (from 31 to 35) to include the audit of predetermined objectives, which had previously been outsourced, as well as two ad-hoc projects that were a follow-up of the Internal Audit findings of the previous year, which had not been included in the plan.*

\# *NRW is still work in progress with certain procedures agreed with management to be appropriately performed with the year-end process to verify the calculations on annual figures.*

The following audit reports were completed and followed up during 2018/19:

- Planning and implementation of capital projects (follow-up audit)
- Access to sanitation and water in informal settlements (follow-up audit)
- Compliance with B-BBEE Act (follow-up audit)
- Leave management (follow-up audit)
- Fleet management (follow-up audit)
- ICT infrastructure review at depots (follow-up audit)
- Compliance with National Water Act, No. 36 of 1988 (follow-up audit)
- Business Continuity Plan and implementation (follow-up audit)
- Prepayment management process (follow-up audit)
- Central Database System (CDS) application controls review (follow-up audit)
- Management of all company policies (follow-up audit)
- Human resources head count (follow-up audit)
- AGSA Management Letter 2017/18
- Previously unresolved internal audit findings (follow-up audit)
- Audit of predetermined objectives (Quarter 4 of 2017/18 and Quarter 1 to Quarter 3 of 2018/19)

SECTION 2: PROGRESS ON RESOLUTION OF INTERNAL AUDIT FINDINGS

The report provides the status of the resolutions for the entire financial year as follow ups are not done on a quarterly basis. The plan was to execute planned audits in the first two quarters of the financial year, and then to conduct follow-up audits in Quarter 3 and Quarter 4.

Table 48 depicts follow-up audits that were undertaken during 2018/19 as at 30 June 2019.

Table 48: Resolution of internal audit findings: Quarter 1 to Quarter 4

No.	Internal audit projects	No. of findings raised	No. of findings resolved	Resolution percentage
QUARTER 1–4				
1.	Opening balance 2017/18 subtotal: 2015/16 2016/17 2017/18	**48** 10 5 33	**28** 6 3 19	**58%**
2.	Planning and implementation of capital projects (follow-up audit)	9	9	100%
3.	Access to sanitation and water in informal settlements (follow-up audit)	13	13	100%
4.	Compliance with B-BBEE Act (follow-up audit)	1	1	100%
5.	Leave management (follow-up audit)	8	8	100%
6.	Fleet management (follow-up audit)	13	11	85%
7.	ICT infrastructure review at depots (follow-up audit)	6	2	33%
8.	Management of all company policies	7	6	86%
9.	Compliance with National Water Act, No. 36 of 1998	5	5	100%
10.	Prepayment metering management processes	13	13	100%
11.	HR – personnel management head count	4	4	100%
12.	CDS – application controls review	6	5	83%
13.	Business continuity management and implementation of Disaster Recovery Plan	4	2	50%
	Current year subtotal	**89**	**79**	**89%**
Total		**137**	**107**	**78%**

SECTION 3: PROGRESS ON RESOLUTION OF AGSA AUDIT FINDINGS

AGSA Management Letter follow-up 2018/19

The outcome of the 2017/18 AGSA annual audit review for Johannesburg Water had a total of 85 findings, comprising 67 new audit findings, while 18 were repeat AGSA findings. The AGSA findings were categorised as follows:

- 17 (20%) of the total AGSA findings were rated as those "affecting auditor's opinion"
- 45 (53%) of the total AGSA findings were rated as "other important matters"
- 23 (27%) of the total AGSA findings were rated as "administrative matters"

Table 49 depicts progress on resolving AGSA audit findings for 2017/18 as at 30 June 2019.

Table 49: Progress on AGSA findings

Financial year	Total findings	Repeat findings	Resolved	In progress	Unresolved
2017/18	**67**	**0**	**60**	**2**	**5**
2016/17	**11**	**11**	**11**	**0**	**0**
2015/16	**1**	**1**	**1**	**0**	**0**
2014/15 and 2013/14	**6**	**6**	**4**	**0**	**2**
Total	***85**		**76**	**2**	**7**
Percentages			****89%**	**3%**	**8%**

* *The total, excluding four items with the CoJ dependency, would be a total of 81 findings.*

** *The resolution rate adjusted, for four findings, which are dependent on CoJ, is 94%.*

Analysis of the resolution rate

The 89% (76) resolution status of the AGSA's findings per audit classification rating is as follows:

- 76% (13) of the 17 findings rated as "affecting auditor's opinion" were verified as resolved.
- 89% (40) of the 45 findings rated as "other important matters" were verified as resolved.
- 100% (23) of the 23 findings rated as "administrative matters" were verified as resolved.

Table 50 describes the four findings still outstanding, which are rated as "affecting auditor's opinion".

Table 50: Findings that affected the audit opinion

Finding Ref No.	Description	Management actions/comments
3.	Revenue from sale of water (meters estimated for 12 months)	Currently updating the meters by physically replacing the meters on the ground and updating information on the SAP system.
10.	Irregular expenditure identified on fleet management services	This was a city-wide contract and the investigation by the GFIS is still in progress.
14.	Instances of irregular expenditure relating to prior years were not adequately investigated	The Board has mandated the Internal Audit Department to arrange with the GFIS to review the instances of irregular expenditure to assist with expediting the investigation process.
17.	Number of informal settlement household used not possible to validate or verify	Management has reviewed and aligned its key performance indicators and the measurement criteria to ensure usefulness and reliability of the performance information.

Comparisons of the previous audit opinions

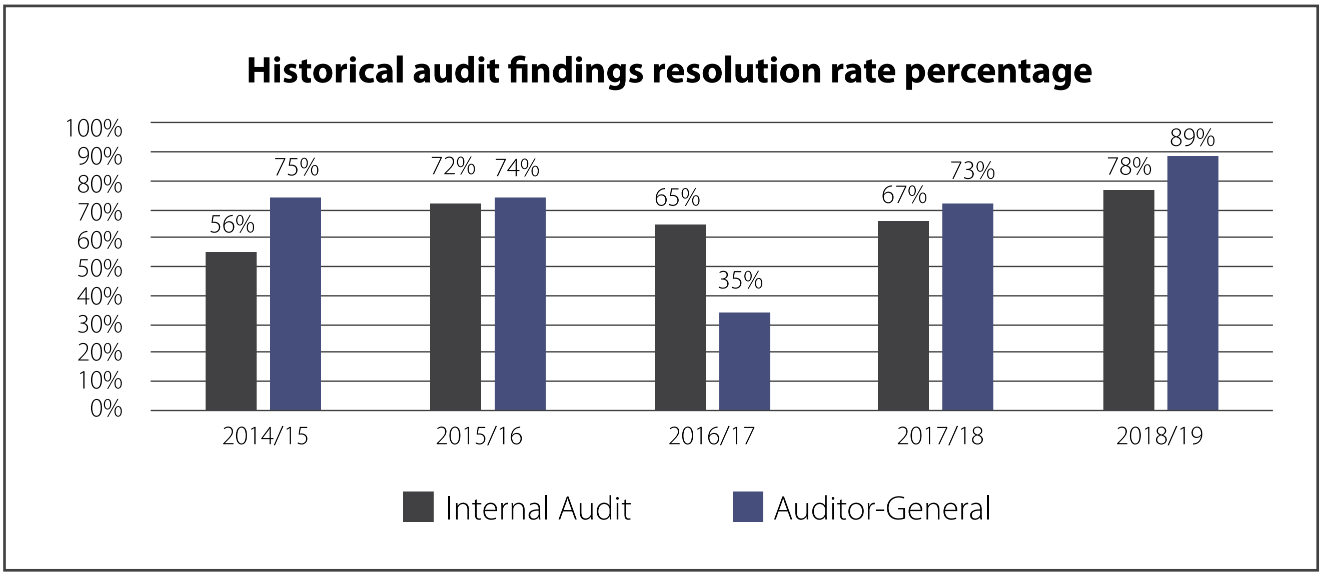
Johannesburg Water has achieved a constant audit outcome/opinion for the past five financial years, i.e. an "unqualified audit opinion," as follows:

Table 51: Comparative audit opinions

	2014/15	2015/16	2016/17	2017/18	2018/19
Audit opinion	Unqualified	Unqualified	Unqualified	Unqualified	Current audit

The CoJ established the Operation Clean Audit task team to implement a coordinated effort across the city to improve the audit outcome, aiming for a clean audit in the near future. At an entity level, Johannesburg Water has implemented a dashboard process, overseen by the Managing Director, to monitor the implementation of remedial actions. There has been a significant improvement in the resolution rates, which is illustrated by the upward trend experienced in the past three financial years (see Figure 8).

Figure 8: Audit findings resolution rate



Effectiveness

A total of 76 (89%) control deficiencies were resolved and nine (11%) of the control deficiencies raised by the AGSA remained unresolved. Management is working on resolving them.

Impact assessment

There is a dependency from the CoJ to assist with other findings that are still outstanding. These findings relate to revenue management (billing and debtors), as well as the finalisation of investigations for consequent management through the GFIS.

Remedial action taken to address prior-year issues and preventative measures

Most of the findings that were on the AGSA's Management Letter in the 2017/18 financial year related to supply chain management (SCM) issues. Management established a Dashboard Committee, chaired by the Accounting Officer, to address all prior-year findings.

The committee met on a weekly basis. All findings were discussed with a view to finding solutions, and 89% of these were resolved. In order to address this, management has revamped the SCM processes and procedures and introduced internal audit probity for all tenders above R5 million. This process provided assistance in terms of identifying and addressing possible findings by the AGSA.

Matters of emphasis

The Internal Audit Department would like to draw attention to the following matters, which the system of internal control could not prevent:

- Irregular, fruitless and wasteful expenditure, the delay in consequence management and the condonation process due to the investigation turnaround.
- Non-compliance with the water supply by-law (customers billed on estimates for more than six months due to meters not read). Meters are not read due to change meters not yet being interfaced.

The above were carried over from 2015/16 to 2016/17 and had not yet been resolved. Management is implementing strategic initiatives to address these matters. The Board, through the Audit and Risk Committee, mandated Internal Audit Department to coordinate with the GFIS and conduct reviews on irregular expenditure items that resulted from simple administrative and non-compliance matters, and that do not require forensic investigations.

SECTION 4: OVERALL STATE OF INTERNAL CONTROL FOR YEAR ENDED 30 JUNE 2019

The Statement on Internal Control is an expression of an opinion by the Internal Audit Department on the status of the internal control system of Johannesburg Water after it has been evaluated. Both King IV and the International Standards of Professional Practice of Internal Auditing (ISPPIA) require the Chief Audit Executive to provide a written assessment of the adequacy and effectiveness of the internal controls and issue a report reflecting any deficiencies that have been mitigated by management. This report forms the basis of the Audit and Risk Committee's Report.

Johannesburg Water has recognised the introduction of King IV and is applying and adhering to the 16 principles and governance outcomes enunciated in it.

Independence and objectivity

In accordance with the ISPPIA, the Chief Audit Executive confirms and declares that the Internal Audit Department is independent and objective in carrying out its internal audit activities.

The activity is not under influence or control by Executive Committee members. For the Internal Audit Department, independence is understood as freedom from conditions that threaten its ability or the ability of the Chief Audit Executive to carry out their internal audit responsibilities in an unbiased manner.

Objectivity is defined in the Institute of Internal Auditors (IIA) Standards as an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that the quality of their work is not compromised in any way.

Compliance with ISPPIA

The audits were conducted in accordance with ISPPIA, as determined by the IIA and, accordingly, included the consideration of business objectives, and the internal controls put in place relative to the inherent risks to assist in determining the nature, timing and extent of the entity's audit procedures. This consideration entails a detailed study and evaluation of internal controls as the audit intended to provide reasonable assurance thereon.

The Internal Audit Department obtained a partially compliant assessment rating during the external quality assurance reviews undertaken during April 2015, with the final report issued in August 2015. The Internal Audit Department is due for a quality review in 2019/20 as per the approved Internal Audit Charter. The review will start in November 2019.

The responsibility of management

Management is responsible for establishing and maintaining an appropriate system of internal control for the prevention and detection of irregularities and fraud. The objectives of internal controls are to ensure the following:

- Reliability and accuracy of data: Data is accurate, timely, useful, reliable and relevant.
- Effectiveness and efficiency: Operations are effective, efficient and add value to the accomplishment and monitoring of goals.
- Authorisation: Proper review and approval.
- Safeguarding assets: Assets are protected from theft, misuse, and/or destruction.
- Compliance: Compliance with policies, rules, regulations and laws.

Internal Audit Department's responsibility

The Internal Audit Department evaluates the adequacy and effectiveness of the internal control systems. In assessing these, consideration of the abovementioned internal control objectives and the audit evidence obtained during the execution of audits should be used as a basis for the opinion and only completed assurance engagements or projects should be considered for the overall opinion.

The results of internal audit support the organisation to achieve its goals in the short, medium and long term. The risk-based approach ensures that the internal audit function focused on the financial sustainability of the organisation, as well as areas that are material for the stakeholders.

Table 52: Assessment and conclusion of internal controls using the COSO Framework

Assessment of improvement in internal controls before (left) and after (right) interventions by management

Reviews components of COSO Framework on full reviews	Control environment This sets the tone of an organisation. It serves as a foundation for all other control components. The core of any business is its people: their individual attributes, including integrity, ethical values and competence, as well as the environment in which they operate.	Risk assessment The entity must be aware of and deal with the risks it faces. It must set organisational objectives that are operating in accord. It must also establish mechanisms to identify, analyse and manage the related risks.
Business continuity management and implementation of Disaster Recovery Plan (follow-up audit	4	3
CDS – application control review (follow-up audit)	3	2
HR – personnel management head count (follow-up audit)	2	2
Prepayment metering management processes (follow-up audit)	2	2
Compliance with National Water Act, No. 36 of 1998 (follow-up audit)	2	2
Management of all company policies (follow-up audit)	2	2
ICT infrastructure review at depots (follow-up audit)	3	3
Feet management (follow-up audit)	3	2
Leave management (follow-up audit)	2	2
Compliance with BBBEE) Act (follow-up audit)	2	2
Access to sanitation and water in informal settlements (follow-up audit)	2	2
Planning and implementation of capital projects (follow-up audit)	2	2
Business continuity management and implementation of Disaster Recovery Plan	4	3
CDS – application control review	4	3
HR – personnel management head count	3	3
Prepayment metering management processes	4	3
Compliance with National Water Act, No. 36 of 1998	3	3
Management of all company policies	4	3
ICT infrastructure review at depots	3	3
Fleet management audit	4	3
Leave management audit	3	2
Compliance with the B-BBEE Act	3	3
Access to sanitation and water in informal settlements	4	3
Planning and implementation of capital projects	4	2

Business continuity management and implementation of Disaster Recovery Plan (follow-up audit	2	2	2
CDS – application control review (follow-up audit)	2	3	2
HR – personnel management head count (follow-up audit)	2	2	2
Prepayment metering management processes (follow-up audit)	2	2	2
Compliance with National Water Act, No. 36 of 1998 (follow-up audit)	2	2	2
Management of all company policies (follow-up audit)	3	3	3
ICT infrastructure review at depots (follow-up audit)	3	3	2
Feet management (follow-up audit)	3	2	3
Leave management (follow-up audit)	2	2	2
Compliance with BBBEE) Act (follow-up audit)	2	2	2
Access to sanitation and water in informal settlements (follow-up audit)	2	2	2
Planning and implementation of capital projects (follow-up audit)	2	2	2
Reviews components of COSO Framework on full reviews	Control activities This encompasses control policies and procedures that must be established and executed to help ensure that the actions indemnified by management as necessary to address risks for the achievement of the entity's objectives are effectively carried out.	Information and communication Surrounding these activities are information and communication systems. This enables the entity's people to capture and exchange the information needed to conduct, manage and control its operations.	Monitoring This refers to the ongoing assessment of internal control quality by management to assure that controls are operating as intended. The entire process must be monitored, and modifications made as necessary.
Business continuity management and implementation of Disaster Recovery Plan	3	3	3
CDS – application control review	3	3	3
HR – personnel management head count	4	3	3
Prepayment metering management processes	4	3	3
Compliance with National Water Act, No. 36 of 1998	3	3	3
Management of all company policies	3	3	3
ICT infrastructure review at depots	4	3	3
Fleet management audit	4	2	3
Leave management audit	3	3	4
Compliance with the B-BBEE Act	3	3	3
Access to sanitation and water in informal settlements	3	3	4
Planning and implementation of capital projects	3	3	4

LEGEND:

Rating	Description
Rating 1	Controls are functioning as intended and no additional actions are necessary at this time.
Rating 2	Many of the controls are functioning as intended; however, some minor changes are necessary to make the control environment more effective and efficient.
Rating 3	Some controls are in place and functioning; however, several control issues were noted.
Rating 4	Material persistent and pervasive control problems were noted that could jeopardise the accomplishment of business objectives.
Rating 5	Controls are not functioning and/or fraudulent activities have been detected that will have or already have a material impact on both the financial statements and the operations of the company.

Analysis of internal audit project follow-ups

A total of 137 (100%) internal control deficiencies were followed up. The results revealed the following:

- 107 (78%) internal control deficiencies were resolved.
- 20 (15%) internal control deficiencies were in the process of being resolved.
- 10 (7%) were not yet resolved with long-term implementation plans.

Please refer to Section 2 above for the breakdowns per project.

Effectiveness

A total of 107 (78%) of the control deficiencies have been satisfactorily resolved, while 20 (15%) are in the process of being resolved and 10 (7%) remain unresolved.

Impact

There is a significant improvement with the current resolution rate of 78%, as compared to the resolution rate at the 2017/18 year-end, which was at 74%. However, long outstanding findings on information technology and asset management were noted as areas that require close interventions, as reflected by the reports of both the Internal Audit Department and the AGSA.

Internal audit opinion

There is a need to improve controls in asset management, information technology, enterprise BCP and revenue (billing information), as well as putting more effort into resolving long outstanding findings from previous financial years, as assessed through the control environment component of the COSO Framework.

Internal audit findings opinion

Based on the above analysis, the systems of internal controls are adequate but ineffective 😐 to accomplish the organisational goals and objectives.

External audit findings opinion

Based on the above analysis, the systems of internal controls are inadequate and ineffective ☹ to accomplish the organisational goals and objectives.

Internal control evaluation criteria

Legend	Evaluation criteria	Control rating	Control description
☺	Adequate and effective	Good	Control addresses risk, is officially documented and in operation.
😐	Adequate but ineffective	Fair	Control addresses risk, but documentation and/or operation of control could be improved.
☹	Inadequate and ineffective	Poor	Material persistent and pervasive control problems were noted that could jeopardise the accomplishment of business objectives

SECTION	☺	😐	☹
Audit findings affecting the audit opinion/report	Management has resolved 100% of the targeted findings.	N/A	Less than 100% of targeted findings have been resolved by management.
State of internal controls (internal audit opinion)	Controls are adequate and effective.	Controls are adequate but ineffective.	Controls are inadequate and ineffective.
Internal and external audit findings resolution rate	Management has resolved 90-100% of the targeted findings.	Management has resolved 50-89% of the targeted findings.	Management has resolved less than 50% of targeted findings.

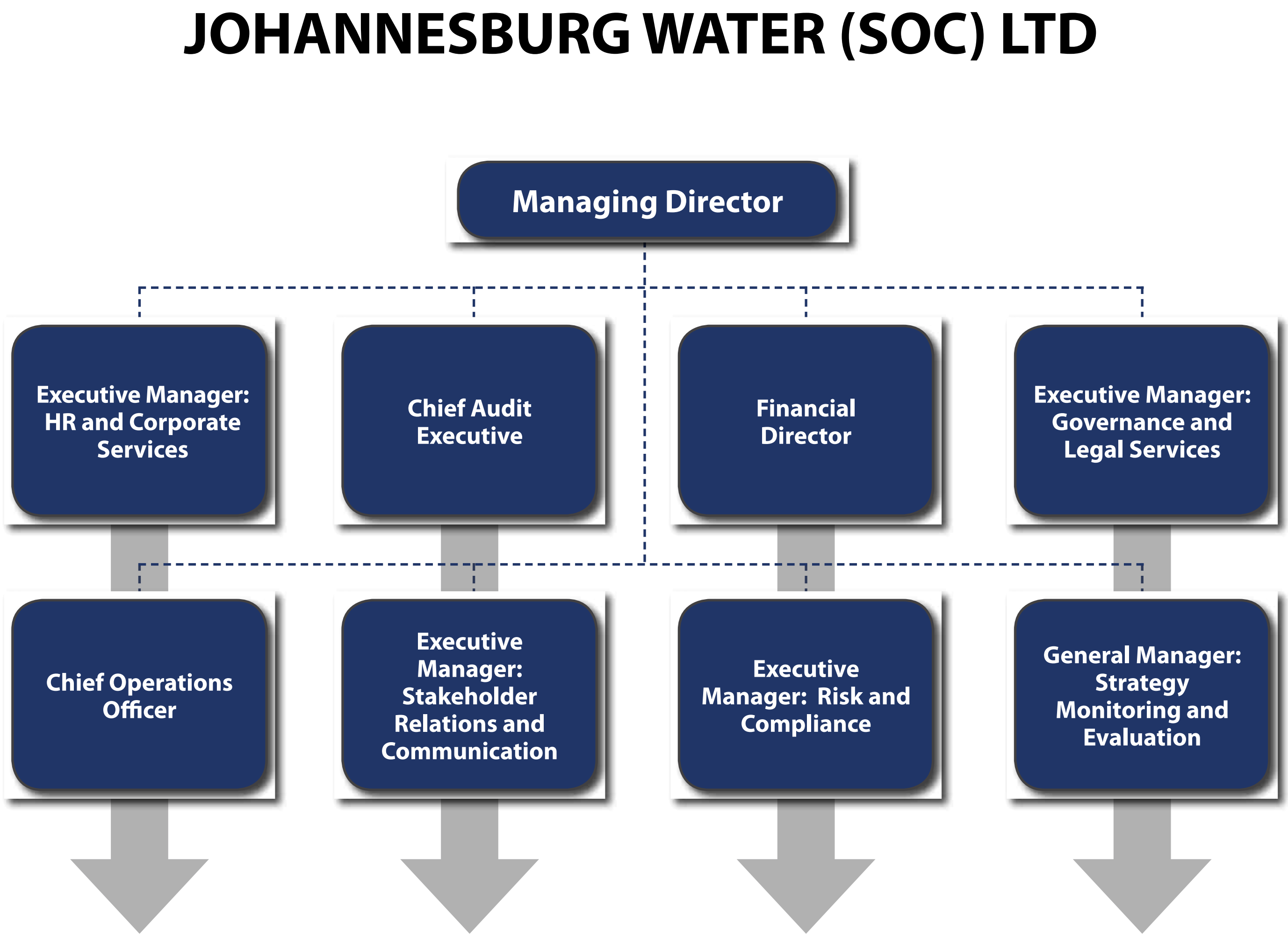
NOTE:

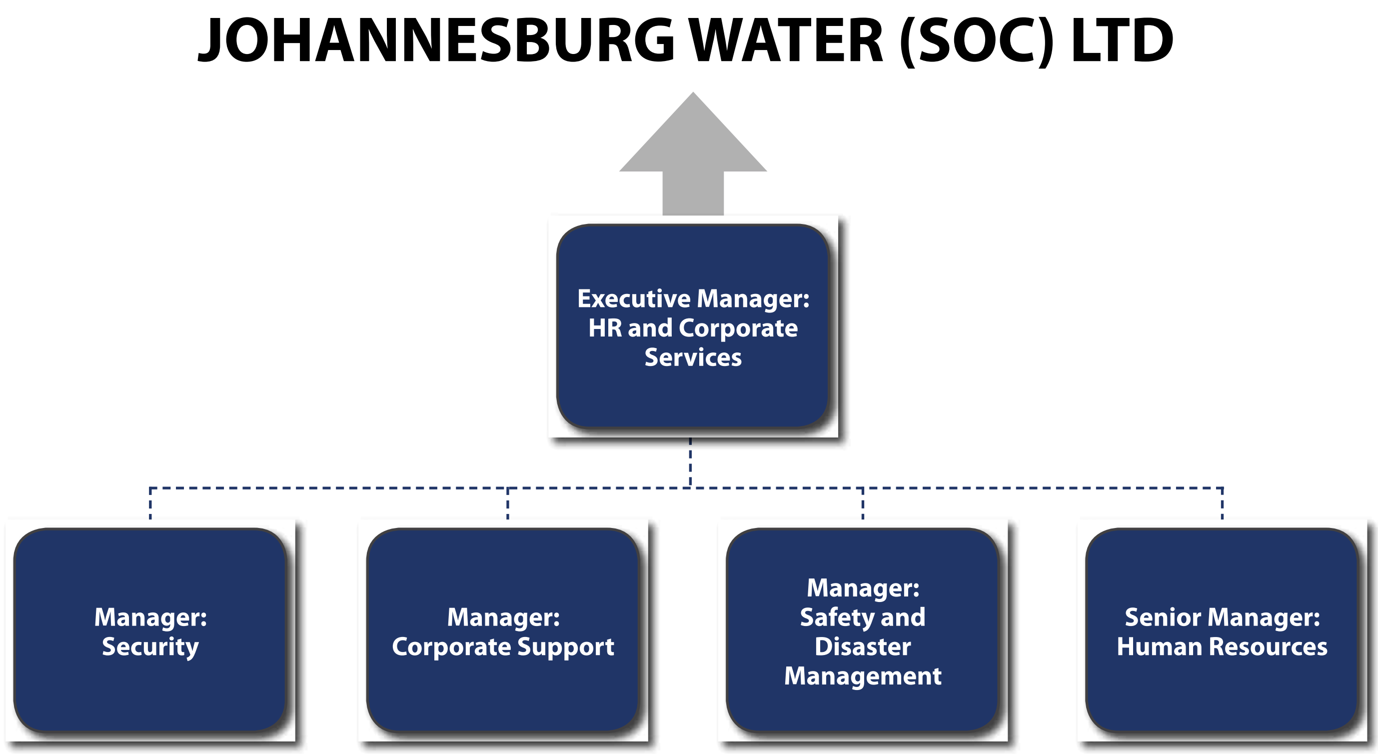
Integrated Development Plan – good governance and audit findings resolution 2017/18

Baseline – unqualified audit opinion with at least 85% of external and internal audit findings resolved

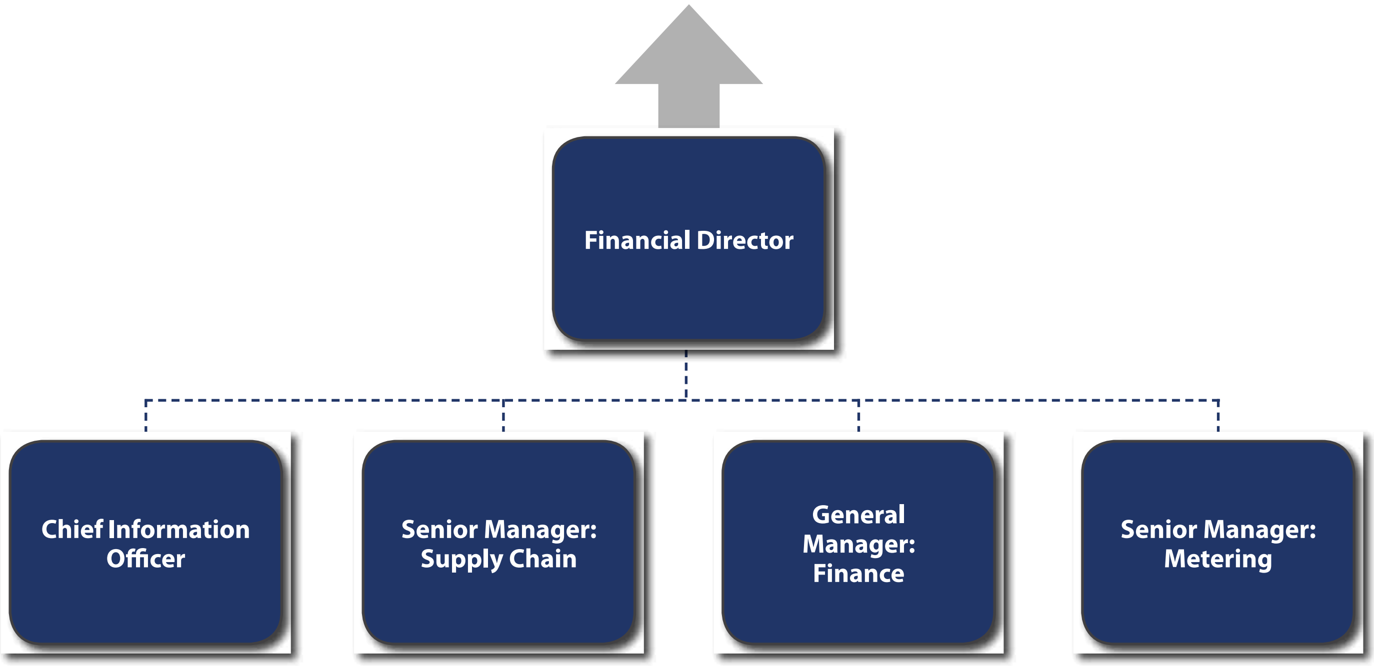
Target – unqualified audit opinion with at least 90% of external and internal audit findings resolved

APPENDICES


JOHANNESBURG WATER (SOC) LTD
Managing Director
Executive Manager: HR and Corporate Services
Chief Audit Executive
Financial Director
Executive Manager: Governance and Legal Services
Chief Operations Officer
Executive Manager: Stakeholder Relations and Communication
Executive Manager: Risk and Compliance
General Manager: Strategy Monitoring and Evaluation


JOHANNESBURG WATER (SOC) LTD
Executive Manager: HR and Corporate Services
Manager: Security
Manager: Corporate Support
Manager: Safety and Disaster Management
Senior Manager: Human Resources

JOHANNESBURG WATER (SOC) LTD



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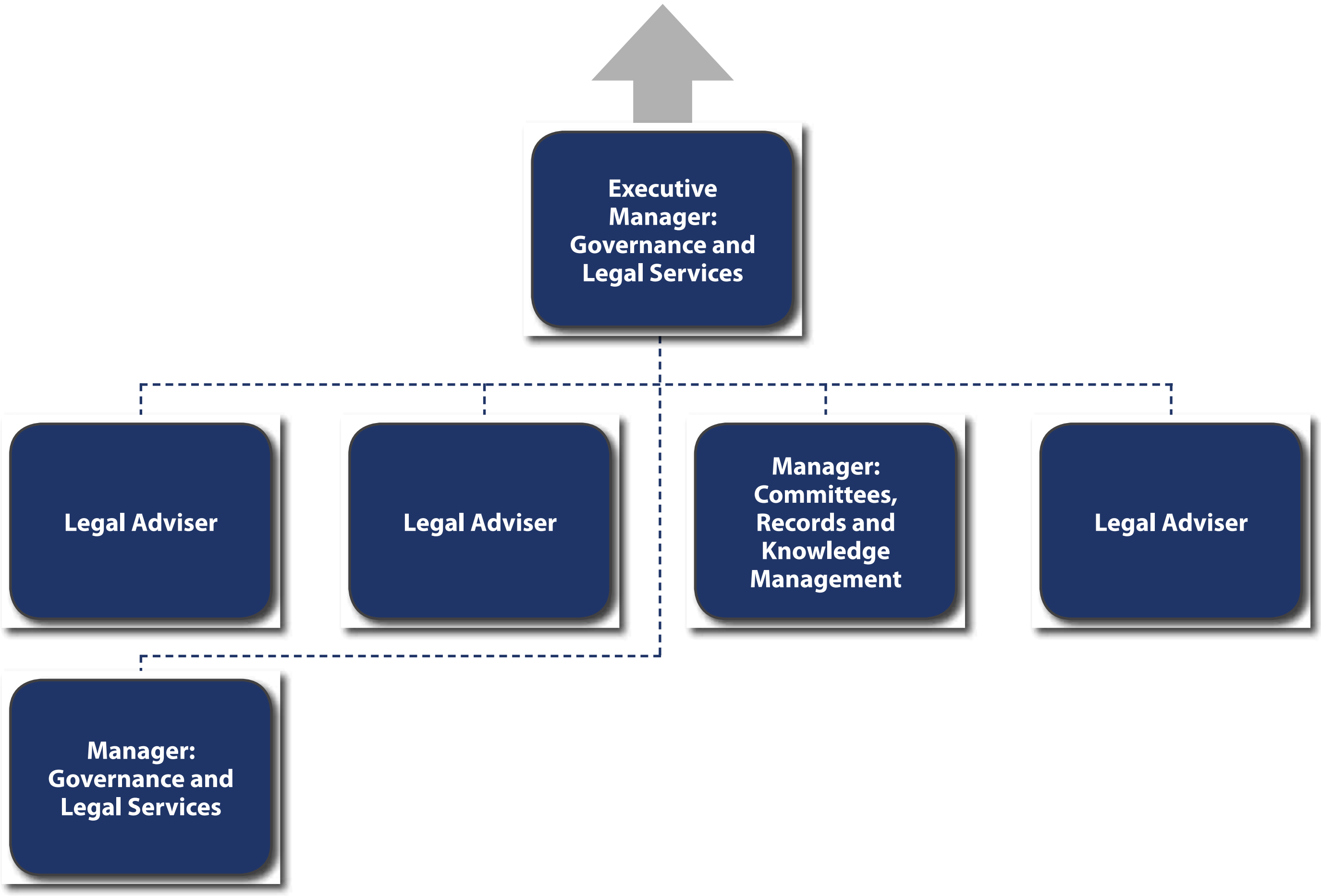

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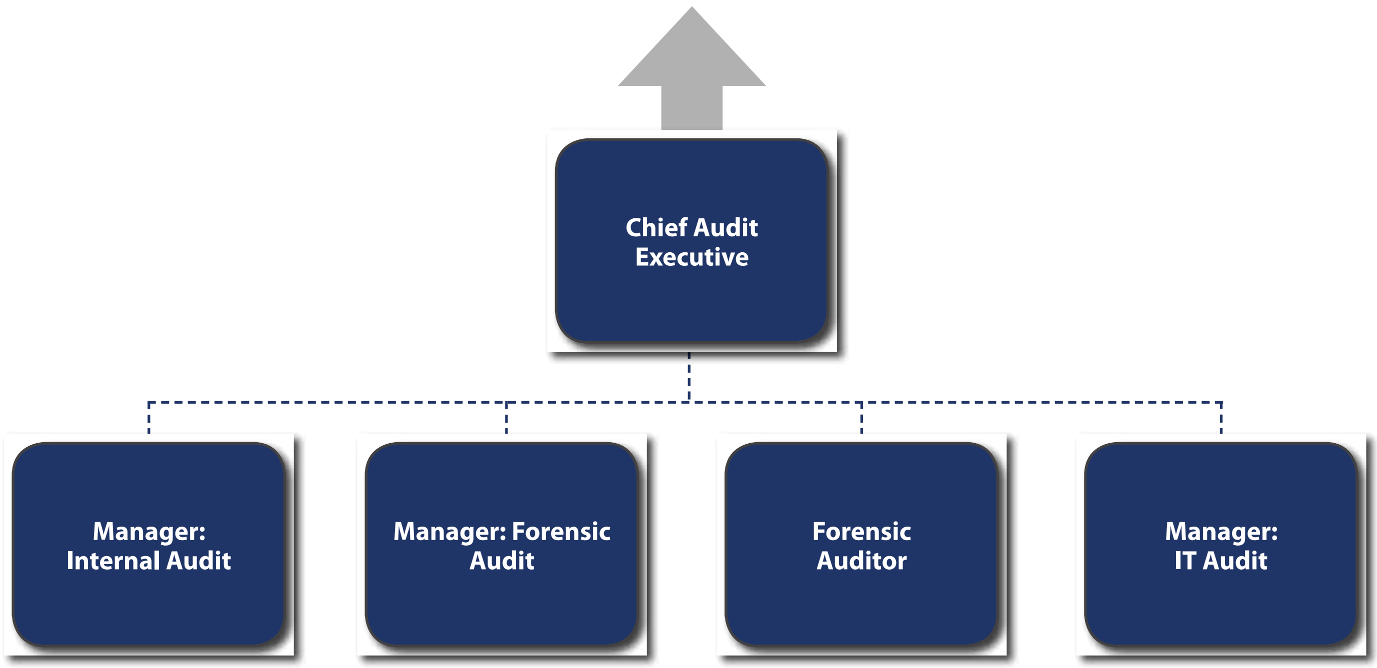
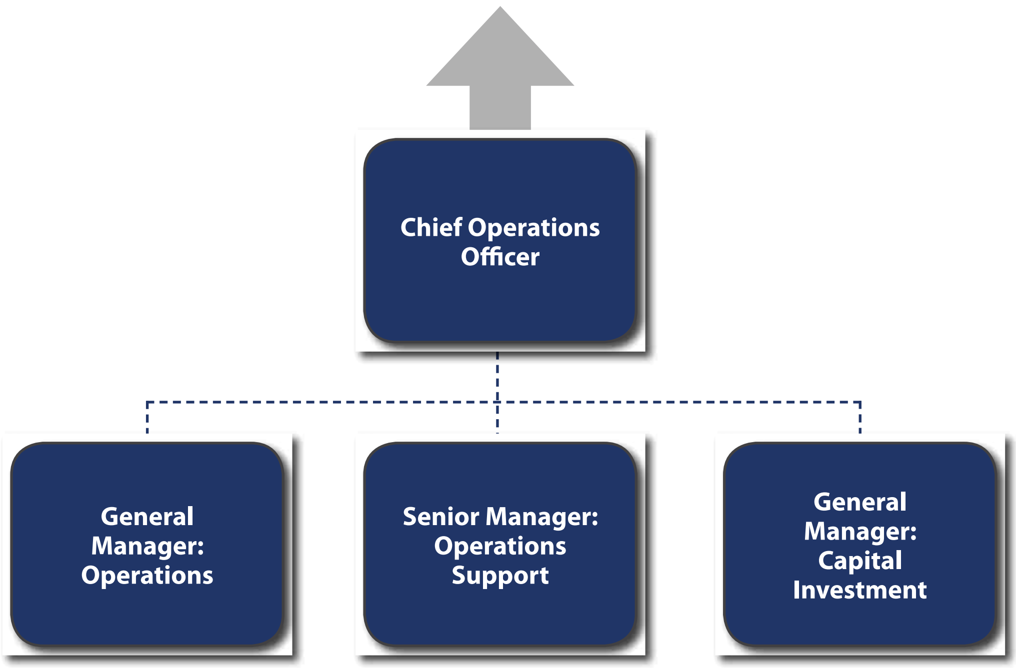
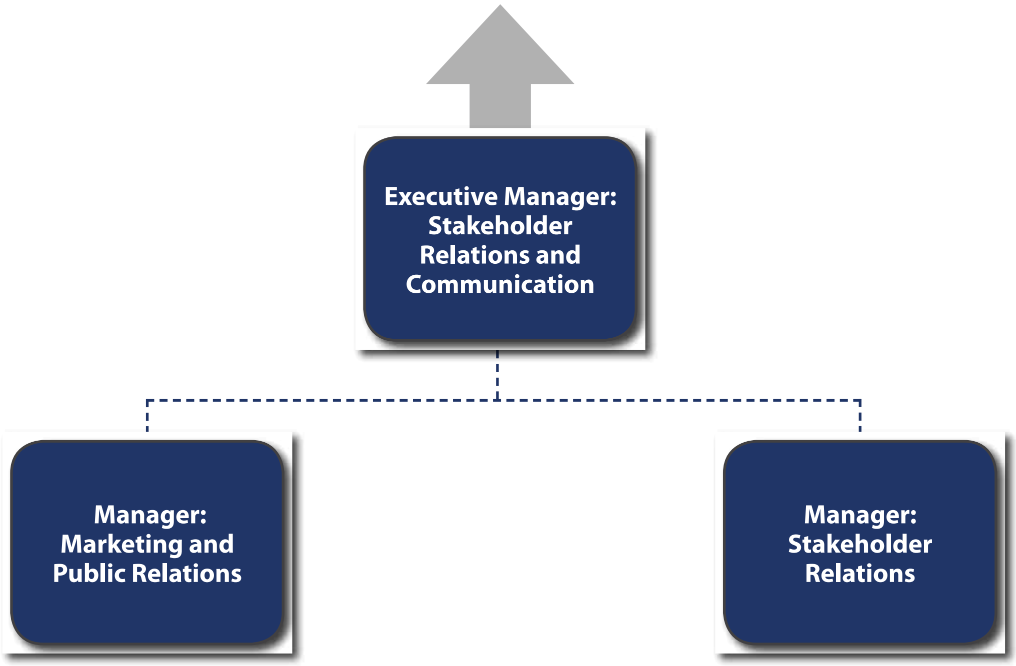


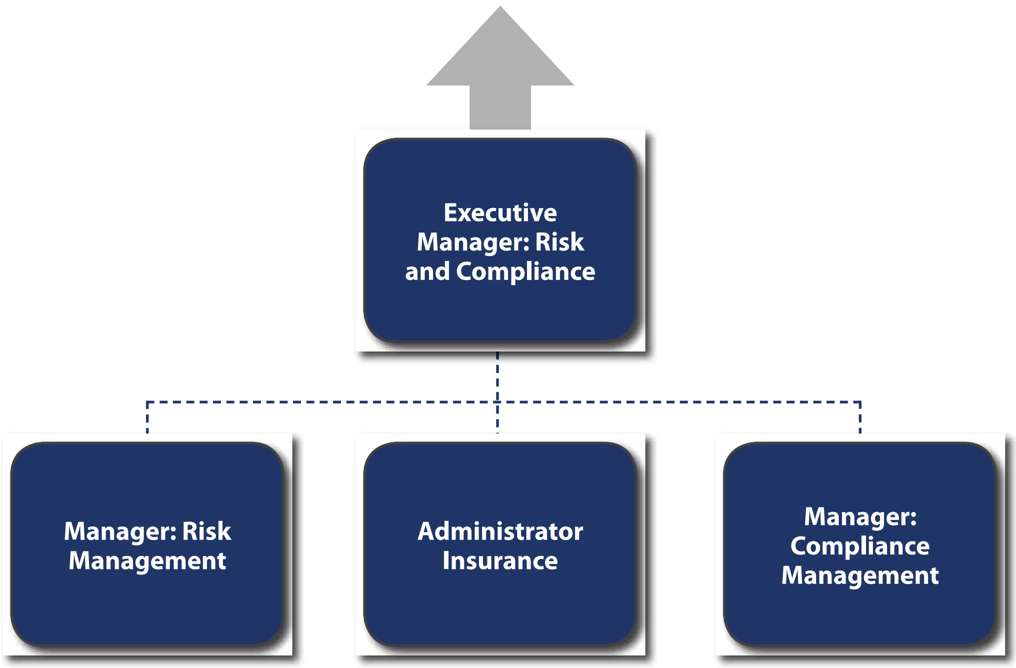
JOHANNESBURG WATER (SOC) LTD



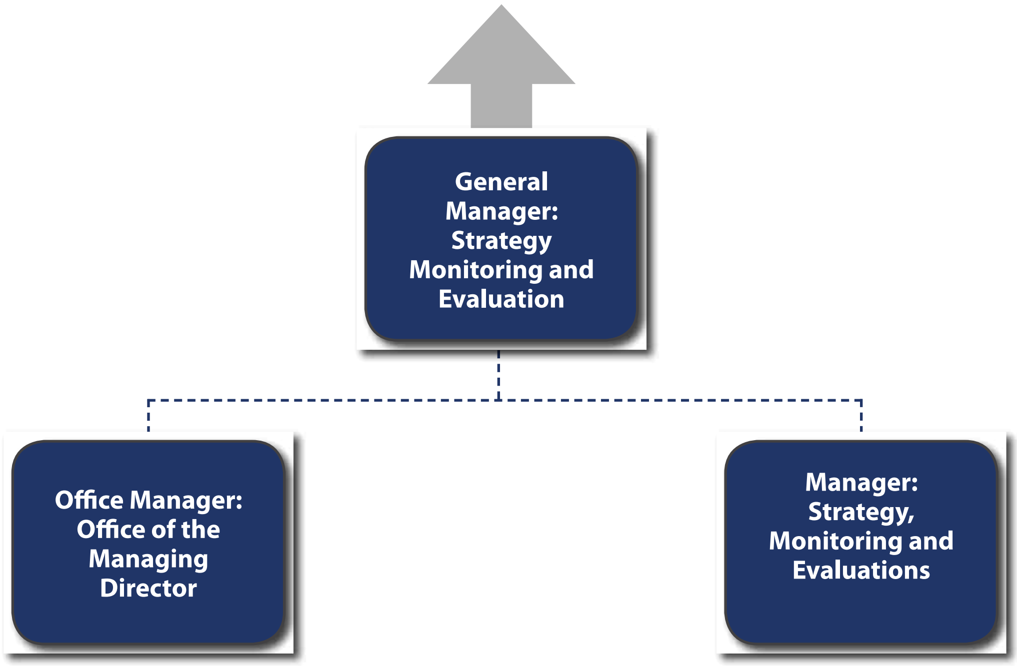
JOHANNESBURG WATER (SOC) LTD



JOHANNESBURG WATER (SOC) LTD



JOHANNESBURG WATER (SOC) LTD



Appendix B: Recommendations of the Audit Committee

Date of meeting	Subject	Resolution	Status (implemented/ not implemented)
12 July 2018	Quarterly Report April to June 2018	That the report with amendments be submitted to the Human Resource and Social and Ethics Committee for approval	Implemented
12 July 2018	Terms of Reference: Audit and Risk Committee	That the Terms of Reference be submitted to the Board for approval	Implemented
12 July 2018	Anti-fraud and Anti-corruption Prevention Policy Review	That the revised Anti-fraud and Anti-corruption Policy be recommended to the Board for approval	Implemented
12 July 2018	Board and Subcommittees Year Planner 2018/19	That the Board and Subcommittee Year Planner for the 2018/19 financial year and annual events be submitted to Board for approval.	Implemented
12 July 2018	Compliance Policy and Regulatory Universe	That the Compliance Policy and the Regulatory Universe be adopted and recommended for approval by the Board	Implemented
12 July 2018	Enterprise Risk Management Strategy: 2018/19 to 2020/21	1. That the Enterprise Risk Management Strategy and Risk Management Implementation Plan be approved	Implemented
12/07/2018		2. That Mr Mnisi circulates the CoJ Enterprise Risk Management Framework to members of the Committee	Implemented
12 July 2018	Johannesburg Water Combined Assurance Framework	That the Combined Assurance Framework be approved	Implemented
12 July 2018	Statement of Internal Control for the 2017/18 financial year	That the Statement of Internal Control be approved	Implemented
12 July 2018	Request for condonation of fruitless and wasteful expenditure and irregular expenditure incurred by Johannesburg Water	That the report be forwarded to the Board for approval	Implemented
12 July 2018	Johannesburg Water MSCOA update report	That the report be submitted to the Board for noting	Implemented
12 July 2018	Annual Audit Plan: Progress Report – April 2018 to June 2018	That the summary version of the report be forwarded to the Board for noting	Implemented
12 July 2018	Going concern paragraph	That Mr Koekemoer submits a formal report for "going concern" at a special meeting to be held on 29 August	Implemented
29 August 2018 (special meeting)	Approval of draft Annual Integrated Report and Annual Financial Statements for the financial year ending 30 June 2018	1. That the Annual Integrated Report and Annual Financial Statements for the period ending 30 June 2018 be approved and submitted to the parent municipality, the CoJ and the AGSA by 31 August 2018	Implemented
		2. That the Audit Report be deferred to the November 2018 meeting once the audit process has been finalised	Implemented
		3. That the Managing Director prepare a handover presentation covering risk-related issues that were previously dealt with by the disbanded Risk and ICT Committee (the presentation is to include the Risk Strategy and Risk Implementation Plan)	Implemented

Date of meeting	Subject	Resolution	Status (implemented/ not implemented)
29 August 2018 (special meeting)	Report on the audit of predetermined objectives for Quarter 3 of 2017/18	That the report be enhanced with detail information for future reporting	Implemented
11 October 2018	Quarterly report for the period July to September 2018	1. That the quarterly report with amendments be submitted to the Human Resource and Social and Ethics Committee for approval.	Implemented
		2. That management discusses how the assurance on the work of the Risk Department is currently achieved and whether the risk function should also report functionally to the Audit and Risk Committee and administratively to the Managing Director	Implemented
		3. That Mr Koekemoer submit a trend analysis report to the Committee on insurance claims against the company with reference to the outcomes of claims	Implemented
11 October 2018	Provision for doubtful debt policy review	That the provision for doubtful debt policy be submitted to the Board for approval	Implemented
11 October 2018	Request for condonation of fruitless and wasteful expenditure incurred in respect of interest paid to the eJoburg Pension Fund	That the report be submitted to the Board for approval	Implemented
11 October 2018	Johannesburg Water MSCOA update report	That the report be submitted to the Board for noting	Implemented
11 October 2018	Clean audit 2017/18 progress report	That the report be submitted to the Board for noting	Implemented
11 October 2018	Annual Audit Plan: progress report: July 2018 to October 2018	That the summary report (Annexure 1) be submitted to the Board for noting.	Implemented
11 October 2018	Late submission of investigation report by Group Forensic Investigations	1. That Mr Sibande follow up and ensure that the service level agreement on the secondment of Johannesburg Water employees to the GFIS is finalised no later than 19 October 2018	Implemented
		2. That Mr Sibande ensures that investigation reports are submitted for discussion at the Executive Committee meetings before serving before the Audit and Risk Committee	Implemented
27 November 2019 (special meeting)	Approval of the Annual Integrated Report and final audited Annual Financial Statements for the financial year ending 30 June 2017	1. That the Annual Report for the period ending 30 June 2018, with amendments, and the Annual Financial Statements for 2017/18 be submitted to the Board for approval subject to amendments raised in the body of the minutes	Implemented
		2. That the Audit Report from the AGSA, with amendments, be accepted and submitted to the Board for consideration.	Implemented
27 November 2019 (special meeting)	The 2018/19 Balanced Scorecard and performance information amendments	That the report with amendments be submitted to the Board for approval	Implemented

Date of meeting	Subject	Resolution	Status (implemented/ not implemented)
27 November 2019 (special meeting)	Final report – verification of the 2017/18 achievements reported by management in the balanced scorecard	That the report be forwarded to the Board for approval	Implemented
27November 2019 (special meeting)	The 2018/19 balanced scorecard and performance information amendments	That the report with amendments be submitted to the Board for approval	Implemented
27 November 2019 (special meeting)	Final report – verification of the 2017/18 achievements reported by management in the balanced scorecard	That the report be forwarded to the Board for approval	Implemented
11 October 2019	2017/18 company performance review	1. That the report with amendments be forwarded to the Board for approval	Implemented
		2. That Mr Mnisi verifies if the methodology used to calculate the score was the one approved in the balanced scorecard	Implemented
		3. That management considers revisiting the methodology of calculating the performance in order to ascertain if it was the correct one	Implemented
14 January 2019	Johannesburg Water Mid-year Report – July to December 2018	That the report with amendments be submitted to the Human Resource and Social and Ethics Committee for approval	Implemented
14 January 2019	Revenue Enhancement Project 2018/19	That the report be forwarded to the Board for noting	Implemented
14 January 2019	Annual Audit Plan: progress report for October 2018 to December 2018	That the summary of the report be submitted to the Board for noting	Implemented
14 January 2019	Progress report: Review of SCM processes for tenders of R10 million and above submitted to the Bid Adjudication Committee	That the report be submitted to the Board for noting	Implemented
14 January 2019	Final report – audit of predetermined objectives 2018/19 (Quarter 1)	That the report be forwarded to Board for noting	Implemented
14 January 2019	Clean Audit 2017/18 progress report		Implemented
12 April 2019	Quarterly report for the period January to March 2019	That the report be submitted to the Board for noting.	Implemented
12 April 2019	Strategic Risk Register: 2019/20	That the report with amendments be submitted to the Human Resource and Social and Ethics Committee for approval	Implemented
12 April 2019	Risk Management Policy	That the report be submitted to the Board for approval	Implemented
12 April 2019	2019/20 Business Plan	That the report be submitted to the Board for approval	Implemented
12 April 2019	Johannesburg Water mSCOA update report	That the report be submitted to the Board for approval.	Implemented
12 April 2019	Revenue Enhancement Project and Meter Reading Department	That the report be submitted to the Board for noting	Implemented
12 April 2019	Insurance claims trend analysis	That the report be submitted to the Board for noting	Implemented

Date of meeting	Subject	Resolution	Status (implemented/ not implemented)
12 April 2019	Clean audit 2018/19 progress report	That the report be deferred to the next meeting of the Committee	Implemented
12 April 2019	Progress report – review of SCM processes for tenders of R10 million and above submitted to the Bid Adjudication Committee	That the report be submitted to the Board for noting.	Implemented
12 April 2019	Annual Audit Plan: Progress report for January 2019 to March 2019	That the report be submitted to the Board for noting	Implemented
12 April 2019	Three-year strategic rolling Internal Audit Plan 2020–2020	That the summary of the report be submitted to the Board for noting	Implemented
12 April 2019	Changes in legislation governing the AGSA	That the report be submitted to the Board for noting	Implemented
		That the Company Secretary drafts a report for the Board indicating the changes in the Public Audit Act and highlighting potential implications that the changes are likely to have in the running of the entity.	Implemented

Appendix C: Long-term contracts

Sewer agreements

1. Memorandum of Agreement between the Emfuleni Local Municipality and Johannesburg Water (SOC) Ltd. The Emfuleni Local Municipality accepts into its regional main sewerage pipelines wastewater emanating from areas within the jurisdiction of the CoJ. The wastewater is treated by Emfuleni at its Sebokeng WWTW. The initial period of the agreement is set for five years, effective from July 2016. The agreement is reviewable every five years to determine the performance of the parties.

2. Memorandum of Agreement between Mogale City and Johannesburg Water (SOC) Ltd. The main agreement was entered into by and between the Town Council of Roodepoort and the Town Council of Krugersdorp (in January 1977). The last addendum was done between Mogale City and Johannesburg Water (SOC) Ltd (successors of the main agreement) in January 2011. The sewerage from Mogale City is treated by Johannesburg Water at the Driefontein WWTW. The main agreement does not have an expiry date, thus Johannesburg Water has initiated discussions with Mogale City to review this contract and to come up with a new contract. Mogale City is to revert to Johannesburg Water on this proposal.

3. Memorandum of Agreement between East Rand Water Care Company (ERWAT) and Johannesburg Water (SOC) Ltd. The main agreement was entered into by and between ERWAT and the Town Council of Midrand (in November 1992). Johannesburg Water is the successor in title of this agreement. The agreement will expire in 30 years (in 2022) and Johannesburg Water has started negotiations with ERWAT to review the agreement. ERWAT accepts into its regional sewers wastewater from the CoJ.

4. Memorandum of Agreement between the City of Tshwane Metropolitan Municipality and Johannesburg Water (SOC) Ltd. The main agreement was entered into between the former Town Council of Midrand and the former Town Council of Centurion in 1989, without an expiry date, i.e. the agreement has no end date. The sewage from the CoJ is discharged into the Rietspruit outfall sewer in Centurion. The City of Tshwane and Johannesburg Water have discussed the new agreement that will replace the original agreement. This new draft agreement (covering all addenda and additional connections) is being processed by the City of Tshwane through its structures.

Drinking water agreements

1. Cross-boundary provision of bulk water services to the Northview Estate between the City of Tshwane Metropolitan Municipality and Johannesburg Water (SOC) Ltd. The agreement was entered into in December 2013 and will expire in December 2023. The water quality supply to the City of Tshwane has to comply with SANS 241 and the water quantity is restricted to 2 600 ℓ per day.

2. Memorandum of Agreement between the City of Ekurhuleni and Johannesburg Water (SOC) Ltd. The agreements are for bulk water services and became effective in November 2017. They are only effective for three years. The discussions on the review of the agreement has started with the City of Ekurhuleni. There are two agreements that cover areas in which the two parties supply each other with bulk water services.

3. Memorandum of Agreement between Mogale City and Johannesburg Water (SOC) Ltd. There is currently a draft agreement that was concluded during a discussion between Johannesburg Water's Chief Operations Officer and the Executive Manager (Mogale City) on 22 September 2015. Due to instability in the agreement, it could not be signed, and Mogale City has made a commitment to meet with Johannesburg Water to finalise the agreement on bulk water services. The existence of any contract – historical or otherwise – cannot be confirmed.

4. Bulk water supply contract with Rand Water.

Appendix D: Municipal entity performance schedule

IDP priority	Performance
Basic water	A total of 8 287 households were provided with access to basic water against a target of 8 004, increasing the number of households with access to basic water to 160 325 of the 183 895 households, thus representing a coverage of 87.18% in informal settlements against a target of 87.03%.
Basic sanitation	A total of 6 528 households were provided with access to sanitation against a target of 4 825, increasing access to basic sanitation to 76 524 of the 183 895 households in informal settlements. This represents a coverage of 41.61% in informal settlements against a target of 40.69%.

Appendix E: Disclosure of financial interest

2018/19 declaration of interest – Johannesburg Water's Executive Management

The Municipal Systems Act, No. 32 of 2000, Section 4(3) of Schedule 2, provides that no staff member may be party to or beneficiary under a contract for the provision of goods or services to any municipality or municipal entity established by a municipality. This entails that municipal employees should not be involved in private business or work with any organ of state, including a municipality.

All members of the Executive Management of Johannesburg Water submitted their declaration of interest forms for 2018/19 and no conflict of interest could be detected. A description of interest declared can be summarised as follows:

Surname	First name	Description of interests declared as per the employee's declaration form for 2018/19
Mukwevho	Ntshavheni	Member of closed corporation X4 (Mukwevho Properties No 3 and No 4 and Mukwevho Motors No 3 and No 4) Sasol Khanyisa: shares Sasol BEE: ordinary shares
Kgwale	Mokutu Derrick	Kgwale Mokutu Derrick Kwale Passenger Transport: Director Diaho Kgwale and Associates Multichoice Phuthuma Nathi: shares MTN: shares
Koekemoer	Johan	Self-photographer
Sibiya	Sipho Wesley	Mncwango Sibiya and Associates
Mnisi	Jones	National Laboratory Association: Section 21 (not for gain)
Mathebula	Shaniseka	Nothing to declare
Malatji	Reginah	Nothing to declare
Xaba	Bonginkosi	Nothing to declare

Appendix F: Capital expenditure – new and upgrade/renewal programmes: including Municipal Infrastructure Grant

Description	2017/18	2018/19		
	Actual expenditure	Adjusted budget	Actual expenditure	Variance
Appendix M (i) Capital expenditure on new assets				
Infrastructure				
Infrastructure – Water				
Dams and reservoirs	6 140	29 405	29 902	(497)
Water purification			–	–
Reticulation	37 615	54 565	56 673	(2 108)
Infrastructure – Sanitation				
Reticulation	923	3 782	2 588	1 194
Sewerage purification	68 424	62 580	64 897	(2 317)
Other assets				
Plant and equipment	2 606	3 500	2 525	975
Computers – hardware/equipment	3 373	17 454	17 812	(358)
Furniture and other office equipment	5 285	4 875	4 282	593
Other buildings	364	9 000	8 303	697
Other land	1 030	–	–	–
Intangibles				
Computers – software and programming				
Other (list sub-class)	2 184	3 500	3 384	116
Total capital expenditure on new assets	**127 944**	**188 661**	**190 366**	**(1 705)**
Appendix M (ii) Capital expenditure on upgrading/renewal assets				
Infrastructure				
Infrastructure – Water				
Dams and reservoirs		–	–	–
Water purification				–
Reticulation	176 330	444 553	439 037	5 516
Infrastructure – Sanitation				
Reticulation	193 716	189 000	191 510	(2 510)
Sewerage purification	90 769	98 076	98 934	(858)
Infrastructure – Other	–	–	–	–
Other assets				
General vehicles				–
Specialised vehicles				–
Plant and equipment	14 224	–		–
Computers – hardware/equipment		–	–	–
Furniture and other office equipment		8 350	6 290	2 060
Intangibles				
Computers – software and programming		–	–	–
Other (list sub-class)				–
Total capital expenditure on renewal of existing assets	**475 039**	**739 979**	**735 771**	**4 208**
Grand total	**602 983**	**928 640**	**926 137**	**2 503**

Appendix G: Capital programme by project (current year)

JSIP #	Project description	2018/19 readjusted budget R'000	2018/19 Actual R'000	Variance R'000
2231	Operational capital: Corporate requirements of Johannesburg Water New Corporate Service Assets City Wide	11 037	12 585	-1 548
2226	Operational Capital: Operations and Maintenance Renewal Operate and Maintain Assets City Wide	127 163	125 853	1 310
2197	Water Demand Management	17 998	11 550	6 448
	SUB TOTAL: CR,WDM,O&M	**156 198**	**149 988**	**6 210**
6494	Midrand: Erand Tower 2 1.5ML	-	-	-
3461	Midrand: Carlswald Reservoir New Reserviors CARLSWALD A.H. A Regional		-	-
6496	Midrand: Halfway house Reservoir 20ML		569	-569
3464	Sandton/ Alexandra: Woodmead Reservoir 22ML	1 735	1 735	-0
3472	Southdale/ Laaglaagte: Crown Gardens Tower 0.9ML	14 231	13 835	396
3473	Southdale/ Langlaagte: Aeroton Direct Tower1.4ML	13 428	13 560	-132
4040	Roodepoort/Diepsloot: Robertville Tower 2.25ML	11	-	11
	SUBTOTAL: NEW INFRASTRUCTURE	**29 405**	**29 699**	**-294**
2225	Operational Capital: Planning and engineering studies for Johannesburg Water New Operate and Maintain Assets MARSHALLS TOWN City Wide	8 963	8 444	519
	SUBTOTAL PLANNING ENGINEERING	**8 963**	**8 444**	**519**
2654	Operational Capital: Information Technology New Customer Service Assets MARSHALLS TOWN City Wide	17 454	17 841	-387
	SUBTOTAL INFORMATION TECHNOLOGY	**17 454**	**17 841**	**-387**
2571	Doornkop West/Protea Glen District: Upgrade water infrastructure	21 559	21 558	1
2375	Lenasia Pumpstation & Rising Main	50 568	53 774	-3 206
3520	Planned replacement: Sewermains		-	-
2198	Provision of basic water to informal services	20 585	20 670	-85
	SUBTOTAL SPECIAL PROJECTS	**92 712**	**96 003**	**-3 291**
2484	Operational Capital: Provision for Emergency Work	53 000	52 904	96
2245	Sandton/Alexandra: Planned replacement watermains	103 213	117 595	-14 382
2246	Roodepoort/Diepsloot: Planned Replacement Watermains	82 168	64 896	17 272
2248	Johannesburg Central:planned Replacement Watermains	49 475	52 658	-3 183
4018	Louis Botha Corridor (JW: Water) Renewal Corridors of Freedom Intervention	-	-	-
4019	Perth Empire Corridor (JW: Water) Renewal Corridors of Freedom Intervention	1 892	1 892	0
21770	Halfway House Water Upgrade	-	-	-
21887	Roodepoort Sewer Upgrade	-	-	-
21923	Linbro Water Upgrade	-	-	-
21960	Planned replacement: Sewer mains (UR_113)	10 950	11 328	-378
21961	Planned replacement: sewer	770	770	0
3918	Roodepoort/Diepsloot: Diepsloot sewer Pipelines and Bridge	2 559	2 559	-0
4023	Sandton/ Alexandra: Louis Botha Corridor (JW: Sewer) Renewal Corridors of Freedom Intervention	-	746	-746

JSIP #	Project description	2018/19 readjusted budget R'000	2018/19 Actual R'000	Variance R'000
3558	Sandton/ Alexandra: Planned Replacement Sewer mains	893	892	1
3586	Roodepoort/ Diepsloot: Planned Replacement Sewer mains	64 377	62 156	2 221
3601	Roodepoort/ Diepsloot: Lanseria Outfall Sewer Upgrade	2 606	2 606	-0
3614	Johannnesburg Central: Planned Replacement Sewermains	83 070	83 299	-229
6527	Midrand: Ivory Park North Upgrade Sewer	1 511	1 511	0
22511	Soweto: Anthea Nancefield Sewer (Klipspruit River) Phase 1	1 923	3 642	-1 719
3520	Orange Farm/ Deep south: Planned Replacement Sewermains	-	-	-
3627	Soweto: Planned Replacement Sewermains	1 845	879	966
	SUBTOTAL UPGRADING AND RENEWAL	**460 252**	**460 333**	**-81**
21993	OV: Infrastructure Renewal Plan	700	415	285
21994	BK: Infrastructure Renewal Plan	2 490	2 489	1
3232	LA: Module 1	3 218	3 217	1
3236	Olifantsvlei: Refurbish Unit 2	823	823	-0
2534	Driefontein Works: IRP (DF: Conc Lining)	33 372	33 086	286
2519	Northern works: Unit 5 mod 2	7 106	7 106	0
2450	Bushkoppies Works: IRP (BK Balancing Tank)	49 453	48 772	681
2446	Olifantsvlei Works: IRP/OV (Digester Heating and Mixing)	5 685	5 262	423
2447	Olifantsvlei Works: Belt Presses # 1	623	623	0
2308	Northern Works: Belt Presses New #4	2 207	2 209	-2
3961	Northern Works: Unit 4 liquor treatment	600	575	25
3963	Northern Works: Desludge and line Dam 02	4 274	4 855	-581
3966	WWTW Upgrade and refurbish	90	878	-788
3481	Olifantsvlei Works: Infrastructure Renewal Plan		-	-
3482	Bushkoppies Works: Infrastructure renewal plan		-	-
3484	Goudkoppies Works: Infrastructure Renewal Plan	33 353	33 860	-507
3490	Northern Works: Infrastructure renewal	3 723	3 723	0
3491	Driefontein Works: Drying bed extension	14	13	1
3492	Driefontein Works: Refurbish WAS and RAS p/s	25	25	-
3497	Driefontein Works: Infrastructure Renewal Plan	25	25	-
6501	Bushkoppie: New PSTs number 2	1 425	1 425	0
6503	Bushkoppies Works: Upgrade main Blowers and Pipework	3 346	3 346	0
6544	Northern Works: Digesters Number 4	3 741	3 741	-0
6545	Northern Works: Unit 4: Replacement of Electromechanical	4 918	4 917	1
6546	Ennerdale Works: Dam cleaning and lining	-	-	-
6547	Ennerdale Works: Replace module mixers and motors	990	989	1
3964	Northern Works: Unit 3 electro mech/ cabling bios 1 and 3	1 455	1 455	0
	SUBTOTAL: BULK WASTE WATER	**163 656**	**163 829**	**-173**
	GRAND TOTAL	**928 640**	**926 137**	**2 503**

ANNUAL FINANCIAL STATEMENTS

JOHANNESBURG WATER LIMITED
ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE2019

GENERAL INFORMATION

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Supply of water services as defined in the Water Services Act, 108 of 1997
Directors	KPM Simelane (Chairman)
	NJ Mukwevho (Managing Director)
	J Koekemoer (Financial Director)
	B Furstenburg
	K Mdutshane
	S Tshivhunge
	B Twala
	J Maduna
	R Mudliar
	D Sebotsa
	M van Dijk
Registered office	17 Harrison Street
	Marshalltown
	Johannesburg
	2107
Business address	17 Harrison Street
	Marshalltown
	Johannesburg
	2107
Postal address	PO Box 61542
	Marshalltown
	Johannesburg
	2107
Shareholder	City of Johannesburg Metropolitan Municipality
Bankers	Standard Bank of South Africa Limited
Auditors	The Auditor-General of South Africa
Secretary	S Sibiya
Company registration number	2000/029271/30
Attorneys	Moodie and Robertson
Prepared and supervised by	J Koekemoer ((Financial Director)

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

DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors are required by the Municipal Finance Management Act, No. 56 of 2003, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the directors responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with Standards of Generally Recognised Accounting Practice (GRAP) and in accordance with directives issued by National Treasury. The Auditor-General of South Africa is engaged to express an independent opinion on the annual financial statements.

The annual financial statements have been prepared in accordance with the Standards of GRAP, including any interpretations, guidelines and directives issued by the Accounting Standards Board, the Companies Act, No. 71 of 2008 and directives issued by National Treasury.

The annual financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates. No external party, including the Shareholder, has the authority to amend the annual financial statements after being issued by the company.

The company is a wholly owned subsidiary of the City of Johannesburg Metropolitan Municipality. The company relies on the City of Johannesburg Metropolitan Municipality for the following functions for all its customers:

- Customer billing
- Cash collection
- Debtors administration
- Call centre management

The management of the above functions is regulated by an agency agreement between the City of Johannesburg Metropolitan Municipality and Johannesburg Water (SOC) Limited. The implemented processes and methods of operations are solely under the control and stewardship of the Revenue Shared Service Centre of the City of Johannesburg Metropolitan Municipality. This arrangement is managed in terms of a service level agreement underpinning the agency agreement.

Clause 13.3 of the Agency Agreement with the City of Johannesburg Metropolitan Municipality states that "the performance of the customer revenue collection and customer relations management functions shall be conducted and records kept by the City of Johannesburg Metropolitan Municipality in such a manner as to ensure that the audited accounts of the company are in no way qualified as a result of any act or omission connected with the execution of the customer revenue collection and customer relations management functions". The directors place full reliance on the internal controls as established by the City of Johannesburg Metropolitan Municipality in the execution of the customer billing and revenue collection and customer relations management functions.

The directors acknowledge that they are ultimately responsible for the system of internal financial controls established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board of Directors sets standards for internal control aimed at reducing the risk of error or loss 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 company and all employees are required to maintain the highest ethical standards in ensuring that the company's business is conducted in a manner that, in all reasonable circumstances, is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring strategic, operational and external risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The directors have reviewed the company's cash flow, statement of financial position and performance, business plan, and budgets and financial ratios, and consider the company to be operating on a going-concern basis. They are satisfied that the company has or will have access to adequate resources to continue in operational existence for the foreseeable future. The approved budget for the ensuing financial year assumes a positive cash flow.

The AGSA is responsible for providing assurance and reporting on the company's annual financial statements.

The annual financial statements set out on pages 114 to 181, which have been prepared on the going-concern basis, were reviewed by the Board on 27 November 2019 and signed by the Managing Director.

KPM Simelane
Chairman

NJ Mukwevho
Managing Director

REPORT OF THE AUDIT AND RISK COMMITTEE

We are pleased to present our report for the financial year ended 30 June 2019.

Audit and Risk committee responsibility

The Audit and Risk Committee reports that it has complied with its responsibilities arising from section 94(7) of the Companies Act, No. 71 of 2008, as amended, and section 166(2) of the Municipal Finance Management Act, Act No. 56 of 2003. The Audit and Risk Committee also reports that it has adopted appropriate formal terms of reference as its Audit and Risk Committee Charter in line with the principles of King IV, has regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein.

Assessment of the finance function

The Audit and Risk Committee is satisfied that the annual financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgements and estimates. The Committee will continue exercising oversight responsibility over the preparation of the financial statements to prevent material misstatements. The Committee considered the expertise, resources and experience of the finance function and concluded that these were appropriate and effective.

The effectiveness of internal control

The Audit and Risk Committee evaluated the internal control environment, and based on the information, reports and explanations provided by management, the Internal Audit Department and the AGSA, assessed the internal controls as adequate but ineffective to mitigate the related risks to an acceptable level. The internal controls were ineffective as indicated in the Statement of Internal Controls (SIC) by Internal Audit, which highlighted the focus areas where there was slow implementation of action plans by management. The increase in, as well as repeat audit findings relating to Supply Chain Management, as identified by the AGSA, highlighted the fact that internal controls in the procurement environment are not at the desired level. The Audit and Risk Committee will oversee the initiatives to address the gaps identified.

The Committee is, however, encouraged by management's commitment to address audit findings and implement action plans as reflected by the 78% and 89% resolution rates on internal audit and the AGSA's findings, respectively.

The implementation of the action plans related to revenue and receivables, and expenditure management, had limited impact on the audit outcomes. The Committee commits to holding the accounting officer and senior management accountable to ensure that the internal control deficiencies are addressed. These deficiencies raised revolved around meter reading, revenue management, information system controls and asset management.

Nothing significant has come to the attention of the Committee to indicate any material breakdown in the functioning of the controls, procedures and systems during the year under review.

The effectiveness of the Internal Audit Department

The Internal Audit Department executed and completed 102.85% of audit projects against the 2018/19 financial year's approved annual internal audit plan. The plan was properly aligned to the risk register. The committee is satisfied with the effectiveness of the internal audit function during the year and accepts that the internal audit activity has, to a large extent, addressed the significant risks pertinent to Johannesburg Water. The unit has included probity reviews of the SCM tenders above R10 million in its scope of work (it completed 27 probity reviews) and the audit of performance objectives.

An independent quality assurance review was conducted for the internal function in the 2014/15 financial year and it was found to be partially compliant. The Committee had closely monitored progress on the gaps identified on a quarterly basis through the quality assurance and improvement plan. The resolution rate of the gaps identified was at 94% (31 out of 33) and 6% (two) outstanding, which were in progress at end of the 2018/19 financial year. The entity has commenced with the process of commissioning another independent quality assessment to be conducted during 2019/20. In the assessment of the effectiveness of Internal Audit, the Committee considered Internal Audit's understanding of its role and responsibility, the Charter, the structure and positioning, skills and experiences, relationship with the Audit Committee and the performance and audit plan. The Committee concluded that these were appropriate and effective.

Performance reporting

The company's performance is measured through the Balanced Scorecard, which is based on targets approved by the Board of Directors. The Internal Audit Department has been mandated to conduct an audit of predetermined objectives and report to the Audit and Risk Committee on a quarterly basis.

Risk management

Johannesburg Water has a Risk Management Division, which focuses on the identification, assessment, management and monitoring of risk. Based on the information provided, the Committee notes that the residual risk for financial sustainability and delay in infrastructure delivery, which had a very high inherent risk rating, have significantly improved.

Legal compliance

Although there are processes in place to monitor the level of compliance to laws and regulations within the company, and although significant gains have been realised in this regard, the audit outcomes indicate that the processes need to be further enhanced, as evidenced by the irregular expenditure incurred.

Submission of quarterly reports in terms of the Municipal Finance Management Act

Quarterly reports have been submitted and reviewed by the committee in terms of the Municipal Finance Management Act.

External Auditors

Having considered the matters set out in section 94(8) of the Companies Act, the Committee is satisfied with the independence and objectivity of the external auditors.

Matters raised by the Auditor-General

Of the 85 findings outstanding, 76 (89%) were resolved and nine (11%) were in the process of being resolved during the 2018/19 financial year. The Committee has noted the significant improvement in the resolution rate on the AGSA's findings. However, it remains concerned with the recurring findings of revenue management and instances of irregular expenditure, and fruitless and wasteful expenditure.

The Committee will continue to monitor progress on the implementation of action plans to resolve the'AGSA's findings raised in previous years.

The lack of consequence management highlighted by the AGSA in the form of delays in the completion of the investigation of instances of irregular expenditure relating to prior years has been noted. Johannesburg Water is committed to addressing the backlog and, subsequent to 30 June 2019, resolved that Internal Audit will complete all open investigations.

The Committee has noted the findings raised by the AGSA in 2018/19 and commits to continue holding the accounting officer and senior management accountable for the implementation of action plans, with more emphasis on recurring findings.

Appreciation

The Audit and Risk Committee expresses its appreciation to the Board, accounting officer, senior management and the AGSA for their contributions during the year under review.

KMdutshane

K Mdutshane
Johannesburg Water (SOC) Limited
Chairman of the Audit and Risk Committee
27 November 2019

REPORT OF THE AUDITOR-GENERAL TO THE GAUTENG PROVINCIAL LEGISLATURE AND THE COUNCIL OF THE CITY OF JOHANNESBURG METROPOLITAN MUNICIPALITY ON JOHANNESBURG WATER (SOC) LIMITED

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of Johannesburg Water (SOC) Limited set out on pages 132 to 193, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets and cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

2. In my opinion, the financial statements present fairly, in all material respects, the financial position of Johannesburg Water (SOC) Limited as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.

4. I am independent of the municipal entity in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and parts 1 and 3 of the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

6. Key audit matters are those matters which, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole and in forming my opinion, and I do not provide a separate opinion or conclusion on these matters.

Key audit matter	How the matter was addressed in the audit
Revenue recognition	
Revenue from service charges for water, as disclosed in note 20 to the annual financial statements, was recognised based on actual meter readings or estimates of consumption. Revenue recognition for water service charges has been identified as a key audit matter due to significant judgement applied in calculating the estimations of the consumption used and the significant volume of transactions processed and interfaced through a complex information system.	My procedures included the following: • Understanding and evaluating the flow of information, the information technology (IT) system and the controls relating to the meter-reading process, the billing process and the systems interface process, which included involving my IT audit specialists. • Identifying the significant risks associated with service billing and designing specific procedures to address the risks identified. • Performing substantive tests of detail using computer-assisted audit techniques by IT audit specialists on the water consumption billed to identify estimations used. • Performing substantive tests of detail on a sample basis on the reasonability of estimation and meter-reading process. • Performing procedures on the appropriateness of assumptions made by management in calculating the estimate to determine whether it is reasonable. I found that manual and IT controls were designed; however, these controls were not adequately implemented. I found that the significant judgements made by management in calculating the estimate were reasonable. My substantive procedures revealed that the extent of estimated readings was significant, resulting in material adjustment journals post year-end and amendments to the entity's annual financial statements. Thereafter, I were happy regarding the accounting for revenue.

Emphasis of matters

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

Restatement of corresponding figures

8. As disclosed in notes 33 and 34 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of errors in the financial statements of the municipal entity at, and for the year ended, 30 June 2019.

Material impairments

9. As disclosed in note 11 to the financial statements, the consumer debtors: exchange transactions balance has been impaired. The allowance for impairment of consumer debtors amounts to R9 368 674 000 (2017-18: R7 272 967 000) which represents 77% (2017-18: 76%) of consumer debtors: exchange transactions. The contribution to the provision for debts impairment was R2 488 748 000 (2017-18: R2 083 234 000).

Material losses – losses

10. As disclosed in note 23 to the financial statements, material water losses of R1 400 000 000 (2017-18: R1 200 000 000) were incurred, which represents 24,8% (2017-18: 25,5%) of the non-revenue water. The level of physical losses for the year under review is 17.9% (R1 000 000 000), (2017-18: 18.3% (R878 400 000)). The level of commercial losses for the year under review is 6.9% (R386 000 000), (2017-18: 7.1% (R340 800 000)).

Other matter

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

Unaudited disclosure notes

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

Responsibilities of the accounting officer for the financial statements

13. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
14. In preparing the financial statements, the accounting officer is responsible for assessing Johannesburg Water (SOC) Limited's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipal entity or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

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

Report on the audit of the annual performance report

Introduction and scope

17. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected strategic goals presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
18. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipal entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
19. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected strategic goals presented in the annual performance report of the municipal entity for the year ended 30 June:

Strategic Goals	Pages in the annual performance report
Strategic goal 1 – Utilise infrastructure delivery to create jobs, support SMMEs and attract investments	54 – 55
Strategic goal 2 – Deliver water and sanitation service of good quality that is accessible, reliable and efficient in an environmentally responsible/sustainable way	55 – 56
Strategic goal 3 –Improve customer and stakeholder satisfaction	57

20. 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.
21. The material findings in respect of the usefulness and reliability of the selected strategic goals are as follows:

Strategic goal 1 – Utilise infrastructure delivery to create jobs, support SMMEs and attract investments

The indicator approved in the business plan was denominated as a number. However, the indicator reported in the annual performance report was referred to as a percentage.

Strategic goal 3 – Improve customer and stakeholder satisfaction

22. The method of calculation for achieving the planned indicator was not clearly defined.
23. I did not raise any material findings on usefulness and reliability of the reported performance information for this Strategic goal– Strategic goal 2: Deliver water and sanitation services of good quality that are accessible, reliable and efficient in an environmentally responsible/ sustainable way.

Other matter

24. We draw attention to the matters below. Our opinions are not modified in respect of these matters.

Achievement of planned targets

25. Refer to the annual performance report on page(s) x to x; x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the report on findings on the usefulness of the reported performance information in paragraph(s) [x; x; x] of this report.

Report on the audit of compliance with legislation
Introduction and scope

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

Annual financial statements

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of revenue from exchange transactions and consumer deposits identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

29. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1) which related to non-compliance with procurement processes.

Expenditure management

30. Irregular expenditure disclosed in the annual financial statements is not qualified: Reasonable steps were not taken to prevent irregular expenditure amounting to R373 969 000 as disclosed in note 38 to the annual financial statements, as required by section 95(d) of the MFMA. The majority of the irregular expenditure was caused by non-compliance with procurement regulations.

Revenue management

31. An effective system of internal control for debtors and revenue was not in place, as required by section 97(i) of the MFMA.

Consequence management

32. Some of the irregular expenditure incurred by the municipal entity was not investigated to determine if any person is liable for the expenditure, as required by municipal budget and reporting regulations 75(1).

Other information

33. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the director's report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the financial statements, the auditor's report and those selected strategic goals presented in the annual performance report that have been specifically reported in the auditor's report.
34. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
35. 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 financial statements and the selected strategic goals presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
36. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

37. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the performance report and the findings on compliance with legislation included in this report.
38. The accounting officer did not adequately exercise oversight of financial and performance reporting and compliance with legislation, which resulted instances of non-compliance with the MFMA and supply chain management prescripts and material findings in the annual performance report.

39. Management did not implement sufficient monitoring controls over compliance with legislation to ensure that the submitted financial statements were accurate and complete, which resulted in material adjustments to the annual financial statements, material findings on performance information and material non-compliance with key legislation.

Other reports

40. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipal entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
41. The entity was conducting investigations based on allegations of fraud. These investigations were instituted in the current financial year and some were still in progress at the reporting date.

Johannesburg
30 November 2019

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-General's responsibility for the audit

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

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
   - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipal entity's internal control.
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
   - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Johannesburg Water (SOC) Limited ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipal entity to cease operating as a going concern
   - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
   - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.
5. From the matters communicated to those charged with governance, I determine those matters that were of the most significance in the audit of the financial statements of the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

DIRECTORS' REPORT

The directors submit their report for the year ended 30 June 2019.

1. Incorporation

The entity was incorporated on 21 November 2000 and obtained its certificate to commence business on 1 January 2001.

2. Review of activities

Main business and operations

The company is engaged in the supply of water services as defined in the Water Services Act, No. 108 of 1997 in South Africa within the City of Johannesburg municipal demarcation.

The company continues to rely on the City of Johannesburg Metropolitan Municipality for the following functions for all customers:

- Customer billing
- Cash collection
- Debtors administration
- Call centre management

The centralisation of the customer call centre, billing and credit control functions in the 2018/19 financial year has resulted in significant challenges in the performance of all migrated functions. The Board of Directors has continued to express their concern to the Shareholder, and has been assured that the challenges are being addressed, and that appropriate interventions are being implemented by the City of Johannesburg Metropolitan Municipality.

The operating results and state of affairs of the company are fully set out in the annual financial statements and do not, in our opinion, require any further comment.

Net surplus of the company was R1.754 billion (2018: R1.368 billion). The company is exempt from income tax with effect from the financial year ended 30 June 2007 in terms of Section 10(1)(t) of the Income Tax Act, No. 58 of 1962 as amended. There is consequently no taxation effect.

3. Going concern

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

4. Directors' interest in contracts

The directors of the company did not have any personal financial interest in contracts entered into by the company.

5. Accounting policies

The financial statements have been prepared in accordance with the effective Standards of GRAP, including any interpretations, guidelines and directives issued by the Accounting Standards Board.

6. Contribution from the Shareholder

There were no changes in the authorised or issued share capital of the company during the year. According to the company's register at 30 June 2019, the City of Johannesburg Metropolitan Municipality held 100% of the ordinary share capital of the company.

7. Borrowing limitations

In terms of the sale of business agreement, the company requires the approval of the Shareholder in instances where the borrowing is to be secured by the hypothecation of the assets of the company.

8. Non-current assets

There were no major changes in the nature of non-current assets of the company during the year.

9. Distributions to the Shareholder

No distributions were declared or paid to the Shareholder during the year.

10. Directors

The directors of the company during the year and to the date of this report are as follows:

Name	Nationality	Changes
KPM Simelane (Chairman)	South African	
NJ Mukwevho (Managing Director)	South African	
J Koekemoer (Financial Director)	South African	Appointed 1 December 2018
B Furstenburg	South African	
K Mdutshane	South African	
S Tshivhunge	South African	
B Twala	South African	
J Maduna	South African	Appointed 17 April 2019
R Mudliar	South African	Appointed 17 April 2019
D Sebotsa	South African	Appointed 17 April 2019
M van Dijk	South African	Appointed 17 April 2019
JJH Mateya	South African	Retired 17 April 2019
MP Matji	South African	Retired 17 April 2019

11. Secretary

The secretary of the entity is S Sibiya .

Physical address: 17 Harrison Street
Marshalltown
Johannesburg
2107

12. Corporate governance

12.1 General

The Board of Directors is committed to business integrity, ethics, anti-corruption, transparency and professionalism in all its activities. As part of this commitment, the Board supports the highest standards of corporate governance and the development of best practice.

The company confirms and acknowledges its responsibility to total compliance with the principles as laid down in the King IV Report on Corporate Governance, and the Companies Act, Act No. 71 of 2008.

The Board of Directors discuss the responsibilities of management in this respect at Board meetings, and monitors the company's compliance with the King IV Report on a quarterly basis.

12.2 Board of directors

The Board retains full control over the company, its policies, strategies and plans; acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the company.

In terms of the Company's Articles of Association, there may not be more than 11 directors on the Board of which two shall be executive directors.

The Board is currently capacitated with nine non-executive directors and two executive directors.

12.3 Chairman and Managing Director

The Chairman is a non-executive and independent director.

The roles of the Chairman and Managing Director are distinctly separate, with responsibilities divided between them, so that no individual has unfettered powers of decision.

12.4 Board and Board Sub-Committee meetings

The directors have met on seven separate occasions during the financial year. The directors are scheduled to meet at least four times per annum. Non-executive directors have access to all members of management of the company.

Name	Board Meetings	Audit and Risk Committee meeting	Human Resources and Social and Ethics Committee	Service Delivery and Oversight Procurement Committee meeting	Nomination Committee	Total meetings
Total number of meetings held	7	6	5	1	4	23
KPM Simelane (Chairman)	7	–	3	–	1	11
NJ Mukwevho (Managing Director)	7	6	5	1	4	23
J Koekemoer (Financial Director)	3	2	2	1	–	8
B Furstenburg	7	5	5	–	3	20
K Mdutshane	7	–	–	1	1	9
S Tshivhunge	6	–	–	1	–	7
B Twala	–	–	–	1	–	1
J Maduna	2	–	–	–	–	2
R Mudliar	2	–	–	–	–	2
D Sebotsa	2	–	–	–	–	2
M van Dijk	2	–	–	–	–	2
JJH Mateya	5	–	5	–	–	10
MP Matji	2	4	–	–	–	6

Three Nomination Committee meetings were held for the position of Executive Manager: Risk and Compliance and one Nomination Committee meeting was held for the position of Financial Director.

12.5 Audit and Risk Committee

The Chairman of the Audit and Risk Committee for the majority of the period under review was B Furstenburg, who is a non-executive director. The other Member of the Board, who formed part of the Audit and Risk Committee during this period, was MP Matji. The committee met six times during the financial year to review matters necessary to fulfill its role.

On 16 May 2019, K Mdutshane was appointed as the new Chairman of the Audit and Risk Committee with B Furstenburg as the other Member of the Board serving in the Committee.

In terms of Section 166 of the Municipal Finance Management Act, No. 56 of 2003, the City of Johannesburg Metropolitan Municipality, as the Shareholder, must appoint members of the Audit and Risk Committee. Notwithstanding the fact that non-executive directors appointed by the Shareholder constituted the company's Audit and Risk Committee, National Treasury policy requires the appointment of further members to the Committee who are not directors of the company. Three independent members were appointed to the Audit and Risk Committee in compliance with Section 166 of the Municipal Finance Management Act, No. 56 of 2003.

The following independent members served on the Committee during the period under review and subsequently retired on 17 April 2019:

R Buys: Attended two meetings during the financial year
V Mokwena: Attended five meetings during the financial year
Z Samsam: Attended six meetings during the financial year

Following the Annual General Meeting held on 17 April 2019, the following independent members were appointed:

R Hill
C Tilly
L Makape

12.6 Internal Audit

The company has an internal audit unit, which is operational. This is in compliance with the Municipal Finance Management Act, No. 56 of 2003.

13. Shareholder

The company's shareholder is the City of Johannesburg Metropolitan Municipality.

14. Special resolutions

The company did not pass any special resolutions during the year under review.

15. Bankers

The Standard Bank of South Africa Limited served as the company's bankers throughout the financial year.

16. Auditors

The AGSA will continue in office in accordance with the Public Audit Act, No. 25 of 2004, Section 92 of the Municipal Finance Management Act, No. 56 of 2003 and Section 90 of the Companies Act, No. 71 of 2008.

17. Non-compliance with applicable legislation

The entity's B-BBEE status for its level of contribution for the period under review was non-compliant. In other words, the entity contributed no B-BBEE percentage points in instances where it conducted business with other entities.

COMPANY SECRETARY'S CERTIFICATION FOR THE YEAR ENDED 30 JUNE 2019

In terms of Section 88(2)(e) of the Companies Act, No. 71 of 2008, and the Municipal Finance Management Act, No. 56 of 2003, I certify that, to the best of my knowledge and belief, the company has lodged and/or filed, for the year ended 30 June 2019, all such returns and notices as required and that all such returns and notices are true, correct and up to date.

S Sibiya
Company Secretary
Johannesburg Water (SOC) Limited
27 November 2019

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note(s)	2019 R'000	2018 R'000
ASSETS			
Current assets			
Inventories	5	43,950	85,180
Trade receivables with group companies	6	623	436
Loans to Shareholder	7	1,154,747	677,270
Other receivables	10	46,829	20,124
Consumer debtors: exchange transactions	11	2,878,850	2,331,030
Cash and cash equivalents	14	30	30
Total current assets		**4,125,029**	**3,114,070**
Non-current assets			
Property, plant and equipment	3	11,322,601	10,552,251
Intangible assets	4	38,981	46,814
Total non-current assets		**11,361,582**	**10,599,065**
Total assets		**15,486,611**	**13,713,135**
LIABILITIES			
Current liabilities			
Trade payables with group companies	6	56,757	64,092
Loans from Shareholder	7	2,016,576	1,908,002
Finance lease obligation: Shareholder	8	5,794	4,579
Finance lease obligation: Other	9	–	112
Trade and other payables from exchange transactions	18	1,682,156	1,799,262
Provisions	19	26,991	16,453
Total current liabilities		**3,788,274**	**3,792,519**
Non-current liabilities			
Loans from Shareholder	7	2,319,414	2,315,695
Finance lease obligation: Shareholder	8	8,604	7,847
Retirement benefit obligation	16	65 459	71,439
Consumer deposits	12	344,474	318,972
Total non-current liabilities		**2,737,952**	**2,713,956**
Total liabilities		**6,525,226**	**6,506,475**
Net assets		**8,960,385**	**7,206,660**
NET ASSETS			
Contribution from Shareholder	15	1	1
Accumulated surplus		8,960,384	7,206,659
Total net assets		**8,960,385**	**7,206,660**

STATEMENT OF FINANCIAL PERFORMANCE

	Note(s)	2019 R'000	2018 R'000
Revenue from exchange transactions	20	11,718,3231	10,088,096
Cost of sales		(5,593,972)	(4,799,538)
Gross surplus		**6,124,351**	**5,288,558**
Other income	21	279,884	339,365
Revenue from non-exchange transactions	22	203,704	194,940
Operating expenses	24	(4,773,860)	(4,292,805)
Operating surplus		**1,834,079**	**1,530,058**
Interest revenue	26	192,602	155,252
Finance costs	27	(272,956)	(317,228)
Surplus for the year		**1,753,725**	**1,368,082**

STATEMENT OF CHANGES IN NET ASSETS

	Note(s)	Share capital	Accumulated surplus	Total net assets
Balance at 1 July 2017 as previously reported		1	5,830,394	5,830,395
Prior year adjustments	34		8,183	8,183
Balance at 1 July 2017 restated		**1**	**5,838,577**	**5,838,578**
Surplus for the year restated			1,368,082	1,368,082
Balance at 1 July 2018 restated		**1**	**7,206,659**	**7,206,660**
Surplus for the year			1,753,725	1,753,725
Balance at 30 June 2019		**1**	**8,960,384**	**8,960,385**
Note	15			

CASH FLOW STATEMENT

	Note(s)	2019 R'000	2018 R'000
Cash flows from operating activities			
Receipts			
Cash receipts from customers		10,387,322	8,933,581
Cash receipts from government grants and bulk service contributions		380,231	223,095
Interest revenue		88,865	91,640
		10,856,418	**9,248,316**
Payments			
Cash paid to suppliers and employees		(9,606,387)	(7,886,868)
Finance costs		(271,143)	(310,431)
		(9,877,530)	(8,197,299)
Net cash flows from operating activities	29	**978,888**	**1,051,017**
Cash flows from investing activities			
Purchase of property, plant and equipment		(892,680)	(585,405)
Proceeds from disposal of property, plant and equipment and intangible assets		89	52
Purchase of intangible assets		(7,297)	(473)
Proceeds from post retirement notional account		4,733	5,779
Net cash flows from investing activities		**(895,155)**	**(580,047)**
Cash flows from financing activities			
Proceeds on new loans		381,744	127,982
Repayments on loans (capital)		(486,230)	(615,845)
Repayments on finance lease obligation: shareholder (capital)		(4,637)	(4,600)
Repayments of finance lease obligation: other (capital)		(112)	(848)
Cash receipts from consumer deposits		25,502	22,340
Net cash flows from financing activities		**(83,733)**	**(470,971)**
Net (decrease)/increase in cash and cash equivalents		**-**	**(1)**
Cash and cash equivalents at the beginning of the year		30	31
Cash and cash equivalents at the end of the year		**30**	**30**

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget on accrual basis

	Approved budget R'000	Adjustments R'000	Final budget R'000	Actual amounts on comparable basis R'000	Difference between final budget and actual R'000	Reference
STATEMENT OF FINANCIAL PERFORMANCE						
Revenue						
Revenue from exchange transactions	11,585,560	-	**11,585,560**	11,718,323	**132,763**	
Other income	-	-	**-**	279,884	**279,884**	1
Revenue from non-exhange transactions	203,704	-	**203,704**	203,704	**-**	
Total revenue	**11,789,264**	**-**	**11,789,264**	**12,201,911**	**412,647**	
Cost of sales						
Cost ofsales	(5,624,094)	-	**(5,624,094)**	(5,593,972)	**30,122**	
Gross margin	6,165,170	-	**6,165,170**	6,607,939	**442,769**	
Expenditure						
Employee related costs	(1,080,882)	(19,748)	**(1,100,630)**	(1,090,096)	**10,534**	
Contracted services	(880,814)	32,601	**(848,213)**	(696,016)	**152,197**	2
General expenditure	(825,295)	80,679	**(744,616)**	(635,204)	**109,412**	3
Depreciation	(311,909)	-	**(311,909)**	(309,302)	**2,607**	
Provision for bad debts	(1,467,295)	(270,536)	**(1,737,831)**	(2,043,242)	**(305,411)**	4
Total operating expenses	**(4,566,195)**	**(177,004)**	**(4,743,199)**	**(4,773,860)**	**(30,661)**	
Operating surplus	**1,598,975**	**(177,004)**	**1,421,971**	**1,834,079**	**412,108**	
Interest revenue	152,803	(15,085)	**137,718**	192,602	**54,884**	5
Finance costs	(364,535)	56,325	**(308,210)**	(272,956)	**35,254**	6
	(211,732)	41,240	**(170,492)**	(80,354)	**90,138**	
Surplus for the year	**1,387,243**	**(135,763)**	**1,251,480**	**1,753,725**	**502,245**	

1. The favourable variance on Other income is attributable to the recognition of developer funded assets and bulk contributions received during the year.
2. The under expenditure in Contracted services is as a result of efficiencies achieved through the insourcing of certain functions as well as infrastructure breakdowns and failure rates being lower than anticipated in the budget.
3. The under expenditure in General expenditure is mainly due to the disaster management fund which was originally budgeted for as required by CoJ's Disaster Management Services unit but no claims were submitted.
4. The contribution towards the Provision for bad debts was higher than anticipated and this is as a result of poor payment levels which are currently below the budgeted payment levels of 85%, customers are continuing to default in their current and old debts.
5. The variance in Interest revenue is attributable to a favourable cash balance achieved by the entity throughout the financial year as well as the impact of poor payment levels which resulted in an increasing debtors book and increasing interest on outstanding debt.
6. The under expenditure in Finance costs is due to capital drawdowns occurring later in the financial year than previously anticipated in the budget.

	Approved budget R'000	Adjustments R'000	Final budget R'000	Actual amounts on comparable basis R'000	Difference between final budget and actual R'000	Reference
STATEMENT OF FINANCIAL POSITION						
Assets						
Current assets						
Inventories	84,345	5,435	**89,780**	43,950	**(45,830)**	1
Trade receivables with group companies	4	-	**4**	623	**619**	
Loans to shareholder	355,030	526,335	**881,365**	1,154,747	**273,382**	2
Other receivables	17,677	3,534	**21,211**	46,829	**25,618**	3
Consumer debtors: Exchange transactions	2,443,608	419,858	**2,863,466**	2,878,850	**15,384**	
Cash and cash equivalents	30	-	**30**	30	-	
	2,900,694	**955,162**	**3,855,856**	**4,125,029**	**269,173**	
Non-current assets						
Property, plant and equipment	10,974,852	44,691	**11,019,543**	11,322,601	**303,058**	4
Intangible assets	-	-	**-**	38,981	**38,981**	
	10,974,852	**44,691**	**11,019,543**	**11,361,582**	**342,039**	
Total assets	**13,875,546**	**999,853**	**14,875,399**	**15,486,611**	**611,212**	
Liabilities						
Current liabilities						
Trade payables with group companies	11,702	-	**11,702**	56,757	**45,055**	5
Loans from shareholder	1,753,116	(129,244)	**1,623,872**	2,016,576	**392,704**	6
Finance lease obligation: Shareholder	6,802	-	**6,802**	5,794	**(1,008)**	
Trade and other payables from exchange transactions	1,168,799	617,479	**1,786,278**	1,682,157	**(104,121)**	7
Provisions	88,878	391,628	**480,506**	26,991	**(453,515)**	8
	3,029,297	**879,863**	**3,909,160**	**3,788,275**	**(120,885)**	
Non-current liabilities						
Loans from Shareholder	1,603,069	705,527	**2,308,596**	2,319,414	**10,818**	
Finance lease obligation: Shareholder	21,029	(12,758)	**8,271**	8,604	**333**	
Retirement benefit obligation	90,826	(15,529)	**75,297**	65,459	**(9,838)**	
Consumer deposits	-	-	**-**	344,474	**344,474**	
	1,714,924	**677,240**	**2,392,164**	**2,737,951**	**345,787**	
Total liabilities	**4,744,221**	**1,557,103**	**6,301,324**	**6,526,226**	**224,902**	
Net assets	**9,131,325**	**(557,250)**	**8,574,075**	**8,960,385**	**386,310**	

	Approved budget R'000	Adjustments R'000	Final budget R'000	Actual amounts on comparable basis R'000	Difference between final budget and actual R'000	Reference
NET ASSETS						
Net assets attributable to owners of controlling entity						
Contribution from Shareholder	1	-	1	1	-	
	-	-	-	-	-	
Accumulated surplus	9,131,324	(557,250)	8,574,074	8,960,384	386,310	
Total net assets	**9,131,325**	**(557,250)**	**8,574,075**	**8,960,385**	**386,310**	

1. The inventory balance is below budget due to the significant increase in the provision for obsolete stock as related to prepaid meters. These prepaid meters were acquired in 2008, and were unable to be deployed as the Mazibuko court case suspended all roll outs of the prepaid meters. When the roll out program resumed in 2012, these meters were deemed unfit for purpose and were transferred to operations for the meters to be used as conventional meters. This has since also proved to be unsuccessful resulting in the increased contribution to obsolescence.

2. Loans to Shareholder balance is over budget predominantly due to amounts related to credit balances that were needing to be paid over from the CoJ as confirmed in 2018. The budget anticipated receipt of this amount during 2018/2019 however CoJ failed to pay over the amount despite repeated demands and escalations from the company for payment thereof. The amount remains outstanding at June 2019.

3. Other receivables exceeded the budget mainly due to current amounts due from South African Revenue Services for VAT.

4. Property, Plant and Equipment is above budget as a result of the capital expenditure program for the year implemented at a rate higher than anticipated in the budget.

5. Trade payables with group companies balance is significantly higher than budget as the budget did not take cognisance of the late audit adjustment for June 2018 conducted in November 2018 to reflect an amount due to City Power for an account that could not be serviced with an invoice. To date the invoice has not been received resulting in the amount still being due to City Power. Refer to note 6.

6. The variance of Loans from Shareholders is due to monies owed to the City of Johannesburg in respect of revenue service and power charges not settled.

7. The variance in Trade payables is attributable to the accruals raised at year end which is higher when compared to the budget. This is attributable to accelerated expenditure in the last quarter of the financial year.

8. The variance in provisions is attributable to leave pay and 13th cheque provisions which were budgeted under provisions but were classified under Trade and other payables in the Annual Financial Statements.

	Approved budget R'000	Adjustments R'000	Final budget R'000	Actual amounts on comparable basis R'000	Difference between final budget and actual R'000	Reference
CASH FLOW STATEMENT						
Cash flows from operating activities						
Receipts						
Cash receipts from customers	11,312,098	18,697	**11,330,795**	10,387,322	**(943,473)**	
Cash receipts from government grants and bulk service contribution	–	–	**–**	380,231	**380,231**	
Interest revenue	152,803	(15,000)	**137,803**	88,865	**(48,938)**	1
	11,646,901	**3,697**	**11,468,598**	**10,856,418**	**(612,180)**	
Payments						
Cash paid to suppliers and employees	(9,767,404)	631,652	**(9,135,752)**	(9,606,387)	**(470,635)**	
Finance costs	(364,535)	56,239	**(308,296)**	(271,143)	**37,153**	2
	(10,131,939)	**687,891**	**(9,444,048)**	**(9,877,530)**	**(433,482)**	
Net cash flows from operating activities	**1,332,962**	**691,588**	**2,024,550**	**978,888**	**(1,045,662)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(900,640)	(28,000)	**(928,640)**	(892,680)	**35,960**	
Proceeds from disposal of plant and equipment	–	–	**–**	89	**89**	
Purchase of intangible assets	–	–	**–**	(7,297)	**(7,297)**	
Proceeds from post-retirement notional account	–	–	**–**	4,733	**4,733**	
Net cash flows from investing activities	**(900,640)**	**(28,000)**	**(928,640)**	**(895,155)**	**33,485**	
Cash flows from financing activities						
Proceeds of new loans	319,141	(49,332)	**269,809**	381,744	**111,935**	3
Repayment on loans	(751,463)	(614,256)	**(1,365,719)**	(486,230)	**879,489**	4
Repayment of finance lease obligation: shareholders	–	–	**–**	(4,637)	**(4,637)**	
Repayment of finance lease obligation: Other	–	–	**–**	(112)	**(112)**	
Cash recipts from consumer deposits	–	–	**–**	25,502	**25,502**	
Net cash flows from financing activities	**(432,322)**	**(663,588)**	**(1,095,910)**	**(83,733)**	**1,012,177**	

	Approved budget R'000	Adjustments R'000	Final budget R'000	Actual amounts on comparable basis R'000	Difference between final budget and actual R'000	Reference
Cash and cash equivalents at the beginning of the year	30	-	30	30	-	
Cash and cash equivalents at the end of the year	**30**	**-**	**30**	**30**	**-**	

1. The variance is attributable to a a lower collection of interest on outstanding debtors.

2. The variance is due to capital drawdowns occurring later in the financial year than previously anticipated in the budget.

3. The proceeds from loans are higher than anticipated in the budget due to the capital programmes being implemented at a higher rate than previously assumed, thereby resulting in an increased drawdown of loans at year-end.

4. The repayment of loans was lower than previously anticipated in the budget.

The approved adjusted budget for 2018/19, as approved by Council, is available for inspection at the registered office of the City of Johannesburg Metropolitan Municipality, Metropolitan Centre, 23 Loveday Street, Braamfontein, 2001 or at Johannesburg Water (SOC) Limited, 17 Harrison Street, Marshalltown, Johannesburg, 2107.

Although the annual financial statements and the budget are both prepared on the same basis, the presentation of the two reports differs. The overall financial impact of the different methods of presentation when comparing the two reports is nil.

NOTES TO THE ACCOUNTING POLICIES

1. The favourable variance on Other income is attributable to the recognition of developer-funded assets and bulk contributions received during the year.

2. The under-expenditure in Contracted services is as a result of efficiencies achieved through the insourcing of certain functions, as well as infrastructure breakdowns and failure rates being lower than anticipated in the budget.

3. The under-expenditure in General expenditure is mainly due to the Disaster Management Fund, which was originally budgeted for as required by the CoJ's Disaster Management Services, but no claims were submitted.

4. The contribution towards the Provision for bad debts was higher than anticipated as a result of poor payment levels, which are currently below the budgeted payment levels of 85%. Customers are continuing to default on their current and old debts.

5. The variance in Interest revenue is attributable to a favourable cash balance achieved by the entity throughout the financial year, as well as the impact of poor payment levels, which resulted in an increasing debtors book and increasing interest on outstanding debt.

6. The under-expenditure in Finance costs is due to capital drawdowns occurring later in the financial year than previously anticipated in the budget.

Variances – favourable or adverse – are regarded as material when they exceed 10%, and appropriate explanations are then provided.

ACCOUNTING POLICIES

1. Basis of preparation

The annual financial statements have been prepared in accordance with the effective Standards of GRAP, including any interpretations, guidelines and directives issued by the Accounting Standards Board, the Local Government: Municipal Finance Management Act, No. 56 of 2003 and the Companies Act, No. 71 of 2008. The annual financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

Accounting policies for material transactions, events of conditions not recovered by the GRAP reporting framework, have been developed in accordance with paragraphs 7,11 and 12 of GRAP 3 and the hierarchy approved in Directive 5 issued by the Accounting Standards Board.

The annual financial statements have been prepared on the historical cost basis, except for the measurement of certain financial instruments at fair value, and incorporate the principal accounting policies set out below. The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. The basis presumes that funds will be available to future operations and that the realisation of assets and settlement of liabilities, contingent liabilities and commitments will occur in the ordinary course of business. These accounting policies are consistent with the previous accounting period.

1.1 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 are inherent in the formation of estimates. Significant judgements and estimation uncertainty includes the following:

Useful life of wastewater, water networks and other non-current assets

The company's management determines the estimated useful lives and related depreciation charges for the wastewater, water networks and other non-current assets. This estimate is based on industry norms. Management will adjust the depreciation charge where the useful lives of these assets have changed from previous estimates.

Impairment of property, plant and equipment and other non-current and intangible assets

Property, plant and equipment and other non-current, and intangible assets, are reviewed annually by management for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Post-retirement benefits

The present value of the post-retirement obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include a discount rate, rate of increase in the employer post-retirement medical contribution and expected increases in salaries. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The appropriate discount rate at the end of each financial year is determined by actuaries. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post-retirement obligations.

In determining the appropriate discount rate, the actuary considers the interest rates of government bonds, adjusted to reflect the margin on corporate bonds, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related post-retirement liability.

Other key assumptions for post-retirement obligations are based on current market conditions. Additional information is disclosed in Note 16.

Effective interest rate

The company used a risk-free interest rate to discount revenue and expenditure that impacts on trade and other payables, trade payables with group companies, consumer debtors, other receivables, trade receivables with group companies and loans to and from the Shareholder.

Allowance for debt impairment of consumer debtors

The allowance for impairment is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Management utilises judgement in evaluating credit risk related to customers. Judgement is based on various factors including, but not limited to, historical information available.

Debtors with credit balance allocation

The City of Johannesburg Metropolitan Municipality (CJMM) invoices clients for the following revenue components: electricity on behalf of City Power, water on behalf of Johannesburg Water, refuse on behalf of Pikitup, and rates and taxes on behalf of City of Johannesburg Core Administration. Revenue and the corresponding debtors are allocated to each municipal entity based on the actual consumption/billing.

With regard to credit balances in consumer debtors, the CJMM allocates credit balances applicable to each entity using the three-year billing for customers with credit balances at account level. In the event that the customer has no current billing and a credit balance exists, a three-year annualised overall billed revenue will be used to determine the allocation rate. Management has applied judgement in determining the allocation basis.

Valuation of water stock

The value of water held at year-end is based on water volumes held in reservoirs, towers and pipelines multiplied by the cost of water at that date.

1.2 Property, plant and equipment

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

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

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

Property, plant and equipment transferred to the company by developers at no cost to the company are recognised as an asset when the project is signed off and approved by the company. The asset is recorded at fair value to construct the asset as indicated by the developer.

Cost model

Property, plant and equipment excluding land and capital work-in-progress, which is held for use in the production or supply of goods or services or for administrative purposes are stated in the Statement of Financial Position at cost less accumulated depreciation and any accumulated impairment losses. Depreciation commences when the assets are ready for their intended use.

Capital work-in-progress is carried at cost, and depreciated from the date the assets are technically complete, i.e. ready for intended use. Capital work-in-progress is disclosed as a separate category of property, plant and equipment.

Day-to-day repairs and maintenance expenses are charged to the Statement of Financial Performance during the financial year in which they are incurred.

The costs of major renovations are included in the carrying amount of the asset when it is probable that future economic benefits or service potential will flow to the company and the cost of the items can be measured reliably.

Land is regarded as having an indefinite useful life and is not depreciated. Depreciation is provided on all property, plant and equipment other than land and capital work-in-progress, to write down the costs, less estimated residual value, on a straight line basis over their estimated useful lives as follows:

Item	Useful life
Buildings	5–30 years
Communication equipment	2–13 years
Furniture and fixtures	2–25 years
Computer equipment	4–24 years
Motor vehicles	5–12 years
Laboratory equipment	2–15 years
Minor plant	5–16 years
Office equipment	5–18 years
Plant and machinery	10–40 years
Wastewater and water networks	
• Pump stations – Civil	60–100 years
• Pump stations – Mechanical	5–15 years
• Pump stations – Electrical	7–16 years
• Water meters	4–13 years
• Pipelines and other	60–100 years

The residual values, depreciation methods and the useful lives of the asset categories are reviewed at each financial year-end and adjusted if necessary. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from 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 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.

1.3 Intangible assets

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost and comprise computer software and servitudes. Cost includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates and the costs can be measured reliably. All other expenditure is expensed as incurred.

Cost model

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

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. For all other intangible assets, amortisation is provided on a straight line basis over their useful life. The amortisation period and the amortisation method for intangible assets are reviewed each year-end and adjusted if necessary.

By their nature, servitudes confer upon the holder a right in perpetuity over the property and as these rights have an indefinite useful life, they are not amortised.

An item of intangible asset is derecognised upon disposal or when no future economic benefits or service potential are expected from its use or disposal. The surplus or deficit arising from derecognition of an item or intangible asset is included in the surplus of deficit when the item is derecognised. The surplus or deficit arising from derecognition of an item of intangible assets is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

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

Item	Useful life
Computer software, other	3–6 years
Communication equipment	2–13 years
Furniture and fixtures	2–25 years

The entity discloses relevant information relating to assets, under construction or development, in the notes to the financial statements .

1.4 Financial instruments

Initial recognition

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

Financial instruments are recognised initially at fair value.

In the case of financial instruments not at fair value, they are recognised through profit or loss, including any directly attributable transaction costs.

Financial assets and financial liabilities are recognised on the company's Statement of Financial Position when the company becomes party to the contractual provisions of the instrument.

Fair value determination

Management establishes fair value for financial instruments by using certain valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and relying as little as possible on entity-specific inputs.

Loans and receivables

Loans and receivables comprise trade receivables with group companies, loans to the Shareholder, other receivables, consumer debtors and cash and cash equivalents. Loans and receivables are subsequently measured at amortised costs using the effective interest method.

Payables from exchange transactions

Financial liabilities at amortised cost comprise trade payables with group companies, trade and other payables and loans from the Shareholder. These liabilities are subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and are subsequently measured at amortised cost.

Impairment of financial assets

The company assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and if that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments (more than 90 days overdue, as well as observable payment levels for overdue through to 89 days), the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For amounts due from loans and advances to customers carried at amortised cost, the company first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred) discounted using the instrument's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the surplus or deficit.

Derecognition

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

- The rights to receive cash flows from the asset have expired.
- The company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either
  (a) the company has transferred substantially all the risks and rewards of the asset; or
  (b) the company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Gains and losses for financial assets

Gains and losses are recognised in the Statement of Financial Performance when the asset is derecognised or impaired, as well as through the amortisation process.

Gains and losses for financial liabilities

Gains and losses are recognised in the Statement of Financial Performance when the liability is derecognised, as well as through the amortisation process.

1.5 Income tax

The company is an exempt entity in terms of Section 10(1)(t) of the Income Tax Act, No. 58 of 1962. As a result of the exemption no income tax has been provided for in the current financial year.

1.6 Leases

Finance leases

Finance leases are recognised as assets in the Statement of Financial Position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Statement of Financial Position as a finance lease obligation. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

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

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the Statement of Financial Performance on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the financial year in which termination takes place. Contingent rentals are expensed as incurred.

The lease for motor vehicles is classified as an operating lease at inception. It is not straight-lined due to the lease contract containing multiple parameters such as escalations linked to various market indices, which are variable depending on the prevailing market indicators. This renders the escalation clause to be uncertain. It is therefore impractical to calculate the straight-lining of this lease in accordance with GRAP 13.

1.7 Inventories

Inventories consist of materials, components, fuel on hand and water stock.

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is assigned using the weighted average cost formula:

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

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

When inventories are utilised or consumed, the carrying amounts of those inventories are recognised as an expense in the period. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. Reversals of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.8 Impairment of non-financial assets

Property, plant and equipment and other non-current and intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in the Statement of Financial Performance for the amount by which the carrying amount of the asset exceeds its recoverable amount, that is, the higher of the asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately indentifiable cash flows.

In assessing the value in use, the estimated future cash flows are discounted to the present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in surplus or deficit in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is an indication that previously recognised impairment losses may no longer exist or may be decreased.

If such an indication exists, the company estimates the assets' recoverable amount. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in surplus/(deficit).

1.9 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses and non-monetary benefits such as medical care) are 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 bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

The majority of the company's employees are members of various defined contribution plans. A defined contribution plan is a retirement plan under which the company pays fixed contributions into separate trustee-administered funds.

The company's contributions to the defined contribution plans are charged to the Statement of Financial Performance in the financial year to which they relate.

The company has no further payment obligations once the contributions have been paid.

Other post-retirement obligations

The company provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees. This obligation is not funded by any underpinned assets.

The entitlement to post-retirement health care benefits, gratuities and housing subsidies is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Independent qualified actuaries carry out valuations using the projected unit credit method of these obligations on an annual basis. The obligation is measured at the present value of the estimated future cash flows using interest rates of government securities that have terms to maturity approximating the terms of the related liability.

Actuarial gains and losses and past service costs are charged to the Statement of Financial Performance as the costs occur.

1.10 Provisions and contingencies

Provisions are recognised when:

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

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

1.11 Bulk service contributions

Bulk service contributions are received by the company from developers for the potential expansion and/or augmentation of infrastructure relating to the provision of water and sanitation services to the development. When received the amounts are credited to the Statement of Financial Performance.

1.12 Government grants

Government grants received are recognised as revenue, except to the extent that a liability is recognised with regard to conditions that give rise to a present obligation on the initial recognition of the asset. In cases that a liability is recognised, the carrying amount of the liability is reduced and the amount is recognised as revenue to the extent that the company satisfies the stipulated present obligations.

1.13 Revenue

Revenue comprises the invoiced value of sales in respect of operations in the provision of water and wastewater services and excludes investment and other income and value-added tax (VAT). Revenue from the distribution of water is recognised when consumed and the provision of sanitation services is recognised as and when the service has been provided. Average consumption is invoiced when meter readings have not been performed.

Deemed consumption areas are billed based on between 5 kl and 20 kl of water per stand per month, regardless of actual consumption.

Revenue is measured at the fair value of the consideration received or receivable excluding rebates, and represents the amounts receivable for goods and services provided in the normal course of business.

1.14 Interest revenue

Interest revenue is recognised on a time-proportion basis using the effective interest method.

1.15 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to get it ready for its intended use are capitalised as part of the costs of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that are incurred in connection with the borrowing of funds.

1.16 Presentation currency and rounding

The annual financial statements are presented in South African rand rounded to the nearest thousand.

1.17 Budget information

The company has adopted National Treasury's recommended template for the disclosure of budget information for the current financial year. The company's budget is prepared on an accrual basis that is comparable with the financial statements. The budget is prepared for the period from July 2018 to June 2019, which is in alignment with the presentation of the financial statements' reporting period.

Appropriate variance explanations are provided when the variances, favourable or adverse, are regarded as material, or when they exceed 10%.


Johannesburg

NOTES TO THE FINANCIAL STATEMENTS

	2019 R'000	2018 R'000

2. Statements and interpretations not yet effective

At the date of authorisation of these annual financial statements, the following standards and interpretations were in issue, but not yet effective:

- GRAP 34: Separate Financial Statements
- GRAP 35: Consolidated Financial Statements
- GRAP 36: Investments in Associates and Joint Arrangements
- GRAP 37: Joint Arrangements
- GRAP 38: Disclosure of Interests in Other Entities
- GRAP 110: Living and Non-living Resources

The above standards are similar to existing standards applied by the company and are unlikely to have an impact on the financial position or performance of the entity, but may have an impact on the extent of disclosures provided.

3. Property, plant and equipment

	2019 R'000			2018 R'000		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	12,208	-	12,208	12,208	-	12,208
Buildings	390,453	(244,899)	145,554	381,464	(239,925)	141,539
Plant and machinery	3,062,323	(883,849)	2,178,474	2,896,208	(785,511)	2,110,697
Furniture and fixtures	26,151	(15,238)	10,913	22,834	(13,974)	8,860
Motor vehicles	29,554	(16,295)	13,259	24,574	(13,163)	11,411
Office equipment	26,745	(14,151)	12,594	18,942	(12,932)	6,010
Computer equipment	103,539	(75,056)	28,483	93,464	(67,837)	25,627
Communication equipment	27,660	(19,903)	7,757	26,808	(17,257)	9,551
Laboratory equipment	41,202	(35,256)	5,946	40,663	(32,141)	8,522
Minor plant	171,711	(96,717)	74,994	168,680	(82,650)	86,030
Inventory – capital	56,885	-	56,885	58,259	-	58,259
Wastewater network	3,244,479	(295,396)	2,949,083	3,022,957	(264,043)	2,758,914
Water network	7,317,846	(1,491,395)	5,826,451	6,086,913	(772,290)	5,314,623
Total	**14,510,756**	**(3,188,155)**	**11,322,601**	**12,853,974**	**(2,301,723)**	**10,552,251**

Reconciliation of property, plant and equipment: 2019

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Developer-funded network R'000	Depreciation R'000	Total R'000
Land	12,208	-	-	-	-	-	12,208
Buildings	141,539	8,988	-	-	-	(4,973)	145,554
Plant and machinery	2,110,697	166,115	-	-	-	(98,338)	2,178,474
Furniture and fixtures	8,860	3,368	(8)	-	-	(1,307)	10,913
Motor vehicles	11,411	6,608	-	-	-	(4,760)	13,259
Office equipment	6,010	7,823	(3)	-	-	(1,236)	12,594
Computer equipment	25,627	12,269	(99)	-	-	(9,314)	28,483
Communication equipment	9,551	855	(2)	-	-	(2,647)	7,757
Laboratory Equipment	8,522	539	-	-	-	(3,115)	5,946
Minor plant	86,030	3,060	(6)	-	-	(14,090)	74,994
Inventory – capital	58,259	-	-	(1,374)	-	-	56,885
Wastewater network	2,758,914	172,386	-	-	49,136	(31,353)	2,949,083
Water network	5,314,623	517,276	(344)	1,374	116,563	(123,041)	5,826,451
	10,552,251	899,287	(462)	-	165,699	(294,174)	11,322,601

Land and buildings

Land and buildings to the value of R157,762 (2018: R153,747) purchased from the City of Johannesburg Metropolitan Municipality in terms of the sale of a business agreement have not as yet been transferred into the name of Johannesburg Water SOC Limited. A register containing the information required as contained in the Sale of Business Agreement, Annexure G, is available for inspection at the registered office of the company.

Fully depreciated assets held at R1 (not in R'000)

Included in Property, Plant and Equipment are assets that currently have a book value of R1 and less. These assets were acquired from the City of Johannesburg as part of the sale of the business agreement. The abovementioned assets are correctly valued and accounted for in the annual financial statements in accordance with GRAP 17.

Reconciliation of property, plant and equipment – 2018

	Opening balance R'000	Additions R'000	Disposals R'000	Transfers R'000	Developer-funded network R'000	Depreciation R'000	Impairment loss R'000	Total R'000
Land	12,208	-	-	-	-	-	-	12,208
Buildings	145,375	1,489	-	-	-	(5,319)	(6)	141,539
Plant and machinery	2,027,950	171,165	-	-	-	(88,418)	-	2,110,697
Furniture and fixtures	8,189	2,011	(2)	-	-	(1,338)	-	8,860
Motor vehicles	15,646	112	-	-	-	(4,347)	-	11,411
Office equipment	4,798	2,624	(4)	-	-	(1,408)	-	6,010
Computer equipment	32,076	4,296	(273)	-	-	(10,472)	-	25,627
Communication equipment	12,078	170	-	-	-	(2,697)	-	9,551
Laboratory equipment	12,106	92	-	-	-	(3,676)	-	8,522
Minor plant	98,455	1,738	(36)	-	-	(14,127)	-	86,030
Inventory – capital	69,001	-	-	(10,742)	-	-	-	58,259
Wastewater network	2,465,462	196,198	-	-	125,914	(28,660)	-	2,758,914
Water network	5,094,185	205,621	-	10,742	116,317	(112,242)	-	5,314,623
	9,997,529	**585,516**	**(315)**	**-**	**242,231**	**(272,704)**	**(6)**	**10,552,251**

Fully depreciated assets held at R1 (not in R'000)

Included in Property, Plant and Equipment are assets that currently have a book value of R1 and less. These assets were acquired from the City of Johannesburg as part of the sale of the business agreement. The abovementioned assets are correctly valued and accounted for in the annual financial statements in accordance with GRAP 17.

The following leased assets are included in Property, Plant and Equipment listed above

	2019 R'000			2018 R'000		
	Cost/ valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost/ valuation	Accumulated depreciation and accumulated impairment	Carrying value
Office equipment	4,507	(4,448)	59	4,507	(4,405)	102
Motor vehicles	29,554	(16,295)	13,259	24,574	(13,163)	11,411
Total	**34,061**	**(20,743)**	**13,318**	**29,081**	**(17,568)**	**11,513**

Property, plant and equipment in the process of being constructed or developed

	2019 R'000	2018 R'000
Cumulative expenditure recognised in the carrying value of property, plant and equipment		
Water network	687,509	526,305
Plant and machinery	420,185	525,655
Wastewater network	174,720	207,478
Buildings	40,674	45,893
Office equipment	3,262	584
Furniture and fixtures	2,655	1,092
Laboratory equipment	136	96
Minor plant	87	33
IT equipment	12	2,497
	1,329,240	**1,309,633**

The carrying value of property, plant and equipment in the process of being constructed or developed, that is taking a significantly longer period of time to be completed than expected, as at 30 June 2019.

Project name	Reason for delay	Amount R'000
BWW602 – Bushkoppies Balancing Tank	Project delayed by two years due to previous community protests demanding 30% subcontracting, which was not feasible. Project completion date moved from January 2018 to November 2019.	84,794
Construction of Randburg Depot	Project delayed by two and a half years due to non-performance of the contractor, which resulted in termination. Retendering process was initiated and resulted in a non-award. Tender re-advertised and at Bid Evaluation Committee stage. Planned completion date moved from February 2018 to June 2020.	33,023
UR1327 – Corridors of Freedom Perth Empire	Project delayed by three years due to budget reduction. The project completion date moved from December 2018 to December 2021, subject to approval of budget.	12,685
UR1328 – Turffontein Redevelopment Corridor Water	Project delayed by two years due to budget reduction. The project completion date moved from December 2018 to December 2020, subject to approval of next financial year budget.	11,635
UR1314 – Diepsloot Sewer Pipeline and Bridge Repair	Project delayed by two years due to budget reduction. Project at tender. Completion date for Phase 1 moved from December 2018 to December 2020.	11,304

Project name	Reason for delay	Amount R'000
OM1300 – Bulk Meters	Project delayed by 2 years due to Letswamotswe contract termination. Retendering process underway, Project completion date moved from June 2018 to June 2020.	10,235
UR1315 – Louis Botha Bus Rapid Transit (BRT) Corridor Water Renewal	Project delayed by 2 years due to budget reduction. The Project completion date for phase 1 moved from December 2018 to December 2020.	9,645
UR1312 – Sandton Water upgrade	Project delayed by two years due to budget reduction. Designs were completed. The project completion date to be moved from December 2019 to December 2021 subject to availability of budget.	9,251
UR1405 – Louis Botha BRT Corridor Sewer Renewal	Project delayed by three years due to budget reduction. The project completion date for Phase 1 moved from December 2018 to December 2020. The remaining phases will be completed in December 2021, subject to availability of budget.	8,645
UR705 Bryanston District: Upgrade Water	Project delayed by 10 years due to contractor liquidation. Budget reduction and subsequent remodelling of the master plan on hydraulics indicated that the bulk supply line could be deferred as some planned developments were behind. The project has been reinitiated to complete the outstanding works and planned completion date moved from December 2009 to December 2020, subject to approval of additional budget.	3,302
UFW914 – Infrastructure Upgrade – Eldorado Park	Project delayed by four years due to budget reduction. The project completion date moved from June 2017 to July 2021, subject to availability of funding.	3,107
UFW913 – Infrastructure Upgrade – Alexandra	Project delayed by three years due to budget reduction. The project completion date for Phase 1 moved from June 2017 to July 2020, subject to availability of funding.	3,086
BWW513 NW: Storm Dam Pump Station	Project delayed by two and a half years due to flooding of works and subsequently poor workmanship. The contractor was instructed to do remedial works at his own cost. The project was initially completed in June 2019, however a dispute was lodged by the contractor relating to contractual claims. The dispute resolution process is underway and is at adjudication stage.	2,587
UR1311 – Linbro Park Water Upgrade	Project delayed by 1.6 years due to budget reduction. The project completion date moved from December 2018 to July 2020.	2,520
UR1319 – Witpoortjie Water Upgrade	Project delayed by two and a half years due to inadequate budget. The project completion date moved from June 2018 to December 2020, subject to availability of funding.	1,892
UR1408 – Perth Empire BRT Corridor Sewer Renewal	Project delayed by three years due to budget reduction. The project completion date moved from December 2018 to December 2021, subject to approval of next financial year budget.	1,868
UFW915 – Infrastructure Upgrade – Ivory Park	Project delayed by four years due to budget reduction. The project completion date moved from June 2017 to July 2021, subject to availability of funding.	1,317
UR1302 – Carlswald Water Upgrade	Project delayed by four and a half years due to land acquisition challenges, however the City of Johannesburg approved the budget for land acquisition and the process is underway. The project completion date moved from June 2018 to December 2022, subject to availability of budget.	0,515
EI1308 – Carlswald Reservoir 10 Ml	Project delayed by four and a half years due to land acquisition challenges, however the City of Johannesburg approved the budget for land acquisition and the process is underway. The project completion date moved from June 2018 to December 2022, subject to availability of budget.	0,135
		211,546

Project name	Reason for delay	Amount R'000
BWW513: Northern Works Storm Dams	Project delayed by 1.8 years due to flooding. Leaks from works are delaying completion of the snags – remedial works. Project completion date moved from January 2017 to October 2018.	138,186
UFW 904 – SIURP IN SB7B	Project delayed by two and a half years as contractor terminated due to non-performance. Tender process to appoint contractor to complete project resulted in a non-award. Another tender process has been initiated.	87,657
UFW901 – SIURP IN SB12	Project delayed by four and a half years. Project complete, but cannot be commissioned because it is linked to the completion of Protea Glen reservoir upgrade and construction of Protea Glen pump station. Completion is expected in November 2018.	63,047
BWW602: Bushkoppies Balancing Tank	Project delayed by 1.3 years due to community protest. Project completion date moved from January 2018 to April 2019.	59,052
UR634: Ennerdale District: Upgrade Water Infrastructure	Project delayed by 4.8 years due to power connection problems and vandalism. Project completion date moved from December 2013 to August 2018.	47,277
Construction of Randburg Depot	Project delayed by two years due to non-performance of the contractor, which resulted in termination. Project at re-tender stage. Project completion date moved from February 2018 to February 2020.	45,798
OM1300: Bulk Meters	Project delayed by one and a half years due to contract termination. Project completion date moved from June 2018 to December 2019.	32,534
UR1328: Turffontein Redevelopment Corridor Water	Project delayed by two years due to project prioritisation. Project completion date moved from December 2018 to December 2020, subject to approval of next financial year budget.	11,635
UR1327: Corridors of Freedom Perth Empire	Project delayed by two years due to project prioritisation. Project completion date moved from December 2018 to December 2020, subject to approval of next financial year budget.	10,794
UR1315 – Louis Botha BRT Corridor Water Renewal	Project delayed by two years due to project prioritisation. Project completion date for Phase 1 moved from December 2018 to December 2020.	9,645
UR1312 – Sandton Water Upgrade	Project delayed by one year due to project prioritisation. Project completion date to be moved from December 2019 to December 2020.	9,251
UR1314: Diepsloot Sewer Pipeline and Bridge Repair	Project delayed by one year due to project prioritisation. Project at tender stage. Project completion date for Phase 1 moved from December 2018 to December 2019.	8,745
PS1401: Investigations Water and Sewer Networks	Project delayed by two and a half years. Current costs are due to investigative costs of approximately 45 reservoirs. Costs will be transferred to relevant line items once a panel of consultants is finalised and subsequently contractors are appointed to execute the works. The project completion date moved from June 2017 to December 2019.	8,255
UR1405: Louis Botha BRT Corridor Sewer Renewal	Project delayed by two years due to project prioritisation. Project completion date for Phase 1 moved from December 2018 to December 2020.	6,289
UR705: Bryanston District: Upgrade Water	Project delayed by 8.4 years due to contractor liquidation and subsequent award of the panel of contractors to complete the works. Project completion date moved from December 2009 to March 2019.	3,302
UFW914: Infrastructure Upgrade – Eldorado Park	Project delayed by three years due to project prioritisation. Project completion date moved from June 2017 to July 2020, subject to availability of funding.	3,107
UFW913: Infrastructure Upgrade – Alexandra	Project delayed by three years due to project prioritisation. Project completion date moved from June 2017 to July 2020, subject to availability of funding.	3,086

Project name	Reason for delay	Amount R'000
UR1308 – Alexandra Park Water Upgrade	Project delayed by two years due to project prioritisation, Designs complete and construction expected to commence in the 2019/20 financial year. Assets under construction cost is related to professional fees.	2,696
UR1311: Linbro Park Water Upgrade	Project delayed by two years due to project prioritisation. The project completion date moved from December 2018 to December 2020, subject to approval of next financial year budget.	2,518
UR1319: Witpoortjie Water Upgrade	Project delayed by one year due to project prioritisation. The project completion date moved from June 2018 to June 2019, subject to availability of funding.	1,892
UR1408: Perth Empire BRT Corridor Sewer Renewal	Project delayed by two years due to project prioritisation. The project completion date moved from December 2018 to December 2020, subject to approval of next financial year budget.	1,868
UFW915: Infrastructure Upgrade – Ivory Park	Project delayed by three years due to project prioritisation. The project completion date moved from June 2017 to July 2020, subject to availability of funding.	1,317
UR1316 – Robertville Water Upgrade	Project delayed by two years due to project prioritisation, Designs complete and construction expected to commence in the 2018/19 financial year. Assets under construction cost is related to professional fees.	987
BWW1406 – EN: Infrastructure Renewal Plan	Project delayed by one year. Project on hold while still in design phase to consider alternative funding options.	613
UR1302: Carlswald Water Upgrade	Project delayed by two and a half years due to land acquisition processes, which are currently underway. The project completion date moved from June 2018 to December 2020.	515
EI1308 – Carlswald Reservoir 10 Ml	Project delayed by two and a half years due to land acquisition processes, which are currently underway. The project completion date moved from June 2018 to December 2020	135
		560,201

Expenditure incurred to repair and maintain property, plant and equipment

	2019 R'000	2018 R'000
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Employee related costs	641,298	588,267
Operating expenses	464,100	391,936
	1,105,398	**980,203**

4. Intangible assets

	2019 R'000			2018 R'000		
	Cost/ valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost/ valuation	Accumulated depreciation and accumulated impairment	Carrying value
Servitudes	1,727	-	1,727	1,727	-	1,727
Computer software	154,739	(117,485)	37,254	147,562	(102,475)	45,087
Total	**156,466**	**(117,485)**	**38,981**	**149,289**	**(102,475)**	**46,814**

Reconciliation of intangible assets: 2019

	Opening balance R'000	Additions R'000	Amortisation R'000	Total R'000
Servitudes	1,727	-	-	1,727
Computer software	45,087	7,297	(15,130)	37,254
	46,814	**7,297**	**(15,130)**	**38,981**

Reconciliation of intangible assets: 2018

	Opening balance R'000	Additions R'000	Amortisation R'000	Total R'000
Servitudes	1,727	-	-	1,727
Computer software	61,464	473	(16,850)	45,087
	63,191	**473**	**(16,850)**	**46,814**

Intangible assets in the process of being constructed or developed

	2019 R'000	2018 R'000
Cumulative expenditure recognised in the carrying value of Intangible assets		
Intangible assets under development	5,305	4,983

5. Inventories

	2019 R'000	2018 R'000
Raw materials, components	88,576	69,163
Water	12,603	17,715
Subtotal	101,179	86,878
Provision for inventory write downs	(57,229)	(1,698)
	43,950	85,180

6. Trade receivables and payables with group companies

	2019 R'000	2018 R'000
Trade payables with group companies		
City Power SOC Ltd	(41,083)	(41,083)
Johannesburg City Parks NPC	(1,328)	(269)
Johannesburg Roads Agency SOC Ltd	(13,992)	(21,044)
Johannesburg Metropolitan Bus Services SOC Ltd t/a Metrobus	-	(3)
Johannesburg Theatre SOC Ltd	(56)	-
City of Johannesburg Property Company SOC Ltd	(298)	(1,684)
	(56,757)	**(64,083)**

The above loans are short term (30-60 days), unsecured and interest free.

	2019 R'000	2018 R'000
Trade receivables with group companies		
Johannesburg Roads Agency SOC Ltd	100	29
Johannesburg Development Agency SOC Ltd	407	407
City Power SOC Ltd	116	-
	623	**436**

Credit quality of trade receivables with group companies

The credit quality of trade receivables with group companies that are neither past due nor impaired are considered fair by the company, taking into account the historical information available and due to the fact that there has been no default in the past.

The trade receivables and payables with group companies are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. The carrying value of trade receivables and payables with group companies approximates fair value.

Trade receivables with group companies past due but not impaired

At 30 June 2019, R407 (2018: R0) was past due but not impaired. The ageing of amounts past due but not impaired is as follows:

	2019 R'000	2018 R'000
180 days past due	407	–

7. Loans to/(from) shareholders

	2019 R'000	2018 R'000
Loans to Shareholder		
City of Johannesburg Metropolitan Municipality – other loans	556,435	420,766
City of Johannesburg Metropolitan Municipality – sweeping account	375,194	107,186
City of Johannesburg Metropolitan Municipality – other non-exchange loans	30,183	76,406
City of Johannesburg Metropolitan Municipality – post-retirement benefit	61,495	62,168
City of Johannesburg Metropolitan Municipality – capex drawdown	131,747	10,744
	1,154,747	**677,270**

Other loans and the capex drawdown are short term (30 to 60 days), unsecured and interest free.

The terms of loans to the Shareholder have not been renegotiated in the current or prior period.

Loans from Shareholder - current	2019 R'000	2018 R'000
City of Johannesburg Metropolitan Municipality – other short-term loans	(1,528.123)	(1,431,660)
City of Johannesburg Metropolitan Municipality – current portion of long-term loans	(488,453)	(476,342)
	(2,016,576)	**(1,908,002**

Loans from Shareholder - non-current	2019 R'000	2018 R'000
City of Johannesburg Metropolitan Municipality – conduit mirror and FDA	(2,319,414)	(2,315,698)

The loans to/(from) the Shareholder are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. The carrying value of loans to/(from) the Shareholder approximates fair value.

Loans to Shareholder past due but not impaired

At 30 June 2019, R98 (2018: R220) was past due, but not impaired.

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

	2019 R'000	2018 R'000
30 days past due	98	6
60 days past due	-	1
90 days past due	-	13
120 days past due	-	199

7.1. City of Johannesburg Metropolitan Municipality – conduit mirror loans

	2019 R'000	2018 R'000
Loans at the beginning of the year	(2,792,040)	(3,206,590)
New loans	(502,440)	(136,706)
Interest for the year	(269,290)	(302,178)
Repayments for the year – interest	269,673	302,561
Repayments for the year – capital	486,230	550,873
Balance at end of year	**(2,807,867)**	**(2,792,040)**

Conduit loans are repayable in equal quarterly instalments over a period of 10 years from loan acquisition. These unsecured loans bear interest at a fixed rate of 9.31% to 11.23% (2018: 9.31% to 11.23%). The second French Development Agency loan is repayable in equal half-yearly instalments over a period of 15 years, commencing on 15 November 2014. These unsecured loans bear interest at a fixed rate of 7.4% and 7.47% (2018: 7.4% and 7.47%).

7.2. City of Johannesburg Metropolitan Municipality – shareholder loans

	2019 R'000	2018 R'000
Shareholder loans at the beginning of the year	-	(64,972)
Interest for the year	-	(6,170)
Repayments for the year – interest	-	6,170
Repayments for the year – capital	-	64,972
Balance at the end of the year	**-**	**-**

The loan has been fully repaid at 30 June 2018.

7.3. City of Johannesburg Metropolitan Municipality – sweeping account

	2019 R'000	2018 R'000
Bank sweeping account	375,194	107,186

The bank sweeping account is an unsecured interest bearing loan to the shareholder with no fixed repayment terms. The loan earns interest at a variable rate, which was 6.72% (2018: 6.46%) at the reporting date.

8. Finance lease obligation: Shareholder

	2019 R'000	2018 R'000
Minimum lease payments due		
- within one year	6,970	5,607
- in second to fifth year inclusive	9,932	8,613
	16,902	14,220
Less: Future finance charges	(2,504)	(1,794)
	14,398	**12,426**
Present value of minimum lease payments due		
- within one year	5,794	4,579
- in second to fifth year inclusive	8,604	7,847
	14,398	**12,426**

Interest on finance leases are calculated at 10% per annum, and repayments on the lease arrangements are made monthly. The lease terms range from three years to seven years. The carrying value of the finance leased assets is included in property, plant and equipment, under motor vehicles. Refer to Note 3 for further information.

9. Finance lease obligation: Other

	2019 R'000	2018 R'000
Minimum lease payments due		
- within one year	–	115
	–	115
Less: Future finance charges	–	(3)
	–	**112**
	–	
Present value of minimum lease payments due		
- within one year	–	112

Interest on finance leases are calculated at variable rates of interest ranging between 7.35% and 8.5% per annum, and repayments on the lease arrangements are made quarterly. The lease terms are over a period of three years. The carrying value of the finance leased assets is included in property, plant and equipment, under office equipment. Refer to Note 3 for further information.

10. Other receivables

	2019 R'000	2018 R'000
Sundry debtors	39,989	17,134
Prepaid expenses	7,672	5,798
Allowance for impairment	(832)	(2,808)
Total other receivables	**46,829**	**20,124**

Sundry debtors consist predominantly of deposits paid for utility services, as well as current amounts due from the South African Revenue Service (SARS) for VAT.

Credit quality of other receivables

Other receivables comprise the recovery of sundry services. Management evaluates credit risk relating to these customers on an ongoing basis. The credit quality of other receivables that are neither past due nor impaired are considered fair by the company, taking into account the historical information available.

Other receivables past due, but not impaired

At 30 June 2019, R296 (2018: R243) was past due, but not impaired. The ageing of amounts past due, but not impaired, is as follows:

	2019 R'000	2018 R'000
30 days past due	21	132
60 days past due	6	69
90 days past due	1	–
120 days past due	25	42
180 days past due	243	–

Other receivables impaired

As of 30 June 2019, other receivables of R39,989 (2018: R17,134) were considered for impairment testing. The allowance for impairment losses for the period was R832 (2018: R2,808). The classification and respective ageing categories considered by management during the testing for impairment are as follows:

	2019 R'000	2018 R'000
Current	**38,861**	**14,069**
1–30 days	21	132
31–60 days	6	69
61–90 days	1	4
91–120 days	25	52
121–365 days	243	297
> 365 days	832	2,511
Total other receivables	**39,989**	**17,134**

Reconciliation of allowance for impairment of other receivables

	2019 R'000	2018 R'000
Opening balance	(2,808)	(2,727)
Allowance for impairment losses	(535)	(296)
Reversed during the year	-	215
Write off	2,511	-
	(832)	**(2,808)**

The creation and release of the allowance for impairment of other receivables have been included in operating expenses in the Statement of Financial Performance (Note 23). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

11. Consumer debtors: Exchange transactions

	2019 R'000	2018 R'000
Trade receivables	12,247,524	9,603,997
Allowance for impairment	(9,368,674)	(7,272,967)
	2,878,850	**2,331,030**

An impairment is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. Accordingly, an impairment loss is recognised based on the ageing, as well as the profile of debtors. The terms of trade and other receivables have not been renegotiated during the current or prior period.

The increase in consumer debtors is largely ascribed to deemed consumption areas where payment levels remain extremely poor.

Credit quality of consumer debtors

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis and characteristics like collection levels are considered during evaluation for impairment. The credit quality of trade receivables that are neither past due nor impaired are considered fair by the company taking into account the historical information available.

Summary of consumer debtors by classification

	2019 R'000	2018 R'000
Domestic consumers		
Current	512,090	428,953
30 days	392,370	332,528
31– 60 days	317,105	427,505
61–90 days	276,665	75,368
91–120 days	326,524	206,040
121–365 days	1,957,131	1,564,281
>365 days	3,821,927	2,609,069
	7,603,812	5,643,744
Less: Allowance for impairment	(6,318,589)	(4,530,598)
	1,285,223	**1,113,146**

	2019 R'000	2018 R'000
Domestic consumers – past due and impaired		
30 days	(84,752)	(60,188)
31–60 days	(68,495)	(77,378)
61–90 days	(59,760)	(13,642)
91–120 days	(326,524)	(206,040)
121–365 days	(1,957,131)	(1,564,281)
>365 days	(3,821,927)	(2,609,069)
	(6,318,589)	**(4,530,598)**

	2019 R'000	2018 R'000
Domestic consumers – current, past due and not impaired		
Current	512,090	428,953
30 days	307,618	272,340
31–60 days	248,610	350,127
61–90 days	216,905	61,726
	1,285,223	**1,113,146**

	2019 R'000	2018 R'000
National and provincial government		
Current	89,241	90,478
30 days	54,038	15,682
31–60 days	75,238	17,756
61–90 days	57,623	3,654
91–120 days	21,379	9,616
121–365 days	49,781	36,072
>365 days	169,638	172,650
	516,938	345,908
Less: Allowance for impairment	(240,798)	(218,338)
	276,140	**127,570**

	2019 R'000	2018 R'000
National and provincial government – past due and impaired		
91–120 days	(21,379)	(9,616)
121–365 days	(49,781)	(36,072)
>365 days	(169,638)	(172,650)
	(240,798)	**(218,338)**

National and provincial government – current, past due and not impaired	2019 R'000	2018 R'000
Current	89,241	80,478
30 days	54,038	15,682
31–60 days	75,238	17,756
61–90 days	57,623	3,654
	276,140	**127,570**

Total consumer debtors	2019 R'000	2018 R'000
Current	1,121,815	982,949
30 days	716,546	651,853
31–60 days	605,692	648,766
61–90 days	502,915	107,178
91–120 days	552,424	331,049
121–365 days	2,870,977	2,303,164
>365 days	5,877,155	4,579,038
	12,247,524	9,603,997
Less: Allowance for impairment	(9,368,647)	(7,272,967)
	2,878,850	**2,331,030**

Total consumer debtors – past due and impaired	2019 R'000	2018 R'000
30 days	(84,752)	(60,188)
31–60 days	(68,495)	(77,378)
61–90 days	(59,760)	(13,642)
91–120 days	(504,511)	(318,146)
121–365 days	(2,774,001)	(2,224,575)
>365 days	(5,877,155)	(4,579,038)
	(9,368,674)	**(7,272,967)**

Total consumer debtors – current, past due, but not impaired	2019 R'000	2018 R'000
Current	1,121,815	982,949
30 days	631,794	591,666
31–60 days	537,197	571,388
61–90 days	443,155	93,537
91–120 days	47,913	12,903
121–365 days	96,976	78,589
>365 days	**2,878,850**	**2,331,032**

	2019 R'000	2018 R'000
Reconciliation of allowance for impairment		
Balance at beginning of the year	(7,272,967)	(5,631,180)
Contributions to allowance	(2,488,784)	(2,083,234)
Debt impairment written off against allowance	393,077	441,447
	(9,368,674)	**(7,272,967)**

12. Consumer deposits

	2019 R'000	2018 R'000
Water	344,474	318,972

13. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	Loans and receivables R'000	Other R'000	Total R'000
Consumer debtors	2,878,850	-	2,878,850
Loans to shareholders	1,154,747	-	1,154,747
Other receivables	15,957	-	15,957
Prepayments	-	7,672	7,672
South African Revenue Service	-	23,200	23,200
Trade receivables with group companies	623	-	623
Cash and cash equivalents	30	-	30
	4,050,207	**30,872**	**4,081,079**

Financial liabilities

	Financial liabilities R'000	Other R'000	Total R'000
Loans from shareholders	4,335,524	-	4,335,990
Trade and other payables from exchange transactions	954,998	-	1,298,998
Customer prepayments	-	711,862	711,862
South African Revenue Service	-	15,770	15,770
Trade payables with group companies	56,757	-	56,757
Provisions	-	26,991	26,991
Finance lease obligation: Shareholder	14,398	-	14,398
Consumer deposits	344,474	-	344,474
	5,706,143	**754,623**	**6,460,766**

2018

Financial assets

	Loans and receivables R'000	Other R'000	Total R'000
Consumer debtors	2,331,030	-	2,331,030
Loans to shareholders	677,270	-	677,270
Other receivables from non-exchange transactions	14,326	-	14,326
Pre-payments	-	5,798	5,798
Cash and cash equivalents	30	-	30
Trade receivables with group companies	436	-	436
	3,023,092	**5,798**	**3,028,890**

Financial liabilities

	Financial liabilities R'000	Other R'000	Total R'000
Loans from shareholders	4,223,700	-	4,223,700
Trade and other payables from exchange transactions	930,264	-	930,264
Customer prepayments	-	749,667	749,667
South African Revenue Service	-	119,363	119,363
Finance lease obligation: Shareholder	12,426	-	12,426
Finance lease obligation: Other	112	-	112
Trade payables with group companies	64,083	-	64,083
Provisions	-	16,453	16,453
Consumer deposits	318,972	-	318,972
	5,549,557	**885,483**	**6,435,040**

14. Cash and cash equivalents

	2019 R'000	2018 R'000
Cash and cash equivalents consist of:		
Cash on hand	**30**	**30**

The company has a sweeping arrangement with the City of Johannesburg Metropolitan Municipality, whereby all cash is swept on a daily basis to the City of Johannesburg Metropolitan Municipality's bank account. Petty cash is reflected as being on hand. The cash owed to the company by the City of Johannesburg Metropolitan Municipality is reflected as an amount due from the Shareholder. The amount due as at 30 June 2019 is R375 million (2018: R107 million).

Bank	Account Type	Account number	2019 R'000	2018 R'000
Standard Bank	Expenditure	000196789	–	–
Standard Bank	Revenue	000170461	–	–
Standard Bank	Revenue	000196819 (closed on 12 July 2018)	–	–
Standard Bank	Salaries	000196843	–	–
Standard Bank	Bank charges	000196398	–	–
			–	–

15. Contribution from Shareholder

	2019	2018
Authorised		
1 000 ordinary shares of R1 each	1	1
Issued		
200 ordinary shares of R1 each	1	1

16. Retirement benefit obligations

The actuarial valuations were performed by ZAQ Consultants and Actuaries, who are independent post-retirement plan administrators. It was concluded that the plan was in a sound financial position, taking into account the loan receivable (Note 7) from the City of Johannesburg Metropolitan Municipality, to cover the liability.

		2019 R'000	2018 R'000
Post-retirement liability	15.1	24,577	26,058
Provision: Post-retirement medical obligation			
Provision: Post-retirement gratuity obligation	15.2	40,882	45,381
Balance at end of year		65,459	71,439

16.1 Post -retirement medical aid plan

The company has made provision for post-retirement medical benefits covering 0 current employees (2018: 1 employee), and 51 continuation members (2018: 54 continuation members). There are two medical schemes. Actuarial valuations are independently prepared annually using the projected unit credit funding method and a set of actuarial assumptions.

Reconciliation of post-retirement medical aid plan

	2019 R'000	2018 R'000
Opening balance	26,058	30,933
Benefits paid	(2,141)	(2,172)
Current service costs	19	14
Interest costs	2,244	2,609
Actuarial gain	(1,603)	(5,326)
Balance at end of year	**24,577**	**26,058**

	2019	2018
Key assumptions used		
Assumptions used on last valuation on 30 June 2019.		
Discount rates used	9.10 %	9.09 %
Expected increase in salaries	6.90 %	7.31 %

In determining the appropriate discount rate, the actuary considers the interest rates of government bonds, adjusted to reflect the margin on corporate bonds, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related post-retirement medical aid plan liability.

Change in assumptions

A sensitivity analysis with respect to a 1% change in the discount rate for salary and medical inflation will have the following impact:

	-1%	0%	1%
Liability	23,984	24,577	25,034
Percentage change	-2.41%	0%	1.86%

Post-retirement mortality

	-20%	0%	20%
20% adjustment to mortality rate	26,236	24,577	23,191
Percentage change	6.75%	0%	-5.64%

Other assumptions

Age of spouse	-	Husbands five years older than wives
Mortality of in-service members	-	In accordance with the SA 85-90 mortality tables
Mortality of pensioners	-	In accordance with the PA(90) ultimate mortality tables

16.2 Post-retirement gratuity plan

The company has made provision for post-retirement gratuity benefits covering 174 employees (2018: 196 employees). Actuarial valuations are independently prepared annually using the projected unit credit funding method and a set of actuarial assumptions.

	2019 R'000	2018 R'000
Reconciliation of post-retirement gratuity plan		
Opening balance	45,381	49,201
Benefits paid	(5,035)	(5,779)
Interest cost	3,911	4,044
Actuarial loss	(3,375)	(2,085)
Balance at end of year	**40,882**	**45,381**

	2019	2018
Key assumptions used		
Assumptions used on last valuation on 30 June 2019.		
Discount rates used	9.10%	9.09%
Expected increase in salaries	6.90%	7.31%

In determining the appropriate discount rate, the actuary considers the interest rates of government bonds, adjusted to reflect the margin on corporate bonds, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related post-retirement gratuity plan liability.

Change in assumptions

A sensitivity analysis with respect to a 1% change in the discount rate for salary inflation will have the following impact:

	-1%	0%	1%
Liability	38,744	40,882	43,163
Percentage change	-5.23%	0%	5.58%

Post-retirement mortality

	-20%	0%	20%
20% adjustment to mortality rate	40,879	40,882	40,885
Percentage change	-0.01%	0%	0.01%

Five-year historical post-retirement obligations

The experience adjustments were calculated in the current and prior financial year. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred.

	2019 R'000	2018 R'000	2017 R'000	2016 R'000	2015 R'000
Post-retirement obligation	65,459	71,439	80,134	89,437	86,989
Experience adjustment	(3,503)	(3,178)	(3,237)	(7,388)	(3,170)

16.3 Net expense recognised in the Statement of Financial Performance

	2019 R'000	2018 R'000
Post-retirement medical aid plan	660	(2,703)
Post-retirement gratuity plan	536	1,959
Total included in employee-related costs	**1,196**	**(744)**

16.4 Defined contribution plan

	2019 R'000	2018 R'000
The company's liability is limited to its contributions to the plan.		
The total company contribution to such schemes	104,832	95,884

17. Deferred income

	2019 R'000	2018 R'000
Unspent conditional grants comprise:		
Government grants' movement during the year		
Grants allocated in current year	203,704	194,940
Utilised during the year	(203,704)	(194,940)
Balance at the end of the year	**-**	**-**

Grants received during the year are made up Urban Settlements Development Grant (USDG), as distributed by the City of Johannesburg Metropolitan Municipality. This distribution is made only upon fulfillment of conditions as imposed from time to time by the City of Johannesburg Metropolitan Municipality.

18. Trade and other payables from exchange transactions

	2019 R'000	2018 R'000
Trade payables	871,782	849,105
Payments received in advanced	711,105	748,934
Consumer deposits	54	-
VAT	-	106,184
Accrued leave pay	48,069	44,603
Accrued bonus (13th cheque)	29,313	26,341
Sundry payables	14,239	11,693
Operating lease payables	7,594	12,430
	1,682,156	**1,799,290**

19. Provisions

Reconciliation of provisions: 2019

	Opening balance R'000	Additions R'000	Utilised during the year R'000	Total R'000
Provision for bonuses	16,453	26,328	(15,789)	26,992

Reconciliation of provisions: 2018

	Opening balance R'000	Additions R'000	Utilised during the year R'000	Total R'000
Provision for bonuses	18,823	12,071	(14,441)	16,453

20. Revenue from exchange transactions

	2019 R'000	2018 R'000
Sale of water	7,421,950	6,287,835
Rendering of sanitation services	4,296,373	3,800,261
	11,718,323	**10,088,096**

21. Other income

	2019 R'000	2018 R'000
Developer-funded asset income	165,699	242,231
Other income	30,033	16,461
Laboratory income	1,087	1,049
Bulk service contributions received	83,065	79,624
	279,884	339,365

22. Revenue from non-exchange transactions

	2019 R'000	2018 R'000
Government grants released	203,704	194,940

23. Non-revenue water

Non-revenue water (NRW) is included in cost of sales. The level of NRW for the year under review is 38.6% (R2.2 billion) (2018: 38.4% (R1.8 billion)). The level of unbilled unmetered consumption for the year under review is 13.7% (R766.3 million) (2018: 13% (R623.9 million). The level of water losses (physical and commercial losses), which are part of NRW for the year under review, is 24.8% (R1.4 billion)(2018: 25.5% (R1.2 billion)).

The level of physical losses for the year under review is 17.9% (R1.0 billion), (2018: 18.3% (R878.4 million)). The level of commercial losses for the year under review is 6.9% (R386.0 million), (2018: 7.1% (R340.8 million)).

It is acknowledged and accepted that a certain level of water losses cannot be avoided from a technical perspective and is considered acceptable from an economic perspective. This means the cost of interventions to reduce water losses from a technical perspective should be less than the savings to be realised. The industry norm for water losses is 18%. This norm is exceeded by the company by 6.8% (R380.4 million), (2018: 7.5% (R360.0 million)). The industry norm of 18% applied is 2% more stringent than the benchmark of 20% as published by the South African Water Research Commission.

24. Operating expenses

	2019	2018
Allowance for debt impairment	2,043,242	1,838,974
Employee costs	1,090,096	973,536
Contracted services	319,915	285,736
Depreciation, amortisation and impairments	309,302	289,562
Contractors billing and credit control	227,626	215,759
Electricity	195,986	202,236
Store issues and direct material purchases	176,215	126,323
Lease rentals on operating lease	132,951	123,287
Other operating expenses	62,299	33,647
Sewer system charges	55,528	54,133
Security	52,138	45,826
Information technology expenses	32,080	28,429
Chemicals	26,548	23,776
Telephone and fax	18,187	17,630
Marketing and communication expenses	9,874	11,170
Insurance	8,212	9,753
Auditors remuneration	5,216	6,039
Legal expenses	3,460	2,969
Printing and stationery	3,287	3,290
Motor vehicle expenses	1,325	467
Loss on disposal of property, plant and equipment	373	263
	4,773,860	**4,292,805**

25. Employee costs

	2019 R'000	2018 R'000
Basic salaries	735,312	653,002
Other allowances	147,072	128,487
Pension costs – company contributions	111,047	102,341
Medical aid – company contributions	78,067	74,249
Leave pay	17,181	17,181
Housing benefits and allowances	6,376	5,673
Post-retirement benefit plan cost (defined contribution plan)	(4,959)	(7,397)
	1,090,096	**973,536**

	2019 R'000	2018 R'000
Average number of employees employed during the year		
- Permanent	**2,712**	**2,653**

26. Interest revenue

	2019 R'000	2018 R'000
Interest on customers	160,675	125,047
Interest earned – sweeping account	27,867	26,010
Interest on notional accounts	4,060	4,195
	192,602	**155,252**

27. Finance costs

	2019 R'000	2018 R'000
Interest on Shareholder loans	267,363	306,846
Interest on post-retirement benefits	6,155	6,653
Interest on finance leases	1,036	1,524
Interest on vendors	343	-
Interest on sweeping overdraft	89	175
Interest on Rand Water	(2,030)	2,030
	272,956	**317,228**

28. Taxation

As the company is a water service provider, it has been exempt from normal company taxation in terms of section 10(1)(t) of the Income Tax Act, No. 58 of 1962, published in the Government Gazette.

29. Cash generated from operations

	2019 R'000	2018 R'000
Surplus	1,753,725	1,368,082
Adjustments for:		
Depreciation, amortisation and impairment	309,302	289,562
Inventory adjustment/obsolescence	61,366	523
Accrued Interest income	(4,060)	(4,195)
Post-retirement benefit plan cost	(4,959)	(7,397)
Accrued finance costs	3,741	8,297
Developer-funded asset income	(165,699)	(242,231)
Allowance for impairment	2,043,242	1,838,974
Loss on disposal of property, plant and equipment	373	263
Changes in working capital:		
Inventories	(20,135)	626
Retirement benefit obligation	(7,175)	(7,951)
Provisions	10,539	(2,370)
Other receivables	(27,187)	2,458
Consumer debtors: exchange transactions	(2,590,580)	(2,244,868)
Trade receivables with group companies	(187)	(424)
Trade and other payables from exchange transactions	(115,104)	233,638
Trade payables with group companies	(7,325)	14,909
Loans to Shareholder	(357,452)	(203,966)
Loans from Shareholder	96,463	7,087
	978,888	**1,051,017**

30. Commitments

Authorised capital expenditure

	2019 R'000	2018 R'000
Already contracted for, but not provided for		
Property, plant and equipment	**729,589**	**208,451**

The commitments disclosed above relate only to construction contracts with suppliers. Other procurement contracts with suppliers are subject to the demand or requirements of Johannesburg Water and, as such, there is no fixed future obligation or commitment in respect of these contracts.

	2019 R'000	2018 R'000
This expenditure will be financed from:		
Loans	287,551	98,893
Grants and subsidies	109,618	63,652
Own funding	332,420	45,906
	729,589	**208,451**

Operating leases – as lessee

	2019 R'000	2018 R'000
Minimum lease payments due		
within one year	44,213	45,021
in second to fifth year inclusive	-	44,213
	44,213	**89,234**

Operating lease payments represent rentals payable by the company for certain of its office properties and equipment. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable. Lease agreements over office properties are subject to escalation clauses.

31. Related parties

Related parties disclosed in this note are restricted to the City of Johannesburg Metropolitan Municipality and its subsidiaries.

Relationships: Parent	City of Johannesburg Metropolitan Municipality
Other members of the group	City of Johannesburg Property Company (SOC) Ltd City Power Johannesburg (SOC) Ltd Johannesburg City Parks and Zoo (NPC) Johannesburg Development Agency (SOC) Ltd Johannesburg Metropolitan Bus Services (SOC) Ltd Johannesburg Roads Agency (SOC) Ltd Johannesburg Social Housing Company (SOC) Ltd Metropolitan Trading Company (SOC) Ltd Pikitup Johannesburg (SOC) Ltd The Johannesburg Civic Theatre (SOC) Ltd The Johannesburg Fresh Produce Market (SOC) Ltd
Members of key management	Directors' emoluments and other key management personnel remuneration – Note 31
Other related parties	There were no related-party declarations made during the year by any supplier, tenderer or employee in terms of Supply Chain Management Regulation 45.

Related-party balances

	2019 R'000	2018 R'000
Amounts owing by related parties		
City of Johannesburg Metropolitan Municipality	1,154,747	677,270
City Power SOC Ltd	116	–
Johannesburg Development Agency (SOC) Ltd	407	407
Johannesburg Roads Agency (SOC) Ltd	100	29
	1,155,370	**677,706**

	2019 R'000	2018 R'000
Amounts owing to related parties		
City of Johannesburg Metropolitan Municipality – Non-current liabilities	2,319,414	2,315,698
City of Johannesburg Metropolitan Municipality – Current liabilities	2,016,576	1,908,002
City of Johannesburg Metropolitan Municipality – Leases: Current and non-current liabilities	14,398	12,426
City Power Johannesburg (SOC) Ltd	41,083	41,083
Johannesburg Roads Agency (SOC) Ltd	13,992	21,044
City of Johannesburg Property Company (SOC) Ltd	298	1,684
The Johannesburg Civic Theatre (Pty) Ltd	56	-
Johannesburg City Parks and Zoo (NPC)	1,328	269
Johannesburg Metropolitan Bus Services (SOC) Ltd t/a Metrobus	-	3
	4,407,145	**4,300,209**

Related party

	2019 R'000	2018 R'000
Sales to related parties		
City of Johannesburg Metropolitan Municipality	467,100	374,615
Johannesburg City Parks and Zoo (NPC)	26,849	21,587
Johannesburg Social Housing Company (SOC) Ltd	27,183	19,072
Johannesburg Metropolitan Bus Services (SOC) Ltd	10,373	9,760
Pikitup Johannesburg (SOC) Ltd	12,283	6,961
Johannesburg Roads Agency (SOC) Ltd	7,868	6,900
City Power Johannesburg (SOC) Ltd	5,444	5,556
The Johannesburg Fresh Produce Market (SOC) Ltd	2,484	1,701
Johannesburg Civic Theatre (SOC) Ltd	1,679	1,089
Johannesburg Development Agency (SOC) Ltd	-	357
	561,263	**447,598**

	2019 R'000	2018 R'000
Purchases from related parties		
City of Johannesburg Metropolitan Municipality	(253,801)	(236,580)
City Power Johannesburg (SOC) Ltd	(116,837)	(150,127)
Johannesburg Roads Agency (SOC) Ltd	(29,326)	(30,820)
City of Johannesburg Property Company (SOC) Ltd	(145)	(1,439)
Johannesburg City Parks and Zoo (NPC)	(2,019)	(1,347)
Pikitup Johannesburg (SOC) Ltd	(2,492)	(1,237)
Johannesburg Civic Theatre (Pty) Ltd	(154)	(35)
Johannesburg Metropolitan Bus Services (SOC) Ltd	-	(5)
	(404,774)	**(421,590)**

Interest on shareholder loans, finance leases, notional and sweeping accounts

	2019 R'000	2018 R'000
Interest income on sweeping and notional accounts	31,927	30,205
Interest expense on shareholder loans, sweeping and lease liability	(270,412)	(303,838)
	(238,485)	**(273,633)**

All transactions with group companies are conducted at arm's length.

32. Directors' emoluments and other key management personnel remuneration

The emoluments paid to the directors, senior management and members of the audit committee are reflected hereunder.

Executive directors

2019	Basic salary R'000	Acting allowance R'000	Bonuses and performance-related payments R'000	Travel and subsistence allowances R'000	Contributions to pension funds and medical aid R'000	Total R'000
NJ Mukwevho – Managing Director	2,242	-	158	176	378	2,954
J Koekemoer – Financial Director[i]	967	-	-	185	153	1,305
J Koekemoer – Acting Financial Director[ii]	-	63	-	-	-	63
	3,209	**63**	**158**	**361**	**531**	**4,322**

i J Koekemoer was appointed as Financial Director on 1 December 2018.
ii J Koekemoer acted as Financial Director for the period 1 July 2018 to 30 November 2018.

2018	Basic salary	Acting allowance	Bonuses and performance related payments	Travel and subsistence allowances	Contributions to pension funds and medical aid	Total
NJ Mukwevho – Managing Director[i]	1,817	-	-	147	290	2,254
NJ Mukwevho – Acting Managing Director[ii]	-	28	-	-	-	28
CB Shongwe – Financial Director[iii]	977	-	86	60	116	1,239
J Koekemoer – Acting Financial Director[iv]	-	73	-	-	-	73
	2,794	**101**	**86**	**207**	**406**	**3,594**

i NJ Mukwevho was appointed as Managing Director on 1 September 2017.
ii NJ Mukwevho acted as Managing Director for the period 1 July 2017 to 31 August 2017.
iii CB Shongwe resigned on 31 December 2017.
iv J Koekemoer acted as Financial Director for the period 1 January 2018 to 30 June 2018.

Non-executive directors

Services rendered as director of company

	2019	2018
B Furstenburg	166	169
SN Khondlo	-	78
JJH Mateya	100	274
MP Matji	5	120
K Mdutshane	106	394
G Moloi	-	91
KPM Simelane	166	354
R Mudliar	24	194
S Tshivhunge	91	193
B Twala	89	-
D Sebotsa	24	-
M Van Dijk	24	-
J Maduna	24	-
	819	**1,867**

Services rendered by independent Audit Committee members

	2019	2018
R Buys	10	47
Z Samsam	42	51
V Mokwena	37	95
	89	**193**

Senior Management

2019	Basic salary R'000	Acting allowance R'000	Bonuses and performance-related payments R'000	Travel and subsistence allowances R'000	Contributions to pension funds and medical aid R'000	Total R'000
S Mathebula	1,066	-	32	168	239	1,505
GJ Luden[i]	612	-	29	3	110	754
D Kgwale[ii]	826	-	-	96	124	1,046
S Sibiya[iii]	-	56	-	-	-	56
R Malatji[iv]	-	106	-	-	-	106
B Xaba[v]	-	72	-	-	-	72
I Dhludhlu[vi]	-	33	-	-	-	33
E Hugo[vii]	-	44	-	-	-	44
J Mnisi[viii]	-	117	-	-	-	117
N Loteni[ix]	-	5	-	-	-	5
T Matsoso[x]	-	8	-	-	-	8
	2,504	**441**	**61**	**267**	**473**	**3,746**

i G Luden retired on the 31 October 2018.
ii D Kgwale was appointed as Chief Operations Officer on 1 November 2018.
iii S Sibiya acted as Company Secretary for the period 1 November 2018 to 30 June 2019.
iv R Malatji acted as Executive Manager: Human Resources and Corporate Services for the period 1 July 2018 to 24 December 2018 and from 14 January 2019 to 30 June 2019.
v B Xaba acted as Executive Manager: Communications and Stakeholder Relations for the period 1 November 2018 to 30 June 2019.
vi I Dhludhlu acted as Executive Manager: Communications and Stakeholder Relations for the period 1 July 2018 to 31 October 2018.
vii E Hugo acted as Chief Operations Officer for the period 1 July 2018 to 31 October 2018.
viii J Mnisi acted as Executive Manager: Risk and Compliance for the period 1 July 2018 to 20 January 2019 and from 19 February to 30 June 2019.
ix N Loteni acted as Executive Manager: Human Resources and Corporate Services for the period 27 December 2018 to 11 January 2019.
x T Matsoso acted as Executive Manager: Risk and Compliance for the period 21 January 2019 to 18 February 2019.

2018	Basic salary R'000	Acting allowance R'000	Bonuses and performance-related payments R'000	Travel and subsistence allowances R'000	Contributions to pension funds and medical aid R'000	Total R'000
GJ Luden	1,294	-	-	10	310	1,614
NJ Mukwevho[i]	313	-	120	29	40	502
H Matthews[ii]	86	-	98	8	12	204
B Ikangeng[iii]	215	-	-	-	26	241
S Mathebula[iv]	77	-	-	14	19	110
L Van Tonder[v]	-	85	-	-	-	85
B Xaba[vi]	-	74	-	-	-	74
I Dhludhlu[vii]	-	16	-	-	-	16
E Hugo[viii]	-	93	-	-	-	93
K Hussey[ix]	-	6	-	-	-	6
N Loteni[x]	-	25	-	-	-	25
K Matlakala[xi]	-	5	-	-	-	5
J Mnisi[xii]	-	87	-	-	-	87
T Matsoso[xiii]	-	7	-	-	-	7
F Nyembe[xiv]	-	73	-	-	-	73
	1,985	**471**	**218**	**61**	**407**	**3,142**

i NJ Mukwevho was the Chief Operations Officer and was appointed as Managing Director on 1 September 2017.
ii H Matthews resigned on 31 July 2017.
iii B Ikangeng was appointed on 1 May 2018 and resigned on 30 June 2018.
iv S Mathebula was appointed on 1 June 2018.
v L Van Tonder acted as Executive Manager: Human Resources and Corporate Services for the period 1 July 2017 to 9 March 2018.
vi B Xaba acted as Executive Manager: Communications and Stakeholder Relations for the period 1 August 2017 to 30 April 2018.
vii I Dhudhlu acted as Executive Manager: Communications and Stakeholder Relations for the period 1 May 2018 to 30 June 2018.
viii E Hugo acted as Chief Operating Officer for the period 1 September 2017 to 30 June 2018.
ix K Hussey acted as Executive Manager: Human Resources and Corporate Services for the period 1 April 2018 to 30 June 2018.
x N Loteni acted as Executive Manager: Human Resources and Corporate Services for the period 12 March 2018 to 31 March 2018.
xi K Matlakala acted as Chief Internal Auditor for the period 1 July 2017 to 31 July 2017.
xi J Mnisi acted as Executive Manager: Risk and Compliance for the period 1 July 2017 to 16 January 2018 and 17 February 2018 to 30 April 2018.
xii T Matsoso acted as Executive Manager: Risk and Compliance for the period 17 January 2018 to 16 February 2018.
xiv F Nyembe acted as Chief Internal Auditor for the period 1 August 2017 to 30 May 2017.

33. Comparatives restated

Note 27 (Interest expense) has been reclassified for the prior year from Interest on sweeping overdraft to Interest on post-retirement benefits of R6.7 million.

In addition, the following disclosure notes also required restatement of comparatives due to group directives:
Note 3 – Expenditure incurred to repair and maintain property, plant and equipment
Note 24 – Operating expenses
Note 29 – Cash generated from operations

The Cash Flow Statement has been updated with reclassifications to improve the disclosure of certain elements in it. This improvement in the current year has necessitated the comparatives being restated as follows:

Increase in cash receipts from government grants	R223,095
Decrease in cash paid to suppliers and employees	R223,095

This improvement was necessary to disaggregate the inflow from the outflow

Increase in proceeds from post retirment notional account	R5 779
Decrease in net cash flow from operating activities	R5 779

This improvement was necessary to reclassify the amount from cash generated from operations to cash flows from financing activities as these inflows are funded through an investment that the City of Johannesburg holds on behalf of the entity.

The Cash Flow Statement has also been updated as a result of the prior-period error in the classification of consumer deposits and consequent amendment recommended by the Auditor-General as highlighted in Note 34.2. It has the following impact on the cash flow comparative that has been restated:

Increase in cash deposits from consumer deposits	R22,340
Decrease in net cash flow from operating activities	R22,340

The comparative figures have been restated as a result of prior year adjustments as per Note 34.

34. Prior-year adjustments (errors)

34.1 Revenue from exchange transactions

The City of Johannesburg Metropolitan Municipality has recalculated the accrual value in relation to the 2017 and 2018 financial years. These transactions result in an adjustment to revenue for the 2017 and 2018 financial years as disclosed below. This has been accounted for as a prior period adjustment accordingly.

	2018 R'000	2017 R'000
Impact on Statement of Financial Position		
Increase in Consumer debtors: exchange transactions (trade receivables)	11,643	8,183
Impact on Statement of Financial Performance		
Increase in Revenue from exchange transactions	11,643	8,183
Impact on Statement of Changes in Net Assets		
Increase in Net surplus for the year	11,643	8,183

34.2 Prior-year customer deposit adjustment

In the 2017/18 financial year, the City of Johannesburg Metropolitan Municipality embarked on an exercise to achieve completeness of the deposit register in prior years. In doing so, deposits were raised against existing customer accounts, where it was found that deposits were not raised on the initial opening of the account.

This exercise serviced the audit requirements of achieving completeness of the deposit register. Upon subsequent investigation, it was found that these deposits were not paid, and therefore not cash backed. In order to comply with the appropriate standards of GRAP, the liability was reversed in 2017/18 and accounted for accordingly as a prior period error across all entities as a directive from the City of Johannesburg.

However, in the 2018/19 financial year, further investigations were done by the City of Johannesburg, and it was found that the previous directive issued across the group was incorrect. It was established that the deposits raised do not form part of the debtors balance listing because SAP creates an entry that is not posted to the ledger to raise customer deposits. Therefore, the adjustment was reversed to correct the last financial year's credit balance, including prior-year adjustments.

In addition, the Auditor-General recommended a reclassification of consumer deposits from current liabilities to non-current liabilities, and management has agreed to effect the change accordingly.

	2018 R'000	2017 R'000
Impact on Statement of Financial Position		
Increase in trade and other payables from exchange transactions	5,181	20,976
Decrease in loans to Shareholder	(5,181)	(20,976)
Decrease in Trade and other payables: exchange transactions	(318,972)	(296,632)
Increase in Consumer deposits	318,972	296,632

Cumulative impact on Statement of Changes in Net Assets

The cumulative impact on the Statement of Changes in Net Assets as a result of the prior-year adjustments listed above is as follows:

	2018 R'000	2017 R'000
Impact on Statement of Changes in Net Assets		
Increase in net surplus for the year	11,643	8,183

35. Risk management

Financial risk management

The company's overall risk management programme, in conjunction with the Shareholder, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the company's financial performance. Risk management is carried out by a central Treasury Department at the Shareholder under policies approved by the Mayoral Committee. The Board of Directors sanction a risk management policy, which considers financial risk management within the organisation. The company has no exposure to foreign exchange risk.

Liquidity risk

The company's risk to liquidity is a result of the funds necessary to cover future commitments. The company manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilisation of borrowing facilities are monitored. The entity's funding is managed by the City of Johannesburg Metropolitan Municipality. The City of Johannesburg is responsible for the borrowing of money in the open market through the issuance of bonds as and when required. Due to the dynamic nature of the underlying businesses, the entity's Treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 30 June 2019	Less than one year R'000	Between one and two years R'000	Between three and five years R'000	Over five years R'000
Loans from Shareholder	2,018,344	671,085	1,622,089	724,837
Finance lease obligation: Shareholder	5,794	4,470	2,617	-
Trade payables with group companies	56,757	-	-	-
Trade and other payables from exchange transactions	954,524	-	-	-

At 30 June 2018	Less than one year R'000	Between one and two years R'000	Between three and five years R'000	Over five years R'000
Loans from shareholder	1,908,837	666,958	1,595,307	727,977
Finance lease obligation: Shareholder	4,579	4,503	3,344	-
Finance lease obligation: Other	112	-	-	-
Trade payables with group companies	64,083	-	-	-
Trade and other payables from exchange transactions	930,264	-	-	-

Interest rate risk

As the company has no significant interest-bearing assets or liabilities subject to interest rate fluctuations, the company's income and operating cash flows are substantially independent of changes in market interest rates.

The company's only interest-bearing assets or liabilities subject to interest rate fluctuations, are the bank sweeping account with the Shareholder. Other than this item, the company's income and operating cash flows are substantially independent of changes in market interest rates. The table below illustrates the likely cash flow risk to the company in the event the interest rate fluctuates. An increase/(decrease) in the interest rate at the reporting date would have increased/(decreased) the surplus by the amounts shown below.

Sensitivity analysis for interest rate risk

Financial instrument	Current interest rate	2019 R'000	2018 R'000
Bank sweeping (+1%)	6.72%	4,802	3,738
Bank sweeping (-1%)		(3,555)	(3,776)

Credit risk

Credit risk is the risk of financial loss to the entity if a customer fails to meet their contractual obligations. This arises ostensibly from the entity's Consumer debtors: exchange transactions and other receivables. Management evaluates credit rsik relating to these customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, Risk Control assesses the credit quality of the consumer, taking into account their financial position, past experience and other factors. Customers are grouped according to their credit characteristics, including, but not limited to whether they are domestic, commercial or government accounts, geographic locations, ageing profile and payment history. Sales to customers are ordinarily settled in cash or using major credit cards. Further collateral security is obtained from customers either in the form of cash or demand guarantees. In addition, the entity also has minor exposure to credit risk with trade receivables from group companies and loans to the Shareholder. These are regarded as minor as they are controlled through a group inter-company process that attempts to ensure the timeous settlement of these debts to avoid payment defaults and debt impairment on these items. The maximum exposure to credit risk is limited to the values disclosed in notes 6. 7. 10 and 11.

Price risk

Price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market price. Those changes are caused by factors specific to the individual financial instrument for its users, by factors affecting all similar instruments in the market. The entity's financial instruments are impacted on by the wholesale price of water from Rand Water.

36. Deviations from formal procurement processes

Product category	Via negotiations at Bid Committee R'000	Via price quotations R'000	Total deviations R'000
Regulation 32	17,445	-	17,445
Emergencies	23,557	16,320	39,877
Sole suppliers	86,290	4,861	91,151
Impracticality	208,557	19,639	228,196
	318,404	**40,820**	**359,224**

The table above indicates instances where it was impractical to invite competitive bids for specific requirements. The company's supply chain management policy and the Local Government Municipal Finance Management Act or 2003, as per Regulation 36(1), allows the Accounting Officer to dispense with the official procurement processes established, to procure any required goods or services through any convenient process that may include direct negotiations or price quotations in the following instances:

- Regulation 32 – allows for the procurement of goods and services under a contract secured by another organ of state
- Emergencies – where immediate action is necessary to avoid a dangerous or risky situation or misery or disaster
- Sole suppliers – where such goods or services are produced or available from a single provider only
- Any other exceptional cases where it is impractical or impossible to follow the official procurement processes

It is further noted that the deviations referred to above are ratified by the Accounting Officer on a monthly basis and the appropriate reasons recorded, where officials or bid committees acted in terms of delegated powers, which are purely of a technical nature. All these deviations have also, in terms of the regulations, been reported to the Board of Directors as required.

Total deviations of R376.7 million (2018: R286.3 million) for the period under review predominantly indicates instances of deviations relating to impracticality. The awards made in relation to impracticality are mainly the security, mechanical, plant and water tanker contracts.

37. Fruitless and wasteful expenditure

	2019 R'000	2018 R'000
Reconciliation of fruitless and wasteful expenditure		
Opening balance	6,337	3,275
Fruitless and wasteful expenditure in current year	330	3,062
Transaction reversed	(2,030)	-
	4,637	**6,337**

Details of fruitless and wasteful expenditure for the year

No	Item	Details of expenditure	Amount R'000
1.	L & R Civil Interest Paid to Raubex	Interest paid to a contractor because of an arbitration award stemming from a dispute with a contractor. The arbiter ruled in favour of the contractor.	302
2.	Interest paid to Murray and Roberts	Interest paid to a contractor because of a delay in the release of retention funds. The GCC 2004 contract makes provision for same-day payment in terms of retention money, however, it is impractical in terms of Johannesburg Water's payment policy and on recommendation from the Legal Department. To avoid further interest, it was agreed to pay the interest the contractor was entitled to.	28
			330

Status of cumulative fruitless and wasteful expenditure awaiting Council approval/condonation at reporting date and disciplinary/criminal proceedings if any:

No	Item description	Status	Disciplinary steps/ criminal proceedings	Amount R'000
1.	Expenditure incurred on contract JW 12007 for standing time on superblock 13b covering the Braaamfisherville and Tshepisong, where the entity delayed executing shut-downs of water supply to enable the contractor to complete tie-ins on the network.	The investigations have been concluded and no official was found to have benefitted financially, and recovery not possible.	One employee was charged with misrepresentation of facts and was dismissed.	2,929
2.	Interest paid to eJoburg Pension Fund as a result of late payments that were made by the entity.	The investigation has been concluded. No person was found to have benefitted and recovery was not possible.	Notification of no intention to proceed with disciplinary action issued.	12
3.	Compost screen acquired for the treatment works in 2009/10, which were not taken into use until recently	The case has been referred to GFIS and feedback is still outstanding. Subsequent to 30 June 2019, all outstanding GFIS investigations will be conducted by Internal Audit.	No further action is foreseen as both employees implicated have since passed away.	1,366
4.	Interest accrued on Rand Water 2017/18	Rand Water has issued a credit note of R2,030 for the interest charged.	Not applicable	-
5.	Interest Paid to Raubex/ L & R Civil	Interest paid to a contractor because of an arbitration award stemming from a dispute with a contractor. The arbiter ruled in favour of the contractor.	Investigation to commence.	302
6.	Interest paid to Murray and Roberts	Interest paid to a contractor because of a delay in the release of retention funds. The GCC 2004 contract makes provision for same-day payment in terms of retention money, however, it is impractical in terms of Johannesburg Water's payment policy and on recommendation from Legal Department. To avoid further interest, it was agreed to pay the interest the contractor was entitled to.	Investigation to commence.	28
				4,637

38. Irregular expenditure

	2019 R'000	2018 R'000
Reconciliation of irregular expenditure		
Opening balance	418,028	128,641
Irregular expenditure identified and incurred in current year	195,659	177,282
Irregular expenditure identified in prior years, incurred in current year	178,310	112,105
	791,997	**418,028**

Details of irregular expenditure identified in prior years, incurred in current year

No	Item	Details of expenditure	Amount R'000
1.	Provision of human resource-based security services	Provision of human resource-based security services to guard the entity's infrastructure. Part of the evaluation criteria of the bid evaluation process involved a site visit to qualifying bidders. This specific part of the evaluation was not executed in a manner that was considered fair. The contract expired at the end of October 2018.	15,446
2.	Vuk'uphile Learner Contractor Development Programme	The Vuk'uphile Programme was developed to build the capacity of emerging contractors to execute an increasing amount of labour-intensive work. Learner contractors in the programme received the training required as part of the EPWP Guidelines, so that when they exit the programme, they are fully qualified to tender for and execute labour-intensive projects. An independent investigation, performed by an external forensic investigating firm, was conducted in three phases. The last phase was concluded during the 2018/19 financial year and found that the programme did not follow the correct recruitment processes for the 65 learner contractors, and there was a lack of documentary evidence to substantiate the appointment of these learner contractors. The investigation further revealed evidence of bribery, corruption and extortion committed by two Johannesburg Water officials. These officials have since resigned from the entity. A criminal case has been instituted against these officials (SAPS Case number 442/02/2018). The case has been escalated to the National Prosecuting Authority, which will make a decision on whether to prosecute or not. Investigations with regard to the remaining internal employees alleged to have failed to follow company guidelines for the programme were finalised and one disciplinary case is currently in progress.	55,125
3.	Basic Sanitation Services	The entity did not correctly apply Regulation 9 of the PPPFA, which stipulates that in contracts with a value of R30 million and more, a minimum of 30% must be stipulated during the tender phase for subcontracting. The value of this contract is more than R30 million, but the entity specified a lesser percentage available for subcontracting. The reasons for this decision have been discussed with the Auditor-General. However, the opinion of the Auditor-General is that the regulation has been applied incorrectly and thus leads to irregular expenditure. This was a two-year contract.	18,230
4.	Construction of balancing tank in Bushkoppies WWTW	The entity did not meet the CIDB conditions relating to an award to a contractor with a 6CEPE grading.	45,136
5.	Fleet services	Implementation of the centralised city-wide fleet contract without a valid contract. A valid contract has been put in place as from 1 February 2019.	44,373
			178,310

Details of irregular expenditure identified and incurred in current year

No	Item	Details of expenditure	Amount R'000
1.	RFQ – Support and Maintenance Services	Support and maintenance services for laboratory machinery without a valid contract over a number of years. The procurement process has subsequently commenced to put a valid contract in place.	187,183
2.	Design, develop and implement a business unit dashboard	The procurement processes were not followed as the winning bidders were allocated points for the criteria that they did not achieve. If the points were not awarded, the bidders would not have achieved the minimum score on functionality to proceed for further evaluation	519
3.	Lenasia pump station upgrade	The qualifications for the contracts manager and site agent were not the required ones as stated. Therefore, the service provider should have not been awarded points for contracts manager and site agent. The service provider would have not met the minimum qualifying score of 70 that was required to pass functionality and therefore they would have not been evaluated for price The service provider should have not appointed.	10,759
4.	Book scanners supply and installation	The procurement processes were not followed as the winning bidders were allocated points for the criteria that they did not achieve. If the points were not awarded, the bidders would not have achieved the minimum score on functionality to proceed for further evaluation.	8,357
5.	Catering for training	The procurement processes were not followed as the winning bidder was allocated points for the criteria that they did not achieve. If the points were not awarded, the bidder would not have achieved the minimum score on functionality to proceed for further evaluation. Further to this, the procurement processes were not followed as winning bidders had an amount for the municipal rates, taxes and service charges that was outstanding for more than three months. If this was considered that the bidder should have been rejected.	11
6.	Biometric system support	Johannesburg Water had a number of deviations with the service provider where the service provider had a non-tax compliant status and outstanding documentation, however they were still appointed	332
7.	Vacuum tanker service	The supplier was appointed by way of numerous deviations. The motivation for deviation was that it was an exceptional case where it is impractical or impossible to follow the official procurement process. It was indicated that the new contract will not be in place due to the fact that it was still with the internal auditors for probity check. The deviation is as a result of poor planning due to lack of contract management processes in place at Johannesburg Water SOC Limited. The contract came to an end in August 2016 and the entity did not plan in advance to initiate a new tender process with adequate specifications. Furthermore, the reason to not award tender no JW OPS 03/16 because the validity period expired is unjustifiable.	6,950
8.	Vacuum tanker service	The supplier was appointed by way of numerous deviations. The motivation for deviation was that it was an exceptional case where it is impractical or impossible to follow the official procurement process. It was indicated that the new contract will not be in place due to the fact that it was still with the internal auditors for probity check. The deviation is as a result of poor planning due to lack of contract management processes in place at Johannesburg Water SOC Limited. The contract came to an end in August 2016 and the entity did not plan in advance to initiate a new tender process with adequate specifications. Furthermore, the reason to not award tender no JW OPS 03/16 because the validity period expired is unjustifiable.	38,428
9.	Procurement of plastic pipe fittings	The winning quote did not score the highest total number of points as required by the Preferential Procurement Regulations.	69
10.	Procurement of stock items	Quotations were found to consist of items of a similar nature which could have been combined and treated as a single transaction.	1,636

No	Item	Details of expenditure	Amount R'000
11	Procurement of stock items	Quotations were found to consist of items of a similar nature which could have been combined and treated as a single transaction.	796
12.	Procurement of stock items	Quotations were found to consist of items of a similar nature which could have been combined and treated as a single transaction.	199
13.	Supply of internet services	The motivation for deviation was that the procurement process was considered to be an exceptional case where it is impractical or impossible to follow the official procurement process. The following reasons for the motivation were provided by JW: • Increase in the number of water prepaid vending units being deployed within the city • Over the last 3 to 5 years, the number of applications that need to be accessed via the internet has increased. • There is a plan to start moving business applications into cloud • The increase in bandwidth will increase the performance for users accessing JW application and systems of over the GSM network. • Natural Growth in demand • New email services will elevate email security to include scanning of internet links, macros in attachment and impersonation. • Email continuity is a service that allow JW employees to have full access to their email in the event the mail server is unavailable for a long period due to planned or unplanned outages. Although this is the current service provider that provides internet services to JW, they are not the only service provider that can provide internet services. The justification for the deviation the current service provider limits competition and does not allow other service providers an opportunity to render services to JW. This is also indicative of the service provider receiving preferential treatment by JW.	3,226
14.	Hire of mechanical plant	The reasons provided in the motivation for the deviations to procure the hire of mechanical plant were informed by inefficiencies and lack of capacity within the entity and not due to it being impractical or impossible to follow an open tender process. Based on the reasons provided for the deviations, it was not justified and do not comply with paragraph 36(1) (iv) of the Municipal Supply Chain regulations.	33,759
15.	Hire of mechanical plant	The reasons provided in the motivation for the deviations to procure the hire of mechanical plant were informed by inefficiencies and lack of capacity within the Entity and not due to it being impractical or impossible to follow an open tender process. Based on the on the reasons provided for the deviations, it was not justified and do not comply with paragraph 36(1) (iv) of the Municipal Supply Chain regulations.	29,066
16.	Hire of mechanical plant	Johannesburg Water had a number of deviations with the service provider where the service provider had a non-tax compliant status as well as COIDA non-compliant, however they were still appointed	10,125
17.	Hire of mechanical plant	The supplier was one of the bidders that were evaluated on functionality and disqualified in a tender, however continued to appointed through a deviation process	8,461
18.	Transport of potable water	The supplier was appointed through a deviation process for the transportation and delivery of potable water for a period of thirty-one (31) months from 1 September 2016 to 31 March 2019. The motivation for deviation was that the procurement process was considered to be an exceptional case where it is impractical or impossible to follow the official procurement process. Lack of poor planning is not a justifiable reason for a deviation process to be embarked on.	10,353
19.	Procurement of cyber software	During the audit of procurement and contract management (quotations), it was noted that multiple procurement transactions with a transaction value above R200 000 were not procured through the competitive bidding process as required by the Municipal Supply Chain Regulation.	548

No	Item	Details of expenditure	Amount R'000
20.	Procurement of bio-remediation services	During the audit of procurement and contract management (quotations), it was noted that multiple procurement transactions with a transaction value above R200 000 were not procured through the competitive bidding process as required by the Municipal Supply Chain Regulation.	279
21.	Procurement of water meters	During the audit of procurement and contract management (quotations), it was noted that multiple procurement transactions with a transaction value above R200 000 were not procured through the competitive bidding process as required by the Municipal Supply Chain Regulation.	1,060
22.	Procurement of PVC pipes	During the audit of procurement and contract management (quotations), it was noted that multiple procurement transactions with a transaction value above R200 000 were not procured through the competitive bidding process as required by the Municipal Supply Chain Regulation.	1,591
23.	Procurement of stock items	During the audit of procurement and contract management (quotations), it was noted that multiple procurement transactions with a transaction value above R200 000 were not procured through the competitive bidding process as required by the Municipal Supply Chain Regulation.	4,941
24.	Installation and commissioning of VSD panels	During the audit of procurement and contract management (quotations), it was noted that multiple procurement transactions with a transaction value above R200 000 were not procured through the competitive bidding process as required by the Municipal Supply Chain Regulation.	2,608
25.	Zandspruit pumpstation emergency repairs	During the audit of procurement and contract management (quotations), it was noted that multiple procurement transactions with a transaction value above R200 000 were not procured through the competitive bidding process as required by the Municipal Supply Chain Regulation	6,910
26.	Vacuum tanker service	The service provider had a non-tax compliant status, however they were still appointed.	199
27.	Fleet services	The CoJ procured fleet services using regulation 32 of the Municipal Supply Chain regulations. It was found during the audit that the terms and conditions of the contract that the CoJ entered into with the supplier differed materially from the original contract entered into by the other organ of state.	11,871
			195,659

Status of cumulative irregular expenditure awaiting council approval/condonation at reporting date and disciplinary/ criminal proceedings if any.

No	Item description	Status	Disciplinary steps/ criminal proceedings	Amount R'000
1.	Awards made accepting BBBEE certificates and tax clearance certificates that were neither original nor certified copies	Approved by the Board of Directors for condonation and write-off as irrecoverable. There was no evidence that any official benefitted personally and there was no loss to the entity.	Disciplinary action completed, written warnings issued to three implicated employees.	25,616
2.	Farm operator contract	Investigation concluded and there was no evidence that any official benefitted personally.	Implicated official has since resigned from the entity and no further action has been taken.	12,207
3.	Supply and Installation of water-saving cisterns	Investigation concluded and there was no evidence that any official benefitted personally.	Disciplinary action was taken and three officials were subsequently charged.	16,486

No	Item description	Status	Disciplinary steps/ criminal proceedings	Amount R'000
4.	Provision of human resource-based security contract	Forensic investigation concluded and there was no evidence that any official benefitted personally.	No actions were taken against the six employees as there were no findings of wrongdoings against them.	129,769
5.	Power cable at Northern Works	Required supply chain process not followed to replace the stolen power cable at Northern Works. Investigation concluded and there was no evidence that any official benefitted personally.	One employee resigned pending an investigation and another employee was taken through the disciplinary enquiry.	238
6.	Rehabilitation and commissioning of Protea Glen Reservoir	The case was referred to Froup Forensic and Investigation Services (GFIS), and the entity is currently awaiting feedback.	The necessary disciplinary action will be implemented depending on the outcome of the GFIS review.	8,241
7.	Stock Items	The case was referred to the GFIS and the entity is currently awaiting feedback.	The necessary disciplinary action will be implemented depending on the outcome of the GFIS review.	468
8.	Stock items	The case was referred to the GFIS and the entity is currently awaiting feedback.	The necessary disciplinary action will be implemented depending on the outcome of the GFIS review.	6,938
9.	Legal subscription	The case was referred to the GFIS and the entity is currently awaiting feedback.	The necessary disciplinary action will be implemented depending on the outcome of the GFIS review.	110
10.	Vuk'uphile Learner Contractor Development Programme	Investigations completed and criminal case lodged with SAPS.. Regular follow-up with SAPS is being made. The two implicated officials have since resigned from the entity. Investigations with regard to the remaining internal employees alleged to have failed to follow company guidelines for the programme were finalised and one disciplinary case is currently in progress.	SAPS Case no 442/02/2018 and one internal disciplinary action currently in progress.	88,686
11.	Environmental consultancy services	The case was referred to the GFIS and the entity is currently awaiting feedback.	The necessary disciplinary action will be implemented depending on the outcome of the GFIS review.	8,969
12.	Basic sanitation services	The case was referred to the GFIS and the entity is currently awaiting feedback.	The necessary disciplinary action will be implemented depending on the outcome of the GFIS review.	26,560
13.	Construction of balancing tank in Bushkoppies WWTW	The case was referred to the GFIS and the entity is currently awaiting feedback.	The necessary disciplinary action will be implemented depending on the outcome of the GFIS review.	99,671

No	Item description	Status	Disciplinary steps/ criminal proceedings	Amount R'000
14.	Fleet services	The case was referred to the GFIS and the entity is currently awaiting feedback.	The necessary disciplinary action will be implemented depending on the outcome of the GFIS review.	172,379
15	RFQ – Support and Maintenance Services	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	2,606
16.	Design, develop and implement a business unit dashboard	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	519
17.	Lenasia pump station upgrade	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	10,759
18.	Book scanners supply and installation	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	8,357
19.	Catering for training	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	11
20.	Biometric system support	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	332
21.	Vacuum tanker service	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	6,950
22.	Vacuum tanker service	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	38,428
23.	Procurement of plastic pipe fittings	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	69
24.	Procurement of stock items	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	1,636

No	Item description	Status	Disciplinary steps/ criminal proceedings	Amount R'000
25.	Procurement of stock items	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	796
26.	Procurement of stock items	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	199
27.	Supply of internet services	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	3,226
28.	Hire of mechanical plant	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	33,226
29.	Hire of mechanical plant	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	29,066
30.	Hire of mechanical plant	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	10,125
31.	Hire of mechanical plant	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	8,461
32.	Transport of potable water	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	10,353
33.	Procurement of cyber software	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	548
34.	Procurement of bio-remediation services	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	279
35.	Procurement of water meters	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	1,060

No	Item description	Status	Disciplinary steps/ criminal proceedings	Amount R'000
36.	Procurement of PVC pipes	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	1,591
37.	Procurement of stock items	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	4,941
38.	Installation and commissioning of VSD panels	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	2,608
39.	Zandspruit pumpstation emergency repairs	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	6,910
40.	Vacuum tanker service	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	199
41.	Fleet services	New case – investigation to be instituted.	The necessary disciplinary action will be implemented depending on the outcome of the investigation.	11,871
				791,997

* Subsequent to 30 June 2019, all outstanding GFIS investigations will be conducted by Internal Audit

39. Actual capital expenditure versus budgeted capital expenditure

See below for the comparison of actual capital expenditure versus budgeted capital expenditure per source of funding.

	2019 R'000	2018 R'000
Capital budget for the year	928,640	715,005
Actual spend for the year	(926,138)	(602,954)
	2,502	**112,051**
Actual spend as a percentage of budget	99.7%	84.3%

Capital expenditure – actual vs budget

Sources of funds	Original budget R'000	Budget adjustment R'000	Final budget R'000	Actual R'000	Variance f/(u) R'000
Loans	499,440	3,000	502,440	502,440	-
Own funding	197,496	25,000	222,496	219,994	2,502
Grants and subsidies	203,704	-	203,704	203,704	-
	900,640	**28,000**	**928,640**	**926,138**	**2,502**

40. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

	2019 R'000	2018 R'000
Opening balance	5	-
Current year fee	5,216	6,039
Amount paid – current year	(5,202)	(6,034)
Amount paid – previous year	(5)	-
	14	**5**

PAYE and UIF

	2019 R'000	2018 R'000
Opening balance	13,178	12,133
Current year contributions	190,980	168,028
Amount paid – current year	(175,210)	(154,850)
Amount paid – previous year	(13,178)	(12,133)
	15,770	**13,178**

Pension and medical aid deductions

	2019 R'000	2018 R'000
Current year contributions	274,145	252,289
Amount paid – current year	(274,145)	(252,289)
	–	**–**

41. Change in accounting estimates

Useful life of property, plant and equipment

The residual values, depreciation methods and useful lives of the asset categories are reviewed at each financial year- end and adjusted if necessary. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The useful lives of the following categories of property, plant and equipment have been reviewed and adjusted by management in the current financial year as follows:

Communication range has changed from two to nine years to a new range of two to 13 years as described in the policy. The impact of the change in estimate is a decrease in the current year depreciation by R33 thousand and an increase in future years' depreciation by R33 thousand.

Computer equipment range has changed from four to 22 years to a new range of four to 24 years as described in the policy. The impact of the change in estimate is a decrease in the current year depreciation by R2 681 million and an increase in future years' depreciation by R2 681 million.

Furniture and fittings range has changed from five to 21 years to a new range of five to 22 years as described in the policy. The impact of the change in estimate is a decrease in the current year depreciation by R128 thousand and an increase in future years' depreciation by. R128 thousand.

Laboratory equipment range has changed from two to 10 years to a new range of two to 15 years as described in the policy. The impact of the change in estimate is a decrease in the current year depreciation by R536 thousand and an increase in future years' depreciation by R536 thousand.

Minor plant range has changed from five to 13 years to a new range of five to 16 years as described in the policy. The impact of the change in estimate is a decrease in the current year depreciation by R90 thousand and an increase in future years' depreciation by R90 thousand.

Office equipment range remains five to 18 years as described in the policy; however, the sub-classes within Office equipment has been reassessed. The impact of the change in estimate is a decrease in the current year depreciation by R64 thousand and an increase in future years' depreciation by R64 thousand.

Fixed property – Security range remains five to 30 years, as described in the policy; however, the sub-classes within Fixed property have been reassessed. The impact of the change in estimate is a decrease in the current year depreciation by R3 thousand and an increase in future years' depreciation by R3 thousand.

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