

# REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE WATER TRADING ACCOUNT FOR THE YEAR ENDED 31 MARCH 2004

## 1. AUDIT ASSIGNMENT

The financial statements as set out on pages 141 to 152, for the year ended 31 March 2004, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No. 12 of 1995). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

## 2. NATURE AND SCOPE

The audit was conducted in accordance with Statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements,
- assessing the accounting principles used and significant estimates made by management, and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

I believe that the audit provides a reasonable basis for my opinion.

## 3. AUDIT OPINION

In my opinion, the financial statements fairly present, in all material respects, the financial position of the Water Trading Account at 31 March 2004 and the results of its operations and cash flows for the year then ended in accordance with prescribed accounting practice and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA).

## 4. EMPHASIS OF MATTER

Without qualifying the audit opinion expressed above, attention is drawn to the following matter:

Separate accounting records for the Vote and the Water Trading Account

As previously reported the department established a bank account and a warrant voucher series for the Water Trading Account which were separate from those of the Vote. The accounting records were separated with effect from 1 April 2003 with the implementation of the Basic Accounting System (BAS).

The trading account's financial statements need to be prepared in accordance with Statements of Generally Accepted Accounting Practice, but the recording of transactions is done on the Basic Accounting System, which is a cash recording system. This system does not provide for any accrual accounting and normal journal entries and as a result, information from other sources is used to compile the financial statements.

### Control Weaknesses

The following weaknesses in controls were noted during the audit:

- Ineffective controls over the procurement process was noted, as expenditure was incorrectly allocated, payments not properly authorised, payments not being made within 30 days from receipt of an invoice and incomplete/no supporting documentation available.
- Consultants are currently implementing a new asset register. At some offices assets have not been bar-coded yet. The new asset register was also not reconciled with the old asset register as only assets physically verified were included in the register. The consultants confirmed that some of Water Trading Account's assets are still on the department's asset register.

## 5. WATER ADMINISTRATION AND REGISTERING MANAGEMENT SYSTEM (WARMS)

Significant control weaknesses exist in the controls surrounding the newly implemented system. The weaknesses in the security settings and administration of the SAP system as well as the sharing of the WARMS database administrator accounts may compromise the data integrity and should be addressed as soon as possible. The controls to ensure completeness, accuracy and validity of the data captured on the WARMS system should also be improved.

6. PROGRESS WITH PREVIOUSLY REPORTED MATTERS AND SCOPA RESOLUTIONS

The Water Trading Account has reacted favourably to the SCOPA Resolutions, however, corrective actions to resolve the issues may take more than one year. For more detail refer to Annexure A.

7. APPRECIATION

The assistance rendered by the staff of the Water Trading Account during the audit is sincerely appreciated.

SA Fakie  
Auditor-General  
Pretoria  
29 July 2004

ANNEXURE A  
PROGRESS WITH PREVIOUSLY REPORTED MATTERS AND SCOPA RESOLUTIONS

Reference to previous audit report And SCOPA resolutions	Subject	Findings on progress
Audit report: Paragraph 3.1, page 139,143 and 147  SCOPA Recommendation	Basis of preparing annual financial statements	The Water Trading Account did submit financial statements that comply with Statements of Generally Accepted Accounting Practice (GAAP). The Trading Account is however challenged as the Basic Accounting System (BAS) is used for accounting purposes, which is a cash system and GAAP required full compliance with the accrual principles.
Audit report: Paragraph 5.1.1; page 140  SCOPA resolution:	Debtors Management System	A paragraph on the Water Authorisation and Registration Management System (WARMS) is included in the audit report.



# Management Report for the Year Ended 31 March 2004. Report by the Accounting Officer to the Executive Authority and Parliament of the Republic of South Africa.

## I. General review of the state of financial affairs.

The purpose of the Water Trading Account of the Department of Water Affairs and Forestry is to provide water to key water users in South Africa in an efficient, cost-effective and sustainable way. This is done by managing infrastructure which has been planned and built using Departmental and other resources to meet evolving water use to deliver water to users in terms of national policy.

The water trading account is divided into four components. These are designed to reflect the type of service provided and also the probably future institutional home of the activity concerned. The four sub-accounts are:

- Integrated Catchment Management,
- Integrated Systems,
- Bulk Water Supply and
- Water Services,

In terms of the National Water Act, 1998 (Act 36 of 1998), the registration of water use is continuing which provides the basis for the allocation of water resources and charging for their supply. Bulk water users pay for these services through the Water Trading Account which has been developed to manage and account for revenue generated through these operations.

The water resource management charge, introduced in terms of the National Water Act to fund specific non-supply water management activities has been applied and has begun to generate significant revenue.

The operation of water services schemes in former homeland areas is also conducted under the Water Trading Account. Those served are in the vast majority poor domestic water users who are, in terms of policy, entitled to a free basic water supply. This is now reflected in the funding of this component of the Water Trading Account which is provided mainly by a "Grant in Kind" to Local Government, provided, in terms of municipal finance policy with conditions set out in the Division of Revenue Act. In the absence of formal agreements with Municipalities which, as Water Services Authorities must authorize any tariffs

for water service, very little revenue is collected on this component. In terms of policy, these schemes are being transferred to the relevant municipalities.

Major projects undertaken or completed during the year

No major resource development projects were undertaken on the Water Trading Account during the year under review although a number of projects are underway on the exchequer account which will be transferred to the Water Trading Account in the future.

The introduction of the Water Authorisation and Registration Management System (WARMS) which links the registration and authorization of water use to the billing process has proceeded well and has produced a significant increase in revenue.

Water services schemes whose construction is funded by the Department were handed to the relevant municipality on completion and did not become part of the assets of the Water Trading Account.

### Revenue collection trends

Revenue is collected and accounted for both manually and through the Water Authorisation and Registration Management System (WARMS). There has been a substantial increase in the amount of revenue collected through the WARMS, notably for the water resource management charge. Although a number of shortcomings associated with the implementation of this system have been identified, processes have been put in place to address the identified gaps and ensure continuous improvement.

With the formalization of the "Grant in Kind" in the Division of Revenue Act, no increase in retail collections has been registered under the water services component and the activity is almost entirely funded by this single budgetary allocation.

### Spending and Augmentation of the trading account

Currently, only the Integrated Systems sub-account generates a surplus. The Water Services sub-account was primarily funded by a conditional Local Government grant in terms of the Division of Revenue Act which is accounted for as an augmentation of the trading account.

Revenue collected by the sub-account Integrated Catchment Management was supplemented by an earmarked allocation to fund for the Working for Water programme's activities which are carried out under this sub-programme since it is the intention of government that water users should contribute to the costs of controlling alien vegetation that impacts on water resources.

Because of the poor level of revenue collection in the other accounts, the difference between collections and spending comes through augmentation from the Exchequer account. In the year current year, an improvement in the level of revenue collections through WARMS, particularly in the Integrated Systems, has resulted in less augmentation from the exchequer.

Revenue in the Bulk Water Supply sub-account, which comes principally from agricultural water users is limited by the National Water Pricing Policy which, although it has set a long-term goal of achieving full coverage of operating costs by revenue, has set a ceiling on annual price increases.

#### Utilisation of donor funds

Donor funds have been used in the establishment of the Water Authorisation and Registration Management System (WARMS) but these have been accounted for in the Exchequer Account.

#### Other organisations to whom transfer payments have been made

Transfer payments in respect of drought relief were made to the municipalities during this period. Transfers were also made to other entities like Water Boards and KOBWA.

#### Progress with financial management improvements

The Department has migrated from the Financial Management System (FMS) to the Basic Accounting System (BAS) at the beginning of the financial year. This has enabled it to move from cash accounting to accrual accounting and to begin to implement generally accepted accounting principles. This is the first set of accounts to be prepared in terms of this policy.

## 2. Services rendered by the Water Trading Account of the Department

2.1 The following services are rendered under the Water Trading Account of the Department:

**Integrated Catchment Management:** The provision of water resource management services, including but not limited to water allocation and control of use, water resource protection and pollution control, clearing of waterweeds and alien vegetation that impacts on the water resource and other functions that in terms of the National Water Act will eventually be delegated to statutory Catchment Management Agencies.

**Integrated Systems:** The supply of bulk raw water from integrated systems which together comprise the National Water Infrastructure at agreed levels of reliability

to bulk water users and the funding, in terms of agreements, of the construction of major water resource projects such as the Lesotho Highlands Water Project Phase I, the Komati Basin Water Development Project, the Berg River Water Project, the Olifants River Development Project and others.

**Bulk Water Supply:** The provision of bulk raw water from independent systems which do not form part of the National Water infrastructure to major water users, at agreed levels of reliability to bulk water users; and the provision of raw water to individual water users on Government Water Schemes which will in future be managed by statutory Water User Associations or related autonomous agencies.

**Water Services:** The provision of basic water services in predominantly rural areas where municipalities have not yet taken over this function and the provision of bulk potable water supplies to certain municipalities.

## 2.2 Tariff policy

**Water Resources:**

The pricing policy for water resources is established in terms of Chapter 5 of the National Water Act, 1998. The raw water pricing strategy provided for by the Act was established on 12 November 1999 by a notice in the Government Gazette.

**Water uses subject to pricing**

- taking water from a water resource;
- storing water;
- impeding or diverting the flow in a watercourse;
- engaging in a stream flow reduction activity;
- engaging in a controlled activity;
- discharging waste or water containing waste into a water resource by means of a conduit;
- disposing of waste in a manner which may detrimentally impact on a water resource;
- disposing of water which is heated by and/or contains waste from any industrial or power generation process;
- altering the bed, banks, course or characteristics of a watercourse;
- removing, discharging or disposing of water found underground; and
- using water for recreational purposes.

**Water uses for which charges are levied in terms of published strategy**

The pricing strategy currently covers the following three consumptive water uses:

- taking water from a water resource (underground or surface water);

- storing water. While abstraction from dam or recharged aquifer will normally constitute the use, the annual refilling of dams constructed to enhance property values or for recreation, and which are located in important water-courses, constitutes the use. Charges are based on an estimation of evaporation losses; and
- engaging in a stream flow reduction activity, such as afforestation.

A pricing strategy is being developed for waste discharges and return flows. Only authorised, licensed or registered water uses can be charged for.

#### Water Services:

Water Service tariffs are determined and approved by the Municipality which is the Water Services Authority (WSA) for the area concerned in terms of regulations promulgated under section 10(1) of the Water Services Act 108 of 1997). As indicated above, in the absence of agreements with Municipalities and the intention to transfer these services to Municipalities, tariffs are not normally levied by the Department for Water Services although the Municipalities may levy charges and retain payments for their own account.

Where Municipalities require the Department to continue to provide water to end users, (i.e. retail water), it will do so acting as the Water Service Provider to the Water Service Agency and will do this by Agreement. In this case, tariffs will be set either:

- a) to meet the actual costs of supply. or
- b) where actual costs cannot be determined, by application of an average "Water Service tariff in the absence of scheme specific tariffs," as approved by the Minister.

### 2.3 Free services

#### Free basic water:

In terms of Government policy, all South Africans are entitled to access to a minimum of 6 000 litres of water per household per month free of charge. This policy is implemented through Municipalities with the support of the Department through Provincial Support Units.

Where the Department is responsible for direct supply of retail water supplies, charges are not normally made and the costs of the supply are funded by the "grant in kind" to Local Government provided in terms of the Division of Revenue Act..

#### Other services: Working for Water

The Working for Water Programme which is undertaken under the Integrated Water Resource Management sub-account undertakes a number of functions in addition to removing alien vegetation that impacts on water resources. These include the promotion of biodiversity and nature conservation and the provision of certain welfare services, as well as research and policy formulation. The appropriate institutional home for this Programme is currently under review since it is clear that it cannot be funded by water users sustainably.

#### Approval

The annual financial statements have been approved by the Accounting Officer.



A.M. Muller  
DIRECTOR-GENERAL

# Accounting Policy

## 1. Basis for preparation

The financial statements have been prepared in accordance with South African Statement of General Accepted Accounting Practise using historical cost except where indicated otherwise. The financial statements are prepared on going concern basis.

## 2. Accounting policies

The financial statements incorporate the following principal accounting policies that were incorporated during the current financial year

### 2.1 Revenue

The department trades through the provision of a variety of water services to different customers. Sales which exclude value added taxes are recorded when services have been rendered and invoice issued. Commission from Water Research Levy collection is recognised when cash is being collected by the Department on behalf of the Water Research Commission.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the department.

### 2.2 Government grants

Government grants are recorded as deferred income when they become receivable and are then recognised as income on a systematic basis over the period necessary to match the grants with the related costs which they are intended to compensate.

### 2.3 Property, plant and equipment

All property, plant and equipment are initially recorded at cost or replacement cost. Property, plant and equipment are carried at cost or replacement less accumulated depreciation. Depreciation is calculated on a straight-line basis over the expected useful lives of the assets. The estimated useful lives of the assets are as follows:

Infrastructure assets: Roads	15 – 25 years
Infrastructure assets: Water	45 years
Dwellings: Mobile homes	4 – 5 years
Buildings:	25 – 30 years
Computer equipment:	3 years
Office equipment and furniture	5 years
Appliances	5 years
Machinery and equipment	5 years

Replacement cost is based on valuations which are done every five years. Increases in carrying value arising on revaluation are credited directly to a revaluation reserve. On disposal of the previous re-valued property, any amount relating to that asset remaining in the revaluation reserve is transferred to profit or loss for the period.

Repairs and maintenance are generally charged to expenses during the financial period in which they are incurred. However, major renovations are capitalised and included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the trading entity. Major renovations are depreciated over the remaining useful life of the related asset.

Only acquisitions from 1 April 2003 onwards have been capitalised. All fixed assets relating prior to 1 April 2003 have been included in the fixed assets register at replacement cost and movable at fair value.

### 2.4 Financial Instruments

Receivables are carried at the original invoice amount less provision made for impairment of these receivables. The provision for impairment of receivables is established to reflect objective evidence that the Department will not be able to collect all amounts due according to the original terms of receivable. Receivables for services delivered are recognised in the balance sheet as a current asset and as income in the income statement as the financial statements are prepared on an accrual basis of accounting and supported by a separate disclosure in the notes to enhance the usefulness of the financial statements.

Payables are carried at the fair value of the consideration to be paid in future for goods or services that have been received or supplied and invoiced or formally agreed with the supplier. Payables for services delivered are recognised in the balance sheet as a current liabilities and as expenditure in the income statement as the financial statements are prepared on an accrual basis of accounting and supported by a separate disclosure in the notes to enhance the usefulness of the financial statements.

### 2.5 Inventory

Inventory is stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Net realisable value is the estimated selling price in the ordinary course of business less the costs of completion and selling expenses. Water that is sold is classified as a service rendered and not as inventory since this reflects the principal

activity of the Department which is to manage infrastructure to ensure access to a given quantity of water at an assured level of reliability.

#### 2.6 Provisions

A provision is a liability of uncertain timing or amount which is recognised when trading entity has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of the obligation can be made.

#### 2.7 Contingent liabilities

The amount of contingent liabilities represents all outstanding litigation against the trading entity at the end of the financial year. Where the trading entity expects part of the provision to be reimbursed under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain.

#### 2.8 Employee benefits

##### Short-term employee benefits

The cost of short-term employee benefits is expensed in the income statement in the reporting period that the payment is made. Short-term employee benefits, that give rise to a present legal or constructive obligation, are deferred until they can be reliably measured and then expensed. Details of these benefits and the potential liabilities are disclosed as a note to the financial statements and are not recognised in the income statement.

##### Termination benefits

Termination benefits are recognised and expensed only when the payment is made.

##### Retirement benefits

The department provides retirement benefits for its employees through a defined benefit plan for government employees. These benefits are funded by both employer and employee contributions. Employer contributions to the fund are expensed when money is paid to the fund. No provision is made for retirement benefits in the financial statements of the department. Any potential liabilities are disclosed in the financial statements of the National/Provincial Revenue Fund and not in the financial statements of the employer department.

#### Medical benefits

The department provides medical benefits for its employees through defined benefit plans. These benefits are funded by employer and/or employee contributions. Employer contributions to the fund are expensed when money is paid to the fund. No provision is made for medical benefits in the financial statements of the department. Post-retirement medical benefits for retired civil servants are expensed when the payment is made to the fund.

#### 2.9 Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably.

#### 2.10 Comparative figures

No comparative figures have been disclosed during the current financial year since this is the first time that accounts have been presented on an accrual basis in terms of Generally Accepted Accounting Principles and the presentation of comparative figures would thus be misleading.

## WATER TRADING ACCOUNT

Income Statement For the Year Ended 31 March 2004

	Note	2004 R'000
Revenue	3	3 731 066
Direct operating expenditure		(2 009 895)
Operating expenses		(2 702 543)
Administrative expenditure		(271 671)
Deficit from trading activities	4	(1 253 043)
Investment Income	5	2 561
Net deficit for the period		(1 250 482)

## WATER TRADING ACCOUNT

Balance Sheet at 31 March 2004

	Note	2004 R'000
<b>ASSETS</b>		
Non-current assets		52 793 264
Intangible assets	9	19
Property, plant and equipment	10/10.1/10.2	52 793 245
Current assets		226 170
Inventory		26 988
Accounts receivable	8	199 182
<b>TOTAL ASSETS</b>		<b>53 019 434</b>
<b>LIABILITIES</b>		
Non-current liabilities		
Current liabilities		810 191
Bank overdraft	7	218 603
Provisions	11	244 804
Accounts payable	12	346 179
Prepayments	13	605
<b>EQUITY</b>		<b>52 209 243</b>
Capitalisation reserve	19	53 459 725
Accumulated deficit		(1 250 482)
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>53 019 434</b>



## WATER TRADING ACCOUNT

Statement of Changes in Equity For the Year Ended 31 March 2004

	Note	2004 R'000
Retained Profit		
Opening balance		-
Deficit for the period		(1 250 482)
Closing balance		<u>(1 250 482)</u>
Revaluation reserve		
Revaluation reserve on valuation of assets		54 280 577
Reserve realised on transfer of scheme assets		(820 852)
	19	<u>53 459 725</u>
<b>TOTAL EQUITY AND RESERVES</b>		<u><u>52 209 243</u></u>

## WATER TRADING ACCOUNT

Cash Flow Statement For the Year Ended 31 March 2004

	Note	2004 R'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash receipts from customers		2 203 374
Government grant		1 360 928
Cash paid to suppliers and employees		(3 772 513)
Cash generated from operations	14	<u>(208 211)</u>
Interest received	5	2 561
Net cash flows from operating activities		<u>(205 650)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property plant and equipment	9/10	(12 953)
Proceeds from sale of property plant and equipment		-
Net cash flows from investing activities		<u>(12 953)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loans		-
Net (decrease) in cash and cash equivalents		<u>(218 603)</u>
Cash and cash equivalents at beginning of period		
Cash and cash equivalents at end of period	7	<u><u>(218 603)</u></u>

## WATER TRADING ACCOUNT

### NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2004

#### 3. Revenue

Revenue comprises the following:

	Note	2004 R'000
Sale of water		2 243 434
Water research fund		1 506
Water resource management cost		105 868
Government grants		1 360 928
Other income		19 330
		<u>3 731 066</u>

Government grants were unconditionally granted to the department in order to cover operating expenditure. The department did not receive any other form of assistance from the state during the period under review.

#### 4. Deficit from trading activities

The following were (added)/deducted in arriving at the deficit from operations:

Personnel expenditure	695 843
Professional and special services	440 106
Transfer payments	425 813
Repairs and maintenance	141 474
Consumable stock	101 840
Bad debts written off	2 071
Operating lease expenses	13 306
Depreciation:	679 414
Vehicles	15
Scientific instruments	40
Furniture	518
Computer equipment	391
Office equipment	65
Appliances	79
Boreholes	20
Buildings	56
Depreciation on water resources assets	395 670
Depreciation on water services assets	282 079
Machinery and equipment	473
Amortisation – Computer software	8
Loss on transfer of fixed assets	793 441
Audit fees	44
Current year audit fees	44
Impairment of receivables	64 364
Internal receivables impairment	1 070
External receivables impairment	63 294
Realised revaluation reserve	(820 852)

## 5. Investment Income

Investment income comprises the following:

	Note	2004 '000
Interest received		(2 631)
Interest paid		70
		<u>(2 561)</u>

## 6. Operating Leases

The company's future minimum lease payments under non-cancellable operating leases are as follows:

	Not later than 1 year	2 - 5 years	Later than 5 years
Photocopiers	1 855	2 831	-
Property	4	-	-
	<u>1 859</u>	<u>2 831</u>	<u>-</u>

## 7. Cash and cash equivalents

Bank overdraft	(218 603)
	<u>(218 603)</u>

## 8. Receivables – current

Trade receivables		118 469
Amounts owing by other departments	8.1	5 870
Staff debtors		2 122
Other debtors	8.2	21 353
VAT debtor		50 903
Advances		465
		<u>199 182</u>

### 8.1 Amounts owing by other departments

Nature of Advance	Department	Note	2004 R'000
Services rendered	National Departments		<u>148</u>
Services rendered	Eastern Cape		4 405
Services rendered	Western Cape		1 243
Services rendered	Northern Cape		74
			<u>5 870</u>

## 8.2 Other debtors

	Notes	2004 R'000
Cash receipts		126
Disbursements		1 128
Disallowance account		372
Advances granted		91
Payroll deduction debtors		372
Other debtors		19 264
		<u>21 353</u>

## 9. Intangible assets-Computer software

At year end:	Externally acquired	
Cost		27
Less: accumulated amortisation		(8)
Net book value		<u>19</u>

Movement for the period can be summarised as follows:

Opening net book value	Externally acquired	
Additions		27
Amortisation charge		(8)
Closing net book value		<u>19</u>

## 10. Property, plant and equipment

	Cost R'000	Accumulated Depreciation R'000	Net book Value R'000
Owned assets			
Appliances	311	(79)	232
Boreholes	1 268	(20)	1 248
Buildings	1 452	(56)	1 396
Computer equipment	2 305	(391)	1 914
Furniture	1 253	(518)	735
Machinery and equipment	5 105	(473)	4 632
Office equipment	441	(65)	376
Scientific instruments	645	(40)	605
Vehicles	146	(15)	131
Total assets	<u>12 926</u>	<u>(1 657)</u>	<u>11 269</u>

A summary of fixed assets movements during the year is set out below:

Year ended	Opening net book value	Additions R'000	Disposals R'000	Depreciation R'000	Notes	2004 R'000
31 March 2004						Closing net book value R'000
Owned assets – Measured at cost						
Appliances	-	311	-	(79)		232
Bore-holes carried at cost	-	1 268	-	(20)		1 248
Buildings	-	1 452	-	(56)		1 396
Computer equipment	-	2 305	-	(391)		1 914
Furniture	-	1 253	-	(518)		735
Machinery and equipment	-	5 105	-	(473)		4 632
Office equipment	-	441	-	(65)		376
Scientific instruments	-	645	-	(40)		605
Vehicles	-	146	-	(15)		131
<b>Total assets</b>	<b>-</b>	<b>12 926</b>	<b>-</b>	<b>(1 657)</b>		<b>11 269</b>

### 10.1 Property plant and equipment – Water Resources

This is a summary of the water resources items of property, plant and equipment that were revalued at the beginning of the 1999 financial year. These fixed assets were brought into the current financial period at their depreciated net replacement cost on 1 April 2003. The summary of these assets is as follows:

	Opening net cost R'000	Accumulated Depreciation R'000	Net book value R'000
Dams and weirs	21 229 372	(62 115)	21 167 257
Pump stations	243 734	(4 327)	239 407
Steel pipelines	4 342 456	(146 277)	4 196 179
Canals	11 678 879	(137 604)	11 541 275
Reservoirs	211 513	(6 315)	205 198
Water treatment works	167 276	(1 166)	166 110
Buildings: Residential	306 145	(10 313)	295 832
Tunnels	4 285 966	(12 540)	4 273 426
Buildings: Office	96 478	(3 250)	93 228
Concrete pipelines	1 334 185	(11 763)	1 322 422
<b>Total assets</b>	<b>43 896 004</b>	<b>(395 670)</b>	<b>43 500 334</b>

A summary of property, plant and equipment movements during the year is set out below

Description	Opening balance	Additions	Disposals	Notes Depreciation	2004 R'000 Net book value
	R'000	R'000	R'000	R'000	R'000
Dams and weirs	21 229 372	-	-	(62 115)	21 167 257
Pump stations	243 734	-	-	(4 327)	239 407
Steel pipelines	4 342 456	-	-	(146 277)	4 196 179
Canals	11 678 879	-	-	(137 604)	11 541 275
Reservoirs	211 513	-	-	(6 315)	205 198
Water treatment works	167 276	-	-	(1 166)	166 110
Buildings: Residential	306 145	-	-	(10 313)	295 832
Tunnels	4 285 966	-	-	(12 540)	4 273 426
Buildings: Office	96 478	-	-	(3 250)	93 228
Concrete pipelines	1 334 185	-	-	(11 763)	1 322 422
<b>Total assets</b>	<b>43 896 004</b>	<b>-</b>	<b>-</b>	<b>(395 670)</b>	<b>43 500 334</b>

In 1999, Africon and KPMG, professional engineers and accountants respectively revalued water resources assets a replacement value of R37 million. These firms are independent in relation to the client. The carrying value of these assets at revaluation date was R'nil. The producer price index was used in revaluation of these assets. Furthermore, in subsequent years, the department used PPI to determine the replacement value of water resources infrastructure assets.

## 10.2 Property plant and equipment – Water Services

This is a summary of the water services items of property, plant and equipment that were revalued at the beginning of 2003/2004 financial year.

	Net cost 2004 R'000	Accumulated Depreciation 2004 R'000	Net book Value 2004 R'000
Boreholes	504 537	(20 562)	483 975
Bulk distribution pipes	2 368 694	(47 395)	2 321 299
Pump stations	1 114 386	(27 860)	1 086 526
Reservoirs	1 996 282	(39 926)	1 956 356
Reticulation	2 821 629	(100 894)	2 720 735
Sewage treatment plant	623 401	(31 591)	591 810
Surface water (Weir/run-of-river)	66 996	(2 233)	64 763
Water treatment plant	67 796	(11 618)	56 178
<b>Total assets</b>	<b>9 563 720</b>	<b>(282 079)</b>	<b>9 281 642</b>

## 10.2 Continued

A summary of fixed assets movements during the year is set out below

Description	Opening balance	Additions	Disposals	Note	2004
	2004 R'000	2004 R'000	2000 R'000	Depreciation 2004 R'000	Net book value 2004 R'000
Boreholes	514 063	-	(9 526)	(20 562)	483 975
Bulk distribution pipes	2 369 753	-	(1 059)	(47 395)	2 321 299
Pump stations	1 114 386	-	-	(27 860)	1 086 526
Reservoirs	1 996 282	-	-	(39 926)	1 956 356
Reticulation	3 026 824	-	(205 193)	(100 894)	2 720 737
Sewage treatment plant	947 724	-	(324 323)	(31 591)	591 810
Surface water (Weir/run-of-river)	66 996	-	-	(2 233)	64 763
Water treatment plant	348 545	-	(280 751)	(11 618)	56 176
<b>Total assets</b>	<b>10 384 573</b>	<b>-</b>	<b>(820 852)</b>	<b>(282 079)</b>	<b>9 281 642</b>

In April 2003, internal professional engineers revalued water resources assets a replacement value of R10 318 million. The carrying value of these assets at revaluation date was R'nil. The producer price index was used in revaluation of these assets.

## 11. Provisions

Opening balance		-
Raised during the period		244 804
Leave pay provision	18	224 264
Bonus provision	18	20 540
Utilised during the period		-
<b>Closing balance</b>		<b>244 804</b>

## 12. Accounts payable

Description	
Amounts owing to other departments	26 432
Other trade payables	23 026
Telkom claims payable	2 032
Other payables	2 920
WRF payables	3 532
TCTA	288 237
	<b>346 179</b>

### 13. Prepayments

	Note	2004 R'000
Advances received		421
Deposits received		184
		<u>605</u>

### 14. Cash flows utilised in operations

Net deficit as per Income Statement		(1 250 482)
Adjusted for items separately disclosed		<u>(2 561)</u>
Interest received		(1 253 043)
Adjusted for:		716 367
Impairment of receivables		64 364
Realised revaluation reserve		(820 852)
Depreciation and amortisation		679 414
Loss on transfer of schemes		<u>793 441</u>
Adjusted for non-cash items		519 400
Working capital changes		<u>(190 935)</u>
Net cash flow generated by operating activities		<u>(208 211)</u>

### 15. Cash generated (utilised) to (increase)/decrease working capital

(Increase) in receivables – current		(199 467)
Increase payables		35 520
Increase in inventories		<u>(26 988)</u>
		<u>(190 935)</u>

### 16. Contingent liabilities

The contingent liabilities relate to various claims that had been instituted against the department for civil claims.

Liable to	Nature	
Various		8 020
		<u>8 020</u>



## 17. Commitments

Note	2004 R'000
Capital expenditure	
Approved and contracted/ordered	-
Approved but not yet contracted	56 634
Total Commitments	<u>56 634</u>

## 18. Employee benefits

Leave entitlement	224 264
Thirteenth cheque	20 437
Performance bonus	103
	<u>244 804</u>

## 19. Revaluation reserve

Opening balance	-
Revaluation reserve raised on revaluation of assets	54 280 577
Revaluation reserve realised on transfer of assets to municipalities	(820 852)
Closing balance	<u>53 459 725</u>