

# UMDA 2008\2009 Annual Report

## ANNEXURE B



*"Opportunity  
through Development"*

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## **UMHLOSINGA DEVELOPMENT AGENCY 2008\2009**

*The Board of the Umhlosinga Development Agency is proud to present its Activity\Action Plan for the term 2009\2010. The Chief Executive Officer and his Chief Operational Officer has prepared a detailed plan that speaks to the Strategic and Operational mandate of the UMDA.*

### *Vision*

***An inclusive, thriving district economy that directly benefits equitably, all of the communities and residents of the UMkhanyakude District Municipality.***

### ***The Mission statement:***

***To coordinate, plan and manage the implementation of a locally-driven program to fast-track the development of the local economy of the District of UMkhanyakude.***

### ***Institutional Mandate.***

*The UMkhanyakude Development Agency will function as a Local Economic Development Agency (LEDA) – a dedicated entity responsible for the planning and implementation of a program of sustainable economic growth and development in the sub region. The District Municipality of UMkhanyakude has formally mandated the agency, to:*

- A) Act as an agent, for and on behalf of the district municipality, for the purposes of implementing an integrated and sustainable program of programme economic development in the area,*
- B) To identify, plan and manage the implementation of economic development projects in the District of UMkhanyakude, as agreed to with the district and/or local municipalities of the district;*
- C) To acquire, own and manage land and buildings, and/or rights to land and buildings, on behalf of the district and/or local municipalities, to be used for economic development purposes.*
- D) To act as receiver, manager and/ or coordinator of technical assistance and development funding from donor, public and private sector institutions/organizations for the discharge of its mandate.*
- E) To raise, receive and hold funds, from any lawful source and to manage, administer and disburse those funds in pursuance of the objectives of the agency.*

## **Establishment Phase Projects**

### **Mkuze Regional Airport**

*The current status of the development is the following*

- 1. The Final draft report is to be presented to EXCO by end of June 2009*
- 2. 60 day's Delay in the presentation is attributed to two main factors:*
  - a. The Global economic melt down has had a severe impact on Air Travel and as such this was according to our specialist observers not adequately addressed.*
  - b. The feasibility study in total cost R3.4m of which R2.4m was budgeted for by DBSA and the remainder by IDC. However the new Chief operating officer at DBSA overturned the Sustainable Community funding committee recommendation.*

*He requested more detail and this has been done and the matter is now resolved and money will be disbursed in the next 30 to 60 days.*

### **Jozini Hydro**

*The hydro project inception report is to be presented to a full specialist panel and the UMDA on Friday 5<sup>th</sup> June 2009. This will pave the way for the compilation of a detailed feasibility and business plan by August 2009*

### **Remarks by CEO**

*I want to stress the importance of the two projects in the approach, they are both high cost projects and need to be thoroughly investigated as to the possible impact on both the economy and the client The District Municipality and the Taxpayer.*

*Secondly it is important that these two projects be handled in a professional and developmental manner as it is the two headline projects for the Sustainable Community Program MOU and as such will pave the way for further financial input into the district.*

*We need to acknowledge that the DBSA is investing a large amount of money and time into this program and as such needs to have all aspect well covered in order to continue support to our district economy.*

### ***New Office location***

*The Umhlosinga Development Agency is to be relocated to its original office in Mtubatuba; the UMDA is now fully staffed and as such. **New physical Address: 308 Ebony Crescent Mtubatuba.***

*We want to remind ourselves of our mandate and mission as this is the basis of our existence and the core reasons for the establishment. As an Economic development body we have identified four areas of strategic intervention, namely Agriculture, Property Development, Tourism and Industry (incl: Mining).*

*The landscape of Economic development has had to face some grave challenges in the last 12 months relating to the world wide economic meltdown, and these challenges have an impact on Economic activities wherever they take place.*

*The immediate effect it has on our economy is that new activities will become scarce and as a district, we will have to look at our strengths.*

***The following are some of our strengths viz; Climate, Land, Game Parks, Lebombo Mountains, Isimangaliso, Sodwana the N2 Mozambique, Swaziland and lastly and most importantly the eager community and people that are thirsty for Economic change.***

*The UMDA and its Strategic Partners have signed an MOU for economic development in UMkhanyakude. This document lays down the fundamentals of economic co-operation within the district. The main signatures to this document being UMkhanyakude district Municipality, Ingoyama Trust, 11 tribal Authorities, DBSA, IDC and the Department of Local Government. The MOU will lay the ground for the implementation of the Sustainable Community program in the district and will serve as guild and commitment by all to actively take part in the economic and social development of the District of UMkhanyakude.*

*The UMDA strategic direction and action plans for the 2009\2010 reporting year is done in the backdrop of its donor funding and the terms and conditions placed on it. The Key performance Arias of the UMDA (See Annexure A :) are lined to the availability of the IDC budget, and this term will see the UMDA making some bold interventions in to Agriculture*

## **AGRICULTURE**

*The launch and involvement of several projects will see us starting to address the backlog in economic activity within the Agricultural sector. This is one of our untapped areas with a lack of direction and partnerships that make Economic sense. It is our opinion that strong partnerships need to be established amongst land owners, producers and retailers to create a sustainable value chain economic development.*

*The UMDA will continue to engage possible partnerships in the district and encourage both local and national companies to look at partnering to establish agribusiness.*

## TOURISM

*The continued support to the ECTA in specific marketing will be addressed by the appointment of a staff member that will not only be involved in the development and transformation of the industry but will assist in the destination marketing of Elephant coast.*

*The marketing of new investment opportunities in the industry will be a focus for the 2009\2010 and beyond. The identification of new possibilities and the strengthening of current products should be a priority. The main focus will be based on opening up the new tourism destination for the visitors. This project will compliment the development of the Regional Airport.*

## CURRENT PROJECTS:

- 1. Rhino Hotel complex N2 Bush lands the development of a 120-bed for hotel for tourist accommodation, a self catering facility with 40\*2 bedroom units and a Marine storage facility for Boat owners utilizing our beaches.*
- 2. The UMDA has started with the initial engagement of relevant institutions regarding the development of the Royal Elephant Route as a new destination in South Africa. This project will see the development of new products along the R22 and the Phelendaba Ingavuma roads this will eventually lead the tourist through Hlatikhulu forest back to Airport via Ubombo.*
- 3. Zulu Cultural Monument and Museum to be allocated at Bhambanana facing the Ingavuma River. This is first Cultural Tourism projects and will fit in with the initiatives identified by the Arts and Culture Heritage Agency plan to bring tourism to UMkhanyakude based on the very significant but underplayed importance of this region.*

- 4. The development of six 2 Star level SMME establishments is a priority for the UMDA as this forms part of the marketing support to ECTA, the SED department of UMkhanyakude and ECTA will assist in the development of such SMME's. The UMDA will engage the Durban International Hotel School for the development of a program of 10 phases to develop these establishments to the required level.*
- 5. New possibilities regarding Pongola Dam and surrounding areas as well as areas at Mfekayi.*

## **INDUSTRY**

*The UMDA has recognized the importance of development within the technical sector and as such will not only support the development of sugar production plants but further feasibility desktop studies are underway to look at other processing plants relating back to our agricultural industry.*

- 1. The UMDA has placed a request with the DBSA for the detailed scan of Mineral deposits in the UMkhanyakude District. This project will see the identification of sites within the district for possible exploitation of mining prospect.*
- 2. Production plants related to the agricultural industry, in an efforts to increase agricultural production in the district, the need for the establishment of Processing Plants will become logical next step this must be done as part of the Value Chain program of sustainable development. Several sites and possibilities will be investigated*
- 3. Processing of Marula and Pineapple products in the Hluhluwe to Mbazwana towns as the most central points of departure.*
- 4. IDC sugar Mill development, this project is in final Feasibility stages and we are awaiting confirmation as to its progression.*



## PROPERTY DEVELOPMENT

*The need to provide accommodation to the middle class in Umkhanyakude is an ongoing problem and we need to look at some innovative ideas to overcome this challenge. The UMDA has been investigating a few options but at this stage there are not any tangible solutions to the problem.*

*The one avenue is to acquire land from one or more tribal authorities and then go the DFA and EIA route. The UMDA is in the process of finalization of such a program of intervention.*

*Currently the UMDA has made an offer to purchase land in Mkuze town. This property will have a threefold effect on the UMDA and the District. The property can be run as a Guest House secondly the property will be developed with the help of DBSA and IDC for rental housing for staff and other civil servants, finally the property will become the UMDA's first form of equity and as such will lessen the financial burden on the Parent body in this will also reflect positively on the financials of the District municipality.*

*The purchase will be done with a Grant Funding within the Sustainability Program total Grant application is R3m.*

## NEW PROJECTS AND MARKETING

*The CEO will for the first time since the inception of the UMDA be able to deal with matters of marketing, Lobbying and Product Development. The UMDA has had to comply with many challenges on the Administration and Local Government Legislation aspects and this was done with few staff and capacity.*

*The appointment of an Accountant and a Project Staff including LED cadets will enable the CEO to concentrate 100% of his time to the strategic matters including the development of a Strategic Economic Plan for the district economy.*

*The UMDA will continue to engage new projects and will evaluate these projects with the relevant strategic partners UMkhanyakude District, IDC, DBSA and Private Sector Business.*

*The continued marketing of investment in the district at the main Investment Conventions held annually will continue. The marketing of UMkhanyakude as a new tourist destination and Economic Possibilities will be the main focus. However a carefully developed plan of engagement will pave the way for effective marketing strategy and products that are investment orientated.*

*The UMDA, SED and the department of Communications UMkhanyakude will produce a monthly News paper to be distributed at the municipalities, shops, garages and other important community centers. The aim of this publication is to communicate effectively with the community and the visitors to our district.*

*The UMDA would like to look at the publication as a Self- Finance project within the first 4-6 months to ensure the sustainable development of this publication into a feasible alternative to the other regional publications.*

## KEY PERFORMANCE AREAS IN THE 2008\2009 FINANCIAL YEAR.

Establishment Phase\ First Operational Milestones	Outcome	Month	Year
Awarding of Airport feasibility and Business Plan	After intense engagements with DBSA, SSI and UMDA the feasibility final draft will be presented to EXCO by June 2009	8	2008
	A further delay was caused due to the delay in the MOU signing and the availability of Finance for the completion of study.	6	2009
Awarding of the Hydro Electrical Feasibility study	Currently underway the final draft will be presented to UMDA by August 2009	8	2008
		8	2009
Recycling due to allocation of budget in May 2009 this implementation is delayed	To be linked to Solid Waste Program of DC 27	7	2009
Marula May 2009 this implementation is delayed	Project steering committee formed and co-operatives in place funds from DED KZN has been made available	7	2009
Alternative Energy Expansion May 2009 this implementation is delayed	This project is to be implemented as soon as the feasibility of Hydro has been completed.	10	2009
UMkhanyakude News paper	Establishing a District wide news paper to be to focus on district News and events, to ensure effective communication.	5	2009
Full staffing for optimal operations	Accountant was appointed	4	2009
Staff recruitment to deliver on Operational program	Tourism and marketing Manager Appointed	5	2009
DTI LED Cadet program application	Two cadets seconded to UMDA	4\7	2009
Corporate Governance training	4 Board members, COO and CEO attended Corporate	6	2009

Establishment Phase\ First Operational Milestones	Outcome	Month	Year
	governance training.		
Agricultural projects Identified	Steering committee to be formed after the successful first initiation meetings, DBSA will incorporate the SCP (Sustainable Community Program) principles in the project and will be assisting in Infrastructure and support to project.	4	2009
PANNAR SEED producing of seed high value crops in collaboration with Sqakathi Tribal Authority		7	2009
Sugar association Formed	Establish a forum for emerging farmers in the sugar industry district wide. Assisting them in the establishment of a Cane Growers Association.	10	2008
		7	2009
Application to purchase property at Mkuze Town	Grant funding application submitted to DBSA sustainable Community program	4	2009
Application for Mining survey		4	2009
Solid Waste Management service Level Agreement		7	2009
Strategy 2009 the way forward UMDA	UMDA Strategy session	7	2009

## STRATEGIC RELATIONSHIPS

*The UMDA has in the 18 month of Pre- Establishment phase been able to build strong relationships that have a strategic value to our operations.*

### ***SED UMkhanyakude***

*The close relationship we have between the Department of Social and Economic Development is a vital part of ensuring support to the Agency from all quarters of the Public and Private sector.*

*With the continued support of the parent body under difficult circumstances we are able to continue with our tasks.*

### ***The DBSA***

*Amunga Andanje of the development Bank and the support structure that comes with him under the Sustainable Community Program has been pillar of hope and encouragement.*

*The technical, specialist and Financial support of the DBSA brings us as an Agency to a level that ensures service provider a world class reports and service.*

### ***The IDC***

*The IDC as our donor has been a fundamental support structure in the establishment of our programs. The additional support in the form of the LED Cadet Program is of great benefit as it brings qualified workforce from our district and empowers them and us to deliver on our mandate.*

### **Local Municipalities**

*The support that we enjoy from our Local Municipalities and their staff ensures that the IDP of the district remains a focal point in our delivery of a sustainable economy.*

*The expansion of our horizon in the 2009\2010 year will see the CEO and SED build new relationships that will directly benefit the programs that we currently have within the district*

*However there needs to be more collaboration with regards to cooperative development and the implementation of a Value Chain Based strategy that would assist the economy to grow in a more inclusive and sustainable manner.*

## **HUMAN RESOURCES**

*I do believe that the district LED Unit and the UMDA should work very close and should have synergy in identifying resources and management of projects. The district has an ideal opportunity to utilise the CEO and the EXEC Dir SED for strategic interventions. This pertains to lobbying, Investment Marketing and driving the process of establishing a 20 year development strategy. This should happen while work is being done on the ground. I am perfectly willing to avail my staff to work closely with the SED on an integrated approach.*

*While the CEO will continue to identify new opportunities these opportunities must immediately find synergy within the IDP process. The UMDA should act as a support arm to the District Economic Strategy, but there needs to be a well planned economic growth strategy in place. There is no blurring of functions as large projects are identified assessed and feasibility done by both institutions. The CEO supported by staff is to promote project with all possible investors and monitor the implementation of such projects Enquiries with sustainable community program.*

*The Co-ordination of UMDA staff can be done by the LED Director as is currently the case. This will ensure that when a project is identified by either SED or UMDA the impact can be assessed, and if the project is an investment driven project it should be transferred to the CEO's office. If it is determined that the project be smaller non investment driven and or poverty alleviated nature should be referred to the Executive Director SED.*

*We do believe that the UMDA has a strong relationship with SED and therefore a closer more efficient working model should be looked at. The CEO is mandated to utilize all resources of the UMDA to drive market and facilitate the economic growth in UMkhanyakude and this speaks to large scale initiatives. The SED is well aware of its mandate it is therefore an opportunity to ensure that there is no duplication, wasteful expenditure and the maximum utilisation of all resources.*

## **FINANCIAL RESOURCES**

*The development of a 20 year Economic strategy is a very important facet of our implementation of economic development and as such the need to engage a variety of people for the development of such a strategy plan. The CEO and Executive Director SED need to allocate funds to engage professionals on the economic and historic front to ensure that such a plan not only developed but that it becomes the basis for development by the people of UMkhanyakude.*

*We will continue to increase our efforts to achieve our mandate objectives, bearing in mind that the macro intervention in to our economy will not happen overnight. Regarding the immediate future board will have a strategy planning and review in July 2009; this will be the most important in the life of the Agency as it will determine the main focus arias of the UMDA for the long, medium and short term KPA's to be achieved.*

## COMMENTS BY CHIEF EXECUTIVE OFFICER

*It is very important to note that the UMDA will only be spending resources on the KPA's as determined by the Strategy of the UMDA board of Directors. This is to be finalized on the 23<sup>rd</sup> of July 2009.*

*The main reason for the indication of a loss is placed against the fact the financial support from the DBSA is only to be transferred to the UMDA in the new financial year. This funding will be allocated to the creditors outstanding.*

*The UMDA has placed advertisements for the invitation of qualified individuals from the public to act as Audit Committee Mr Steven Nell from IDC has been invited to tend as member of Audit Committee. Mrs. Janice Dodkins member of the Board of Directors will serve as member in terms of board resolution.*

*The UMDA has achieved an Unqualified Audit with matters pertaining to Audit committee and going concern.*

*The UMDA has achieved 70% of its establishment phase and as such is on track to comply with its mandate as and LEDA. The new financial year will see the implementation of the Mkuze Airport and the Jozini Hydro. Partnerships with Pam Golding and MTN of variety of development initiatives.*

*The UMDA as founding member of the LEDA CEO forum hosted a successful conference in June and as such have strengthened the process and contributed positively to the Development Agency program.*

*The UMDA will continue with the "UMkhanyakude News".*

*The UMDA was joined by two well capacitated and educated individuals this year Miss Angel Mbokazi as Accountant was given the task of steering the UMDA both as financial Manager and Company Secretary .The outcomes of the 2008/2009 audit was an achievement on its own and she is proving to be an asset to the UMDA.*



*Miss Nonhlanhla Biyela joined the UMDA as Marketing and Tourism Manager and her professionalism and dedication to the UMkhanyakude District is evident in the work she has delivered to date. The successful process of the “UMkhanyakude News” has in effect been achieved by her ability to take initiative; I am looking forward to her continued good work in the new financial year.*

*The UMDA has a great and dedicated Board of Directors and these men and Lady have again proved themselves to be developmentally minded and as such I would like to congratulate them and thank them for their support and work during this year.*

*The Parent body in the form of UMkhanyakude District municipality is the main reason why the UMDA is able to achieve its mandate. The progressive and bold council and management has once again been very accommodating in the helping the UMDA grow from strength to strength.*

*I want to thank his worship the mayor Cllr LM Mthobeni and the EXCO for their dedication and time .The last word of thanks is to management in the form of acting municipal Manager Mr. Siphso Mathobela both as social development Executive Director and MM he has shown support and capacity to the UMDA and we salute his work.*

## SPECIFIC PERFORMANCE ACHIEVEMENTS

1. *Successful delivery and facilitation of the Mkuze Airport Feasibility Plan.*
2. *Successful delivery and facilitation of the Jozini hydro Feasibility Plan.*
3. *Successful securing R5m of Funds from DBSA towards payment of the abovementioned feasibilities.*
4. *Completion of the Sustainable Community MOU.*
5. *Although it is a given that good financial controls needs to be done we achieved other Unqualified Audit but with matters, these will and have been mostly addressed since Audit and it is believed that next Financial Year will be no matters.*
6. *Both Mkuze Airport and Jozini Hydro has been approved by EXCO to be implemented.*

***Alroy Gericke, Chief Executive Officer***

### ***Comments from the Chairman of the Board***

*Very good and Extensive report kindly, I will in future with regards to meeting with Tribal Authorities and EXCO. This is in support of the relationship with the parent body in terms of condition as laid down by the Mayor.*

*More engagement between me and the Mayor will be promoted to ensure that as Chairman of the Board I assist in the relations between district and the UMDA.*

***Rev HAS Fakude, Chairman of the Board of Directors***

## **Annexure A**

### **1<sup>st</sup> Tranche of 1<sup>st</sup> Operational Phase**

<b>Key Performance Objective</b>	<b>Strategy</b>	<b>KPI</b>	<b>Estimated Cost</b> <b>Outputs</b> <b>2008-2009</b>	<b>Estimated Time lines</b>
<b>Sustainable Communities and Economic transformation</b>	<ol style="list-style-type: none"> <li>To recycle waste in the district.</li> <li>To manufacture products from Marula fruit and nuts/ To compliment current project, with additional by products from the current drying process.</li> <li>engage medical practitioners in the district to set up a top class medical facility</li> </ol>	<ol style="list-style-type: none"> <li>Feasibility study for byproducts and recycling</li> <li>Feasibility study</li> <li>Feasibility study</li> <li>Feasibility and Business Plan</li> </ol>	1. R 35 000.00	4months ( Feb/June )
			2. R 85 000.00	3months (Feb /may)
			3. R 25 000.00	4months(Feb /June)
<b>1. Recycling</b> <b>2. Marula Production/ Pineapple By products</b> <b>3. Private Hospital</b>				2months(June /July )
	<ol style="list-style-type: none"> <li>Generate electricity through out the district</li> <li>Generate 25MW to 40MW of renewable</li> </ol>	<ol style="list-style-type: none"> <li>To have completed Business Plan and Design Plans for Hydro generation</li> <li>Feasibility for Solar generation to compliment Hydro</li> <li>Feasibility on Wind Generation</li> </ol>	1. R 300 000.00	7months (March/Sept)
			2. R 70 000.00	5months ( Feb /June)
3. R 70 000.00				
<b>Renewable Energy</b>				

	Green Electricity			5months( March /july)
<b>Mkuze Airport</b>	Provide Air-Travel to and from the district and to increase economic activity as a result of the Airport	1. Business and Design Plans	R400 000.00	4months(March /July)
<b>Operational sustainability</b>	To become Financially independent from Donor Organizations	Business plan and lobby work with DEPT transport and NRA	R 40 000	5months(M arch /july)
<b>Add Boards</b>	Advertising Boards	Feasibility Study for the Construct Office park central to district	R 40 000	2months(fe b/april)
<b>Office Park</b>	Office Park	Lobby work	R 25 000	3months(a pril /july)
<b>Concessions</b>	Obtaining of two Concessions			
<b>Elephant Coast Tourism</b>	Have 50 BEE\BBBEE sustainable Tourism product owners by December 2009	Establish BBEE chatter and investment plan for SMME tourism operators	R 35 000	3months(fe b/may)
		Marketing of SMME product owners based on chatter	R 150 000	3months(m ay /july)
<b>Royal Elephant Route</b>	Establish and new District Based Route to promote the Inner-Route and corridor	Feasibility and Business Plans for Cultural Museum Bhambanana	R 45 000	3months(m arch/may)
		Feasibility of 4 Adventure sport facilities between Hluhluwe and Ingavuma	R 50 000	4months(m ay/august)

<b>Agriculture UMkhanyakude Mjindi</b>	To manage the irrigation scheme on behalf of the Department of Agriculture	Feasibility study and lobby work lobby and Capacity building	R 40 000 R 40 000	3months(fe b/may)
<b>Sugar Mill</b>	To establish and facilitate the local Agriculture in preparations of the proposed Sugar Related Projects	Investigation and Plan Feasibility and Lobby	R 50 000 R 35 000	2months(M arch/june)
<b>Market related Investment Plan</b>				3months(a pril/july)
<b>Agricultural\Technical School in District</b>	To commission an Investment strategy based on SWOT of the Agriculture industry and to formulate an investment plan			3months(a pril/june)
	The establishment of an Grade 6 to 12 School for Agriculture and Technical skills in District			

<b>Housing UMkhanyakude</b>	To provide housing for Middle-Class and Up-Market consumers currently having no housing access	Business Plan for rental Housing in Mkuze Town	R 35 000	2months(FebApril)
			R 40 000	3moinths(April/june)
		Business Plan for the Development of Land between Hluhluwe Town and N2		
<b>Operational Cost for Umhlosinga Development Agency</b>	First Six Month Operations of Office and Mandate	Human resource	R 500 000	6months(Feb/july)“
		Travel	R 150 000	
		Operational cost	R 49 320	
		Board	R 52 500	
		Other Cost (legal, Audit ext :	R 63 650	
<b>Total cost for Month 1 to 6</b>			<b>R 2,435,470.00</b>	

## **Annexure B**

### **Financials**



Umhlosinga Development Agency (Proprietary) Limited  
(Registration number 2004/016608/07)  
Annual financial statements  
for the year ended 30 June 2009



# Umhlosinga Development Agency (Proprietary) Limited

*Annual Financial Statements for the year ended 30 June 2009*

## General Information

<b>Country of incorporation and domicile</b>	South Africa
<b>Nature of business and principal activities</b>	Municipality Development Agency
<b>Directors</b>	H A S Fakude L F Mathenjwa W D Eckersley L E Mngomezulu

J L Dodkins

**Registered office**

21 Klebe Street

Mkhuze

Kwazulu Natal

3001

**Business address**

Lot 308 Ebony Crescent

Mtubatuba

3935

**Auditors**

Auditor General South Africa

**Company registration number**

2004/016608/07

# Umhlosinga Development Agency (Proprietary) Limited

*Annual Financial Statements for the year ended 30 June 2009*

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

Detailed statement of financial performance	20 - 21
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# Umhlosinga Development Agency (Proprietary) Limited

*Annual Financial Statements for the year ended 30 June 2009*

## Director's responsibility statement

The directors are required by the Generally Recognized Accounting Practices and Companies Act of South Africa, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with Generally Recognized Accounting Practices (GRAP) and South African Statements of Generally Accepted Accounting Practice (GAAP). The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with Generally Recognized Accounting Practices (GRAP) and South African Statements of Generally Accepted Accounting Practice (GAAP) and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavors to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behavior are applied and managed within predetermined procedures and constraints.

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

The directors have reviewed the company's cash flow forecast for the year to 30 June 2009 and, in the light of this review and the current financial position, they are satisfied that the company has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the board of directors is primarily responsible for the financial affairs of the company, they are supported by the company's external auditors.

The external auditors are responsible for independently reviewing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 5 to 19, which have been prepared on the going concern basis, were approved by the board of directors on 31 August 2009 and were signed on its behalf by:

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**H A S Fakude**

# Independent Auditor's Report

To the member of Umhlosinga Development Agency (Proprietary) Limited

**Emphasis of Matter**

Additional text

**Other Matters**

Additional text

**Report on Other Legal and Regulatory Requirements**

Additional text

**Additional information**



**Auditor General**

**Per:**

**31 August 2009**

# Umhlosinga Development Agency (Proprietary) Limited

*Annual Financial Statements for the year ended 30 June 2009*

## Director's report

### 1. Incorporation

The company was incorporated on 17 June 2004 and obtained its certificate to commence business on the same day. The company was originally incorporated under the name Maxi trade 42 General Trading (Proprietary) Limited and changed to Umhlosinga Development Agency (Proprietary) Limited on the 04 July 2006, and remained dormant until 01 January 2008 where the establishment phase commenced.

### 2. Review of activities

#### Main business and operations

The company is engaged in acting as an agent for and on behalf of Umkhanyakude District Municipality for the purpose of implementing economic, social and environmental policies and projects, as identified by or agreed with the local municipality economic development agency and all its business allied thereto and ensure the development of Umkhanyakude Municipality and its surrounding areas. The operating results and state of affairs of the company are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net (deficit)/surplus of the company was (R 908 382) (2008: R1 362 691) after taxation of R 19 200 (2008: R48 785).

**3. Going concern**

We draw attention to the fact that at 30 June 2009, the company had an accumulated surplus of R 454 309 (2008: R1 362 691) and that the company's total assets exceed its liabilities. The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the company to continue as a going concern is dependent on a number of factors. The most significant of these is that the directors continue to procure funding for the ongoing operations for the company.

**4. Owners contributions**

There were no changes in the authorised or issued share capital of the company during the year under review.

**5. Directors**

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

<b>Name</b>	<b>Nationality</b>
H A S Fakude	South African
L F Mathenjwa	South African
W D Eckersley	South African

L E Mngomezulu	South African	
J L Dodkins	South African	
C E Rutherford	South African	<b>Resigned: 16/03/2009</b>

**6. Holding company**

The company's holding entity is Umkhanyakude District Municipality incorporated under the Municipality Act of South Africa.

**7. Auditors**

Auditor General South Africa will continue in office in accordance with Section 4 (1) (e) of the Public Audit Act No.25 of 2004.

## **Umhlosinga Development Agency (Proprietary) Limited**

Annual Financial Statements for the year ended 30 June 2009

## Statement of financial position

		2009	2008
	Note	R	R
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2	47,755	12,867
		<hr/>	<hr/>
<b>Current Assets</b>			
Receivables from non-exchange transactions	3	-	23,801
Cash and cash equivalents	4	1,561,631	1,565,336
		<hr/>	<hr/>
		1,561,631	1,589,137

**Total Assets**

1,609,386

1,602,004

**Net assets and Liabilities**

**Net assets**

Contributions from owner

5

100

100

Accumulated surplus

454,309

1,362,691

454,409

1,362,791

**Liabilities**

**Current Liabilities**

Taxes and transfers payable		67,986	48,785	
Trade and other payables from non-exchange transactions	6	897,406	2,895	2,895
VAT payable	3	36,664	-	
Accruals	7	152,921	187,533	
		<hr/>	<hr/>	
		1,154,977	239,213	
		<hr/>	<hr/>	
<b>Total Net Assets and Liabilities</b>		<b>1,609,386</b>	<b>1,602,004</b>	
		<hr/> <hr/>	<hr/> <hr/>	

# Umhlosinga Development Agency (Proprietary) Limited

Annual Financial Statements for the year ended 30 June 2009

For the six  
month period  
ending 30 June

## Statement of financial performance

	Notes	2009	2008
		R	
Government grants received	8		
Other income - tender document income		2,599,385	2,239,930
Operating expenses		-	18,421



		(3,557,140)	(1,002,687)
<b>Operating (deficit)/surplus</b>			
Interest Received	9	<b>(957,755)</b>	<b>1,255,664</b>
		68,573	155,812
<b>(Deficit)/Surplus before taxes</b>			
Taxation	10	(889,182)	1,411,476
<b>(Deficit)/Surplus for the year</b>		(19,200)	(48,785)
		<b>(908,382)</b>	<b>1,362,691</b>

## Umhlosinga Development Agency (Proprietary) Limited

Annual Financial Statements for the year ended 30 June 2009

### Statement of changes in net assets

	Owners contributions	Accumulated surplus	Total net assets
	R	R	R
Balance at 1 July 2007	100	-	100
Surplus for the year	-	1,362,691	1,362,691

<b>Balance at 30 June 2008</b>	<b>100</b>	<b>1,362,691</b>	<b>1,362,791</b>
<b>Balance at 1 July 2008</b>	100	1,362,691	1,362,791
Deficit for the year		(908,382)	(938,547)
<b>Balance at 30 June 2009</b>	<b>100</b>	<b>454,309</b>	<b>454,409</b>

# Umhlosinga Development Agency (Proprietary) Limited

Annual Financial Statements for the year ended 30 June 2009

For the six  
month period  
ending 30 June

## Cash flow statement

	Notes	2009	2008
		R	R
<b>Cash flow from operating activities</b>			
Cash receipts received			
Cash paid to suppliers and employees		2,599,385	2,239,930

		(2,632,355)	(816,891)
Cash generated from/(used in) operations	12		
Interest income		(32,970)	1,423,039
		68,573	155,812
<b>Net cash from operating activities</b>			
		<b>35,603</b>	<b>1,578,851</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	2		
		(39,308)	(13,515)
<b>Total cash movement for the year</b>			
Cash at the beginning of the year		(3,705)	1,565,336

1,565,336 -

**Total cash at end of the year**

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<b>1,561,631</b>	<b>1,565,336</b>
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# Umhlosinga Development Agency (Proprietary) Limited

Annual Financial Statements for the year ended 30 June 2009

## Notes to the annual financial statements

### 1. Basis of preparation

The annual financial statements have been prepared in historical cost basis and in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board, with the effective Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board replacing the equivalent GAAP Statement and in a manner as required by the Companies Act of South Africa 1973 as follows:

#### Standard of GRAP

#### Replaced Statement of GAAP

GRAP 1 Presentation of Financial Statements

AC 101 Presentation of Financial Statements

GRAP 2 Cash Flow Statements

AC 118 Cash Flow Statements

GRAP 3 Accounting Policies, Changes in  
Accounting Estimates and Errors

AC 103 Accounting Policies, Changes in  
Accounting Estimates and Errors

Currently the recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. The implementation of GRAP 1, 2 and 3 has resulted in the following changes in the presentation of the financial statements:

**Terminology differences**

**Standard of GRAP**

**Replaced Statement of GAAP**

Statement of financial performance

Income statement

Statement of financial position

Balance sheet

Statement of changes in net assets

Statement of changes in equity

Net assets

Equity

Surplus/Deficit

Profit/Loss

Accumulated surplus/deficit

Retained earnings



Contributions from owners

Share capital

Distributions to owners

Dividends

The cash flow statement can only be prepared in accordance with the direct method.

Specific information has been presented separately on the statement of financial position, such as:

Receivables from non-exchange transactions, including taxes and transfers,

Taxes and transfers payable, and Trade and other payables from non-exchange transactions.

The amount and nature of any restrictions on cash balances are required.

**Standard issued buy not yet effective**

GRAP24: Presentation of budget information in Financial Statements – issued November 2007: Compliance with this standard would only have had an effect on the presentation of financial statements.

# Umhlosinga Development Agency (Proprietary) Limited

*Annual Financial Statements for the year ended 30 June 2009*

## Notes to the annual financial statements (continued)

### 1.1 Property, plant and equipment

The cost of an item of office equipment, computer equipment and furniture and fittings are recognised as an asset 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.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment.

Office equipment is carried at cost less accumulated depreciation and any impairment losses.

<b>Item</b>	<b>Average useful life</b>
Office equipment	5 years
Furniture and Fittings	5 years
Computer Equipment	3 years

The residual value and the useful life of each asset are reviewed at each financial period-end.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

The depreciation charge for each period is recognized on a straight line basis in profit or loss unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

## **1.2 Taxes and transfers payable**

### **Current tax assets and liabilities**

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities for the current and prior periods are measured at the amount expected to be paid to the South

African Revenue Services, using the tax rates that have been enacted or substantively enacted by the statement of financial position date.

## **Tax expenses**

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, directly in equity, or
- a business combination.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

# Umhlosinga Development Agency (Proprietary) Limited

*Annual Financial Statements for the year ended 30 June 2009*

## Notes to the annual financial statements (continued)

### 1.3 Owners contributions and Net Assets

A net assets instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

If the company reacquires its own net assets instruments, the consideration paid, including any directly attributable incremental costs (net of income taxes) on those instruments are deducted from net assets until the owners contributions are cancelled or reissued. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the company's own net assets instruments. Consideration paid or received shall be recognized directly in net assets.

### 1.4 Provisions and contingencies

Provisions are recognized when:

- the company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate can be made of the obligation.

Where some or all of the expenditure required settling a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognized for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognized and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - The business or part of a business concerned;

- services;
- The principal locations affected;
  - The location, function, and approximate number of employees who will be compensated for terminating their services;
  - The expenditures that will be undertaken; and
  - When the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

After their initial recognition contingent liabilities recognized in business combinations that are recognized separately are subsequently measured at the higher of:

- the amount that would be recognized as a provision; and
- The amount initially recognized less cumulative amortization.

## **Umhlosinga Development Agency (Proprietary) Limited**

*Annual Financial Statements for the year ended 30 June 2009*

### **Notes to the annual financial statements (continued)**

#### **1.5 Government grants**

Government grants are recognised when there is reasonable assurance that:

- the company will comply with the conditions attaching to them; and
- the grants will be received.

Grants related to income are funds received from the following donors:

- Umkhanyakude District Municipality
- Industrial Development Corporation

These grants are presented as a credit in the statement of financial performance.

# Umhlosinga Development Agency (Proprietary) Limited

Annual Financial Statements for the year ended 30 June 2009

## Notes to the annual financial statements (continued)

	2009	2008
	R	R
2. Property, plant and equipment	<u>47,755</u>	<u>11,111</u>

**Reconciliation of Property, Plant and Equipment - 2009**

	<b>Opening balance</b>	<b>Additi ons</b>	<b>Accum ulated Deprec iation</b>	<b>Depr eciat ion</b>	<b>Carrying Value</b>
Office Equipment	13,515	6,737	(648)	(2,928)	16,676
Furniture and fittings	-	7,620	-	(106)	7,514
Computer equipment	-	24,951	-	(1,386)	23,565
	<b>13,515</b>	<b>39,308</b>	<b>(648)</b>	<b>(4,420)</b>	<b>47,755</b>



**Reconciliation of Property, Plant and Equipment - 2008**

	<b>Opening balance</b>	<b>Additi ons</b>	<b>Accum ulated Deprec iation</b>	<b>Depr eciat ion</b>	<b>Carrying Value</b>
Office Equipment	-	13,515	-	(648)	12,867
Furniture and fittings	-	-	-	-	-
Computer equipment	-	-	-	-	-
	-	<b>13,515</b>	-	<b>(648)</b>	<b>12,867</b>

**3. VAT**

VAT Payable

**36,664**

**(23**

**Umhlosinga Development Agency (Proprietary) Limited**

Annual Financial Statements for the year ended 30 June 2009

**Notes to the annual financial statements (continued)**

**For the six  
month period  
ending 30 June**

**2009**

**2008**

**R**

**R**

#### 4. Cash and Cash equivalents

Cash and cash equivalents consist of:

Cheque Account	141,882	48,189
Call Account	1,419,738	1,517,147
Petty Cash	11	-
	<hr/>	<hr/>
	<b>1,561,631</b>	<b>1,565,336</b>
	<hr/> <hr/>	<hr/> <hr/>

*All bank accounts of the Agency are held at Absa Bank*

*Cheque Account - 406 976 2605*

Call Account - 9200 378 551

**5. Contributions from owner**

**Authorised**

1000 Ordinary shares of R1 each	1,000	1,000
	<hr/>	<hr/>

**Reconciliation of number of shares issued**

Reported as at 01 July 2008	100	100
	<hr/>	<hr/>

900 unissued shares are under the control of the directors. This authority remains

in force until the next annual general meeting.

**Issued**

Ordinary

**100**

===== =

**6. Trade and other payables from non-exchange transactions**

Trade Creditors

**897,406**

===== =

**Umhlosinga Development Agency (Proprietary) Limited**

Annual Financial Statements for the year ended 30 June 2009

**Notes to the annual financial statements (continued)**

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**7. Accruals**

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Accruals - SARS employee taxes	20,401	
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Accruals - Leave pay	37,270	
		7 5 ,
Accruals - Audit fees	95,250	



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152,921	3
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**Reconciliation of accruals - 2009**

	Opening Balance	Additions	Utilized during the year	Total
Accruals - SARS employee taxes	82,368	20,401	(82,368)	20,401
Accruals - Leave pay	30,165	7,105	-	37,270

Accruals - Audit fees	75,000	95,250	(75,000)	95,250
	187,533	122,756	(157,368)	<b>152,921</b>

**Reconciliation of accruals - 2008**

	Opening Balance	Additions	Utilized during the year	Total
Accruals - SARS employee taxes	-	82,368	-	82,368
Accruals - Leave pay	-	30,165	-	30,165
Accruals - Audit fees	-	75,000	-	75,000
	-	187,533	-	<b>187,533</b>

**8. Grants Received**

		1
		,
		9
		7
		1
		,
		7
		0
Industrial Development Corporation	1,949,846	8
		2
		6
		8
		,
		2
		2
UMkhanyakude District Municipality	649,539	2
	<hr/>	<hr/>
		<b>2</b>
		,
		<b>2</b>
	<b>2,599,385</b>	<b>3</b>
	<hr/> <hr/>	<hr/> <hr/>
		<b>9</b>

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**Umhlosinga Development Agency (Proprietary) Limited**

Annual Financial Statements for the year ended 30 June 2009

**Notes to the annual financial statements (continued)**

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**9. Interest Received**

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		,
		8
		1
Bank	68,573	2
	<hr/>	<hr/>
		1
		5
		5
		,
		8
		1
	68,573	2
	<hr/> <hr/>	<hr/> <hr/>

**10. Taxes and transfers payable**

Major components of the tax expense

**Current**

		4
		8
		,
		7
Local income tax	19,200	8
		5
	<u>          </u>	<u>          </u>

**11. Auditors' remuneration**

		7
		5
Fees	95,250	,
		0
	<u>          </u>	<u>          </u>

	0
	0
	<u>          </u>

**12. Cash generated from/(used in) operations**

		1
		,
		4
		1
		1
		,
		4
Surplus/(Deficit) before		7
taxation	(889,182)	6
<b>Adjustments:</b>		
Depreciation	4,420	6
		4



		8
		(
		1
		5
		5
		,
		8
		1
		2
Interest Received	(68,573)	)
		1
		8
		7
		,
		5
		3
Movement in accruals	(34,611)	3
<b>Changes in working capital:</b>		
		(
		2
		3
		,
Receivables from non-exchange transactions	23,801	8
		0

		1
		)
		2
		,
		9
		9
Trade and other payables from non-exchange transactions	931,175	5
	<hr/>	<hr/>
		1
		,
		4
		2
		3
		,
		0
		3
Cash generated from/(used in) operations	(32,970)	9
	<hr/> <hr/>	<hr/> <hr/>

**Umhlosinga Development Agency (Proprietary) Limited**

Annual Financial Statements for the year ended 30 June 2009

**Notes to the annual financial statements (continued)**

**For the six  
month period  
ending 30  
June**

**2009**

**2008**

**R**

**R**

**13. Directors' Fees**

Fees paid to the directors during the year were for the following service

**Non-executive**

For services as directors	<b>102,647</b>	<b>19,350</b>
	<u>                    </u>	<u>                    </u>

**14. Management Remuneration**

**Chief Executive Officer - AX Gericke**

Basic Salary ( inclusive of annual bonus)	462,000	211,150
Travel Allowance	108,000	36,000
Cell phone allowance	10,200	3,600

<u>580,200</u>	<u>250,750</u>
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The above remuneration package was earned by Mr. AX Gericke, Chief Executive Officer  
of the company from 01 July 2008 to 30 June 2009.

# Umhlosinga Development Agency (Proprietary) Limited

Annual Financial Statements for the year ended 30 June 2009

## Notes to the annual financial statements (continued)

For the six  
month period  
ending 30  
June

2009

2008

R

R

### 15. Related Parties

Ultimate Holding entity

UMkhanyakude District Municipality is a 100% shareholder in Umhlosinga Development Agency (Pty) Ltd.

Related party transactions

Telephone Expenses	94,370	36,173
Salary Cost	555,169	232,049
	<hr/>	<hr/>
Grant Received	649,539	268,222
	<hr/> <hr/>	<hr/> <hr/>

Related party transactions consist of expenses paid by UMkhanyakude District Municipality on behalf of Umhlosinga Development Agency (Pty) Ltd. The salary cost is that of the Chief Operating Officer who has been seconded to Umhlosinga Development Agency (Pty) Ltd.

## 16. Unauthorized expenditure

	Budget	Actual	Unauthorized
Employee costs	1,714,345	1,861,704	147,359
Goods & Services	75,000	103,416	28,416
Operating expenditure	48,300	141,160	92,860
	<hr/>	<hr/>	<hr/>
	1,837,645	2,106,280	268,635
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Unauthorized expenditure of R 268,635 was incurred during the year.

Total expenditure was within the budget, however overspending of the total amount



Appropriated for specific votes in the approved budget was incurred as indicated above.

## **Umhlosinga Development Agency (Proprietary) Limited**

Annual Financial Statements for the year ended 30 June 2009

### **Detailed statement of financial performance**

	<b>2009</b>	<b>For the six month period ending 30 June</b>
	<b>R</b>	<b>2008</b>
		<b>R</b>
<b>Income</b>		

Grant received - Industrial Development Corporation	1,949,846	1,971,708
Grant received - UMkhanyakude District Municipality	649,539	268,222
	<hr/>	<hr/>
	<b>2,599,385</b>	<b>2,239,930</b>
 <b>Other Income</b>		
Tender fee income	-	18,421
Interest received	68,573	155,812
	<hr/>	<hr/>
	<b>68,573</b>	<b>174,233</b>
 <b>(Deficit)/Surplus before taxes and transfers payable</b>		
	<b>(889,182)</b>	<b>1,411,476</b>
Taxes and transfers	(19,200)	(48,785)

<b>(Deficit)/Surplus for the year</b>	<b>(908,382)</b>	<b>1,362,691</b>
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**Operating expenses**

Accounting Fees	93,836	22,150
Advertising & Marketing	58,653	48,417
Auditors remuneration	95,250	75,000
Bank charges	5,459	2,010
Consulting and professional fees	6,110	33,202
Depreciation	4,420	648

Employee costs	1,861,704	618,883
Projects Costs	1,107,784	-
Entertainment	-	4,395
Minor assets expensed	-	7,132
Operating costs	32,117	2,035
Tender document fees	-	18,600
Rental - Office plants	-	1,715
Hire	-	7,864
IT Expenses	20,279	4,222
Legal expenses	-	1,251
Postage	1,502	925
Printing & stationery	26,015	9,251

Repairs and maintenance	15,228	228
Security	-	650
Subscriptions	-	499
Telephone and Fax	112,060	36,172
Training	27,726	22,075
Conference, Workshops and Seminar	21,175	-
Travel - Local	67,822	85,363
	<hr/>	<hr/>
	<b>3,557,140</b>	<b>1,002,687</b>
	<hr/> <hr/>	<hr/> <hr/>

## **Annexure C**

### **Audit 2009**

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE BOARD OF DIRECTORS ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF UMHLOSINGA DEVELOPMENT AGENCY (PTY) LTD FOR THE YEAR ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Umhlosinga Development Agency (Pty) Ltd which comprise the statement of financial position as at 30 June 2009 and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes and the directors' report, as set out on pages [xx] to [xx].

**The accounting officer's responsibility 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 National Treasury, as set out in accounting policy note 1 and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**The Auditor-General's responsibility**

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) (PAA) and section 126(3) of the MFMA, 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 and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of the Standard 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 not effective for this financial year, I have determined that my audit of any disclosures made by the Umhlosinga Development Agency (Pty) Ltd in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

8. In my opinion the financial statements present fairly, in all material respects, the financial position of Umhlosinga Development Agency (Pty) Ltd as at 30 June 2009 and its financial performance and its 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 and in the manner required by the MFMA and the Companies Act of South Africa.

## **Emphasis of matters**



Without qualifying my opinion, I draw attention to the following matters:

### **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.

### **Going concern**

10. While the entity has prepared financial statements on a going concern basis, there are indicators that its financial sustainability is under threat. These include the following:
  - Key performance areas as established from the strategic business plan were not fully achieved which could result in the entity failing to achieve its mandate in which case the grant funding may be withheld.
  - A loss of R908,382 was incurred in the current year.

These conditions along with other matters as set forth in the directors' report indicate the existence of a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern.

### **Unauthorized expenditure**

11. As disclosed in note 16 to the financial statements unauthorized expenditure of R268, 635 were incurred in the current year. Total expenditure was within budget; however, overspending of the total amount appropriated for specific votes in the approved budget was incurred.

## **Other matters**

Without qualifying my opinion, I draw attention to the following matters that relates to my responsibilities in the audit of the financial statements:

### **Material inconsistencies in other information included in the annual report**

12. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

### **Unaudited supplementary schedules**

13. The supplementary information set out on pages [xx] to [xx] does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

### **Non-compliance with applicable legislation**

#### **Municipal Finance Management Act**

14. The entity opened a credit card account with ABSA bank in March 2009, however, the new bank account details were not submitted to the parent municipality as required by section 86 of the MFMA.

15. The accounting officer did not submit quarterly reports on the implementation of the supply chain management policy to the board of directors which is a contravention of Supply Chain Management Regulation 6 and section 112 of the MFMA.

16. The entity does not have a list of accredited prospective service providers which is a contravention of Supply Chain Management Regulation 14 and section 112 of the MFMA.

17. The entity did not comply with section 127 of the MFMA as the 2007/2008 annual report was submitted to the parent municipality late.

### **Municipal Systems Act**

18. The entity does not have a service level agreement with its parent municipality, as required by section 93B of the MSA.

19. The fact that the entity has not complied with the applicable legislation listed above is indicative of non-compliance with section 93H(1)(b) of the MSA which requires the board of directors to ensure compliance with all legislation.

### **Governance framework**

20. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

### **Key governance responsibilities**

21. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	?	
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		?
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		?
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines in section 126 of the MFMA.	?	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.	?	

<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee		
	<ul style="list-style-type: none"> <li>The company had an audit committee in operation throughout the financial year.</li> </ul>		?
	<ul style="list-style-type: none"> <li>The audit committee operates in accordance with approved, written terms of reference.</li> </ul>		?
	<ul style="list-style-type: none"> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>		?
7.	Internal audit		
	<ul style="list-style-type: none"> <li>The company had an internal audit function in operation throughout the financial year.</li> </ul>		?
	<ul style="list-style-type: none"> <li>The internal audit function operates in terms of an approved internal audit plan.</li> </ul>		?
	<ul style="list-style-type: none"> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.</li> </ul>		?
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		?

9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		?
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	?	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 95(c)(i) of the MFMA.		?
12.	Delegations of responsibility are in place, as set out in section 106 of the MFMA.	?	
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.	?	
14.	SCOPA/Oversight resolutions have been substantially implemented.	?	
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	?	

16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	?	
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Umhlosinga Development Agency against its mandate, predetermined objectives, outputs, indicators and targets section 87 of the MFMA.	?	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		?

22. Adjustments were made to the financial statements to ensure compliance with the GRAP basis of accounting and to correct the related party transactions that were not provided initially by the parent municipality. However, the financial statements submitted for audit and all requested information were provided timeously and management were on hand to respond to queries, both verbal and written, in a timely manner. Risk management and internal control in the form of internal audit, audit committee and control measures were lacking resulting in non-compliance with legislation and regulations.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Report on performance information**

23. I have reviewed the performance information as set out on pages [xx]to [xx].

### **The accounting officer's responsibility for the performance information**

24. 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.

### **The Auditor-General's responsibility**

25. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

26. In terms of the foregoing my engagement included performing procedures of a review 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.

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

### **Findings on performance information**

#### **Non-compliance with regulatory requirements**

##### **Inadequate reporting on performance information**

28. The accounting officer of Umhlosinga Development Agency (Pty) Ltd did not submit a monthly report to the accounting officer of the parent municipality on the state of the entity's budget, as required by MFMA section 87(11)(g)(ii).

##### **No mid-year budget and performance assessments**



29. The performance assessment of Umhlosinga Development Agency (Pty) Ltd was not performed by the accounting officer during the first half of the financial year resulting in a contravention of section 88 of the MFMA.

## **APPRECIATION**

30. The assistance rendered by the staff of the Umhlosinga Development Agency (Pty) Ltd during the audit is sincerely appreciated.

Pietermaritzburg

30 November 2009



**A U D I T O R - G E N E R A L**  
**S O U T H A F R I C A**

*Auditing to build public confidence*

## **BOARD OF DIRECTORS**

<b>CHAIRPERSON OF THE BOARD</b>	<b>REV DR HAS FAKUDE</b>
<b>DEPUTY CHAIRPERSON</b>	<b>MS JANICE DODKINS (CHAIR INTERNAL AUDIT COMMITTEE)</b>
<b>BOARD MEMBER</b>	<b>PROF L MATHENJWA (CHAIR HR&amp; REMUNERATION COMMITTEE)</b>
<b>BOARD MEMBER</b>	<b>DR MNGWANGO (INTERNAL AUDIT)</b>
<b>BOARD MEMBER</b>	<b>MR WILFRED ECERSLEY (HUMAN RESOURCE AND REMUNIRATION)</b>
<b>BOARD MEMBER</b>	<b>MR S MNGOMEZULU (HUMAN RESOURCE AND REMUNIRATION)</b>
<b>BOARD MEMBER</b>	<b>VACANT (INTERNAL AUDIT)</b>

## Staff

<b><i>Mr Alroy Gericke</i></b>	<b><i>Chief Executive Officer</i></b>
<b><i>Miss Thando Mthetwa</i></b>	<b><i>PA to CEO</i></b>
<b><i>Miss Joy Khosie Bhengu</i></b>	<b><i>Chief Operating Manager (Implementation)</i></b>
<b><i>Miss Angel Mbokazi</i></b>	<b><i>Accountant and Company Secretary</i></b>
<b><i>Miss Nonhlanhla Biyela</i></b>	<b><i>Tourism and Marketing Manager</i></b>
<b><i>Miss Nobuhle Nguni</i></b>	<b><i>Operational Secretary and Office manager</i></b>
<b><i>Miss Thobeka Ngcobo</i></b>	<b><i>LED (Cadet) 2009</i></b>
<b><i>Mr Musa Nxumalo</i></b>	<b><i>Manager Business Support Centre Hlabisa</i></b>