KOUGA
DEVELOPMENT AGENCY

ANNUAL REPORT 2006/7

SUBMITTED TO

CACADU DISTRICT AND KOUGA MUNICIPALITY

SUBMITTED BY

ZOLA TSHEFU
CEO

KOUGA
DEVELOPMENT AGENCY

Annual Report 2006/7

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CHAPTER 1

AGENCY PROFILE

The Kouga Development Agency, hereafter referred to as the KDA, is a multi-jurisdictional service utility[1] established in partnership between Cacadu District Municipality (CDM) and Kouga Municipality (KM).

The KDA was established in 2004, after an agreement was concluded between the Cacadu District Municipality and the Industrial Development Corporation. The KDA is a dedicated champion tasked with the delivery of development. The Agency aims to leverage public and private resources for development around opportunities which offer investment, employment, economic and development potential/opportunities. It also manages the spatial organization of the area, in a socially efficient manner, particular through the use of public land and targeted private projects. Furthermore, it endeavours to strengthen the respective areas' real and perceived environment so that the area can compete effectively for capital investment necessary to develop its full economic potential.

The KDA's mission is to initiate, promote and manage sustainable private and public economic developments thus transforming the Kouga area into a growth point for the benefit of all its communities. The Agency's ability to deliver on this mission will be greatly influenced by how it conducts and manage external and internal relationships. As a young organisation, it seeks to establish a performance benchmark demonstrating leadership and creativity in delivering on developmental objectives.

The core business of the KDA is therefore, to un-lock the socio-economic developmental potential of the Kouga region through effective and efficient facilitation and brokering of the government resources.

[1] Multi-jurisdictional service utility means a body established in terms of section 87 of the Municipal Systems Act, 2000 (Act 32 of 2000).this states that two or more municipalities, by written agreement, may establish a multi-jurisdictional service utility to perform any function or power envisaged by section 8 in their municipal areas or in any designated parts of their municipal areas.

Current Activities

The KDA was established to project manage the development of a core mandate area measuring approximately 683 Ha and encapsulating the following properties:

Department of Housing (Eastern Cape Province)

- Portion 23 (a portion of portion 8) of the Farm Kabeljaauwrivier No. 321, Humansdorp measuring 95.3082ha, owned by the Department of Housing.
- Portion 24 of the Farm Kabeljaauwrivier No. 321, Humansdorp measuring 3.4193ha, owned by the Department of Housing and Local Government under Title Deed T13563/1987.
- Portion 5 (a portion of portion 3) of the Farm Kabeljaauwrivier No. 319, Humansdorp measuring 429,1224ha, owned by the Department of Housing and Local Government.

Republic of South Africa

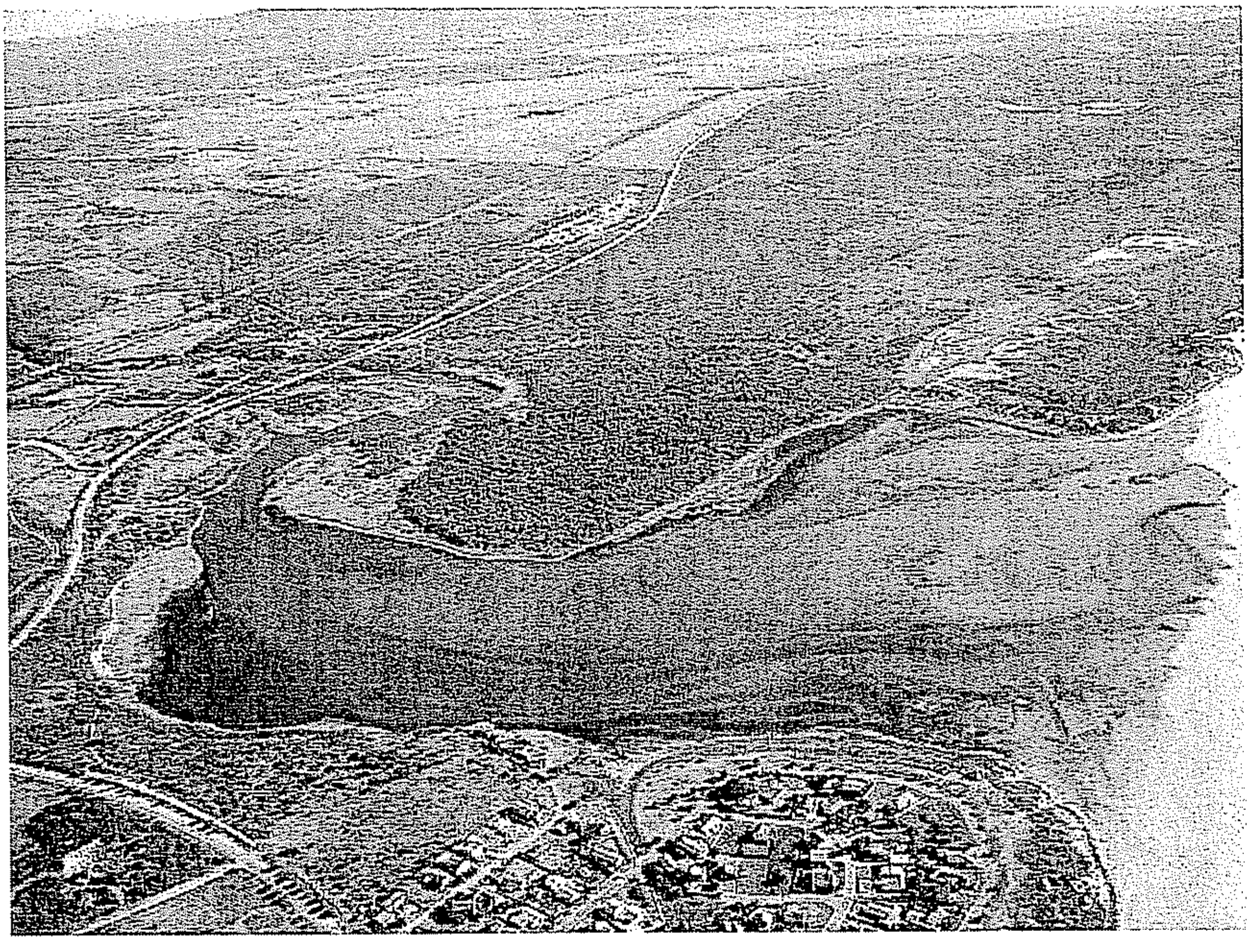
- Farm 808 Humansdorp measures in extent 105ha which is owned by the National Government of South Africa under Title Deed No. T39870/1986.
- Farm 807 Humansdorp which measures in extent 48ha which is owned by the National Government of South Africa under Title Deed No. T39870/1986

Point to Point Description

Starting at the Southern-most point of Farm 807, proceeding in a north-easterly direction to the eastern-most point of point 24 of the Farm 321; proceeding in a south-easterly direction towards the coast and the south-most point of the said farm; then along the coast towards the eastern most point of point 5 of farm 319, proceeding then in a north-western direction towards the R102 Provincial Road; then south-westwards along the R102 towards the west-most point of the Farm 808 where the Kabeljous River is located; proceeding south-easterly to the south-most point of Farm 808 where it meets the Kabeljous Estuary; proceeding along the edge of estuary to the starting point namely the south-most point of farm 807.

The map shows the location and proposed boundary for the area within Kouga Municipality, which the Development Agency will be mandated to manage and develop.

Arial Photograph



CHAPTER 2

CHAIRPERSON'S FOREWORD

The Board of the Kouga Development Agency (KDA) is very pleased to report that this financial year has been successful, having established a corporate identity and attracted skilled staff on board we geared ourselves to kick-start the establishment phase.

This financial year was focused on fully establishing the agency, building the capacity, putting in place the necessary policies, systems and procedures to manage the operations going forward. It was important to ensure that as the Kouga Development Agency prepares to deliver on its mandate it had the systems in place to ensure compliance in accordance with corporate governance and all applicable government regulations.

During the year the board deliberated on key matters raging from the type of legal entity, the best profile for the Agency and contributed to the development of the master plan for the mandate area.

Legal entity

The board deliberated on the best legal structure for the Agency between a PTY and current Multi Jurisdiction Service Utility (MJSU). After consultation with the Parent Municipalities and the Political Task Team it was resolved to retain the legal entity of the Agency as a MJSU.

Board Members Resignations and Appointments

During the financial year, we lost some board members and want to thank them for their valuable contribution towards establishing the KDA. The following members of the board resigned:

⇒ Ms Cheron Kraak – resigned from the board in July 2006 sighting personal, business commitments and ill health.

⇒ Mr. Brian Reeves – resigned from the board in October 2006 as he had relocated out of the Eastern Cape and with his new commitments would not be able to contribute to the KDA.

⇒ Ms. Julien Prinsloo resigned from the board in February 2007 sighting conflict of interest as she was pursuing business interests with Kouga Municipality.

⇒ Mr. Randal Arnolds resigned from the board in February 2007 also sighting conflict of interest as he was pursuing business interests with Kouga Municipality.

Towards the end of the financial year the Parent Municipalities appointed to the board:

⇒ Ms Sureshni Moodliar was appointed to the board on 19th April 2007, a prominent attorney, brings to the board the necessary legal oversight.

⇒ Mr. Benjamin Setipa was appointed to the board on the 19th April 2007; director in a prominent consulting engineering will give the agency much needed insight into property development and urban renewal.

I am very pleased to welcome both Ms Moodliar and Mr. Setipa and know they will be valuable contributors as we build the agency.

Marketing & Communications

Corporate Identity - The board considered various options for the corporate identity that depicts the values and vision for the agency. In accordance with our vision and mission, a logo that personifies the KDA as a catalyst for sustainable economic and tourism growth for the benefit of the Kouga community was adopted by the board.

Marketing Strategy – a complete marketing strategy that will inform our communications plan has been completed and KDA is beginning to gain profile as a professional and innovative contributor to the socio-economic development of the region.

Master Plan

A strategic decision to develop a master plan to guide developments on the core mandate area was taken. To implement this, a consortium of consultants was appointed to work with the agency staff in consultation with key stakeholders. The brief to the consultants was to develop a market based comprehensive land use and implementation focused Master Plan for the entire Mandate Area which also tests the viability of proposed developments. The agency consulted widely during the development of the master plan which was eventually adopted by the Parent Municipalities and by the board.

Board Meetings & Governance

For the year under review, five (5) Board Meetings were held to deal with key strategic issues and to finalise the establishment of the agency. In the area of governance the board ratified the following items:

⇒ During the year we experienced unforeseen delays in concluding land agreements on a portion of the core mandate area. Hence a decision had to be taken on whether to split the project into phases or wait for the authorization to proceed from Provincial Government. The directors considered that the development had been designed to be offered as a whole, encompassing both parcels of land to one developer and as such its viability could be compromised if undertaken otherwise. The board decided not to proceed with the one parcel but to wait for the DPW land agreement.

⇒ The agency is primarily financed by IDC hence we the follow the phases as depicted by IDC ADS Unit. The fact that a specific phase could stretch over two years resulted in a change in accounting policy. This entails that KDA would recognise income received from the IDC-grant only to the extent that it has been expensed. The surplus would be disclosed as a liability in the statement of financial performance under unspent conditional grants and receipts. The board approved the change in accounting policy as recommended by the agency's accountants.

⇒ The board approved a Supply Chain Management Policy developed in accordance with National Treasury guidelines that guides all agency procurement.

⇒ All board members were requested to complete Interest Declarations Forms and we are happy to record that no conflict of interest exists between the companies the board are involved in and the agency.

Operational and Financial Update

During this financial year IDC provided grant funding of R2 420 840.00 towards the operations of the KDA. Cacadu District Municipality contributed R500, 000.00 towards funding for the Agency. Of particular concern to the board is that Kouga Municipality had committed R400, 000 which was later withdrawn resulting in a challenge to the agency as the funding had been budgeted with requisite expenditure. The board would like to record its concern over the matter especially as all means possible were engaged to secure the transfer of this funding.

The board would also wish to raise its concerns for the delayed approval from the Provincial Government in releasing the other portion of designated land which has taken 2 years, hence this delay will cause the agency to incur unnecessary costs and impact negatively on our business plan.

The KDA's financial position is characterized by an increase in the accumulated deficit, despite a significant growth in revenue by 345%. This can be attributed to the fact that although the Agency was still being established we proceeded into the operational phase associated with increased expenditure for professional services. The appropriated budget for 2006/2007 financial year was R3, 129,173 and the total expenditure amounted to R3, 214,159. Major expenses included employee related costs, the development of the master plan, consultancy fees, directors fees, rent paid and travel costs.

As at 30th June 2007 the KDA reflected a deficit of R99, 836. The non-payment by Kouga municipality of its share of the funding negatively affected the financial position. If this funding was received, one can safely assume that the Agency would have made a surplus for the period, given the level of expenditure as stated in the financials.

Business Plan & Budget

As part of the application for Establishment phase to IDC a business plan was developed. The plan will for the year focused on the actual establishment of the agency including ensuring that

the office is fully setup with fully operational information & financial management systems and HR Management & Administration System.
The year was also characterized by focus on project development to ensure that the KDA identifies and packages viable projects that can then be offered to the private sector. The agency also had to identify and secure possible sources of funding to ensure long term sustainability beyond the initial IDC funding.

Future Prospects

Overall the board is very optimistic about the future of the agency and to set the tone for a road ahead a strategy review workshop will be held together with the key stake holders. The projects which have been packaged into a master plan will be made available to the private sector for implementation through an Expression of Interest and Proposal call process that will be embarked upon in the new financial year. Notwithstanding any unforeseen delays in the approval on the releases of land by the Provincial Government, the agency should be able to award the tender to a successful bidder by June 2008.

I am also very confident that the agency has the right people on board and to this end I would like to thank the staff for their great contribution over the last year.

In closing, I would like to thank the members of the board, our stakeholders being the IDC, parent municipalities, our partners and the Provincial government for their unwavering support & commitment to assist the agency to deliver on its mandate.

CHAPTER 3

CEO's REPORT

The agency completed its second financial year after the Board was inaugurated in August 2005 and CEO appointed in February 2006. The key focus for the financial year was on fully establishing the Agency and creating the necessary capacity that would enable it to deliver on the core mandate. The core mandate being to generate sustainable economic and tourism growth in Kouga through the development of 683 HA prime coastal land in Jeffreys Bay.

We managed to recruit and retain the core team, and having moved into our new offices in Jeffreys bay we were hence able to install our own IT and Administration systems therefore migrating all financial administration from Cacadu District Municipality from August 2006.

The year ended in a very positive note with the signing of a Land Availability Agreement with Department of Housing, Local Government & Traditional Affairs for the 530HA parcel of land. We also completed and adopted the Master Plan that outlines the Agency's vision for the development of the mandate area.

The agency is primarily funded by the Independent Development Corporation (IDC) and as such follows the phased approach as outline by the ADS Business Unit. During this financial year we completed both the Pre-Establishment and Establishment Phases. Our application for R5 million to complete Year One Operational Phase was approved by IDC and the phase commenced in June 2007.

The approval from IDC and the land agreement is a clear vote of confident in our ability to implement the Master Plan and hence our focus for the next financial year will be on implementing the master plan and expanding the Agency's mandate.

Organisational Review

- The KDA Board

The Board, lead by Mr. Mncedisi Mayekiso, the Chairman consists of six independent members and four council elected observers. This is dynamic board with broad skills set ranging from running and controlling private businesses, financial and human resources, environmental, planning and development specialists.

- The KDA Team

The team currently consists of four fulltime positions. These include: the CEO, Executive Assistant/Office Manager, Planning and Development Manager and a Receptionist/Admin Assistant. The vacant position of Financial Manager will be filled in October 2007 and the position of Marketing Manager is expected to be filled when the agency moves into the final stages of the project implementation phase. The KDA is a facilitating agency and therefore utilises external consultants to provide most of the technical and professional services.

- Internal Controls

The agency developed a number of policies and procedures to ensure tight internal financial management. During the year an internal audit by IDC identified several weaknesses in the internal control environment and the recommendations were immediately implemented. We continue to monitor our newly implemented system to ensure compliance. During the next financial year we will be appointing a Financial Manager who will be responsible for overall financial management for the agency. This is will further improve our internal controls.

Proposed Development

The core mandate area is currently undeveloped and has no public facilities other than the hiking trail within the Nature Reserve. It therefore currently offers no economic benefit and very limited recreation benefit to the community.

The development proposed by the Agency will not only create direct jobs but will also generate revenue for the Kouga Council and local businesses. With a strong BEE imperative on development projects the qualifying local businesses also has opportunity to participate directly and indirectly on the projects.

One of the primary objectives of the KDA in the year under review was to develop a "Master Plan" for the Mandate Area with the specific focus of identifying and developing new projects into an overall strategic framework for implementation.

The Master Plan forms a strong guide for infrastructure development in the Mandate Area and is based on extensive market research to ascertain what kind of development would be sustainable in the short, medium and long term within the Mandate Area.

The Master Plan for the KDA sets out a broad brush plan and vision rather than a detailed subdivision plan and fulfils the following:

- Sets a framework for structuring the major elements of the mandate area.
- Enables the preparation of a proposal call for potential investors to submit proposals for developing the area.
- Sets out a vision for the area including goals, development principles to be applied and land use and design guidelines for the area.

The Master Plan is informed by higher order plans, broad brush Strategic Environmental Scoping Report and Specialist Studies and will in turn influence lower order plans as set out below:

MASTER PLAN → PROPOSAL CALL → DEVELOPMENT APPLICATIONS → DETAILED DESIGN → PHASED IMPLEMENTATION

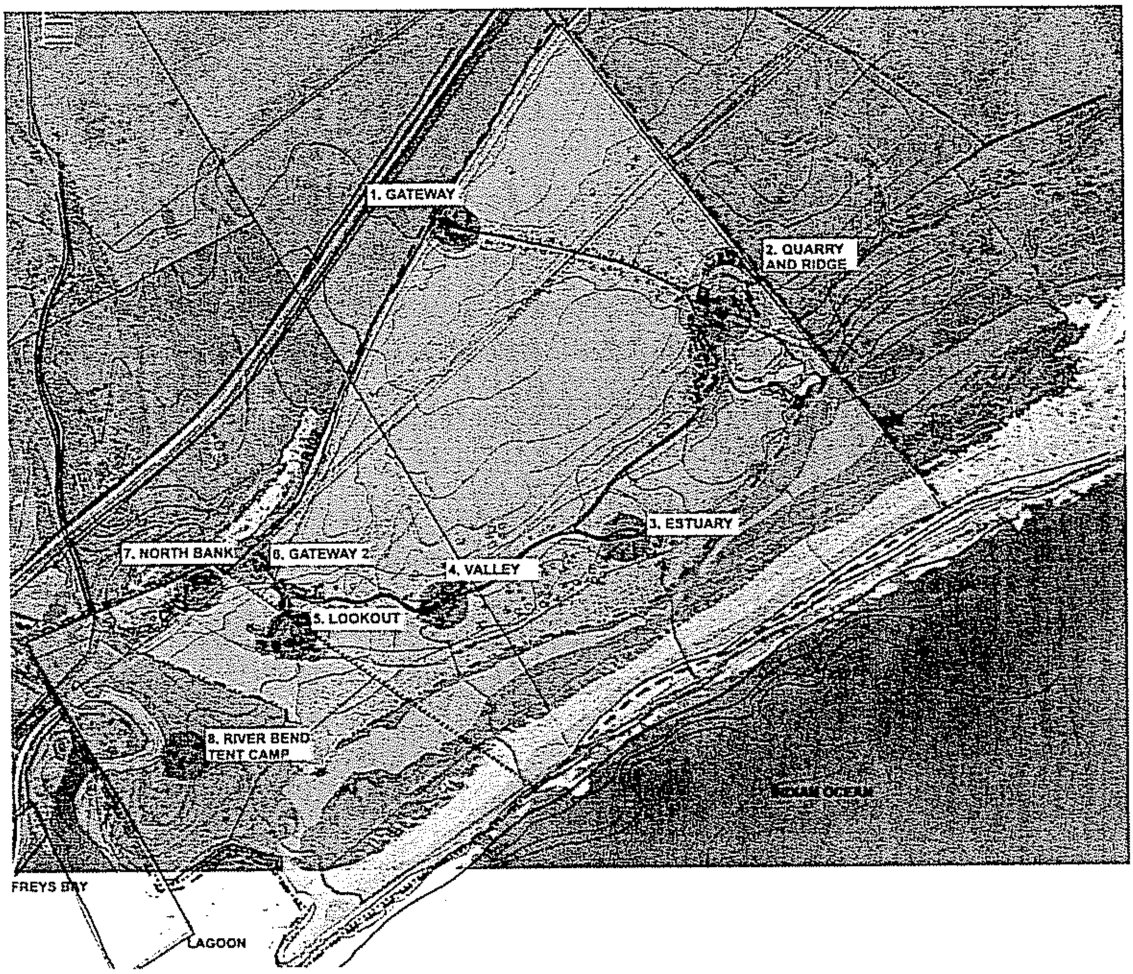
The 'Master Plan' Projects Identified

In order to evaluate the KDA potential projects in greater detail, an overview was required of the existing policy and current planning framework that is in place. The Master Plan needed to be aligned to the current planning framework and it was important to ensure that projects identified complement existing programmes in the Eastern Cape and specifically in the Kouga Area. The master plan is also in line with the Kouga Municipality Spatial Development Framework (SDF) plan and is therefore accommodated therein.

The Master Plan has been successful in demonstrating where the gaps are in the market and indicating the priority projects, which should be focused on. The aim of the study was to develop a Strategy that could be used to guide all development within the Mandate Area.

The Development Opportunities

KDA Mandated area Site plan Showing Development Nodes



- **The development opportunities as identified in the master plan include the following:**

Node 1- the gateway node:

- Gross Area: 2.91Ha
- Permitted Uses: Offices, Guard House and Guard Gate, Caretakers Accommodation, Tourist Facilities, Resort retail incidental to gateway, Parking
- Prohibited Uses: No permanent residential development,

Node 2- the quarry node:

- Gross Site Area: 23.20Hectares

- Permitted Uses: Offices, Tourist Facilities, Place of Assembly, Place of Entertainment, Public Housing, Dwelling Units, Holiday Accommodation, Holiday Housing, Licensed Hotel, Resort Shop, Parking, Authority Usage, Nursery/Botanical Garden, Picnic Areas, Exhibition Hall
- Prohibited Uses: Camping Sites, Caravan Park, Mobile Homes

Node 3- the estuary node:

- Gross Area: 4.24Ha
- Permitted Uses: Holiday Accommodation, Parking, Tourist Facilities
- Prohibited Uses: Permanent residences, Holiday Housing, Place of Assembly, Motel, Hotel, Authority Usage, Camping Sites, Mobile Home, Caravan Park
- Special Conditions: The holiday accommodation shall be harmoniously designed and built in a unique natural environment with an informal clustered layout but does not include a motel or hotel. The development shall be marketed by way of short-term renting or time sharing. Structures shall be designed to be hidden away from each other to maintain the wilderness appeal of the study area.

Node 4-The valley node:

- Gross Area: 2,92Ha
- Permitted Uses: Holiday Accommodation, Holiday (Resort) Housing, Dwelling units, Resort Shop, Parking
- Prohibited Uses: Place of Assembly, Motel, Hotel, Authority Usage, Camping Sites, Mobile Home, Caravan Parks

Node 5- the look out node:

- Gross Area: 9.74Ha
- Permitted Uses: Hotel, Tourist Facilities, Holiday accommodation, Holiday Housing, Dwelling Units
- Prohibited Uses: Camping Sites, Mobile Home, Caravan Parks

Node 6- Gateway node 2:

- Gross Area: 1.14Ha
- Permitted Uses: Offices, Guard House and Guard Gate, Caretakers Accommodation, Tourist Facilities, Resort retail incidental to gateway, Parking
- Prohibited Uses: No permanent residential development

Node 7- the river node:

- Gross Area: 1.26Ha
- Permitted Uses: Luxury Tent camp
- Prohibited Uses: Camping Sites, Mobile Home, Caravan Parks, Permanent Residences

Node 8- the north bank:

- Gross Site Area: 8.67 Hectares
- Permitted Uses: Tourist Facilities, Place of Assembly, Place of Entertainment, Public Housing, Dwelling Units, Holiday Housing, Limited Retail, Parking
- Prohibited Uses: Camping Sites, Caravan Park, Mobile Homes

The project is expected to have the following socio economic impact during construction and operation phase:

ECONOMIC IMPACT DURING CONSTRUCTION – ENTIRE KDA DEVELOPMENT			
Economic Variable	Direct	Indirect	Total
Change in New Business Sales	482,188,000	253,712,000	735,900,000
Change in Employment	1,180	540	1,720
Change in GDP	212,255,000	114,522,000	326,777,000

Source: KDA Master Plan, 2007

ECONOMIC IMPACT OPERATION – TOTAL IMPACT KDA DEVELOPMENT			
Economic Variable	Direct	Indirect	Total
Change in New Business Sales	157,159,000	54,425,000	211,584,000
Change in Employment	234	113	347
Change in GDP	112,266,000	27,575,000	139,841,000

Source: KDA Master Plan, 2007

Financial Review

At the start of the financial year the agency faced cash flow challenges as it was waiting for funds transfer from IDC. We are grateful to CDM for withholding collection of debt due by the agency until the funding was received. CDM further assisted by allocating a R500, 000 grant towards the operations of the agency.

KOUGA DEVELOPMENT AGENCY
FINANCIAL HEADLINES – 2006/07 Financial Year

Figures in rand	2007	2006
Revenue	**3,047,982**	683,877
Cost of sales	-	-
Gross surplus/(deficit)	**3,047,982**	683,877
Operating expenses	**(3,214,159)**	(892,491)
Operating surplus/(deficit)	**(166,177)**	(208,614)
Other income	**2 105**	-
Investment income	**64,236**	69,472
Surplus/(deficit) before taxation	**(99,836)**	(139,142)
Taxation	-	-
Surplus/(deficit) for the year	**(99,836)**	(139,142)

- **Spending trends and phases completed during the year**

The Kouga Development Agency (KDA) primarily derives its income from two sources. These sources are the Parent Municipalities (Cacadu District and Kouga Municipalities) and the Industrial Development Corporation (IDC). Grants received from the IDC are expensed in accordance with strict terms and conditions relating to each phase, where the grants received from the parent municipalities are not subject to any conditions. Grants valued at R2, 995,350 (R683, 877: 2006) was received during the 2006/2007 financial year. The appropriated budget for 2006/2007 financial year was R3, 129,173 and the total expenditure amounted to R3, 214,159. Major expenses included employee related costs, the development of the master plan, directors fees, rent paid and travel costs.

Both the pre-establishment and establishment phases were completed during the current financial year. The operational phase commenced in June 2007 and will continue over three years. The fact that a specific phase could stretch over two years resulted in a change in accounting policy. This entails that KDA would recognise income received from the IDC-grant only to the extent that it has been expensed. The surplus would be disclosed as a liability in the statement of financial performance under unspent conditional grants and receipts.

Significant events that took place during the year

The agency completed both pre-establishment and establishment phase as per IDC Agency Development and Support.

The Agency also concluded a land availability agreement with the Department of Housing, Local Government for the 527,8499HA parcel of land owned by the department. Further negotiations were held with Department of Public Works for the nature reserve covering 152,7213HA.

The agency commissioned the development of a master plan, a blue print that will guide the development of the land. We also followed a consultation process that resulted in the final adoption of the master plan.

Important policy decisions and strategic issues facing the Agency

An important decision as to whether to continue with the proposal call for development proposals on the parcel of land that had already been secured was extensively deliberated by the board of directors. The directors considered that the development had been designed to be offered as a whole, encompassing both parcels of land to one developer and such its viability could be compromised if undertaken otherwise. The board decided not to proceed with the one parcel but to wait for the DPW land agreement.

A proposal to restate the financial statements for the prior year due to an accounting error in recognizing grant revenue was tabled to and agreed by the board. There was also an accounting policy change in terms of tangible and intangible assets.

In conclusion, as Accounting Officer, I am humbled to account on behalf of the Agency, who I believe responded and reacted well within the context of the opportunities, challenges and service delivery demands presented by both the internal and external environments. My sincere appreciation to those dedicated board members, colleagues and key stakeholders who continue to add value and contribute to the overall improvement of effectiveness and efficiency in relation to corporate governance within the Agency.

CHAPTER 4

OWNERSHIP AND BOARD OF DIRECTORS

The KDA is wholly owned by the Cacadu DM and Kouga Municipality. Its establishment is supported by the Industrial Development Corporation (IDC), Cacadu DM and Kouga Municipality. The Agency is governed by a Board of Directors, appointed in terms of section 93E of the Municipal Systems Act, 2000.

The Directors are responsible for the following:

- The provision of effective, transparent, and coherent corporate governance and effective oversight of the affairs of the Agency;
- Ensuring that there is compliance with applicable legislation and agreements;
- Communicating openly and promptly with the parent municipality of the Agency;
- Dealing with the parent municipality of the Agency in good faith.

Initially the agency had eight non-executive directors however four of them resigned. Two new members have been appointed with the parent municipalities deciding to headhunt in order to secure two more members.

Non Executive Director	**Date of Appointment**	
Mncedisi Mayekiso	21 July 2005	
Nceba Moss	21 July 2005	
Nandipha Mshumi	15 August 2005	
Mxolisi Sibam	15 August 2005	
Sureshni Moodliar	04 April 2007	New member
Benjamin Setipa	04 April 2007	New member
Julienne Doline Prinsloo	15 August 2005	Resigned
Randall Arnolds	21 July 2005	Resigned
Brian Reeves	15 August 2005	Resigned
Sharon Kraak	21 July 2005	Resigned

The members who resigned sighted personal reasons and business interests as factors contributing to their withdrawal from the board.

The Cacadu DM and Kouga Municipality have effective control2 over the KDA. They are responsible for:

- Ensuring that annual performance objectives and indicators for the Agency are established by agreement and included in the Agency's multi-year business plan in accordance with section 87 (5) (d) of the Municipal Finance Management Act, 2003; and
- Monitoring and annually reviewing the Agency's budget against the agreed performance objectives and indicators.

During this financial year the Cacadu DM supported the KDA with an annual budget allocation of R500, 000 to complement the IDC Funding.

The other party to the agency is the Eastern Cape Government. Although the province does not have any ownership on the agency the provincial government departments have provided land to the agency to facilitate and manage development thereof. They remain key participants in the agency as the bulk of land will not be transferred to the agency however ownership will remain with provincial government until final transfer to the purchaser, concessionaire or lessee.

[2] Effective control is the power by which the parent municipality (ies) may have to appoint or remove at least the majority of the board of directors; and to control at least the majority of the board of directors.

Chapter 5

PERFORMANCE HIGHLIGHTS

Key Performance Area	KPI	Annual Target	Proof	Budget R000s	Actual R000s
Build institutional capacity	Signed employment contracts	3 staff	Contracts of employment	R955	R1,236
Project Development	Project vision, concept and feasibility for the mandate area	Master plan	Master Plan report	R1, 200	R1,150
	Agency profile and collateral material	100%	Marketing and communication plan report	R18	R65
Operational Performance	Clear deliverables and annual work plan adhered to	Annual work plan	Board approved work plan	In house	In house
	Improved risk assessment and management	Risk plan	Risk management plan	In house	In house
	Performance targets and evaluation system adhered to	Performance management system	Performance plans and evaluation reports	In house	In house
	Improved stakeholder relations	Stakeholder management plan	Stakeholder communication report	In house	In house
	Operational office in Jeffreys Bay	Fully functional independent office	Established office with furniture, equipment & systems	R301	R301
	Updated long term strategic plan for the agency	100%	Board approved corporate plan	In house	In house
	Year 1 Operations Phase business plan	100%	Board approved business plan	In house	In house
Agency Financial viability and management	Independent financial management system	100%	Installed Pastel Accounting, Board approved policies & procedures	R320	R72
	Income generating opportunities identified and	Project packaging	Approved Master plan	R1,400	R900

	secured				
	Annual budget developed, submitted and adopted by councils and board	100%	Approved Budget	In house	In house
	Budgetary control of operating income & expenditure with variance not exceeding 100%	Within 10%	Annual financial statements	In house	In house
	Statements approved by board and submitted to parent municipalities	Delivery by 30 August	Annual financial statements	In house	In house
	Approved statements submitted to AG by 30th August to facilitate audit	Delivery by 30 August	Proof of submission	In house	In house
A legally compliant Agency	Financial obligations required by MFMA adhered to in accordance with National Treasury implementation priorities	100%	MFMA NT checklist completed	In house	In house
	Zero incidence of repeat exception reports from internal audit	100%	Internal audit report	In house	In house
	Receipt of Unqualified Audit Report	Unqualified Audit	AG Report	In house	In house
An appropriately managed agency	Number of planned board meetings	6 Meetings	Board meeting minutes x5	R91	R106
	% of board packs delivered 7 days prior to the meeting	100%	Database of delivery dates	In house	In house
	Implementation of board resolutions	100%	Board meeting minutes	In house	In house
Preparation for Year 1 Operation Phase	Financial audit by ADS at IDC	Clean audit report	IDC Audit report	In house	In house
	Milestone Audit by IDC	Approved application	Supporting documents	In house	In house
	Approved operational phase grant	Approval of R5 mill grant	Agreement between IDC & KDA	In house	In house

Master Plan Development

One of the core focuses for the Establishment Phase has been the development of a master plan to guide development of the core mandate area. The board of the Agency (KDA) articulated a need to move towards project implementation in the shortest possible timeframe. In order to do this, the Agency required an implementation focussed Master Plan culminating in a Business Plan of bankable projects that will be used as a basis to engage potential developers and investors of the development. The Master Plan would also assist in finalisation of land availability with National and Provincial Authorities

The Master Plan identifies an investment strategy and policy framework of marketable and market driven projects that will act as flagship projects for the Agency. It set out the costs, development strategies to realise each project, all set within a robust Land Use Plan and Urban Design for the Mandate Area. It also identifies potential benefits, risks and issues associated with the developments and recommend solutions and set out an appropriate implementation plan

Based on recommendations of the Environmental Specialist and detailed studies the consortium identified and earmarked developable pockets and indicated envisaged footprint, concepts, sketch plans and illustrations to demonstrate what can be expected at, and for each node.

The Consortium also critically reviewed the vision articulated by the KDA Board and parent municipalities and fundamental assumptions gleaned from the current documentation and established the business case for the Agency to ensure relevance and alignment with the Memorandum of Understanding, the requirements/appetite of the market.

The study included the following:

- Determination of market gaps in eco-tourism that the KDA can successfully exploit and/ or create as a result of the envisaged development.
- Determination of the appetite for development in the market and the mix of eco-tourism projects that can realistically be "attracted" to the area.

- Determination of the best way in which the land will be made available and the investment policy to be adopted.
- Identification of projects that can be funded through a variety of sustainable funding sources be they private, public, local, international and municipal, PPP's, turnkey projects, etc.
- Refinement and, where it has been successfully demonstrated amendment, alter and rearrange the Spatial Plan and the list of desirable developments in line with the vision to transform the Mandate Area into an attractive investment destination and in order to promote sustainable management of the environment within the Mandate Area.
- Drawing up of a detailed description and costing and prepare investment packages for each project as a precursor to obtaining land use rights and putting out a proposal call to developers to tender on the projects.

The master plan, completed in April 2007, is the blue print that will guide the development to be undertaken on the mandate area.

Attached to the development of the master plan is the actual implementation thereof. This forms the core of our activities for the next two years. Activities to be undertaken include the development and implementation of a conservation and heritage management plan. The master plan outlines various strategic options for the implementation of such a plan. These strategic options will be evaluated and a course of action decided on.

The Agency will also focus on infrastructure installation to the core mandate area which may include a contribution to the upgrade of existing infrastructure in the Kouga area. The master plan gives a detailed plan on infrastructure of the projects identified and the possible funding sources thereof.

Investment attraction and business development will be the core focus for the next phase. An expression of interest invitation will be issued via local and national publications for prospective investors to demonstrate their capability to undertake a project of this nature. From that a short list of investors will be compiled and a closed invitation to submit development proposals will be issued to only these short listed parties.

This expression of interest and call for development proposals are expected to be issued in November 2007 and February 2008 respectively. These will be followed by assessment and final award of development rights by 31st April 2008. During this period a database of local businesses will be compiled in partnership with Kouga Municipality. Parallel to this process a host of opportunities will be identified and these will be matched to qualifying local businesses. The database will also assist the investor in achieving local procurement targets.

The Kouga Municipality has recently launched a corporate profile that will be implemented in collateral with the aim of improving the image and profiling the area. We will partner with the municipality to position the area as a preferred destination for tourism related investments and a place to visit for international and domestic tourists. Various marketing tools will be utilised, including packaging of investment opportunities and experiences.

Our secondary priority is the broadening of the mandate for the Agency. Currently the agency's mandate is to focus on the 683HA of land. This limits the impact we are able to contribute as per IDP priorities of Kouga. The Agency will have developed systems and capability to manage projects where a public asset is leveraged to encourage private and public sector investment into an underdeveloped location. As a means to maximise return on the investment being made to build this capacity it is imperative that the principals are encouraged to broaden the mandate of the agency.

The Agency will work with the parent municipalities in identifying other prime resources where similar development principles can be applied. The strategy would be to undertake a land audit for the whole Kouga area whereby prime development sites are identified. Proposals would then be developed around these for consideration and final approval. This approach will also ensure medium to long term sustainability of the agency.

The Agency has an overall responsibility to manage the development and maintenance of the mandate area and, although it may enter into private arrangements in this regard with some private investors, the ultimate responsibility for the development shall be part of the KDA core functions.

All applications for land use rights and environmental authorisations shall be submitted by and under the direction of the KDA. In respect of any performance indicators, the KDA shall be held accountable for the activities of the developers awarded developmental rights. The KDA shall prepare a Conservation and Land Use Management Plan for the mandate area in terms of which the area will be developed and maintained. The KDA shall undertake detailed studies on appropriate Legal Arrangements with potential investors and developers.

The KDA is as such responsible for project managing the development of the mandate area and ensuring long term sustainability through developing guidelines and enforcing adherence through legal contracts.

Finance and Administration

Information Management System

The office is equipped with a state of art IT system connected to a central server that is linked to all workstations and laptops via a wireless network. A high level security system has been installed to protect KDA information and ensure data integrity at all times. The system is equipped with automatic backups via daily tapes with offsite storage of monthly backup tape. The server provides for email and internet access to all staff and will also serve as storage for information storage and internal sharing. A dedicated website for the agency has been developed to profile the agency and provide information to interested parties. This is linked to relevant sites and updated regularly.

Financial Management System

In August 2006 we took over the financial administration function from CDM. We installed a Pastel Accounting and Payroll with the Office Manager taking on the responsibility of daily transaction capturing and Vosloo Business Consultants producing the monthly financial statements. Working with the KDA they also tasked with producing the annual financial statements for the agency.

HR Management & Administration System

The management of HR processes and procedures system rests with the finance and administration department with the CEO playing an oversight role to ensure compliance. All employee records and documents are stored in a secured enclosure. Recruitment files are stored for a period of at least six months after the appointment date.

Operating policies and procedures

- Supply chain management policy

A supply chain management policy has been developed in line with parent municipalities' policies and has been approved by the board.

- HR Management Policies and Contracts

  Human resource management policies dealing with recruitment, relocation of staff, attendance, leave; travel and subsistence have been developed and approved by the board.

- Financial management procedures

  Financial management procedures and system were developed. These will be reviewed once a financial manager has been appointed.

  All payments made via the Agency's bank account require at least two signatories.

Marketing and Communications

During the Establishment Phase the Agency utilised mainly public relations to ensure that expectations are managed whilst keeping the public informed about developments within the agency. The fully operational agency was launched to key stakeholders and media in October. This attracted media attention and we received coverage in all local and some national media. We also participated in the May issue of Madiba Action publication that profiles the Eastern Cape developments and attractions to domestic and international readers.

Various communication methods have been used for the Agency's key stakeholders as follows:

- Board of Directors

The Board of Directors met five times during the past year and the meetings were used to report on operations of the agency.

- IDC

Monthly operation reports have been submitted to IDC and the parent municipalities. These reports give an executive summary that outlines progress on key strategic programmes and summary of operations during the reporting month. It also covers progress made on the milestones for that particular phase as per IDC agency guidelines. A financial report is also included with a reconciliation of actual expenditure against budget.

- Parent Municipalities

A report was submitted to each Parent Municipality as per Section 87 of the MFMA which stipulates that the agency will by no later than seven working days after the end of each month submit to the municipal managers of parent municipalities a statement in the prescribed format on the state of the agency's budget reflecting actual expenditure against budget and an explanation of material variances.

- Staff

Weekly diary meetings and monthly operations reporting meetings are held with all agency personnel. The diary meetings are a platform to inform the all staff of each individual plans for the commencing week and the monthly operations meetings are used to track progress on work plans and KPIs for each individual. Both meetings also act as information and communication sessions for all staff.

CHAPTER 6

CORPORATE GOVERNANCE

Board of Directors

A Board of Directors was inaugurated in August 2005 to provide a high level of Corporate Governance, to oversee the main aims and objectives of the Agency in terms of the establishment memorandum of agreement entered into between the parent municipalities.

The Board comprises of eight independent members and four council elected observers and is constituted as follows:

Board Members

a) Mr. Mcedisi Mayekiso – Chairperson
b) Ms Julienne Prinsloo – Deputy Chairperson
c) Ms. Nandipha Mshumi
d) Ms. Cheron Kraak
e) Mr. Mxolisi Sibam
f) Mr. Nceba Moss
g) Mr Randal Arnolds

Observers

h) Clr. Iomo - Porfolio Councillor, Kouga Local Municipality
i) Clr. Wogane - Portfolio Councillor, Cacadu District Municipality
j) Mr. Ted Pillay – Municipal Manager, Cacadu District Municipality
k) Mr. Leon Gouws – Acting Municipal Manager, Kouga Local Municipality (was initially represented by Mr. Dannie de Lange, Ex-Acting Municipal Manager)

Board Committees

The Board has in-turn established two committees to give strategic direction, ensure proper policies and procedures are in place, review performance of the agency and its staff and maintain financial integrity of the KDA:

Finance & Audit Committee

The main function of this committee is to monitor that the agency's strategy and operations contributes to the overall mission and vision of the KDA. The committee also ensures compliance with all internal/external controls and all other regulations governing such entities. The members of this committee are Mr. Mxolisi Sibam (Committee Head), Mr. Brian Reeves & Mr. Randall Arnolds

HR, Procurement & BEE Committee

The role of this committee is to oversee the recruitment of CEO and senior management of the agency; monitor remuneration and reward to agency staff; development of HR policies & procedures, ensure BEE procurement in tandem with Finance Committee. Members of this committee are Mr. Nceba Moss (Committee Head), Ms. Cheron Kraak & Ms. Nandipha Mshumi.

Board Charter

A Board charter was developed and adopted by the Board of Directors. The Board Charter defines the governance parameters within which the Board exists, sets out specific responsibilities to be discharged by the Board and directors collectively. It also defines roles and responsibilities incumbent upon directors as individuals.

Operation Procedures and Delegation of Powers

The Service Level Agreement entered into between the parent municipalities and the KDA stipulates operating procedures and delegations to the Board of Directors as follows:

- That the Board manages the business of the KDA in terms of the requirements of the Local Government: Municipal Systems Act 32 of 2000 and any subsequent changes thereto as may be enacted from time to time.

- That the Board manages the business of the KDA in terms of the requirements of the Local Government: Municipal Systems Act 32 of 2000 and any subsequent changes thereto as may be enacted from time to time.

- That the Board manages the finances of the KDA in terms of the requirements of Parts 2 to 6 of chapter 10 of the Local Government Municipal Management Act 56 of 2003 and any subsequent changes thereto as may be enacted from time to time.

- That the Board meets no less than six (6) times per financial year to consider and recommend direction to the KDA management, CACADU and KOUGA Municipalities.

- That the Board, by general consensus, appoints representatives, from existing Board members, to serve on identified sub committees, as may be deemed necessary from time to time.

CHAPTER 7

HUMAN RESOURCE AND OTHER ORGANISATIONAL MANAGEMENT

The KDA is managed by a Chief Executive Officer (CEO), who is appointed in terms of section 93J of the Municipal Systems Act, 2000.The CEO is accountable to the Board of Directors for the management of the Agency, and is supported by the following key functionary incumbents to perform the Agency's mandate:

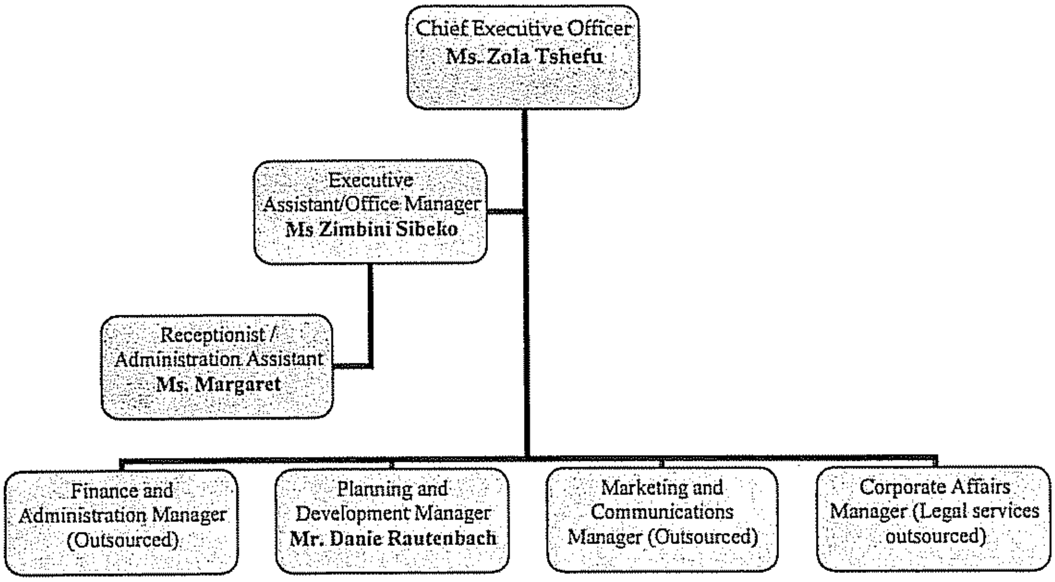
- Planning and Development Manager
- Office Manager
- Finance and Administration Manager – to be appointed in Operational Phase
- Corporate Affairs – Legal services outsourced
- Marketing and Communications – outsourced

It is envisaged that the Agency should operate with lean, but yet effective management team. The team will comprise of a minimum of 4 fulltime positions. To minimise fixed costs whilst ensuring quality delivery on the mandate initially there will be two senior management positions, being the CEO and Land Management & Planning. The role of financial administration, marketing and communications will be outsourced to external consultants as well the corporate and legal services which will be outsourced to a legal firm.

The budget of the agency and the volume and complexity of the financial transactions during the Pre-Establishment and Establishment Phases is very limited does not justify employing a Financial Manager. The responsibility of administering our financial management systems has been shared between the Office Manager and Vosloo Business Consultants. However we intend filling the position of Financial Manager on commencement of the Operational Phase.

The role of Executive Assistant to the CEO has been structured to include operations coordination and administration. The receptionist also covers general administration assistant role. We endeavour to appoint the best available skilled people to fill these positions whilst taking into consideration equity requirements.

Organisation Structure



HR Polices

The following HR policies are under review:

- Performance Management Systems
- Subsistence and Traveling Allowance
- Attendance and Punctuality
- Recruitment and selection
- Private work
- Leave
- Induction
- Cellular Phone

Employer/Employee Relations

The KDA and its staff generally continued with their spirit of mutual respect and co-operation during the period under review.

Employment Equity

Three of the employed staff members of the KDA are black women. A key driver behind further staff appointment process is ensuring that the staff composition will ultimately reflect the demographics of the area within which the agency operates.

CHAPTER 8

AUDITED FINANCIAL STATEMENTS

KOUGA DEVELOPMENT AGENCY

KOUGA DEVELOPMENT AGENCY

(A multi-jurisdictional service utility in terms of the Local Government: Municipal Systems Act, 2000)

FINANCIAL STATEMENTS

for the year ended 30 June 2007

KOUGA DEVELOPMENT AGENCY
(A multi-jurisdictional service utility in terms of the Local Government: Municipal Systems Act, 2000)
STATEMENT OF FINANCIAL POSITION
at 30 June 2007

	Notes	2007 R	2006 R
NET ASSETS AND LIABILITIES			
Net Assets		(123,302)	(23,466)
Retained Surplus / (Accumulated Loss)		(123,302)	(23,466)
LIABILITIES			
Current liabilities		910,477	781,586
Unutilised Conditional Grants and Receipts	2	48,016	-
Trade and other payables	3	647,791	21,054
Provisions	4	162,900	31,500
Employee Benefits	5	47,875	15,120
Loan from Cacadu District Municipality	6	3,895	713,912
TOTAL NET ASSETS AND LIABILITIES		**787,175**	**758,120**
ASSETS			
Non-current assets		240,236	190,348
Property, plant and equipment	7	192,759	145,279
Intangible Assets	8	47,476	45,069
Current assets		546,939	567,772
Cash and cash equivalents	9	333,977	567,772
Receivables and prepayments	10	212,962	-
TOTAL ASSETS		**787,175**	**758,120**

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KOUGA DEVELOPMENT AGENCY
(A multi-jurisdictional service utility in terms of the Local Government: Municipal Systems Act, 2000)
STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2007

	Notes	Actual 2007 R	Actual 2006 (restated) R	Budget 2007 R
REVENUE	11	3,047,982	683,877	3,129,173
Conditional Grants and Receipts		2,495,350	683,877	3,129,173
Unconditional Grants and Receipts		500,000	-	-
Donations received		52,632	-	-
OTHER INCOME		66,341	69,472	
Interest Received		64,236	69,472	-
Other Income	12	2,105	-	-
TOTAL REVENUE		**3,114,323**	**753,349**	**3,129,173**
EXPENDITURE		**(3,214,159)**	**(892,491)**	**(2,833,969)**
Accounting and Audit Fee		(11,520)	-	(11,668)
Advertising		(26,288)	(128,208)	(17,500)
Amortisation		(3,726)	(357)	
Bank Charges		(3,025)	(45)	(3,000)
Cleaning		(4,931)	-	(3,000)
Conference and Exhibition Fees		-	(135,286)	-
Consulting Fees		(68,581)	(56,746)	-
Copier expenses		(1,230)	-	(9,900)
Courier and Postage		(1,279)	(77)	(2,000)
Depreciation		(56,433)	(5,545)	-
Directors Fees		(106,224)	(88,165)	(91,000)
Electrical Equipment		(5,423)	-	-
Electricity and Water		(9,463)	-	(5,900)
Employee Related Costs	13	(1,236,408)	(339,963)	(955,453)
Entertainment		(1,527)	(3,443)	(1,500)
Insurance		(7,855)	(4,054)	(11,200)
Interest Paid		(1,000)	-	(1,000)
Launch Costs: Artists		(57,767)	-	-
Legal Fees		(36,599)	(7,982)	(70,000)
Marketing		(120)	-	(122)
Master Plan Development Costs		(1,150,208)	-	(1,200,000)
Meetings - Seminars		(1,547)	-	-
Printing and Stationery		(12,719)	(6,730)	(5,800)
Refreshments		(1,760)	-	(400)
Relocation Costs		(13,973)	-	(27,000)
Rent Paid		(129,488)	(75,534)	(90,550)
Repairs and Maintenance		(7,909)	(12,375)	(1,800)
Security		(1,623)	-	(1,350)
Staff Training		(21,511)	(1,201)	(35,000)
Staff Welfare		(128)	(5,000)	(1,200)
Subscriptions		(1,853)	-	(2,000)
Subsistance		(231)	(5,555)	-
Sundries		-	-	(33,437)
Telephone and Fax		(51,532)	-	(39,100)
Travel and Accommoation		(158,162)	-	(171,090)
Workshop Expenses		(22,116)	(16,225)	(42,000)
NET SURPLUS / (DEFICIT) FOR THE YEAR		(99,836)	(139,142)	295,204

KOUGA DEVELOPMENT AGENCY

(A multi-jurisdictional service utility in terms of the Local Government: Municipal Systems Act, 2000)

STATEMENT OF CHANGES IN NET ASSETS

at 30 June 2007

	Notes	Retained Surplus / (Accumulated Loss) R	Total Net Assets R
Balance at 1 July 2005		115,676	115,676
Net surplus / (loss) for the year		(139,142)	(139,142)
Correction of prior year errors	**14**	(2,443)	(2,443)
Net surplus / (loss) for the year as previously reported		(136,699)	(136,699)
Restated Balance at 30 June 2006		(23,466)	(23,466)
Net surplus / (loss) for the year		(99,836)	(99,836)
Balance at 30 June 2007		(123,302)	(123,302)

KOUGA DEVELOPMENT AGENCY
(A multi-jurisdictional service utility in terms of the Local Government: Municipal Systems Act, 2000)
CASH FLOW STATEMENT
for the year ended 30 June 2007

	Notes	2007 R	2006 R
Cash flow from operating activities			
Cash generated from / (utilised in) operations	15	414,858	(140,938)
Depreciation		60,158	5,545
Interest paid		(1,000)	-
Interest received		64,236	69,472
Net cash flow from / (used in) operating activities		538,252	(65,921)
Cash flow from investing activities			
Purchase of property, plant and equipment		(103,913)	(150,826)
Purchase of intangible assets		(6,133)	(45,069)
Net cash flow from / (used in) investing activities		(110,046)	(195,895)
Cash flow from financing activities			
Loan from Cacadu District Municipality		(710,017)	919,883
Increase / (Decrease) in unspent conditional grants		48,016	(747,277)
Net cash flow from / (used in) financing activities		(662,001)	172,606
Net increase/(decrease) in cash and cash equivalents		(233,795)	(89,209)
Cash and cash equivalents at beginning of period		567,772	656,981
Cash and cash equivalents at end of period	9	333,977	567,772

KOUGA DEVELOPMENT AGENCY
(A multi-jurisdictional service utility in terms of the Local Government: Municipal Systems Act, 2000)
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2007

1 ACCOUNTING POLICIES

1.1 BASIS FOR PRESENTATION

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) and the Standards of Generally Accepted Municipal Accounting Practices (GAMAP) prescribed by the Minister of Finance in terms of General Notice 991 and 992 of 2005

The standards are summarised as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GAMAP 9	Revenue
GAMAP 17	Property, Plant and Equipment
GAMAP 19	Provisions, Contingent Liabilities and Contingent Asset

Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

IAS 24 / AC 126	Related party disclosures
IAS 17 / AC 105	Leases
IAS 32 / AC 125	Financial Instruments: Disclosure
IAS 39 / AC 133	Financial Instruments: Recognition and Measurement
IAS 36 / AC 128	Impairment of Assets
IAS 38 / AC 128	Intangible Assets
IAS 10 / AC 107	Events after balance sheet date

1.2 CHANGE IN ACCOUNTING POLICY AND PRIOR YEAR ERRORS

When regcognising changes in accounting policies and correcting prior year errors, the Agency adopts the guidelines as set out in the statement for accounting policies, changes in estimates and errors (GRAP 3).

1.3 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand.

1.4 GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

1.5 COMPARATIVE INFORMATION

Current year comparatives:
Budgeted amounts have been included in the annual financial statements for the current year only.

Prior year comparatives:

When the presentation or classification of items in the annual financial statements is amended, prior period comparatives amounts are reclassified. The nature and reason for the reclassification is disclosed.

1.6 UNUTILISED GRANTS AND RECEIPTS

Unutilised grants are reflected on the Statement of Financial Position as a current liability as Unspent Conditional Grants and Receipts. They represent unspent conditional grants and public sector donations. The cash received is invested until utilised. Interest earned on investments is treated in accordance with grants and donations conditions.
(Refer Note 2)

1.9 EMPLOYEE BENEFITS

The liability recognised in the balance sheet for employee benefits represents leave pay accrued to employees which is reflected at the cost. The cost of all short term employee benefits is recognised during the period in which the employee renders related the service.

1.10 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost, less accumulated depreciation.

Depreciation is calculated on cost, using the straight-line method over the estimated useful lives of the assets. The annual

Asset	Years
- Computer Equipment	3
- Computer Software	3
- Office Equipment	6
- Furniture & Fittings	6
- Kitchenware	6

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charges to the Statement of Financial Performance during the financial period in which they are incurred.

The asset's residual value and useful lives are reviewed for impairment, and adjusted if appropriate, at each balance sheet date.

1.11 INTANGIBLE ASSETS

Website development

The costs of developing the Agency's website are shown at historical cost. The website has an infinite useful life and is tested for impairment on an annual basis and the asset is not amortised.

Computer Software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their useful lifes. (3 years)

1.12 CASH AND CASH EQUIVALENTS

Cash includes cash on hand and with banks. Cash equivalents are short-term, liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purpose of the Cash Flow Statement, cash and cash equivalents comprise of cash on hand and deposits held on call accounts with banks. No unutilised grants was reflected for 2007 (nil:2006) because the grant has not been received from the Industrial Development Corporation.

1.13 RECEIVABLES AND PREPAYMENTS

Accounts receivable are carried at anticipated realisable values. Amounts that are receivable within 12 months from the reporting date are classified as current.

1.14 FINANCIAL INSTRUMENTS

Initial recognition

The Agency 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 agreement.

Financial assets and financial liabilities are recognised on the company's balance sheet when the company becomes party to the contractual provisions of the instrument.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate computed at initial recognition.

1.14 FINANCIAL INSTRUMENTS (continue)

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.15 PROVISIONS

Provisions are recognised when the Board has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the obligation.

1.16 LEASES

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term.

1.16 VALUE ADDED TAX

The Agency accounts for Value Added Tax on the invoice basis.

1.17 REVENUE RECOGNITION

Revenue from public contributions is recognised when all conditions associated with the contribution have been met. Where the contributions have been received but the Agency has not met the conditions, a liability is recognised.

Interest is recognised when it accrues to the company.

1.18 CONDITIONAL GRANTS AND DONATIONS

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the Agency has complied with any criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met and the grant has been received, a liability is recognised. A phase will not necessarily be associated with a specific year thus resulting in revenue recognised only to the extent that it has been utilised. Any interest received on the grants are recognised in the statement of financial performance in the year it has been received and do not form part of the conditional grant.

1.19 TAXATION

The agency is exempt from Income Taxation for the year under review.

1.20 RELATED PARTIES

The agency discloses all arm length transactions and the effects they have on the surplus or loss. This will include all transfers of resources, services or obligations between related parties, regardless of whether a price is charged. Related parties include all key management personnel and the parent municipalities.

1.21 EVENTS AFTER BALANCE SHEET DATE

If any material events occur between reporting date and the date that the financial statements are authorised for issue, those events will qualify for disclosure as non-adjusting events in accordance with the statement of GRAP on *events after balance sheet date*.

KOUGA DEVELOPMENT AGENCY **43**
(A multi-jurisdictional service utility in terms of the Local Government: Municipal Systems Act, 2000)
NOTES TO THE ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2007

		2007 R	2006 R
2	**UNUTILISED CONDITIONAL GRANTS AND RECEIPTS**		
	Industrial Development Corporation (IDC)		
	Opening Balance	-	683,877
	Grants Received		-
	- Pre - Establishment Phase	-	-
	- Establishment Phase	2,420,840	
	- Operational Phase 1	122,526	
	Less: Disbursements		
	- Pre - Establishment Phase		(743,149)
	- Establishment Phase	(2,372,824)	
	- Operational Phase 1	(122,526)	
	Over expenditure recognised in the income statement	-	59,272
		48,016	**-**

A Conditional Grant to the value of R 2 500 000 was awarded to the Agency by the Industrial Development Corporation shortly before 30 June 2007 (2006: nil) for the Operational Phase (Part 1). The grant was still unpaid by the Industrial Development Corporation at 30 June 2007 although disbursements were already incurred for the specific phase. The grant has been accounted for under Receivables and Prepayments to the extent that it has been expensed.

		2007 R	2006 R
3	**TRADE AND OTHER PAYABLES**		
	PAYE & UIF	45,796	-
	Trade Creditors	569,878	-
	Accrued lease payments	32,117	21,054
		647,791	**21,054**
4	**PROVISIONS**		
	Provisions consist of employee bonuses		
	Opening balance at beginning of the year	31,500	-
	Movement for the year	131,400	31,500
	Closing balance at end of year	**162,900**	**31,500**
5	**EMPLOYEE BENEFITS**		
	Staff Leave	47,875	15,120
		47,875	**15,120**
6	**LOAN FROM CACADU DISTRICT MUNICIPALITY**		
	Non interest bearing loan with no terms of repayment	3,895	713,912
		3,895	**713,912**

7 **PROPERTY, PLANT AND EQUIPMENT**

2007

Actual	**Furniture and fittings R**	**Computer equipment R**	**Computer software R**	**Kitchenware R**	**Total R**
For the year-to-date					
Opening net book amount	76,693	65,248	3,339	-	145,279
Additions	66,554	33,760	-	3,599	103,913
Depreciation charge	(21,729)	(32,987)	(1,145)	(571)	(56,433)
Closing net book amount	121,518	66,021	2,193	3,028	192,759

At 30 June 2007

	Cost	**Accumulated Depreciation**	**Book value**
Furniture & fittings	144,819	(23,301)	121,518
Computer equipment	102,884	(36,863)	66,021
Computer software	3,436	(1,242)	2,193
Office equipment	-	-	-
Kitchenware	3,599	(571)	3,028
	254,737	(61,978)	192,759

7 PROPERTY, PLANT AND EQUIPMENT (continue)

2006

Actual	**Furniture and fittings**	**Computer equipment**	**Computer software**	**Kitchenware**	**Total**
	R	**R**	**R**	**R**	**R**
For the year-to-date					
Opening net book amount	-	-	-	-	-
Additions	78,264	69,124	3,436	-	150,824
Depreciation charge	(1,572)	(3,876)	(97)	-	(5,545)
Closing net book amount	76,693	65,248	3,339	-	145,279

At 30 June 2006

	Cost	**Accumulated Depreciation**	**Book value**
Furniture & fittings	78,264	(1,572)	76,693
Computer equipment	69,124	(3,876)	65,248
Computer software	3,436	(97)	3,339
Office equipment	-	-	-
Kitchenware	-	-	-
	150,824	(5,545)	145,279

8 INTANGIBLE ASSETS

2007	**Computer Software**	**Website Development**	**Total**
For the year-to-date	**R**	**R**	**R**
Opening net book amount	5,156	39,912	45,069
Additions	6,133	-	6,133
Amortisation charge	(3,725)	-	(3,725)
Closing net book amount	7,564	39,912	47,476

At 30 June 2007	**Cost**	**Accumulated Amortisation and impairment**	**Book value**
	R	**R**	**R**
Computer Software	11,647	(4,083)	7,564
Webiste Development	39,912	-	39,912
	51,559	(4,083)	47,476

2006	**Computer Software**	**Website Development**	**Total**
For the year-to-date	**R**	**R**	**R**
Opening net book amount	-	-	-
Additions	5,514	39,912	45,426
Amortisation charge	(358)	-	(358)
Closing net book amount	5,156	39,912	45,069

At 30 June 2006	**Cost**	**Accumulated Amortisation and impairment**	**Book value**
	R	**R**	**R**
Computer Software	5,514	(358)	5,156
Webiste Development	39,912	-	39,912
	45,426	(358)	45,069

9 CASH AND CASH EQUIVALENTS

The Agency has the following bank accounts

	2007 R	2006 R
Current Account (Primary account)		
ABSA Bank, Ring Road Greenacres		
Cashbook balance at beginning of year	567,772	656,981
Cashbook balance at end of year	**231,984**	**567,772**
Bank statement balance at end of the year	**231,984**	**567,772**
Savings Account		
ABSA Bank, Ring Road Greenacres		
Cashbook balance	101,782	-
Bank statement balance	**101,782**	**-**

Which are disclosed in the Statement of Financial Position as follows: -

	2007 R	2006 R
Bank Balances and Cash		
Bank Balance	231,984	567,772
Savings account	101,782	-
Cash at hand	211	-
	333,977	**567,772**

10 RECEIVABLES AND PREPAYMENTS

	2007 R	2006 R
Grant receivable from Industrial Development Corporation	122,526	-
VAT portion of grant to be reimbursed by parent municipalities	17,154	-
Prepaid rental	10,758	-
Value added tax	58,149	-
PAYE receivable from Board members	4,375	-
	212,962	**-**

11 REVENUE

	2007 R	2006 R
Cacadu District Municipality Grant	500,000	-
Industrial Development Corporation of South Africa		-
- Pre - Establishment Phase	-	683,877
- Establishment Phase	2,372,824	-
- Operational Phase	122,526	-
Donations received	52,632	-
	3,047,982	**683,877**

12 OTHER INCOME

	2007 R	2006 R
Request for proposal receipts	2,105	-
	2,105	**-**

13 EMPLOYEE RELATED COSTS

	2007 R	2006 R
Employee related costs - Salaries and wages	1,067,109	292,759
Employee related costs - Performance Bonuses	131,400	-
Employee related costs - UIF	5,144	584
Leave pay accrued	32,755	15,120
Employee related costs included in the Statement of Financial Performance	**1,236,408**	**308,463**

Remuneration of the Chief Executive Officer

	2007 R	2006 R
Employee related costs - Salaries and wages	600,000	205,555
Employee related costs - Performance Bonuses	31,500	-
Employee related costs - UIF	1,400	439
Leave pay accrued	17,000	15,120
Employee related costs included in the Statement of Financial Performance	649,900	205,994
CEO telephone allowance included in telephone expenses	12,000	-
Total remuneration of Chief Executive Officer	**661,900**	**205,994**

13 EMPLOYEE RELATED COSTS (continue)	2007 R	2006 R
Remuneration of non-executive directors		
Fee for attending board meetings	106,224	88,165
	106,224	88,165

Remuneration paid to non-executive directors consist of the following:

Board fees:-	
Mr Mayekiso	6,500
Mr Sibam	7,000
Ms Prinsloo	2,500
Ms Mshumi	6,500
Mr Moss	8,000
Mr Setipa	1,500
Travel and and accomodation	74,224
	106,224

In the prior year, directors remuneration was paid by Cacadu District Municipality on behalf of the Agency

14 CORRECTION OF PIOR YEAR ERRORS

During the year ended 30 June 2006, expenditure incurred to develop the Agency's website were erroneously expensed as advertising. This amount has been reclassified as an Intangible Asset (website development) in the statement of financial position.

During the year ended 30 June 2006, the company also erroneously did not make a provision for performance bonuses. These bonuses were provided for by raising a provision in the 2006 and 2007 financial years.

During the year ended 30 June 2006, the Agency bought computer software and erroneously classified these assets as tangible assets. During 2007, these assets have been reclassified as intangible assets and the comparative amount corrected. This reclassification did not have an influence on the accumulated loss.

During 2006 and 2007,the Agency only recognised receipts and disbursements of each phase once all the milestones have been completed (irrespective of the financial year in which the revenue was received and the disbursements made). The entity now decided to recognise all revenue to the extent that it has been utilised in order to conform with the benchmark treatment in the Statement of GAMAP on *Revenue*. Where applicable, this excludes the revenue generated as a result of interest received (refer note 1.6)

This change was as a result of phases not coinciding with the financial year of the Agency.

The abovementioned change resulted in the IDC pre-establishment phase being accounted for in the 2005 and 2006 Statement of Financial Performance and the IDC establishment phase in the 2007 Statement of Financial Performance. Part of the IDC operational phase which started in June 2007 has also been accounted for in the 2007 Statement of Financial Performance.

During the prior year the Agency did not recognise operating leases as an expense on a straight-line basis over the term of the lease. In 2007, this has been rectified retrospectively and all lease payments have been corrected in the statement of financial performance. The difference between the lease payments made and what the lease payments should be on a straight-line basis, have been accounted for as accrued lease payments in the statement of financial position.

The comparative amount has been restated in 2005 and 2006 as follows:	2007 R	2006 R (restated)	2005 R (restated)
Correction of website development costs previously expensed as advertising, now capitalised as an intangible asset.	-	39,913	-
Performance Bonus provided for in prior year	-	(31,500)	-
Conditional Grant and interest received reflected as revenue in statement of financial performance	-	753,349	112,123
Disbursements made in respect of conditional grant reflected as expenditure in the statement of financial performance	-	(743,149)	(112,123)
Lease payments appropriated on a straight line basis	-	(21,054)	-
	-	(2,441)	-

	2007	2006
15 CASH GENERATED FROM / (UTILISED IN) OPERATIONS	**R**	**R**
Net surplus / (loss) for the year	(99,836)	(139,142)
Interest paid	1,000	-
Interest received	(64,236)	(69,472)
Operating profit before working capital changes:	(163,072)	(208,614)
- Receivables and prepayments	(212,962)	-
- Trade and other payables	790,892	67,676
Cash generated from / (utilised in) operations	**414,858**	**(140,938)**

16 OPERATING LEASES

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2007	2006
Lease of office building	**R**	**R**
No Later than 1 year	136,627	129,488
Later than 1 year and no later than 5 years	59,169	195,796
	195,796	**325,284**
Lease of telephone system (PABX)		
No Later than 1 year	9,144	7,011
Later than 1 year and no later than 5 years	46,529	42,299
Later than 5 years	2,258	15,603
	57,932	**64,913**

Terms of the operating leases

Lease of office building

The lease period commenced on 1 December 2005 and shall be for a period of three years with the option of the tenant to renew the lease. The rental shall escalate at a rate of 10% per annum.

Lease of telephone system (PABX)

The lease period commenced on 1 September 2006 and shall be for a period of six years with the option of the tenant to renew the lease. The rental shall escalate at a rate of 10% per annum.

17 ADDITIONAL DISCLOSURES IN TERMS OF THE MUNICIPAL FINANCE MANAGEMENT ACT

17.1 AUDIT FEES

Opening balance	-	-
Current year audit fee	-	-
Amount paid - previous year	(11,520)	-
Underprovision - previous year	11,520	
Balance unpaid (included in creditors)	-	-

17.2 PAYE and UIF

Opening Balance	-	-
Current year payroll deductions	287,989	-
Amount paid - current year	(246,568)	-
Amount paid - previous year	-	-
Balance unpaid (included in creditors)	**41,421**	-

17.3 VALUE ADDED TAX

VAT receivable at year end has been shown in note 8. As at 30 June 2007 all VAT returns have been brought up to date and submitted to SARS.

18 POST BALANCE SHEET EVENTS

No material events occurred in the post balance sheet period

19 CONTINGENT LIABILITIES

We are not aware of any pending or threatened litigation, proceedings, hearings, claims or negotiations which may result in significant

20 RELATED PARTIES

Relations

Parent Municipalities	Cacadu District Municipality and Kouga District Municipality
Funder	Industrial Development Corporation

	2007 R	2006 R
Transactions with parent municipalities		
Statement of Financial performance		
- Grant received from Cacadu District Municipality	500,000	-
Statement of Net Assets		
- Loan from Cacadu District Municipality	3,895	713,912
Key management personnel		
Chief executive officer and Land and Planning Manager		
- Salary	812,174	205,555
- Telephone allowances	19,200	-
- Performance Bonus	44,820	-
	880,994	205,555

21 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

No such expenditure incurred during the period.
All resources were obtained and used in accordance with a legally adopted budget.

CHAPTER 9

REPORT BY AUDITOR GENERAL

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF KOUGA DEVELOPMENT AGENCY FOR THE YEAR ENDED 30 JUNE 2007

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Kouga Development Agency which comprise the statement of financial position as at 30 June 2007, statement of financial performance, statement of changes in net assets and separate cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 33 to 48.

Responsibility of the accounting officer for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 to the financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). 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
   - making accounting estimates that are reasonable in the circumstances.

Responsibility of the Auditor-General

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. 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.

6. An audit also includes evaluating the:
   - appropriateness of accounting policies used
   - reasonableness of accounting estimates made by management
   - overall presentation of the financial statements.
7. Paragraph 11 et seq. of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is still in the process of being developed, I have determined that my audit of any disclosures made by the Kouga Development Agency in this respect will be limited to reporting on non-compliance with this disclosure requirement.
8. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Basis of accounting

9. The municipal entity's policy is to prepare financial statements on the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1.

Opinion

10. In my opinion the financial statements present fairly, in all material respects, the financial position of Kouga Development Agency as at 30 June 2007 and its financial performance and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury, as set out in accounting policy note 1.1 and in the manner required by the MFMA.

Emphasis of matter

11. Without qualifying my audit opinion, I draw attention to the following matter:

    With reference to notes 13 and 14 to the financial statements, the entity has restated comparatives due to all of the following:

11.1 The prior period's financial statements included material misstatements discovered in the current period.

11.2 Prior period financial statements have not been revised.

11.3 Comparative figures in the current period's financial statements have been restated

OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

12. **Non-compliance with applicable legislation**

12.1 Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)

12.1.1 The entity did not comply with section 99(2)(b)(ii) of the MFMA as the accounting officer did not take all reasonable steps to ensure that employees' tax of R24 171 for December 2007 was paid over within 30 days of receipt of invoice/statement.

12.1.2 The entity did not comply with section 165(1) and (2) of the MFMA as an internal audit unit was not in existence during the financial year under review.

12.1.3 The entity did not comply with section 166(4)(a) of the MFMA as the audit committee was not properly constituted.

12.1.4 The entity did not have a formal, documented system of delegations as required by section 106 of the MFMA.

12.1.5 The monthly budget statement submitted to the accounting officer of the parent municipality did not include a projection of revenue and expenditure for the remainder of the financial year and a signed hard copy was not submitted monthly as required by the MFMA section 87 (11 – 14).

13. **Matters of governance**

The entity did not have an effective audit committee and internal audit function during the year in review and therefore the entity was not subjected to risk assessments.

14. **Material corrections made to the financial statements submitted for auditing**

The financial statements, approved by the accounting officer as submitted for auditing on 31 August 2007 have been significantly revised in respect of the following misstatements identified during the audit.

14.1 Revenue from conditional grants was calculated incorrectly, resulting in an overstatement of revenue recognised from conditional grants and an understatement of the unspent conditional grant liability by R48 016.

14.2 A provision for performance bonuses was not raised in the prior year as required by Standards of Generally Accepted Municipal Accounting Practice (GAMAP 19) *Provisions*. This resulted in employee costs and the accumulated deficit being overstated by R31 500. The provision for performance bonuses in the current year was incorrectly calculated, resulting in employee costs and the provision for bonuses being overstated by R44 250. The audit adjustment was interpreted incorrectly by the client, resulting in an adjustment of R35 460 being processed. The unadjusted portion of R8 790 was considered to be immaterial.

14.3 The leave pay accrual was incorrectly calculated, resulting in an understatement of employee costs and the leave pay accrual by R15 120.

14.4 The movement in provisions from the beginning of the period to the end of the period reflecting additions to provision and amounts used were not disclosed as required by Standards of Generally Accepted Municipal Accounting Practice (GAMAP 19) *Provisions*.

14.5 Operating leases were not straight-lined as required by International Accounting Standard (IAS 17/AC 105): *Leases*. This resulted in the opening accumulated deficit and accounts payable being understated by R21 054. The effect of straight-lining in the current year resulted in the lease expense and lease were not disclosed as required by International Accounting Standard (IAS 17/AC 105): *Leases.*

14.6 Website development costs incurred were incorrectly recognised as an expense in the prior year. This resulted in intangible assets being understated and the accumulated deficit being overstated by R39 913. In addition, software purchased was incorrectly recognised as a tangible asset resulting in property, plant and equipment being overstated and intangibles being understated by a net carrying value of R7 564.

14.7 Comparative figures in the statement of financial position, statement of financial performance and the cash flow statement were restated as a result of the items mentioned in paragraph 11 above. Disclosures detailing the nature of the prior period error, the amount of correction per each financial statement line item and the amount of the correction at the beginning of the earliest prior period presented as required by GRAP 3: *Accounting policies, changes in accounting estimates and errors* were not included in the annual financial statements.

14.8 The salaries, allowances and benefits of the chief executive officer, members of the board of the municipal entity and senior managers were not adequately disclosed as required by section 124 (2) of the MFMA.

15. **Internal control**

Section 62(1) (c) (i) of the MFMA states that the accounting officer must ensure that the municipal entity has an maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes of the matters indicated, as they relate to the five components of internal control. In some instances deficiencies existed in more than one internal control component.

Reporting item	Control environment	Assessment of risks	Control activities	Information and communication	Monitoring
Emphasis of matter					
Comparatives have been restated	✔				✔
Other matters					
Non-compliance with applicable laws and regulations	✔				✔
Material corrections to the financial statements	✔				✔

OTHER REPORTING RESPONSIBILITIES

Reporting on performance information

16. I have audited the performance information as set out on pages xx to xx.

Responsibilities of the accounting officer

17. In terms of section 121(4)(d) of the MFMA, the annual report of a municipal entity must include an assessment by the entity's accounting officer of the entity's performance against any measurable performance objectives set in terms of the service delivery agreement or other agreement between the entity and its parent municipality.

Responsibility of the Auditor-General

18. I conducted my engagement in accordance with section 13 of the Public Audit Act, 2004 (Act No. 25 of 2004) read with *General Notice 646 of 25 May 2007*, and section 45 of the MSA.

19. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

20. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Audit findings

21. There were no documented policy and procedure framework in place relating to the performance management process.

APPRECIATION

22. The assistance rendered by the staff of the Kouga Development Agency during the audit is sincerely appreciated.

Auditor-General

Port Elizabeth

30 November 2007

AUDITOR-GENERAL

CHAPTER 10

RESPONSE TO AUDITOR GENERAL'S REPORT

RESPONSE TO THE REPORT OF THE AUDITOR-GENERAL FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

IMPLEMENTATION PLAN

Audit matter raised	Response	Action to be taken	Person responsible	Timeframe(s)
Emphasis of matter 11.1 The prior period's financial statements included material misstatements discovered in the current period. 11.2 Prior period financial statements have not been revised. 11.3 Comparative figures in the current period's financial statements have been restated	The financial statements were restated to address misstatements The misstatements relate to the following areas: - Revenue from conditional grant - Provision for performance bonus - Leave pay accrual - Disclosure of provisions, operating leases, intangible assets and salaries and benefits of senior managers and board Most of these relate to the requirements of the new International Standards, GAMAP and GRAP.	Relevant exposure to or training in the new standards. The internal audit function to assist in ensuring the correct manner of disclosure	Finance Manager Chief Executive Officer	Jan – June 2008 Ongoing for training

Audit matter raised	Response	Action to be taken	Person responsible	Timeframe (s)
Non-compliance with applicable legislation 12.1 Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) 12.1.1 The entity did not comply with section 99(2)(b)(ii) of the MFMA as the	The Agency made use of an electronic future payment because of the shut-down period. This payment did not go	SARS payments will be done immediately before the Agency shuts down for the	Finance Manager	Monthly and before annual shutdown

accounting officer did not take all reasonable steps to ensure that employees' tax of R24 171 for December 2007 was paid over within 30 days of receipt of invoice/statement.	through. .	holidays		
12.1.2 The entity did not comply with section 165(1) and (2) of the MFMA as an internal audit unit was not in existence during the financial year under review	The function was not funded, but with regard to the IDC grant, the IDC itself provided these services. However, the AG could not rely on the IDC reports	PWC has been appointed as the internal auditors	Chief Executive Officer Finance Manager	January 2008
Audit matter raised	**Response**	**Action to be taken**	**Person responsible**	**Timeframe(s)**
12.1.3 The entity did not comply with section 166 of the MFMA as the audit committee was not properly constituted.	Names of audit committee members have been submitted to parent municipalities for approval.	Appointment of the Audit committee to be finalized and commence their work	Chief Executive Officer	February 2008
12.1.4 The entity did not have a formal, documented system of delegations as required by section 106 of the MFMA	The comment is accepted although authority is regulated by the appointment and related duties. Formal delegations are to be finalized	Formal delegations are to be developed	Chief Executive Officer	February 2008
12.1.5 The monthly budget statement submitted to the accounting officer of the parent municipality did not include a projection of revenue and expenditure for the remainder of the financial year and a signed hard copy was not submitted monthly as required by the MFMA	Accepted	Reporting format to be reviewed to include this information	Finance Manager	February 2008

section 87 (11 – 14).				
3. Matters of governance The entity did not have an effective audit committee and internal audit function during the year in review and therefore the entity was not subjected to risk assessments.	This comment is accepted	Appointment of Audit Committee and Internal auditors	Chief Executive Officer	February 2008
4. Material corrections made to the financial statements submitted for auditing	These corrections refer to the misstatements listed above	Care must be taken to avoid recurrence	Finance Manager	May – July 2008
Audit matter raised	**Response**	**Action to be taken**	**Person responsible**	**Timeframe(s)**
5. Internal control Section 62(1) (c) (i) of the MFMA states that the accounting officer must ensure that the municipal entity has and maintains effective, efficient and transparent systems of financial and risk management and internal control.	The following matters were raised: No documented policy and procedure framework Specific areas in need of control The question of segregation of duties is hampered by the small staff component, as acknowledged by the AG	Appropriate policies and procedures are to be developed for approval by the Board	Finance Manager	January – February 2008
6. Performance audit There were no documented policy and procedure framework in place relating to the performance management process.	This comment is accepted. However performance is measured against IDC milestones and performance plans for staff members	Performance policy to be developed	Chief Executive Officer Finance Manager	February – March 2008

CHAPTER 11

COMPANY INFORMATION

Registered Office

P O Box 3465	Sevos Center
Jeffreys Bay	No 116 Da Gama Road
6300	Jeffreys Bay, 6300
Telephone Number:	(042) 200 6400
Fax Number:	(042) 293 1322
Email:	info@kougadevelopment.co.za
Website:	www.kougadevelopment.co.za