

Statement of Directors' Responsibility and Approval of the Annual Financial Statements

The directors' acknowledge their responsibility for the preparation of the annual financial statements for the year ended 30 June 2009, which, in their opinion, fairly presents the results and cash flows for the financial year and the state of affairs of Umgeni Water and its subsidiaries at the end of the financial year. The annual financial statements set out in this report have been prepared in accordance with International Financial Reporting Standards, and in the manner required by the Water Services Act No. 108 of 1997 and sub-section 55(1)(b) of the Public Finance Management Act No.1 of 1999, as amended.

The directors' are also responsible for the systems of internal control. These are designed to provide reasonable but not absolute, assurance as to the reliability of the annual financial statements, and to adequately safeguard, verify and maintain accountability of assets and recorded liabilities, and to prevent and detect material misstatement and loss. The systems are implemented and monitored by suitably trained personnel with an appropriate segregation of authority and duties. Nothing has come to the attention of the directors' to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during

the year under review. The directors' are of the opinion, based on the information and explanations given by management, the internal auditors and the external auditors, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated annual financial statements.

The external auditors are responsible for reporting on the fair presentation of these annual financial statements. The entity's external auditors, Deloitte & Touche, have audited the annual financial statements after having been provided unrestricted access to all financial records and related data. The directors' believe that all representations made to the external auditors during their audit were valid, appropriate and complete.

The directors' have reviewed the group's forecast financial performance for the year to 30 June 2010 as well as the longer term budget and, in the light of this review and the current financial position, they are satisfied that the group has or has access to adequate resources to continue as a going concern for the foreseeable future.

Approval of Annual Financial Statements

The annual financial statements of Umgeni Water for the year ended 30 June 2009, have been approved by the board of directors and signed on its behalf on 23 September 2009 by:



Mr Andile Mahlalutye
Chairman of the Board



Mr Mzimkulu Msiwa
Chief Executive

Report of the Audit Committee

Report of the Audit Committee in terms of regulation 27.1 of the Public Finance Management Act No. 1 of 1999, as amended

The audit committee reports that it has adopted appropriate formal terms of reference as its audit committee charter, and has regulated its affairs in compliance with this charter, and has discharged all of its responsibilities contained therein.

In the conduct of its duties, the audit committee has, inter alia, reviewed the following:

- ◆ the effectiveness of the internal control systems;
- ◆ the risk areas of the entity's operations covered in the scope of internal and external audits;
- ◆ the adequacy, reliability and accuracy of financial information provided by management and other users of such information;
- ◆ accounting and auditing concerns identified as a result of internal and external audits;
- ◆ the entity's compliance with legal and regulatory provisions;
- ◆ the effectiveness of internal audit;
- ◆ the activities of internal audit, including its annual work programme, co-ordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations; and
- ◆ the independence and objectivity of the external auditors.

The audit committee is of the opinion, based on the information and explanations given by management and internal audit and discussions with the

independent external auditors on the result of their audits, that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the financial statements, and accountability for assets and liabilities is maintained. The audit committee is satisfied with the independence and objectivity of the external auditors.

Nothing significant has come to the attention of the audit committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review. The audit committee is satisfied that the financial statements are based on appropriate accounting policies, supported by reasonable and prudent judgments and estimates.

The audit committee has evaluated the financial statements of Umgeni Water and the group for the year ended 30 June 2009 and, based on the information provided to the audit committee, considers that they comply, in all material respects, with the requirements of the Companies Act, 61 of 1973, as amended, the Public Finance Management Act, 1 of 1999, as amended, and International Financial Reporting Standards. The audit committee concurs that the adoption of the going concern premise in the preparation of the financial statements is appropriate. The audit committee has therefore recommended, at their meeting held on 1 September 2009, the adoption of the financial statements by the board of directors.



Professor I Vally

Audit Committee Chair

1 September 2009

Independent Auditor's Report to the Minister of Water and Environmental Affairs

Report on the Financial Statements

We have audited the annual financial statements and the group annual financial statements of Umgeni Water, which comprise the directors' report, balance sheet and consolidated balance sheet as at 30 June 2009, the income statement and consolidated income statement, statement of changes in equity and consolidated statement of changes in equity, cash flow statement and consolidated cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 96 to 133.

Directors' Responsibility for the Financial Statements

The entity's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Water Services Act No.108 of 1997 and sub-section 55(1)(b) of the Public Finance Management Act No. 1 of 1999, as amended. This responsibility includes: designing; implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

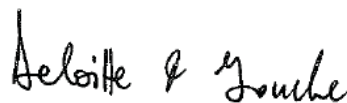
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the entity as of 30 June 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Public Finance Management Act No. 1 of 1999, as amended, and the Public Audit Act, 25 of 2004.

The performance review furnished on page 98 in terms of sub-section 55(2)(a) of the Public Finance Management Act No. 1 of 1999, as amended, fairly presents in all material respects Umgeni Water's performance for the year ended 30 June 2009 against pre-determined objectives.



Deloitte & Touche

Per M Luthuli
Partner
Durban

Chartered Accountants (SA)
Registered Accountants and Auditors
Durban – 23 September 2009