13 14

"Established & Implementation Ready"

ANNUAL REPORT
2013/14

chda
chris hani
development agency

CONTACT INFORMATION

REGISTERED NAME
Chris Hani Development Agency (soc) Ltd

REGISTERED OFFICE ADDRESS
64 Prince Alfred Street
Queenstown, 5320
Eastern Cape
South Africa

TELEPHONE NUMBER
045 838 2195

FAX NUMBER
045 838 2195

EMAIL ADDRESS
info@chda.org.za

WEBSITE ADDRESS
www.chda.org.za

EXTERNAL AUDITORS
The Auditor General, South Africa (AGSA)

CON

LIST OF ACRONYMS

CA	Chartered Accountants
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CHDA	Chris Hani Development Agency
CHDM	Chris Hani District Municipal
CHI	Chris Hani Institute
CUT	Central University of Technology
DHET	Department of Higher Education and Training
FCC	Fort Cox College of Agriculture and Forestry
GRAP	Generally Recognised Accounting Practice
NMMU	Nelson Mandela Metropolitan University
NSFAS	National Students Financial Aid Scheme
PPE	Property, Plant & Equipment
SA	South Africa
SAQA	South African Qualifications Authority
SOC	State-Owned Company
TVET	Technical, Vocational Education and Training
UCT	University of Cape Town
UFH	University of Fort Hare
USB	University of Stellenbosch
WSU	Walter Sisulu University

TENTS

OUR **PEOPLE** OUR **HERITAGE** OUR **FUTURE**

chda
chris hani development agency

01

INTRODUCTION

ABOUT CHDA
VISION & MISSION
CHDA CORPORATE STRUCTURE

INTRODUCTION

The Chris Hani District Municipality is land locked and is located in the north-eastern sector of the Eastern Cape. It includes parts of the former homelands in the previous dispensation and South Africa.

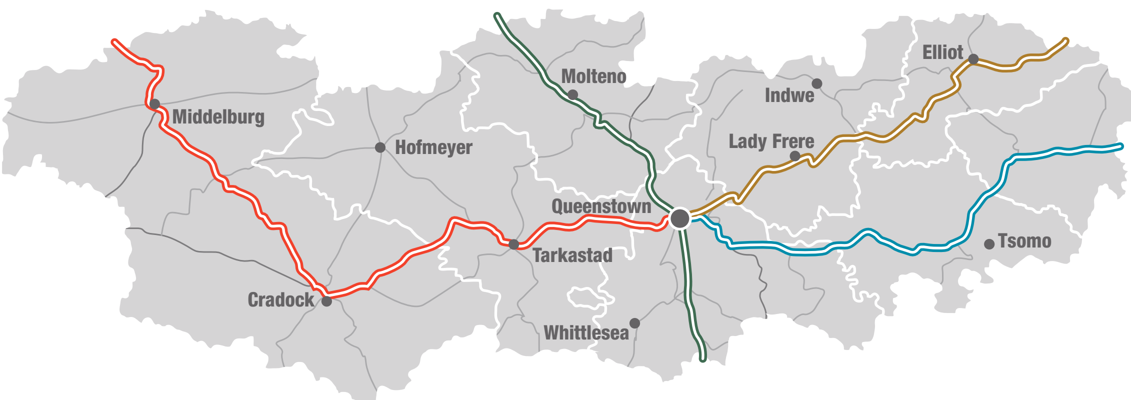
The District includes major mountain ranges - the Stormberg and Bamboesberg Mountains near Sterkstroom and Molteno, as well as the Drakensberg north of Elliot. The District is surrounded by the District municipalities of Amatole, Cacadu, Joe Gqabi and OR Tambo. The District is made up of eight local municipalities: Emalahleni, Engcobo, Inkwanca, Intsika Yethu, Inxuba Yethemba, Lukhanji, Sakhisizwe and Tsolwana.

The Chris Hani District is an economically, naturally and culturally rich area. It is home to a number of small towns, each with its own unique socio-economic development potential, as well as large rural and agri-cultural precincts, which both support commercial and subsistence agricultural activity.

The vast fertile land, underground natural resources and rugged mountain ranges form the basis of the natural assets of the region, and are resources, which have the potential to support the aspirations of the region as a whole. Culturally, the region is home to the fallen hero, Chris Hani, and others like him who were activists in the anti-apartheid struggle. Also, the region is strongly influenced by the amaXhosa, German and British settlers, as well as Afrikaners, resulting in an eclectic mix of rich cultural and heritage historical assets.

CHRIS HANI
DISTRICT MUNICIPALITY
& THE PROVINCE OF THE EASTERN CAPE

Initially, the establishment phase of the agency focused on a corridor development approach to drive developmental initiatives in the region:



SISULU DEVELOPMENT CORRIDOR

along the R61 linking Engcobo, Cofimvaba, Queenstown, Tarkastad and Cradock

NDONDO DEVELOPMENT CORRIDOR

along the R394 linking Elliot, Cala, Lady Frere and Queenstown

CALATA DEVELOPMENT CORRIDOR

Calata Development Corridor along the N10 linking Whittlesea, Queenstown, Sterkstroom, Molteno and Middleburg to Cradock

N6 DEVELOPMENT CORRIDOR

N6 Development Corridor runs through Queenstown which positions Lukhanji Local Municipality as the Economic Hub of the District.

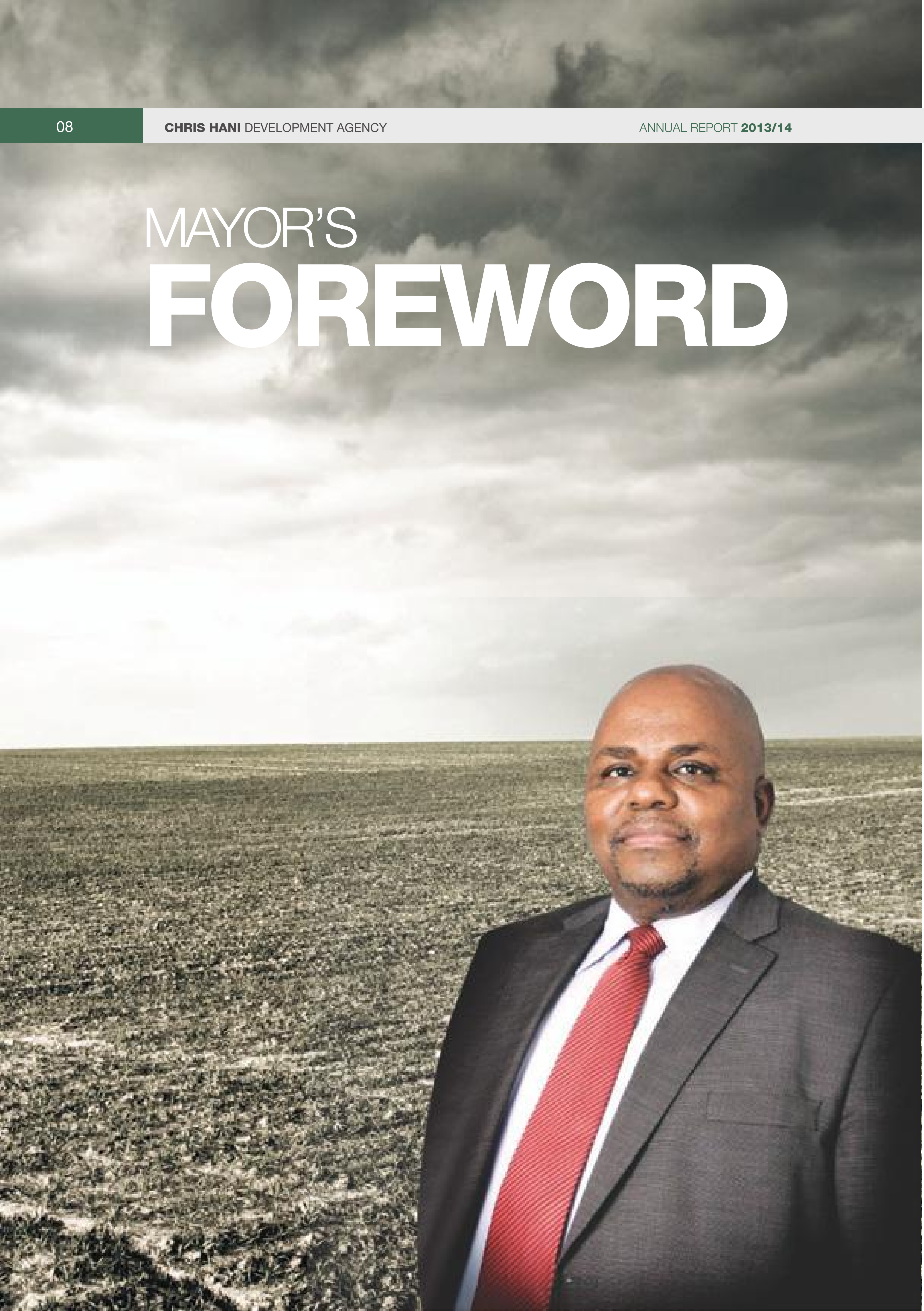
Whilst not moving far from this approach, the agency has adopted an alternative approach to its development initiatives going forward, informed by a change in the strategic mandate of the agency towards agriculture and agro - industrialisation as a primary means of driving economic development in the region. In meeting its mandate the agency has committed to ensuring a viable institution, creating strategic partnerships and stakeholder relations, as well as establishing viable economic clusters. The finalisation of a strategic framework has thus set the tone for the agency's activities going forward, rendering the agency "Established and implementation - ready".

The realisation of these goals will be enabled by a comprehensive programming and project selection process, the governance of the Board and its Sub - Committees established during the year, as well as the movement towards populating the agency's vacant key organogram positions with the right talent, and the continued support of the parent municipality.

02

BUSINESS REPORTS

MAYOR'S FOREWORD



MXOLISI **KOYO**

EXECUTIVE MAYOR

CHRIS HANI DISTRICT MUNICIPALITY

The past year has seen the Chris Hani District Municipal (CHDM) reaffirm its commitment to realising its vision of sustaining growth through people, driving equitable and sustained economic growth and facilitating accelerated delivery of social services, job creation and the reduction of poverty. The five key performance areas of the CHDM, articulated in the Integrated Development Plan 2012-2017, embrace this vision and outline the framework and strategic priorities to be pursued over the short, medium and long terms by both the district municipality and its entities.

The five key performance areas of the CHDM emphasise the pivotal support role economic development institutions play within municipalities to give effect to its strategic goals and objectives in areas such as local economic development, service delivery and infrastructure development, transformation and organisational development, financial viability and management and good governance and public participation.

As the sole economic development institution in the region, the Chris Hani Development Agency (CHDA) plays an important role in advancing the district along the five priorities of the CHDM, in particular local economic development. I am pleased to report that during 2013 - 2014 the CHDA has established itself as a centre of excellence for economic development in the district, pursuing new initiatives and partnerships with select national and provincial departments as well as some state entities to accelerate and deepen delivery in key priority sectors, particularly primary agriculture as part of agro-processing, and the revitalisation of the agricultural schemes strategy.

It is encouraging that the CHDA is rising to this challenge and I am confident that the Agency will now focus its attention on agro-processing within the district in order to create employment, develop an entrepreneurial spirit and establish the district as a gateway to economic development in the Eastern Cape. The Agency is therefore expected to leverage private-sector investment, facilitate investment in the green economy and promote regional integration.

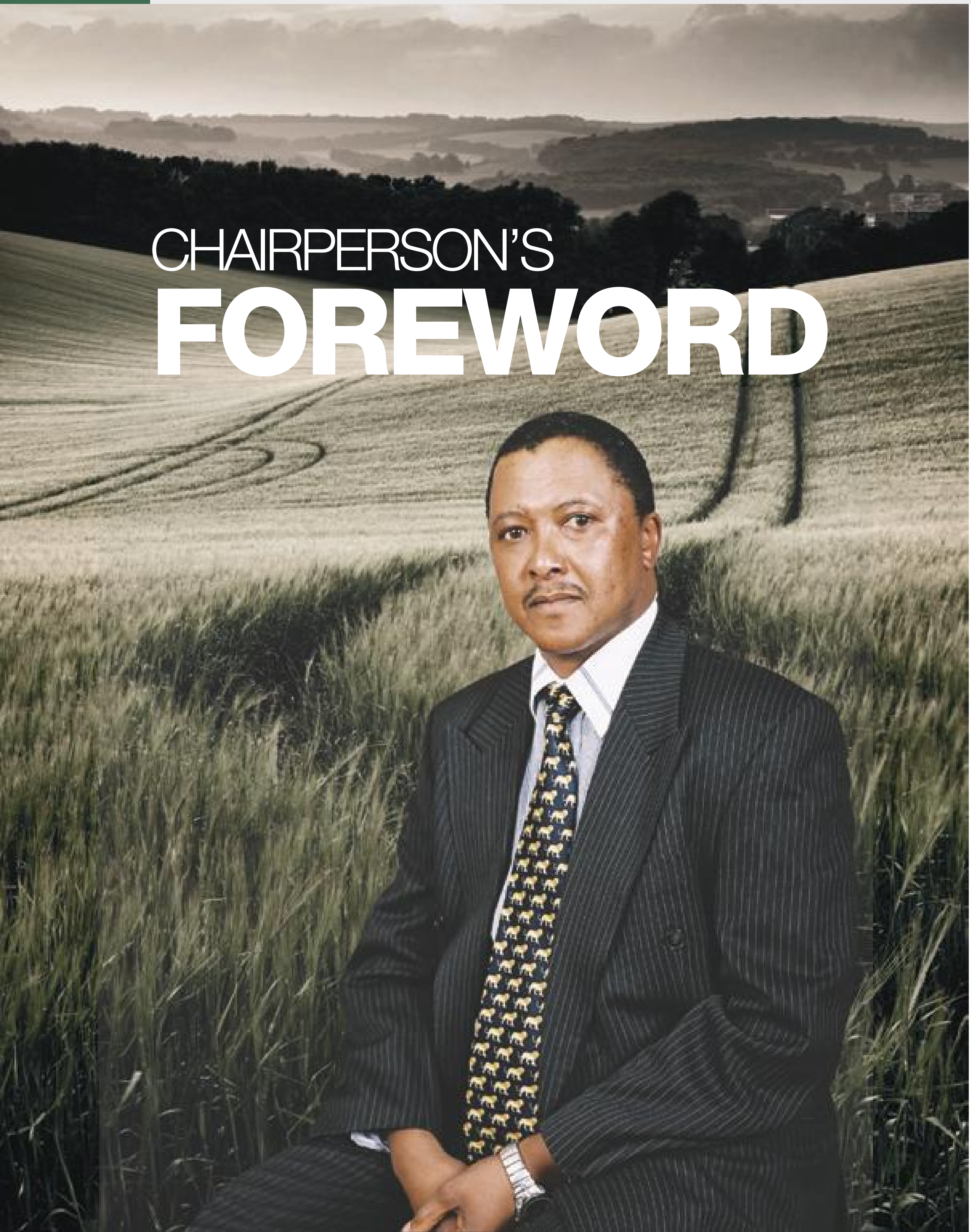
A crosscutting imperative is the creation of sustainable jobs, which presents special challenges with regard to the selection, design and implementation of projects, in order to leverage the optimal job-creating potential of investments. It is pleasing to note that strong operational momentum is beginning to emerge, especially now that a permanent CEO and executive team are in place.

The drive to establish the CHDA as a centre of economic development excellence for the district is starting to show tangible results and I will continue to play an active role in ensuring that the CHDA fulfills its mandate. I would like to thank the chairman and the Board, the Chief Executive Officer and his executive management team, along with the dedicated staff of the CHDA, for their continued active support of the CHDM's mandated delivery objectives.

CLLR MXOLISI KOYO
EXECUTIVE MAYOR
CHRIS HANI DISTRICT MUNICIPALITY

17 December 2014

CHAIRPERSON'S **FOREWORD**



MLULAMI **MANJEZI**

CHAIRPERSON OF THE BOARD

CHRIS HANI DISTRICT MUNICIPALITY

During the year under review the Chris Hani Development Agency (CHDA) emerged from the establishment phase to move into the implementation stage, where it continued to reposition itself as a centre of economic development within the Chris Hani District Municipality (CHDM). During this period, the Agency also cemented its role as a symbol of hope within the Chris Hani District for the realisation of a better sustainable future through genuine development of human capital and leveraging of physical and natural resources and heritage in pursuit of its vision to be “an economic development catalyst and co-ordinator for the realisation of economic growth of the district”.

In this year, the CHDA Board renewed its compact with the shareholder and approved an updated organisational strategy with its primary mandate being the revitalisation of the irrigation schemes and corridor development. It also undertook strategic initiatives that entrenched the CHDA’s programmatic approach and engagement with national and provincial departments and state-owned enterprises in the delivery of socio-economic projects in the region, in partnership with strategic stakeholders that include, among others, the Industrial Development Corporation, Omnia, etc.

The past year has been characterised by a number of challenges stemming from initial issues such as limited resources, policy and systems development and the quick transition from the developmental stage to the implementation phase. This resulted in the organisation getting a qualified audit, due mainly to the fact that many of the governance structures were only approved by the Board and implemented by management in the following financial year (2014 - 2015). The second internal challenge was as a result of establishing new operating systems which made it difficult to finalise some of the accounts, due mainly to prior year balances. Most of these challenges have now been resolved and management has committed to achieving an unqualified audit this year.

Many of the external challenges of the past year emanated from the fact that the Agency is still new and has to work hard to establish strategic partnerships and to build the necessary trust relationships. In attempting to establish strong strategic relationships, the CHDM hosted an Investment Summit in April 2013 that led to the revision of the Chris Hani Regional Economic Development Strategy. This was followed up with an investor roundtable during the 2014-2015 financial year.

The CHDA has made important strides in implementing the approved strategy, and negotiations for the CHDM to transfer the mechanisation to the CHDA were at an advanced stage towards the end of the financial year. This process is ongoing, but is expected to be completed shortly.

An agreement for a waste buy-back centre to be established in the Chris Hani District Municipality has been concluded with the Department of Economic Development and Environmental Affairs. This project will create a significant number of much-needed jobs in the district and increase local communities’ disposable income. In addition, a strategic partnership agreement concluded with the Industrial Development Corporation will result in the IDC contributing towards the operationalisation of the mechanisation centre within the Qamata irrigation scheme, as well as in other identified centres within the district in due time.

MR MLULAMI MANJEZI
CHAIRPERSON OF THE BOARD
CHRIS HANI DISTRICT MUNICIPALITY

17 December 2014

CEO'S REPORT

THUKELA **MASHOLOGU**

CHIEF EXECUTIVE OFFICER

CHRIS HANI
DEVELOPMENT AGENCY

CELEBRATING A **SUCCESSFUL ESTABLISHMENT**

The past year has certainly been an eventful and rewarding one for the Chris Hani Development Agency (CHDA). It has been a time of celebrating a successful establishment, and the start of a comprehensive programming lineup - thus closing the first chapter of establishment and embarking on the second chapter of implementation. Taking up the helm at the CHDA in 2014, I have been mindful of the solid foundation upon which the Agency has been established, and on which we will continue to build the organisation going forward.

A CHANGING **LANDSCAPE**

The year also brought about significant changes, resulting in a changing landscape in readiness for the successful implementation phase of the Agency. After a smooth transition from the outgoing interim Board, to the full functionality of the new Board, and the appointment of a CEO, the year saw a dramatic shift in mandate from a project implementation support function for the parent municipality towards a focus on agro-industrialisation for the Agency. This radical shift in developmental mandate set the tone for the new Agency strategy for 2015-2019, its operational plan and budgets for 2015 and beyond.

A CHANGE IN **LEADERSHIP AND STRATEGY**

The opportunity to begin the CHDA's second chapter brings with it an immense sense of responsibility to the communities, which we serve, and great excitement at the possibilities of making a meaningful impact on the economy of our district.

Taking cognisance of the significant challenge of financial sustainability in development, I am therefore highly aware of the CHDA's role, as Chris Hani's local economic development arm, in addressing the massive developmental needs of the district, and the need of its people to be financially self-reliant and independent.

Although the new mandate focuses our efforts on agriculture, and agri-business development, it is our intention to address the entire district with a focus on rural development initiatives, even those falling outside agriculture and related activities, through our special projects portfolio, and the alignment of our project staff with local municipalities to sustain this increased footprint.

Areas of high population density and unemployment will be targeted in an attempt to reduce poverty and inequalities in these areas at critical mass level.

That said, the district's agricultural potential will be a catalyst for economic development to bring about real positive change for the economy of the district. This is then the basis of the new strategic direction of the Agency over the next five years, which will be driven by a commitment to rural economies, which are the soul of the district, thus positioning the CHDA as a leader in rural development in the long term.

In order to achieve this, the Agency seeks to look both inward and outward, and to enhance its existing capacity, and ensure that it remains relevant within our communities. To this end, the Agency has set four strategic goals, namely:

- To create a viable institution.
- To facilitate the creation of economically viable rural clusters.
- To build a sector-specific skills base.
- To establish strategic partnerships and alliances with fellow development organisations for synergies.

GRATITUDE

I would like to thank the CHDA interim founding Board and the newly appointed Board of Directors for their leadership and guidance through the start of the establishment phase, and at its successful end.

My greatest gratitude goes to the CHDM leadership for the funding and continued support of our operations.

And, to the CHDA employee team, your commitment and dedication has been monumental in us achieving a solid foundation in readiness for a hit-the-ground-running implementation phase in 2015 going forward. I thank you in anticipation of your support and commitment to our new strategic direction and for your continued efforts as the CHDA's brand ambassadors.

I therefore look forward to a stimulating and challenging year ahead as we break new ground in rolling out an impressive portfolio of programmes and projects. Let us seek to push boundaries, and become a strong force for change in our district towards the stimulation of our regional economy.

MR THUKELA MASHOLOGU
CHIEF EXECUTIVE OFFICER

17 December 2014

03

PERFORMANCE

PROGRAMMES AND PROJECTS
FINANCE, ADMINSTRATION /
CORPORATE SERVICES

PROGRAMMES & PROJECTS

A **WATERSHED YEAR**

2013-2014 was indeed a watershed year for the CHDA, as the Agency bade farewell to its founding interim CEO, Baphelele Mhlaba, and welcomed the new CEO, Thukela Mashologu.

It was also a year of changes in the governance landscape, as the interim Board was replaced by a formerly appointed Board of Directors to drive the Agency forward. Board sub-committee structures were also established during the year.

All this culminated in the finalisation and adoption of a new strategic direction that will ensure that the CHDA consolidates its position in the region, as a force for change in the development and agricultural space.

The year has proven that the stage of establishment has indeed been finalised, and that the Agency is now ready for full-steam implementation going forward.

This is certainly a tribute to an exceptional team who pulled together to make certain that the CHDA got off to a remarkable start.

ESTABLISHMENT OF **STRONG PARTNERSHIPS**

The 2013-2014 year saw the CHDA partnering with various stakeholders in the development space.

Ties have been created with the Chris Hani Institute that was involved in looking at the extent of development in the five villages at Intsika Yethu LM that include among others Sabalele, Bigen Africa and Crimson Co, who are involved in a learnerships and internship programme, the Department of Higher Education and Training (DHET) that assisted in co-ordinating the SETA's involvement in the development of skills and that culminated in a partnership with the Construction SETA, AgriSETA, LGSETA and Services SETA.

The Agency became a member of the Provincial Skills Development Forum, which is the implementer of the Provincial Human Resource Development Council.

KICKSTARTING **SUCCESS**

The year was also one for celebration, as it saw the start of a solid programming portfolio going forward.

THE AGRICULTURAL ENABLER

The year saw the Agency positioning itself to take a leadership role as an implementer of catalytic high-value chain projects in the years to come by identifying some key development programmes within the district. These include among others irrigation schemes, livestock and crop value chain, fruit value, forestry value chain and infrastructure and mechanisation support. One of the existing projects taken is the Qamata mechanisation centre in Cofimvaba. The centre was established to enable mechanisation and access to equipment and implements for emerging farmers, so they too can be part of the commercial farming initiatives in the region. The centre is funded by the CHDM to renovate the buildings, buy tractors, vehicles, related implements, spares and furniture and fittings with the IDC to provide funding for the day-to-day operations of the centre. Dicla Project and Training are engaged in a three-year agreement to be technical partners in the project until there is a competent staff complement of qualified administrators.

Plans are under way to operationalise the centre in the coming year, through the initial selection of eight unemployed artisans and eight tractor operators who will undergo training and certification, and be employed at the mechanisation centre. The centre will then employ competent staff and will be run as an independent business serving the community.

It is envisaged that the mechanisation centre will allow for successful harvesting and planting seasons going forward, thus reducing mechanisation costs and increasing the chances of emerging local farmers being active in the commercial agricultural space.

The Agency has also started making plans to operationalise the irrigation schemes in the district in its agro-industrialisation mandate.

SUPPORTING **LOCAL BUSINESS**

Most of the Agency's initiatives are geared towards improving communities at a socio-economic level through the support of local businesses.

This can be seen from the involvement with small-scale produce farmers at the irrigation schemes and surrounding villages, as well as through engaging local suppliers wherever possible in formal supply chain activities on a daily basis. The Agency has formed an association with the Chris Hani Business Forum, which is a broader business voice for small businesses in the district. This partnership seeks to unleash business opportunities and package business proposals to help thriving small businesses. Plans are in place to also forge partnerships with other business formations in the district, especially the Border Kei Chamber of Commerce that represents established businesses in the district.

FACILITATING **RESEARCH AND SKILLS DEVELOPMENT**

The CHDA has noted the need to build capacity and knowledge in the field of development.

THE RESEARCH PARTNER

A partnership was entered into in 2013-2014 with the Chris Hani Institute (CHI) based at Sabalele Village in Cofimvaba.

The CHDA appointed five unemployed graduates from the district's unemployed youth database, and seconded them to the research project as a skills transfer initiative. To date, a significant amount of data has been collected, and is being analysed to formulate solutions to local development problems.

The CHI is partnering with Ruliv in the initiative, and significant findings can be expected along the areas of socio-economic improvement in rural communities, agriculture and aggro-processing, as well as small businesses or emerging enterprises for development purposes.

THE BURSARY ADMINISTRATION PARTNER TO THE DISTRICT MUNICIPALITY

The Agency has been administering the Chris Hani Bursary Fund since 2012-2013 that amounts to R2 million. The programme is currently assisting 20 students from disadvantaged backgrounds from throughout the district in their tertiary studies, ranging from engineering and mechatronics to agriculture and tourism, as a means of building a skills base and operational capacity in the Chris Hani District. These students are pursuing their studies at the following institutions: Nelson Mandela Metropolitan University (NMMU), University of Cape Town (UCT), University of Stellenbosch (USB), University of Fort Hare (UFH), University of the Western Cape, Walter Sisulu University (WSU), Central University of Technology (CUT), Fort Cox College of Agriculture and Forestry (FCC) and Grootfontein College of Agriculture.

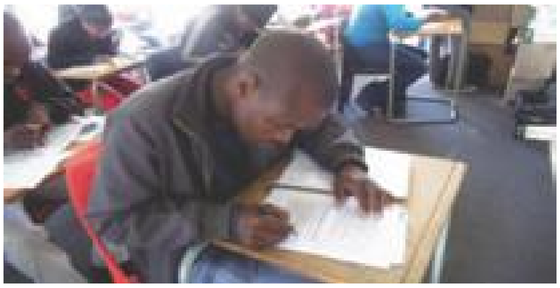
THE LEARNERSHIP AND INTERNSHIP CO-ORDINATOR

In its partnerships with Bigen Africa, Crimson Co, the Agency successfully launched the Water and Sanitation Learnership and Internship Programme. Another important partner in this initiative was Ikhala Technical, Vocational Education and Training (TVET) College for the recruitment of learners and interns.

This programme saw a total of 175 youth from the district being trained in plumbing, water purification, reticulation and supervisory skills.

Discussions are at an advanced stage with the Chris Hani District Municipality Engineering Department, private -sector companies like HITEC Engineering and the Department of Public Works for workplace experience for all the learners. The Department of Public Works has shown an interest in absorbing some of the learners as artisan foremen.

This programme paved the way for the Agency to successfully raise funds for similar programmes with the Construction SETA and applications have been submitted to the Energy and Water SETA. The Construction SETA has approved funding for 50 learnerships and 20 internships for implementation in the 2014-2015 financial year.



CAREER EXHIBITIONS

In partnership with the Department of Education and the Premier's Office, the Agency has hosted two career exhibitions this year at Engcobo, Queenstown district. The remaining exhibition for the calendar year will be hosted in the Lady Frere and Cofimvaba districts.

For the success of these exhibitions the Agency has partnered with all institutions of higher learning, technical vocational education and training (TVET) and private colleges in the province.

Other important partners who have contributed to the success of the career exhibitions are the South African Qualifications Authority (SAQA) and National Students Financial Aid Scheme (NSFAS).

CORPORATE **SOCIAL INVESTMENT**

CHDA has noted the need to work with its rural communities and disadvantaged groups. For Mandela Day this past year, the Agency sponsored food gardens in Ulutho Lwabafazi Co-operative outside Qamata.

The Agency supplied plants and labour for the day, assisting the women's group by establishing an organic vegetable garden at their site.

AGENCY FUNCTION ACTIVITIES

It has become apparent that the Agency cannot solely rely on the operational grant from the Chris Hani District Municipality (CHDM) to achieve its goals and objectives. There is thus a secondary focus for innovative sourcing of complementary and co-funding opportunities from other sources that include provincial and national government departments, DFis and donor organisations within the development space.

In an attempt to raise additional income that will be used to finance both operational and developmental functions, the Agency has positioned itself for appointment as implementing agent for key strategic developmental projects at an agreed services fee. One project of this calibre is the Lukhanji Buy-Back Centres.

THE LUKHANJI BUY-BACK CENTRES:

The Agency was appointed by the DEA as an implementer in establishing five waste buy-back centres for the Lukhanji Local Municipality.

Sites have been identified at Whittlesea, Ilinge, Ezibeleni, Mlungisi and Lessington.

This programme seeks to provide a waste solution for the local municipality, while looking at community involvement at a small-business level in the waste value chain. Significant progress has been made to date, with the approval of the submitted feasibility study and business plan by DEA having a potential of funding a total of R30 million into the Lukhanji waste value chain industry.

SORTING WASTE METAL AT QUEENSTOWN

This includes the finalisation of a project steering committee, with good involvement of community members and emerging waste entrepreneurs/ co-ops. The project concept detail and feasibility have been finalised, with structural designs in place for final submission with the business plan to the DEA.

FINANCE, ADMINISTRATION / CORPORATE SERVICES

FINANCIAL AND SCM MANAGEMENT

The CHDA received a qualified audit opinion in 2012-2013, the first year of operations. Given this outcome, a strong focus has been put on improving the 2013-2014 audit opinion through:

- Staffing of the finance and administration department.
- Improvement of internal processes and controls.
- Improvement of document management systems in the organisation.
- A comprehensive audit plan, despite not having an internal auditor in place for most of the financial year.
- Establishment of an audit, risk and ethics committee.

The Agency was however unable to appoint an internal auditor and audit committee early enough in the year for the structures to add value during the 2013-2014 year. However these late appointments should put the Agency in good stead for the 2014-2015 financial year.

Despite being under-staffed and under-capacitated, the department managed to set up a document management system to manage source documentation for audit purposes, set up a financial accounting system, assist operations in setting up a number of funding applications on time, as well as submit a budget request in time to the parent municipality.

A draft SCM policy has been finalised for Board approval in early 2015 to govern SCM processes going forward in line with Treasury regulations. This should reduce the amount of negative findings on SCM in audit reports going forward.

The policy environment on risk and fraud/ corruption still has to be worked on, and this can be done with the assistance of the newly appointed audit and risk structures.

At year end, the department was under the direction of a finance manager, with a CFO envisaged to be in place early in the 2014-2015 financial year. This is due to the late appointment of the CEO in the financial year, and the setting up of the related HR and remuneration committee.

APPOINTMENT OF NEW INTERNAL AUDITORS

Mazars Chartered Accountants CA (SA), formerly known as Grant Thornton East London, have been appointed as internal auditors for the Agency. This contract is for the provision of internal audits and related services for a period of two years, starting June 2014.

RISK MANAGEMENT

Management, working together with the internal audit, were in the process of finalising the Agency risk assessment and corresponding risk register, and development of a risk management framework going forward. This includes the development of a three-year internal audit rolling plan for implementation.

Since inception, this will be the first time the Agency is conducting risk management activities, and we can look forward to better audit performance as a result.

COMMUNICATION AND MARKETING

During the year, the CHDA did not manage to communicate Agency information as efficiently as required. The 2012-2013 annual report was the only document prepared during the year, and this was not circulated to key stakeholders as required, within the applicable timeframes.

This external communication shortfall was enabled by the fact that:

- The CHDA did not have a designated PR and communications service provider in its books. Plans are under way to secure a provider for the 2014-2015 year.
- The Agency website was still not operational, and is still being developed for information purposes.

It is envisaged that external communications will be enhanced with the distribution of our new strategy in the new year, as well as planned events, roadshows and stakeholder engagement sessions.

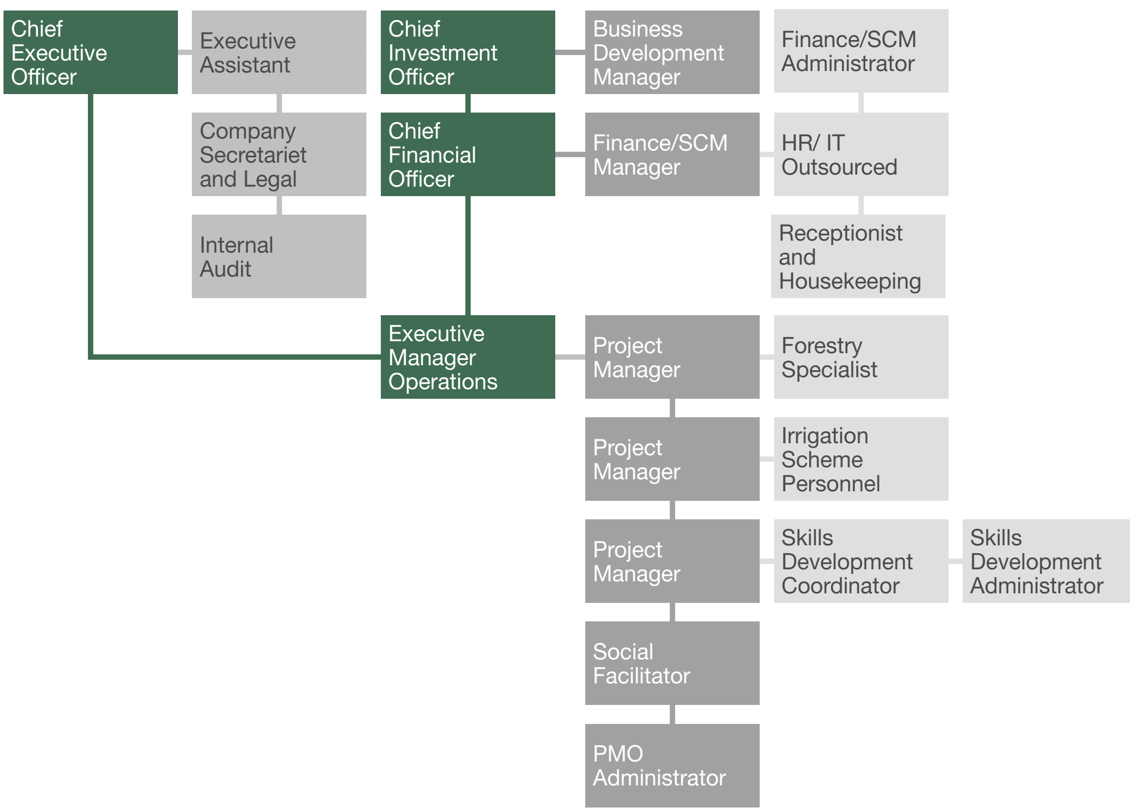
Internal communications were facilitated through a notice board, internal emails, the development of a shared network drive, and weekly operations meetings for all staff.

HUMAN RESOURCES

The CHDA bade farewell to its interim CEO and Board, and so the path was created for a new chapter to be written. The Agency welcomed its new Board in January 2014, and its new CEO in May 2014.

A key challenge for the new CEO and HR and remuneration committee was to assess the organisational structure against the new strategic objectives. A functional updated organogram had to be developed to better support our operations going forward. The proposed structure included a company secretary, internal audit function, project managers aligned to the new mandate and strategic direction, as well as an outsourced IT and HR administrative function, given budget limitations.

Staff enrichment and skills development moved and became a factor in 2013-2014. The agenda here is to retain good talent, and attract the right skills into the organisation, in time for its implementation chapter.



The year saw basic training in Excel for all staff, Pastel Accounting for finance staff, and an accreditation course for the skills portfolio. This was prior to the Board recommending an overall skills audit, which would be done for all existing staff members.

The new Board underwent induction and training on King III, governance and overall effectiveness. It was noted that the governance structures should also be upskilled, to get all members on an equal level, and to ensure a multi-disciplinary and competent group to govern the Agency.

At year end, Deloitte Consulting was appointed to conduct competency assessments for staff, and a TASK grading report to ensure that staff salaries were aligned to industry norms.

On an ongoing basis, policy awareness workshops and sessions will allow for sharing of information, and opportunities for a comprehensive review mechanism.

INFORMATION TECHNOLOGY

Management of the IT platform is outsourced to First technology Group. While the IT environment has been fairly stable, management has recognised the need for a comprehensive review of the overall IT situation, taking into account the newly approved strategy and growth for the future.

During the year, hardware and software was purchased in line with the growth in operations and staff numbers. By keeping abreast of changes in technology, the CHDA will ensure that it is suitably positioned from an IT perspective to achieve in the future, and maintain business continuity, and minimise IT risk.

PERFORMANCE MANAGEMENT

There was no formal performance management system in place at the end of 2013-2014. This is due to not having pre-approved performance objectives for the Agency in place at the start of the year, and therefore similarly not having these in place for the individual staff performance targets.

With the new strategy in place, a performance plan for 2014-2015 and staff targets will be determined for 2014-2015 onwards. Negotiations are under way for the parent municipality to assist the Agency in engaging a service provider to develop a formal PMS system and associated policies.

04

INTERNAL MANAGEMENT

CHIEF EXECUTIVE OFFICER'S OFFICE
OPERATIONS
FINANCE & ADMINISTRATION,
CORPORATE SERVICES

CEO'S OFFICE

The 2013-2014 year has been one of much change, as the CHDA closed one chapter and began the next. With change comes a certain amount of uncertainty, and operating with an interim non-fulltime CEO for most of the year certainly impacted on the ability of the team to address the challenges faced by the Agency. The Agency is governed by a Board of Directors, to whom the CEO is directly accountable. The following diagram outlines the governance structure of the CHDA:

EXECUTIVE MANAGEMENT

The CEO liaises between the directors, the Board and shareholders. He leads the team to ensure development and effective implementation of the strategy and policies of the Agency.

As an accounting officer, he is responsible for diligent management of financial resources as well as compliance within the CHDA.

SENIOR MANAGEMENT

The finance manager, in the absence of the CFO, and COO managed the day-to-day activities of the Agency in 2013-2014. They were responsible for implementing on resolutions and the draft strategy as approved by the interim Board. The company secretary, currently being recruited, will provide support to the Board in respect of governance-related issues.

FINANCE AND ADMIN, OPERATIONS

These functions comprise the CHDA's core team of professionals who manage and implement strategy, liaise with partners, and maintain systems and procedures.

OFFICE OF THE CEO

The CEO provides strategic leadership and attends to organisational development, shareholder interaction and mobilisation of resources, as well as positioning the CHDA on the national policy agenda. The appointment of the CEO saw strides being made in strengthening governance, which culminated in the establishment of Board subcommittees, review of the Board and subcommittee charters, the review of general practices, and the policy environment of the Agency.

This also brought about strong emphasis on financial management and reporting, people development, brand positioning, focused stakeholder engagement and effective contract management. Through his leadership, the Agency has successfully managed to review the strategy and the organogram.

OPERATIONS

This is the engine of the Agency. The team, under the leadership of the COO, managed to take the CHDA and the CHDM through the trying time of establishing the Agency from scratch, setting up processes and procedures, and building a brand.

FINANCE, ADMIN, AND CORPORATE SERVICES

The finance unit incorporates general administration and corporate services functions, including:

- Preparation and monitoring of budget.
- Implementation of SCM.
- Review of finance, HR, IT and related policies.
- Administration of cash and investments.
- Administration of payroll, general HR and staff development.
- Co-ordination of internal and external audits.
- Co-ordination of internal and external communications.
- Financial reporting and AFS compilation.
- Compliance with MFMA and other relevant legislation.
- Performance management.
- Communications and marketing.
- IT and systems.

POSITIONS FILLED & VACANCIES
AS OF 30 JUNE 2014

Function	Current Staff	Current Vacancies
Chief Executive Officer	Mr Thukela Mashologu	None
Chief Operations Officer	Mr Ntsikelelo Klaas	None
Chief Finance Officer	None	Vacant x1
Company Secretary	None	Vacant x1
Finance Manager	Ms Flicker Tiso	None
Accountant	Ms Florence Apleni	None
SCM Officer	Ms Andiswa Nanga	None
Skills Coordinator	Mr Ayongezwa Lungisa	None
Learnership Coordinator	Mr Siyabulela Zangqa	None
Receptionist	Ms Nqabisa Cingo	None
General Assistant	Ms Nombulelo Nyokana	None

EMPLOYMENT EQUITY
AS OF 30 JUNE 2014

	African		Coloured/ Indian	White
Level	Male	Female	N/A	N/A
Executive	2	0	0	0
Senior Management	1	1	0	0
Middle Management	2	1	0	0
Admin / Support	0	4	0	0

THE INTERIM BOARD OF DIRECTORS DID A STELLAR JOB IN PAVING THE WAY FOR A SUCCESSFUL AGENCY ESTABLISHMENT PHASE.

THE AGENCY NOW RELIES ON THE LEADERSHIP AND GUIDANCE OF THE NEW INCOMING BOARD OF DIRECTORS AS IT GEARS UP FOR IT'S IMPLEMENTATION PHASE.

05

BOARD MEMBERS

BOARD MEMBER PROFILES

BACK ROW: Mr Mafuza Sigabi, Mrs Nokulunga Skeyi, Mr Simphiwe Dzengwa, Mr Singa Ngqwala
FRONT ROW: Ms Ursula Ntsubane, Mr Mlulani Manjezi (Chairman), Ms Vuyelwa Hlehliso (Chairperson: Audit, Risk and Ethics committee), Mr Thukela Mashologu (CEO)

ABSENT: Dr. Claudia Beck-Reinhardt

MR MLULAMI MANJEZI
CHAIRPERSON

Mr Manjezi is a certified director with the Institute of Directors of South Africa (IOD SA), and holds a Master's Degree in Business Leadership from UNISA, and has participated in the Programme for Sustainable Leadership from Cambridge University. He completed his junior commerce degree at the University of Fort Hare.

Mr Manjezi is currently the Chairman of the DZ Group (Pty) Ltd, a consulting, trading and investment group. Previously, he was Divisional Executive of the Rural Development Partnerships Division (RDPD) within the Development Fund (DF), which is a wholly owned subsidiary of the Development Bank of Southern Africa (DBSA), where he also held several executive positions over a period of 22 years.

He is previously the Chairman of the Advisory Management Board of Agriculture and Rural Development Research Institute (ARDRI) of the University of Fort Hare as well as a board member of the Masisizane Fund, an institute of the Old Mutual Group. He is currently Chairman of the Chris Hani Development Agency's board. He was also an investment committee member of the African Rural Enterprise Development (AREED) Initiative, an organization that is supported by the United Nation Foundation and the United Nations Environmental Programme. Mr Manjezi is currently the acting CEO of the Municipal Demarcation Board.

MR THUKELA MASHOLOGU
CHIEF EXECUTIVE OFFICER

Thukela resumed duties as CEO of the agency in May 2015, after initially serving as a board member. He brings with him extensive experience and knowledge in the areas of LED (local economic development) and agriculture. He has worked as a Senior Regional Officer for the EC at IDC, Agribusiness Manager and later acted as COO at AsgiSA. Prior to that, Thukela was LED Manager for the Chris Hani District Municipality, and Agriculturalist at Nestle SA. He has also been involved in skills development, having worked for Fort Cox college of Agriculture and Forestry as a lecturer and farm operations manager.

Thukela has gained international exposure in his field of expertise, having been part of the EC provincial delegation visiting China for initiating talks with the Bamboo Association of Hong Kong in 2010, Lower Saxony in Germany in 2008 and the communal farmers in Israel in 2006.

He currently sits on the boards of the Mohair Trust and Mohair Empowerment Trust, and has acted as deputy chairman for the Eastern Cape Ostrich Producers Organisation (ECOPA). He is a trustee and director at the Integrated Meat Processors of the Eastern Cape (IMPEC) and independent trustee for the Tsitsikamma Development Trust.

Thukela holds a BSc in Agricultural Economics from the Tshwane University of Technology, and a Master's degree in Business Administration (MBA) from Nelson Mandela Metropolitan University (NMMU).

DR. CLAUDIA BECK-REINHARDT
MEMBER

Born in Konstanz, Germany, Dr Beck-Reinhardt holds a Doctorate (PHD) in Public Policy and Management, with a focus on Regional and Local Economics. She has permanent residency status in South Africa based on scarce skills resources.

She has vast experience gained in Germany and South Africa through formal work, voluntary work and self-employment activities.

She has been working at the Government Technical Advisory Center (GTAC) of National Treasury's Economic Development and International Relations portfolio as a senior technical advisor since January 2011, and prior to this assignment was based at the Eastern Cape Socio - Economic Consultative Council (ECSECC).

Her work has been focused on the conceptualisation and implementation of projects geared towards the provision of support to SMME's and the linking of post - schooling competency development with the labour market in South Africa.

MRS URSULA NTSUBANE
MEMBER

Mrs Ntsubane is currently the CEO of Crossover Finance, and organization funded to facilitate the access of funding for emerging contractors. Prior to this assignment, Ms Ntsubane was the CEO of the Construction Industry Development Board (CIDB). She has over her career worked on complex infrastructure development projects in the Built Environment, and later strategic focus on the transformation of the construction industry through contractor development and government capacitation on infrastructure delivery.

In the past, as Executive Director of Economic Development within Ekurhuleni Municipality, her major focus was growing the local economy through investment in economic infrastructure in partnership with the private sector and various stakeholders.

Whilst with the Johannesburg Development Agency, Mrs Ntsubane directed multi-million rand complex economic infrastructure projects, leading teams of project managers, civil and structural engineers, architects, quantity surveyors, and a range of diverse professions.

Ms. Ntsubane holds a Master's degree in Development Planning from the University of the Witwatersrand (WITS), and a junior degree in Social Sciences from the University of Natal.

MS NOKULUNGA SKEYI
MEMBER

Ms Nokulunga Skeyi hails from Cala in the Chris Hani District, and is currently the Provincial Manager of the National Development Agency (NDA) in the Eastern Cape. She has been working in the sphere of community development, with a strong focus on livelihood development for the past fifteen years across the Eastern Cape Province, of which the past thirteen were spent working at the NDA.

Nokulunga has extensive experience in designing, implementing and supporting development across the province with municipalities, NGOs, Cooperatives and community institutions, having gained initial experience in participatory development approaches in working with CALUSA, a development organization in her home town of Cala.

She holds an Honour's degrees in Development Studies with UNISA, and is currently pursuing a Master's degree in Development Studies at Nelson Mandela Metropolitan University (NMMU). She also completed a Management Development Programme and Advanced Project Management Programme at Rhodes University.

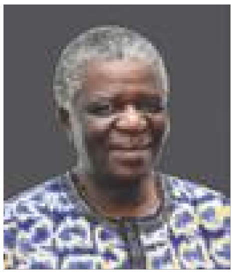
Nokulunga has participated in various European Union project monitoring missions and is exceptionally passionate about cooperative development.

MR SINGA NGQWALA
MEMBER

Mr Ngqwala is currently retired, after many years spent in the public sector finance, and its oversight role.

He occupied the Office of the Auditor General for the Eastern Cape during 1999 and 2014, occupied the office of Chief Director for the EC Department of Treasury, and was seconded in various establishment and oversight roles. Early in his career, he worked for the Transkei Development Corporation KPMG, as well as Butterworth Municipality in roles ranging from article clerk to assistant town treasurer. He has also occupied positions in education.

Mr Ngqwala holds an Honour's degree in Accounting (BCompt) and is currently a member of the Institute of Accounting Technicians of Southern Africa, the Black Management Forum and ABASA, and sits on various finance and audit committee structures in and around the Eastern Cape Province.



MR MAFUZA SIGABI
MEMBER

After obtaining his Matric Certificate, Mr Sigabi developed his political career while working in various sectors.

In 1976 Mr Sigabi participated in union activities and attempted to establish a branch of SAAWU at Goodhope Textiles. He was actively involved in non-racial sport in administrative and political matters under the auspices of KADRU (King and Districts Rugby Union); in the formation of the Sada Resident's Association, affiliated to the UDF in 1987; and, while in the employ of the SACC, assisted with the establishment of UDF units and ANC branches in Queenstown, Molteno, Burgersdorp and Aliwal North.

Mr Sigabi became Chairperson of the Sada Resident's Association in 1988 and Secretary of the UDF Queenstown Unit in 1989. In 1990 he became Chairperson of the first branch of the ANC in Sada where he formed branches in Whittlesea and Queenstown. Mr Sigabi served as Regional Executive Committee member of the ANC-Border Region; in the Local Government Negotiating Fora in Queenstown and Whittlesea; in the Provincial Negotiating Team that achieved the establishment of new District Councils and Transitional Rural Councils in terms of Proclamation R20 of 1995; and as Provincial Executive Committee Member of the ANC - Eastern Cape, serving on the Local Government and Peace and Stability Sub- Committees.

In 1995 he was appointed as Chairperson of Stormberg District Council until 2000, and in 1997 was involved in negotiations for the establishment of the Eastern Cape Local Government Association (SALGA), serving as Deputy Chairperson.

In 2000, Mr Sigabi was elected as the first Executive Mayor for the Chris Hani District Municipality, where he served for 10 years.

MR SIMPHIWE DZENGWA
MEMBER

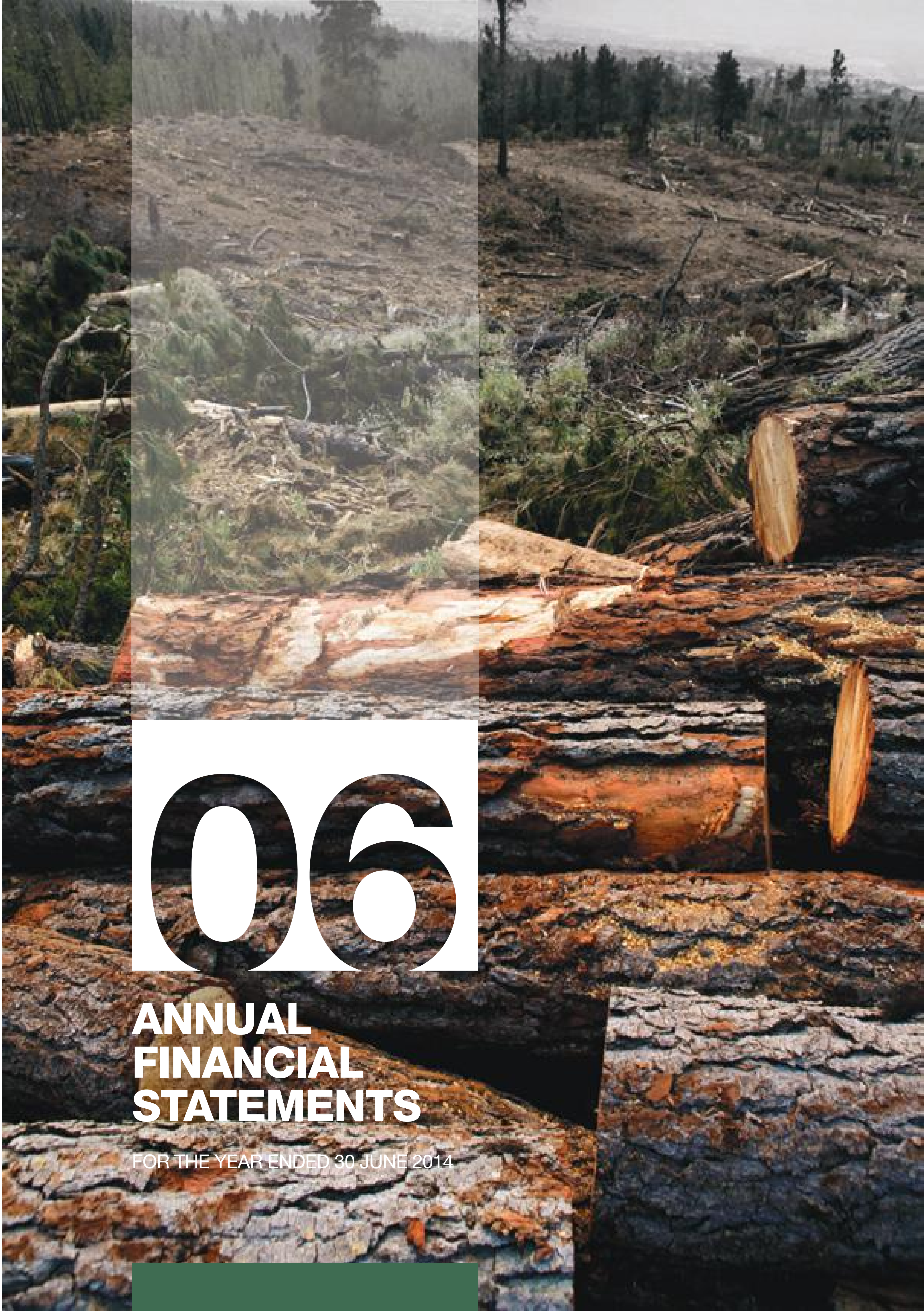
Mr Simphiwe Dzengwa was born and grew up in Zwelitsha, in the Eastern Cape. He holds a Master's Degree in Public Administration - MPA (Financial Management) from the Florida Atlantic University in the USA and a Master's Degree in Business Administration (MBA) from Rhodes University. He attained his junior and honors degrees from the University of the Western Cape. He is a registered member of the Institute of Directors and has served in various Boards and Audit Committees.

From an early age Simphiwe was involved in various leadership positions in student, youth and community structures. This laid a solid foundation for his character and further engagements in his adult and professional life. Simphiwe has worked extensively in the area of government finances and management and generally considers himself a developmental activist.

He has extensive experience in government having worked with all the three spheres mainly in the areas of finance, policy development, capacity building, project management, monitoring and evaluation, research and innovation, and others. Simphiwe has also worked in senior managerial roles within the private sector and has led various initiatives both nationally and internationally.

Mr Dzengwa's experience achieved from the private sector, government sector and self-employment includes:

- The role of Regional Manager at DBSA's Development Fund
- The role of Chief Director for Municipal Finances and Performance Management at the Department of Provincial and Local Government
- He has worked as the head of Innovate Eastern Cape, having been appointed by DEDEAT under the auspices of the ELIDZ to set up and operationalise the Innovation Hub as the overall champion and coordinator of all Eastern Cape innovation initiatives.
- Currently, Simphiwe is the Executive Director: Municipal Finance at SALGA



06

ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

CHRIS HANI DEVELOPMENT AGENCY SOC LIMITED

REGISTRATION NUMBER: 2012/033437/07

GENERAL INFORMATION

COUNTRY OF INCORPORATION AND DOMICILE
South Africa

LEGAL FORM OF ENTITY
Municipal Entity - State Owned Company

NATURE OF BUSINESS AND PRINCIPAL ACTIVITIES
Carry out the promotion and implementation of the local economic development initiatives and investment promotion in Chris Hani District

CHIEF EXECUTIVE OFFICER (CEO)
Mr T Mashologu

CHIEF FINANCE OFFICER (CFO)
Vacant

REGISTERED OFFICE
64 Prince Alfred Street, Queenstown

BUSINESS ADDRESS
64 Prince Alfred Street Queenstown

POSTAL ADDRESS
64 Prince Alfred Street, Queenstown

BANKERS
First National Bank

AUDITORS
Auditor-General of South Africa

SECRETARY
Vacant

COMPANY REGISTRATION NUMBER
2012/033437/07

LEGISLATION
These financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, No 56 of 2003.

CONTENTS

STATEMENT OF **RESPONSIBILITY**

FOR THE YEAR ENDED **30 JUNE 2014**

The directors are required by the Municipal Finance Management Act (Act 56 of 2003) to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is the responsibility of the directors to ensure that the financial statements fairly present the state of affairs of the entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and were given unrestricted access to all financial records and related data.

The financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board. The financial statements 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 entity and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit 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 entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The directors have reviewed the entity's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, they are satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The entity is wholly dependent on the Chris Hani District Municipality for continued funding of operations. The financial statements are prepared on the basis that the entity is a going concern and that the Chris Hani District Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the entity.

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

The external auditors are responsible for independently reviewing and reporting on the entity's financial statements. These financial statements are approved for examination by the entity's external auditors.

The financial statements set out on pages 44 to 71, which have been prepared on the going concern basis, were approved by the Board of Directors and were signed on its behalf by:

Mr Thukela Mashologu
Accounting Office

Mr Mlulami Manjezi
Chairman of the Board

REPORT OF THE INDEPENDENT AUDITORS

FOR THE YEAR ENDED **30 JUNE 2014**

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE AND COUNCIL OF THE CHRIS HANI DISTRICT MUNICIPALITY ON THE CHRIS HANI DEVELOPMENT AGENCY SOC (LTD)

1. REPORT ON THE FINANCIAL STATEMENTS

I have audited the financial statements of the Chris Hani Development Agency SOC (LTD) set out on pages 44 to 71, which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

2. ACCOUNTING OFFICER'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act 01 South Africa (Act No. 56 of 2003) (MFMA) and the South African Companies Act of 2008 (Act No. 71 of 2008) (Companies Act), 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.

3. AUDITOR-GENERAL'S RESPONSIBILITY

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. 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 judgment, 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.

5. I believe that the audit evidence I have obtained Is sufficient and appropriate to provides basis for my qualified audit opinion.

BASIS FOR QUALIFIED OPINION

CORRESPONDING FIGURES

6. TRADE AND OTHER PAYABLE'S FROM EXCHANGE TRANSACTIONS AND OPERATING EXPENSES

During 2012-13 the municipal entity did not include all payable's arising from expenditure transactions and also recorded expenditure transactions at the incorrect amounts. As a result the comparative figures for trade and other payables from exchange transactions and accumulated surplus were understated by R132 379 and R79 857 respectively and operating expenses was understated by R235 955.

7. In addition, I was unable to obtain sufficient appropriate audit evidence for operating expenses stated at R3,35 million in note 9. I was unable to confirm the operating expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments to operating expenses were necessary. My audit opinion on the financial statements for the period ended 31 March 2013 was modified accordingly. My opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

8. QUALIFIED OPINION

In my opinion, except for the possible effect of the matter described in the basis for qualified opinion paragraphs, the financial statements present fairly, In all material respects, the financial position of the Chris Hani Development Agency SOC (LTD) as at 30 June 2014, and its financial performance and cash flows for the year then ended In accordance with the SA Standards of GRAP and the requirements of the MFMA and the Companies Act.

9. EMPHASIS OF MATTERS
I draw attention to the matters below. My opinion is not modified in respect of these matters:

10. RESTATEMENT OF CORRESPONDING FIGURES
As disclosed in note 28 to the financial statements, the corresponding figures for 30 June 2013 have been restated as a result of errors discovered during the year ended 30 June 2014 in the financial statements of the municipal entity at, and for the year ended, 30 June 2013.

11. IRREGULAR EXPENDITURE
As disclosed in note 14 to the financial statements, irregular expenditure amounting to R3,95 million (2013: R4,33 million) was incurred by the municipal entity during the year ended 30 June 2014. This is as a result of non-compliance with the required procurement processes and human resource procedures.

12. ADDITIONAL MATTERS
I draw attention to the matters below. My opinion Is not modified In respect of these matters:

13. OTHER REPORTS REQUIRED BY THE COMPANIES ACT
As part of my audit of the financial statements for the year ended 31 March 2014, I have read the directors' report, the audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material Inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports I have not identified material inconsistencies between the reports and the audited financial statements in respect of which I have expressed a qualified opinion. I have not audited the reports and accordingly do not express an opinion on them.

14. UNAUDITED DISCLOSURE NOTES
In terms of section 125(2)(e) of the MFMA, the entity is required 10 disclose particulars of non-compliance with this legislation. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

15. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS
In accordance with the PM and the general notice issued in terms thereof, I report the following findings on the reported performance Information against predetermined objectives, compliance with legislation as well as internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

16. PREDETERMINED OBJECTIVES
I am unable to report on the usefulness and reliability of the performance information, as the annual performance report of the municipal entity was not prepared as required by section 121 (4)(d) of the MFMA.

17. COMPLIANCE WITH LEGISLATION
I performed procedures to obtain evidence that the municipal entity has complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

18. STRATEGIC PLANNING AND PERFORMANCE MANAGEMENT
The annual performance objectives and Indicators were not established by agreement with the parent municipality, as required by section 938(a) of the Municipal Systems Act, 2000 (Act No 32 of 2000) (MSA).

19. Effective, efficient and transparent systems of risk management and internal controls with respect to performance Information and management were not in place as required by section 95)(c)(i) of the MSA.

20. ANNUAL FINANCIAL STATEMENTS
The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of payable's from exchange and non-exchange transactions identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements on trade and other payable's from exchange transactions and operating expenses and supporting records that could not be provided In respect of operating expenses in the prior year resulted in the financial statements receiving a qualified audit opinion.

21. AUDIT COMMITTEE
The audit committee did not:

- Advise the board of directors and accounting officer on matters relating to Internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.
- Advise the board of directors and accounting officer on matters relating to compliance with legislation, as required by section 1 e6(2)(a)(vll) of the MFMA.
- Meet at least four times a year, as required by section 166(4)(b) of the MFMA.

22. INTERNAL AUDIT
The internal audit unit, due to the late appointment, did not function as required by section 165(2) of the MFMA, in that internal audit did not:

- Prepare a risk-based audit plan and an internal audit programme for the financial year under review.
- Report to the audit committee on the implementation of the internal audit plan.
- Advise the accounting officer and report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.

23. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA and the Companies Act, as required by section 165(2)(b)(vii) of the MFMA.

24. EXPENDITURE MANAGEMENT
Reasonable steps were not taken to prevent irregular and fruitless and wasteful expenditure, as required by section 95(d) of the MFMA.

25. LIABILITY MANAGEMENT
An effective system of internal control for liabilities (including a liability register) was not in place, as required by section 96(2)(b) of the MFMA.

26. PROCUREMENT AND CONTRACT MANAGEMENT
Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by supply chain management (SCM) regulation 17(a) and (c).

27. The performance of contractors or providers was not monitored on a monthly basis, as required by section 11 6(2)(b) of the MFMA.

28. The contract performance and monitoring measures and methods were insufficient to ensure effective contract management, as required by section 11 6(2)(c) of the MFMA.

29. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

30. CONSEQUENCE MANAGEMENT
Irregular and fruitless and wasteful expenditure incurred by the municipal entity was not investigated to determine whether any person was liable for the expenditure, as required by section 102(1) of the MFMA.

31. INTERNAL CONTROL
I considered Internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion and the findings on predetermined objectives and compliance with legislation included in this report.

32. LEADERSHIP
There was an improvement in oversight during the financial year under review by leadership and the chief executive officer; however, it was not sufficient to improve the audit outcome as material misstatements relating to the prior year remained unresolved, resulting in a qualified audit opinion. In addition, there is still a lack of oversight and accountability to ensure compliance with all laws and regulations.

33. The position of chief financial officer (CFO) was vacant for the entire year under review and the absence thereof was evident in the audit outcome. This position was filled subsequent to year end as it is vital to the optimal operation of the finance department.

34. The entity still has to appoint consultants for the preparation of financial statements due to a shortage of in-house skills and competencies. The entity must adopt a strategy to ensure that an opportunity exists for the necessary skills transfer from the consultants to the responsible employees. This will ensure that the reliance on consultants is reduced over time.

35. The municipal entity did not properly plan to meet the requirements of the National Treasury's Framework for managing programme performance information as no reporting was done on performance Information. The lack of adequate performance information reporting prevents the municipal entity from adequately monitoring the achievements of its objectives.

36. FINANCIAL AND PERFORMANCE MANAGEMENT
The finance section is not fully established and as a result the controls Identified were not adequate for the preparation of regular, accurate and complete financial and performance reports. Material misstatements relating to the prior year remained unresolved in the financial statements that were submitted for audit and this had a negative impact on the audit outcome.

37. The entity did not have systems in place throughout the financial year to monitor compliance with all the applicable legislation. Non-compliance with laws and regulations could have been prevented had compliance been properly reviewed and monitored. In addition, inadequate steps were taken to prevent and detect the incurrence of Irregular and fruitless and wasteful expenditure.

38. GOVERNANCE
The audit committee and internal audit unit were appointed towards the end of the financial year, therefore their responsibilities relating to financial management, performance management and compliance with laws and regulations were not adequately performed, resulting in material findings identified.

Auditor-General.

EAST LONDON
30 November 2014

AUDITOR-GENERAL
SOUTH AFRICA

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

In terms of section 30 of the Companies Act No 71 of 2008 as amended and sections 122(1)(2)(3) and 126(2)(3), the following report is submitted for the year ended 30 June 2014.

1. GENERAL REVIEW

There has been no material change in the nature or conduct of the company's business during the period under review.

The financial statements adequately disclose the results of the operations for the period under review and the state of the company's affairs at 30 June 2014.

There has been no material fact or occurrence since the end of the period under review on which we consider it necessary to report.

2. NATURE OF BUSINESS

The company has been formed as a local economic development agency of the Chris Hani District Municipality to develop and promote economic growth in the Chris Hani District.

3. SHARE CAPITAL/CONTRIBUTIONS FROM OWNERS

1 000 ordinary shares with a par value of R1 each are held wholly by the Chris Hani District Municipality.

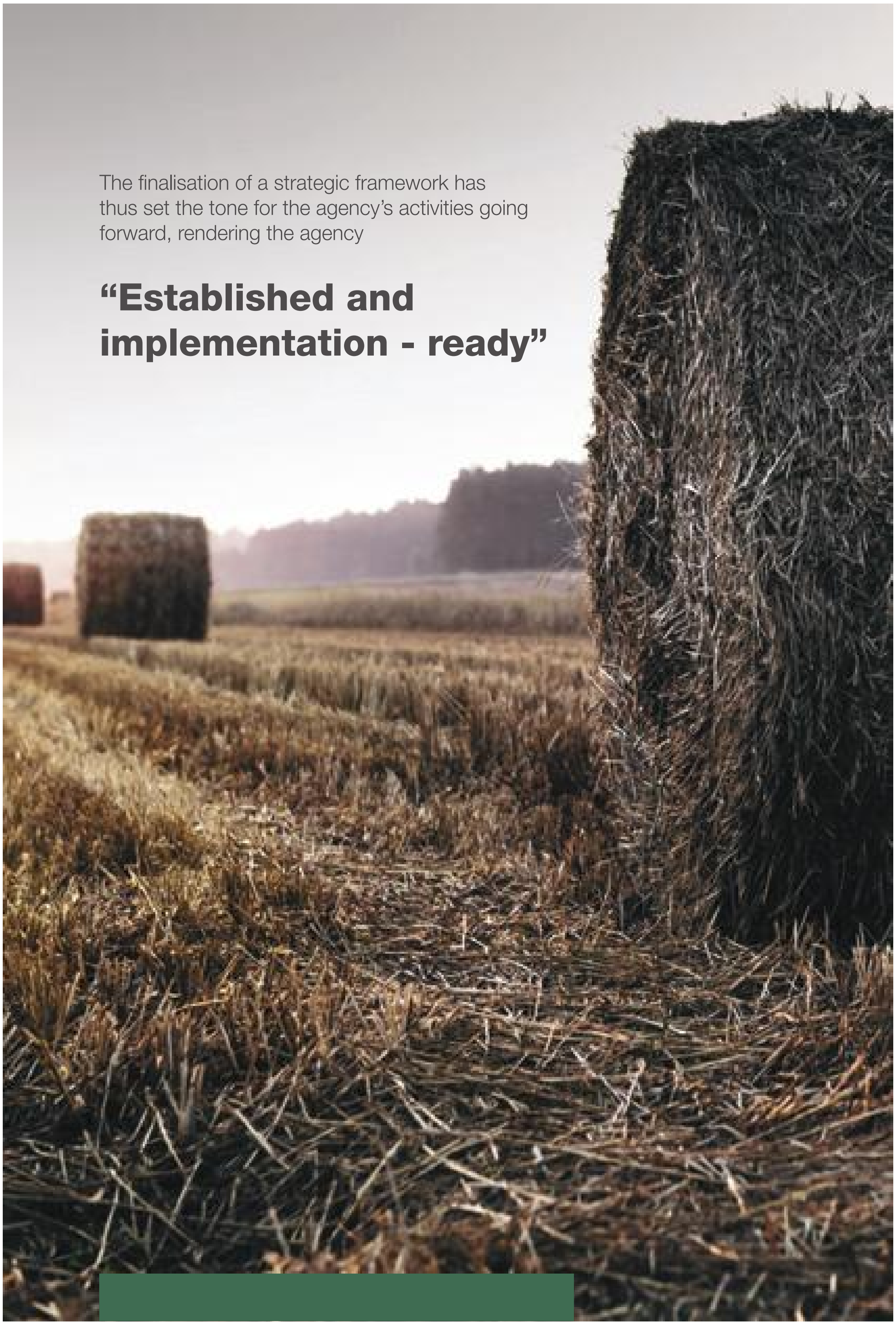
4. DIVIDENDS

No dividends have been proposed or declared during the period under review, nor are any recommended.

5. BOARD OF DIRECTORS

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

Name	Nationality	Date of Appointment	Date of Resignation
Mr M Sigabi	South African	1 October 2013	
Mr S Dzengwa	South African	1 October 2013	
Mr M Manjezi (chairman)	South African	1 October 2013	
Ms N Ntsubane	South African	1 October 2013	
Dr C Beck-Reinhardt	German (permanent resident status)	1 February 2013	
Ms N Sikeyi	South African	1 February 2013	
Mr T Mashologu	South African	1 October 2013	30 April 2014
Mr X Mtirara	South African	2012	29 September 2013
Mr S Ngqwala	South African	1 June 2014	
Mr R Schley	South African	2012	29 September 2013
Mr S Somdyala	South African	2012	29 September 2013
Ms P Xuza	South African	2012	29 September 2013
Ms N Zonke	South African	2012	29 September 2013



The finalisation of a strategic framework has thus set the tone for the agency's activities going forward, rendering the agency

"Established and implementation - ready"

STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014

	Note	2013/14 ZAR	2012/13 ZAR Restated
ASSETS			
CURRENT ASSETS		4 831 781	1 405 870
Cash and cash equivalents	4	2 714 805	384 872
Trade and other receivables from non-exchange transactions	5	2 116 976	1 020 998
NON-CURRENT ASSETS		391 603	342 514
Property, plant and equipment	2	300 332	314 870
Intangible assets	3	91 271	27 644
TOTAL ASSETS		5 223 384	1 748 384
LIABILITIES			
CURRENT LIABILITIES		3 574 153	2 464 410
Trade and other payables from non-exchange transactions	6	1 217 152	1 357 019
Trade and other payables from exchange transactions	6	2 357 001	1 107 391
NON-CURRENT LIABILITIES		-	-
TOTAL LIABILITIES		3 574 153	2 464 410
NET ASSETS/(LIABILITIES)		1 649 231	(716 026)
Contributions from owner		1 000	1 000
Accumulated surplus (deficit)		1 648 231	(717 026)
TOTAL NET ASSETS/(LIABILITIES)		1 649 231	(716 026)

STATEMENT OF FINANCIAL PERFORMANCE
AT 30 JUNE 2014

	Note	2013/14 ZAR	2012/13 ZAR Restated
REVENUE FROM NON-EXCHANGE TRANSACTIONS		9 307 559	4 982 460
Investment summit		-	1 754 390
CHDM operational grant		9 307 559	3 228 070
REVENUE FROM EXCHANGE TRANSACTIONS		1 270 008	483 914
Project implementation income		1 263 158	-
Investment summit income			473 596
Tender fees		6 850	10 318
TOTAL REVENUE		10 577 567	5 466 374
Other income (investment funds)		-	592 281
TOTAL INCOME	7	10 577 567	6 058 655
EXPENDITURE		8 046 479	6 686 306
Project costs	8	2 230 669	3 347 281
Accounting fees		323 906	122 807
Administration expenses	9	639 343	1 367 080
Advertising and marketing expenses		29 000	322 081
Audit fees		470 627	-
Depreciation		125 534	70 929
Employee costs	10	3 314 388	831 712
Donations		3 799	-
Disposal of assets		12 884	-
Insurance costs		20 535	-
IT support costs		129 473	9 600
Legal expenses		58 893	89 963
Office rental expenses		285 010	276 473
Printing and stationery		80 639	18 956
Repairs and maintenance		2 650	35 000
Travel and accommodation		319 129	194 424
OPERATING SURPLUS		2 531 088	(627 651)
Interest received		124 667	25 740
Finance costs		(290 498)	(115 115)
SURPLUS FOR THE YEAR		2 365 257	(717 026)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		2 365 257	(717 026)

STATEMENT OF CHANGES IN NET ASSETS

Restated

	Note	Contributions from Owner **ZAR**	Accumulated Surplus/(Deficit) **ZAR**	Total Net Assets **ZAR**
OPENING BALANCE AT 1 JULY 2012		-	-	-
Owner's contribution		1 000	-	1 000
TOTAL COMPREHENSIVE DEFICIT FOR THE PERIOD		-	(347 216)	(347 216)
BALANCE AT 30 JUNE 2013		1 000	(347 216)	(346 216)
Opening balance as previously reported		1 000	(347 216)	(346 216)
Correction of prior year errors	28	-	(369 810)	(369 810)
BALANCE AT 1 JULY 2013 AS RESTATED		1 000	(717 026)	(717 026)
TOTAL COMPREHENSIVE SURPLUS FOR THE PERIOD		-	2 365 257	2 365 257
BALANCE AS AT 30 JUNE 2014		1 000	1 648 231	1 649 231

CASH-FLOW STATEMENT
AT 30 JUNE 2014

	Note	2013/14 ZAR	2012/13 ZAR Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
RECEIPTS			
Gross receipts from exchange transactions		174 030	55 197
Other receipts		9 307 559	4 982 460
Interest income		124 667	25 740
		9 606 256	5 063 397
PAYMENTS			
Payment of employees		(3 314 388)	(831 712)
Payment of suppliers		(3 480 130)	(3 319 256)
Interest paid		(290 498)	(115 115)
		(7 085 016)	(4 266 083)
NET CASH FROM OPERATING ACTIVITIES	11	2 521 240	797 314
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of assets	2/3	(191 307)	(413 442)
Net cash flows from investing activities		(191 307)	(413 442)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from owners		-	1 000
NET CASH FLOWS FROM FINANCING ACTIVITIES		-	1 000
Net (decrease)/increase in cash and cash equivalents		2 329 933	384 872
Cash and cash equivalents at beginning of period		384 872	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD		2 714 805	384 872

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

Budget information is presented on cash basis

Description	Note	Approved Budget
		ZAR
STATEMENT OF FINANCIAL PERFORMANCE		
REVENUE FROM EXCHANGE TRANSACTIONS		50 000
Passive income/interest received		30 000
Tender fees		20 000
Other		0
Project management unit		0
Skills and bursary programme		0
REVENUE FROM NON-EXCHANGE TRANSACTIONS		12 000 000
CHDM - Operating Grant		7 100 000
CHDM - Investment Summit Grant		2 900 000
CHDM - Skills Development Fund Grant		2 000 000
CHDM - PMO Establishment Grant		0
IDC Grant		0
Third-party Grant Income		0
TOTAL INCOME FOR THE PERIOD	31	12 050 000
EXPENDITURE	31	11 960 529
Project costs		5 066 500
Accounting fees		312 206
Administration expenses		982 982
Advertising and marketing expenses		180 000
Audit fees		125 000
Employee costs		4 071 841
Insurance costs		25 000
IT support costs		530 000
Legal expenses		100 000
Office rental expenses		297 000
Printing and stationery		25 000
Repairs and maintenance		-
Travel and accommodation		245 000
Finance costs		-
SURPLUS/(DEFICIT) FOR THE PERIOD	30	89 471
NON-CURRENT ASSETS		89 471
Property, plant and equipment		49 471
Intangible assets		40 000
CASH-FLOW SURPLUS OR DEFICIT	30	-

Adjustments ZAR	Final Budget ZAR	Actual amount on Comparable Basis ZAR	Difference between Final Budget and Actual ZAR	% Variance
7 332 991	7 382 991	1 394 675	5 988 316	81%
70 000	100 000	124 667	-24 667	-25%
(15 000)	5 000	6 850	-1 850	-37%
1 278 868	1 278 868	0	1 278 867	100%
5 649 123	5 649 123	1 263 158	4 385 965	78%
350 000	350 000	0	350 000	100%
(1 467 181)	10 532 819	9 307 559	1 225 260	12%
532 819	7 632 819	9 307 559	-1 674 740	-22%
0	2 900 000	0	2 900 000	100%
(2 000 000)	0	0	0	0%
0	0	0	0	0%
0	0	0	0	0%
0	0	0	0	0%
5 865 810	17 915 810	10 702 234	7 213 576	40%
5 411 213	17 371 742	8 194 760	9 176 981	53%
4 157 760	9 224 260	2 230 669	6 993 591	76%
208 398	520 604	323 906	196 698	38%
-428 982	554 000	639 343	-85 343	-15%
500 000	680 000	29 000	651 000	96%
355 000	480 000	470 627	9 373	2%
585 037	4 656 878	3 314 388	1 342 490	29%
-	25 000	20 535	4 465	18%
-26 000	504 000	129 473	374 527	74%
-	100 000	58 893	41 107	41%
30 000	327 000	285 010	41 990	13%
25 000	50 000	80 963	-30 639	-61%
-	-	2 650	-2 650	-100%
-	245 000	319 129	-74 129	30%
5 000	5 000	290 498	-285 498	-5710%
454 597	544 068	2 507 474	-1 963 406	-361%
350 000	439 471	191 307	248 164	56%
75 000	124 471	107 615	16 856	14%
275 000	315 000	83 691	231 309	73%
104 597	104 597	2 316 167	-2 211 570	-2 114%

ACCOUNTING **POLICIES**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the following policies, which have been applied consistently in all material aspects, unless otherwise indicated. The historical cost convention has been used, except where otherwise indicated. Management has used assessments and estimates in preparing the annual financial statements. These are based on the best information available at the time of preparation.

1.1 BASIS OF PREPARATION

These annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

1.2 PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand, which is the functional currency of the entity.

1.3 GOING CONCERN

These annual financial statements were prepared based on the expectation that the entity will continue to operate as a going concern for at least the next 12 months.

1.4 COMPARATIVE INFORMATION

CURRENT YEAR COMPARATIVES (BUDGET)

Budget information in accordance with GRAP 1 and 24 has been provided in a separate disclosure note to these annual financial statements.

PRIOR YEAR COMPARATIVES

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and/or restatement is not required by a standard of GRAP. The nature and reasons for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

The presentation and classification of items in the current year is consistent with prior periods.

1.5 SIGNIFICANT JUDGEMENTS AND ESTIMATES

The use of judgement, estimates and assumptions is inherent to the process of preparing annual financial statements. These judgements, estimates and assumptions affect the amounts presented in the annual financial statements. Uncertainties about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the relevant asset or liability in future periods.

JUDGEMENTS

In the process of applying these accounting policies, management has made the following judgements that may have a significant effect on the amounts recognised in the financial statements.

ESTIMATES

Estimates are informed by historical experience, information currently available to management, assumptions, and other factors that are believed to be reasonable under the circumstances. These estimates are reviewed on a regular basis. Changes in estimates that are not due to errors are processed in the period of the review and applied prospectively.

In the process of applying the entity's accounting policies the following estimates were made:

DEPRECIATION AND AMORTISATION

Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management's estimation of the asset's condition, expected condition at the end of the period of use, its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating how the condition and use of the asset informs the useful life and residual value, management considers the impact of technology and minimum service requirements of the assets.

EFFECTIVE INTEREST RATE

The entity uses an appropriate interest rate, taking into account guidance provided in the standards, and applying professional judgement to the specific circumstances, to discount future cash flows. The entity used the prime interest rate where required.

1.6 FINANCIAL INSTRUMENT

INITIAL RECOGNITION

The entity recognises a financial asset or a financial liability in its Statement of Financial Position when, and only when, the entity becomes a party to the contractual provisions of the instrument. This is achieved through the application of trade date accounting.

Upon initial recognition the entity classifies financial instruments or their component parts as financial liabilities, financial assets or residual interests in conformity with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of a financial liability, a financial asset or a residual interest.

Financial instruments are evaluated, based on their terms, to determine if those instruments contain both liability and residual interest components (ie to assess if the instruments are compound financial instruments). To the extent that an instrument is in fact a compound instrument, the components are classified separately as financial liabilities and residual interests as the case may be.

INITIAL MEASUREMENT
When a financial instrument is recognised, the entity measures it initially at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

SUBSEQUENT MEASUREMENT
Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, amortised cost or cost.
All financial assets and financial liabilities are measured after initial recognition using the following categories:
a) Financial instruments at fair value.
- Derivatives.
- Compound instruments that are designated at fair value ie an instrument that includes a derivative and a non-derivative host contract.
- Instruments held for trading.
- Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition.
- An investment in a residual interest for which fair value can be measured reliably.
- Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

b) Financial instruments at amortised cost.
Non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that the entity designates at fair value at initial reconition or are held for trading.
c) Financial instruments at cost.
Investments in residual interests which do not have quoted market prices and for which fair value cannot be determined reliably.

The entity assesses which instruments should be subsequently measured at fair value, amortised cost or cost, based on the definitions of financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost as set out above.

CONCESSIONARY LOANS
The part of the concessionary loan that is a social benefit or non-exchange revenue is determined as the difference between the fair value of the loan and the loan proceeds, either paid or received. After initial recognition, an entity measures concessionary loans in accordance with the subsequent measurement criteria set out for all financial instruments.

DERECOGNITION
A financial asset is derecognised at trade date. A financial asset is derecognised at trade date when:
a) The cash flows from the asset expire, are settled or waived;
b) Significant risks and rewards are tranferred to another party; or
c) Despite having retained significant risks and rewards, the entity has transferred control of the asset to another entity.

A financial liability is derecognised when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where the terms of an existing financial liability are modified, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

GAINS AND LOSSES
A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired or through the amortisation process.

OFFSETTING
The entity does not offset financial assets and financial liabilities in the Statement of Financial Position unless a legal right of set-off exists and the parties intend to settle on a net basis.

IMPAIRMENTS
All financial assets measured at amortised cost, or cost, are subject to an impairment review. The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

<u>For financial assets held at amortised cost:</u>
The entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

<u>For financial assets held at cost:</u>
If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

POLICIES RELATING TO SPECIFIC FINANCIAL INSTRUMENTS

INVESTMENTS AT AMORTISED COST
Investments, which include listed government

bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as financial instruments at amortised cost and are subsequently measured at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

INVESTMENTS AT FAIR VALUE
Investments, which represent investments in residual interest for which fair value can be measured reliably, are subsequently measured at fair value.

Gains and losses in the fair value of such investments are recognised in the Statement of Financial Performance.

INVESTMENTS AT COST
Investments at cost, which represent investments in residual interest for which there is no quoted market price and for which fair value cannot be measured reliably, are subsequently measured at cost.

1.7 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are measured at amortised cost.

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly 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 purposes of the cash-flow statement, cash and cash equivalents comprise cash on hand and deposits held on call with banks.

1.8 TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost, less provision for impairment. All trade and other receivables are assessed at least annually for possible impairment. Impairments of trade and other receivables are determined in accordance with the accounting policy for impairments. Impairment adjustments are made through the use of an allowance account.

Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

1.9 TRADE AND OTHER PAYABLES

Trade payables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition and are subsequently measured at amortised cost using the effective interest rate method.

1.10 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes and are expected to be used during more than one year.

Items of property, plant and equipment are recognised as assets when it is probable that future economic benefits or service potential associated with the item will flow to the entity and the cost or fair value of the item can be measured reliably.

Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost where acquired through exchange transactions. However, when items of property, plant and equipment are acquired through non-exchange transactions, those items are initially measured at their fair values as at the date of acquisition.

The cost of an item of property, plant and equipment is the purchase price and other costs directly attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the entity. Trade discounts and rebates are deducted in arriving at the cost at which the asset is recognised. The cost also includes the estimated costs of dismantling and removing the asset and restoring the site on which it is operated.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. These major components are depreciated separately over their useful lives.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value is not determinable, its deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the entity expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

SUBSEQUENT MEASUREMENT
Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

ASSET CLASS
- Computer equipment
- Furniture and fittings
- Office equipment

SUBSEQUENT EXPENDITURE
Where the entity replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequent expenditure including major spare parts and servicing equipment qualify as property, plant and equipment if the recognition criteria are met.

DEPRECIATION
Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciable amount is determined after taking into account an asset's residual value, where applicable.

Assets' residual values, useful lives and depreciation methods are reviewed at each financial year end and adjusted prospectively, if appropriate.

The annual depreciation rates are based on the following estimated asset useful lives:

ASSET CLASS	USEFUL LIFE
• Computer equipment	3
• Furniture and fittings	6
• Office equipment	3

IMPAIRMENTS
The entity tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Where items of property, plant and equipment have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the Statement of Financial Performance in the period that the impairment is identified.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of the impairment is recognised in the Statement of Financial Performance.

DERECOGNITION
Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.11 INTANGIBLE ASSETS

INITIAL RECOGNITION AND MEASUREMENT
An intangible asset is an identifiable non-monetary asset without physical substance. The entity recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

a) The entity intends to complete the intangible asset for use or sale.
b) It is technically feasible to complete the intangible asset.
c) The entity has the resources to complete the project.
d) It is probable that the entity will receive future economic benefits or service potential.
e) The entity has the ability to measure reliably the expenditure during development.

INTANGIBLE ASSETS ARE INITIALLY RECOGNISED AT COST.
Where an intangible asset is acquired by the entity for no or nominal consideration (ie a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value is not determinable, its deemed cost is the carrying amount of the asset(s) given up.

SUBSEQUENT MEASUREMENT
Intangible assets are subsequently carried at cost less accumulated amortisation and impairments.

The cost of an intangible asset is amortised over the useful life where that useful life is finite. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Financial Performance in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life assumption continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in the Statement of Financial Performance in the expense category consistent with the function of the intangible asset. During the period of development, the asset is tested for impairment annually.

AMORTISATION AND IMPAIRMENT
Amortisation is charged to write off the cost of intangible assets over their estimated useful lives using the straight-line method. The annual amortisation rates are based on the following estimated average asset lives:

ASSET CLASS	USEFUL LIFE
• Intangible assets	3

The amortisation period, the amortisation method and residual value for intangible assets with finite useful lives are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

1.12 IMPAIRMENTS

The entity tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is performed at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

DERECOGNITION
Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

MEASUREMENT
An asset's recoverable amount (or recoverable service amount) is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value-in-use. This recoverable amount (or recoverable service amount) is determined for individual assets, unless those individual assets are part of a larger cash-generating unit, in which case the recoverable amount (or recoverable service amount) is determined for the whole cash-generating unit.

An asset is part of a cash-generating unit where that asset does not generate cash inflows that are largely independent of those from other assets or group of assets. In determining the recoverable amount (or recoverable service amount) of an asset the entity evaluates the assets to determine whether the assets are cash-generating assets or non-cash-generating assets.

For cash-generating assets the value-in-use is determined as a function of the discounted future cash flows from the asset.

Where the asset is a non-cash-generating asset the value-in-use is determined through one of the following approaches:

- Depreciated replacement cost approach - The current replacement cost of the asset is used as the basis for this value.

  This current replacement cost is depreciated for a period equal to the period that the asset has been in use so that the final depreciated replacement cost is representative of the age of the asset.
- Restoration cost approach - Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment.
- Service units approach - The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state.

The decision as to which approach to use is dependent on the nature of the identified impairment.

In assessing value-in-use for cash-generating assets, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, other fair value indicators are used.

Impairment losses of continuing operations are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the entity makes an estimate of the assets or cash-generating unit's recoverable amount.

REVERSAL OF IMPAIRMENT LOSSES

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

1.13 EMPLOYEE BENEFITS

SHORT-TERM EMPLOYEE BENEFITS

Short-term employee benefits encompass all those benefits that become payable in the short term, ie within a financial year or within 12 months after the financial year. Therefore short-term employee benefits include remuneration, compensated absences and bonuses.

Short-term employee benefits are recognised in the Statement of Financial Performance as services rendered, except for non-accumulating benefits, which are recognised when the specific event occurs. These short-term employee benefits are measured at their undiscounted costs in the period the employee renders the related service or the specific event occurs.

POST-EMPLOYMENT BENEFITS

The entity provides post-employment benefits for its officials. These benefits are provided as either defined contribution plans or defined benefit plans. The entity identifies as defined contribution plans any post-employment plan in terms of which it has no obligation to make further contributions to the plan over and above the monthly contributions payable on behalf of employees (for example in the event of a funding shortfall). Any other plans are considered to be defined benefit plans.

DEFINED CONTRIBUTION PLANS

Contributions made towards the fund are recognised as an expense in the Statement of Financial Performance in the period that such contributions become payable. This contribution expense is measured at the undiscounted amount of the contribution paid or payable to the fund. A liability is recognised to the extent that any of the contributions have not yet been paid. Conversely an asset is recognised to the extent that any contributions have been paid in advance.

DEFINED BENEFIT PLANS

Pursuant to the entity's obligation to fund the post-employment benefits provided through a defined benefit plan, the entity recognises a defined benefit obligation or asset with reference to the fund's financial position. To the extent that the future benefits payable under the fund exceeds the value assets held to finance those benefits, the entity recognises as defined benefit obligation. To the extent that the value of plan assets exceeds the future benefits payable by the fund the entity recognises as defined benefit asset. Plan assets are assets that are held by long-term employee benefit funds or qualifying insurance policies. Plan assets are not available to the creditors of the entity nor can they be paid directly to the entity.

The defined benefit asset or obligation recognised is seen as the net difference between the value of the plan assets and plan liabilities and also taking past service cost into consideration - post-employment benefits.

Plan assets included in the defined benefit plan asset or liability recognised are measured at their fair values. Fair value is based on market price information and in the case of quoted securities is the published bid price. The value of any defined benefit asset recognised is limited to the sum of any past service costs and actuarial gains and losses not yet recognised and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The plan liabilities are measured at the present value of the future benefits payable. This present value of the plan liabilities is determined through actuarial valuation techniques.

The entity operates no defined benefit pension plans, all of which require contributions to be made to separately administered funds. The cost of providing benefits under the defined benefit plans is determined separately for each plan, using the projected unit credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries for each plan.

Actuarial gains and losses are recognised in full in the Statement of Financial Performance in the year that they occur.

The past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits have already vested, immediately following the introduction of, or changes to, a pension plan, past service costs are recognised immediately.

1.14 LEASES

THE ENTITY AS LESSEE

RECOGNITION

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the entity through the lease agreement. Assets subject to finance leases are recognised in the Statement of Financial Position at the inception of the lease, as is the corresponding finance lease liability.

Assets subject to operating leases, ie those leases where substantially all of the risks and rewards of ownership are not transferred to the lessee through the lease, are not recognised in the Statement of Financial Position. The operating lease expense is recognised over the course of the lease arrangement.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; namely whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005, in accordance with the transitional requirements of iGRAP 3.

MEASUREMENT

Assets subject to a finance lease, as recognised in the Statement of Financial Position, are measured (at initial recognition) at the lower of the fair value of the assets and the present value of the future minimum lease payments. Subsequent to initial recognition these capitalised assets are depreciated over the contract term.

The finance lease liability recognised at initial recognition is measured at the present value of the future minimum lease payments. Subsequent to initial recognition this liability is carried at amortised cost, with the lease payments being set off against the capital and accrued interest. The allocation of the lease payments between the capital and interest portion of the liability is effected through the application of the effective interest method.

The finance charges resulting from the finance lease are expensed, through the Statement of Financial Performance, as they accrue. The finance cost accrual is determined using the effective interest method.

The lease expense recognised for operating leases is charged to the Statement of Financial Performance on a straight-line basis over the term of the relevant lease. To the extent that the straight-lined lease payments differ from the actual lease payments the difference is recognised in the Statement of Financial Position as either lease payments in advance (operating lease asset) or lease payments payable (operating lease liability) as the case may be. This resulting asset and/or liability is measured as the undiscounted difference between the straight-line lease payments and the contractual lease payments.

DERECOGNITION

The finance lease liabilities are derecognised when the entity's obligation to settle the liability is extinguished. The assets capitalised under the finance lease are derecognised when the entity no longer expects any economic benefits or service potential to flow from the asset.

The operating lease liability is derecognised when the entity's obligation to settle the liability is extinguished. The operating lease asset is derecognised when the entity no longer anticipates economic benefits to flow from the asset.

THE ENTITY AS LESSOR

RECOGNITION

For those leases that meet the definition of a finance lease, where the entity is the lessor, the entity derecognises the asset subject to the lease at the inception of the lease. Along with the derecognition of the asset the entity recognises a finance lease receivable. Finance lease income is allocated to between the finance lease receivable and finance income using the effective interest rate method and the resulting finance income is recognised in the Statement of Financial Performance as it accrues.

For those leases classified as operating leases the asset subject to the lease is not derecognised and no lease receivable is recognised at the inception of the lease. Lease payments received under an operating lease are recognised as income, in the Statement of Financial Performance, in the period that the income accrues.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; namely, whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of iGRAP 3.

MEASUREMENT

Finance lease receivables are recognised at an amount equal to the entity's net investment in the lease. This net investment in the lease is calculated as the sum of the minimum future lease payments and unguaranteed residual value discounted over the lease term at the rate implicit in the lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined lease payments and the contractual lease payments are recognised as either an operating lease asset or operating lease liability. An operating lease liability is raised to the extent that lease payments are received in advance (ie the straight-line lease payments are more than the contractual lease payments). The operating lease asset and/or operating lease liability are measured as the un-discounted difference between the straight-line lease receipts and the contractual lease receipts.

DERECOGNITION

Finance lease receivables are derecognised when the entity's right to the underlying cash flows expire or when the entity no longer expects economic benefits to flow from the finance lease receivable.

Operating lease liabilities are derecognised when the entity's obligation to provide economic benefits or service potential under the lease agreement expires. Operating lease assets are derecognised when the entity's right to the underlying cash flows expire or the entity no longer expects economic benefits to flow from the operating lease asset.

1.15 REVENUE

REVENUE FROM EXCHANGE TRANSACTIONS

Revenue from exchange transactions refers to revenue that accrues to the entity directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable, excluding indirect taxes, rebates and discounts.

RECOGNITION

Revenue from exchange transactions is only recognised once all of the following criteria have been satisfied:

a) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
b) The amount of revenue can be measured reliably; and
c) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue arising out of situations where the entity acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the entity as compensation for executing the agreed services.

MEASUREMENT

Revenue from exchange transactions is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

EXPENDITURE FROM EXCHANGE TRANSACTIONS

Expenses directly associated with the generation of exchange revenue are recognised in the same period as the revenues are recognised, rather than in the period in which the expenses are incurred.

Revenue from non-exchange transactions
Non-exchange transactions are transactions that are not exchange transactions.

Revenue from a non-exchange transaction arises when the entity either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange.

Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

SPECIFIC NON-EXCHANGE-REVENUE SOURCES

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is not a corresponding liability in respect of related conditions.

MEASUREMENT

An asset that is recognised as a result of a non-exchange transaction is recognised at its fair value at the date of the transfer. Consequently, revenue arising from a non-exchange transaction is measured at the fair value of the asset received, less the amount of any liabilities that are also recognised due to conditions that must still be satisfied.

Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, that liability is transferred to revenue as and when the conditions attached to the grant are met.

Grants without any conditions attached are recognised as revenue in full when the asset is recognised, at an amount equalling the fair value of the asset received.

Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor.

EXPENDITURE RELATING TO NON-EXCHANGE TRANSACTIONS

Expenses directly associated with the generation of non-exchange revenue are recognised in the same period as the revenues are recognised, rather than in the period in which the expenses are incurred.

1.16 FOREIGN CURRENCY TRANSACTION

Transactions in foreign currencies are initially accounted for at the rate of exchange ruling on the date of the transaction. Exchange differences arising on the settlement of creditors or on reporting of creditors at rates different from those at which they were initially recorded are expensed.

Transactions in foreign currency are accounted for at the spot rate of the exchange ruling on the date of the transaction.

Gains and losses arising on the translation are dealt with in the Statement of Financial Performance in the year in which they occur.

1.17 SURPLUS/DEFICIT

GAINS AND LOSSES

Gains and losses arising from fair value adjustments on investments and loans, and from the disposal of assets, are presented separately from other revenue in the Statement of Financial Performance.

Income, expenditure, gains and losses are recognised in surplus or deficit except for the exceptional cases where recognition directly in net assets is specifically allowed or required by a standard of GRAP.

1.18 VALUE ADDED TAX

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

1.19 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government or organ of state and expenditure in the form of a grant that is not permitted. Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as income in the Statement of Financial Performance.

1.20 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), and the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the entity's supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 RECOVERY OF UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, and is recognised when the recovery thereof from the responsible officials is probable. The recovery of unauthorised, irregular, fruitless and wasteful expenditure is treated as other income.

1.23 POST-REPORTING EVENTS

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The entity will adjust the amounts recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.24 RELATED PARTIES

The entity has processes and controls in place to aid in the identification of related parties. A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Where transactions occurred between the entity and any one or more related parties, and those transactions were not within:

a) Normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances; and
b) Terms and conditions within the normal operating parameters established by the reporting entity's legal mandate.

Further details about those transactions are disclosed in the notes to the financial statements.

Information about such transactions is disclosed in the financial statements.

1.25 BUDGET INFORMATION

The annual budget figures have been presented in accordance with the GRAP reporting framework. A separate statement of comparison of budget and actual amounts, which forms part of the annual financial statements, has been prepared. The comparison of budget and actual amount will be presented on the same accounting basis, same classification basis and for the same entity and period as for the approved budget. The budget of the entity is taken for a stakeholder consultative process as part of the parent municipality and upon approval the approved budget is made publicly available.

Material differences in terms of the basis or timing have been disclosed in the notes to the annual financial statements.

The most recent approved budget by the council is the final budget for the purpose of comparison with the actual amounts.

NOTES TO THE FINANCIAL STATEMENTS

2. PROPERTY, PLANT AND EQUIPMENT

2013/14

				COST	ACCUMULATED DEPRECIATION				
	Opening Balance ZAR	Additions ZAR	Disposal ZAR	Closing Balance ZAR	Opening Balance ZAR	Depreciation ZAR	Disposal ZAR	Closing Balance ZAR	Carrying Value ZAR
Computer equipment	186 782	75 278	(21 494)	240 566	44 892	69 560	(8 610)	105 843	134 723
Furniture and fittings	192 172	12 178	(5 239)	199 111	22 994	32 773	(1 440)	54 327	144 784
Office equipment	4 488	20 159	-	24 648	686	3 137	-	3 823	20 825
	383 442	107 615	(26 733)	464 325	68 573	105 470	(10 050)	163 993	300 332

2012/13

Computer equipment	-	186 782	-	186 782	-	44 892	-	44 892	141 889
Furniture and fittings	-	192 172	-	192 172	-	22 994	-	22 994	169 178
Office equipment	-	4 488	-	4 488	-	686	-	686	3 802
	-	383 442	-	383 442	-	68 573	-	68 573	314 870

None of the entities property, plant and equipment is pledged as security.
Refer to note 28 for effect of prior year error in the opening balances.

NOTES TO THE FINANCIAL STATEMENTS

3. INTANGIBLE ASSETS

2013/14

				COST	ACCUMULATED DEPRECIATION				
	Opening Balance ZAR	Additions ZAR	Disposal ZAR	Closing Balance ZAR	Opening Balance ZAR	Amortisation ZAR	Disposal ZAR	Closing Balance ZAR	Carrying Value ZAR
Intangible assets	30 000	83 691	-	113 691	2 356	20 064	-	22 420	91 271
	30 000	83 691	-	113 691	2 356	20 064	-	22 420	91 271

Refer to note 28 for effect of prior year error in the opening balances.

Intangible assets	-	30 000	-	30 000	-	2 356	-	2 356	27 644
	-	30 000	-	30 000	-	2 356	-	2 356	27 644

NOTES TO THE FINANCIAL STATEMENTS

4. CASH AND CASH EQUIVALENTS

	Note	2013/14 ZAR	2012/13 ZAR
CASH AND CASH EQUIVALENTS CONSIST OF			
Cash on hand		5 002	2 000
Bank balances		2 527 131	292 531
Saving accounts		182 672	90 341
TOTAL		2 714 805	384 872
CURRENT ASSETS		2 714 805	384 872

THE ENTITY HAD THE FOLLOWING BANK ACCOUNTS

ACCOUNT NUMBER/DESCRIPTION		
CURRENT ACCOUNTS		
FNB MAIN 62363654156	98 920	135 637
FNB SKILLS 62396085899	970 702	157 019
FNB INV 623 789 429 18	182 672	90 341
FNB DEA 62457856296	1 457 633	-
FNB SETA 62476009339	-	-
FNB CRED 8812712910085001	(125)	(125)
	2 709 803	382 872

NOTES TO THE FINANCIAL STATEMENTS

5. TRADE AND OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	Note	2013/14 ZAR	2012/13 ZAR
Operational grant receivable (CHDM)		2 015 877	380 000
Summit income receivable		-	539 900
Deposits		23 743	23 743
Prepayments		77 356	77 355
TOTAL		2 116 976	1 020 998

NOTES TO THE FINANCIAL STATEMENTS

6. TRADE AND OTHER PAYABLES

	Note	2013/14 ZAR	2012/13 ZAR
TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS			
Trade payables		270 986	315 378
Other payables		19 663	19 663
VAT payables		1 854 214	698 913
Leave pay accrual		100 539	41 757
Payroll payables		101 313	31 680
Lease payable		3 604	-
Provision for 13th cheque		6 681	-
TRADE AND OTHER PAYABLES FROM NON-EXCHANGE TRANSACTION			
CHDM Skills Fund		42 020	6 593
CHDA Liability to Skills Fund		246 450	1 200 000
Liability to educational institutions		928 683	150 426
TOTAL		3 574 153	2 464 410

The fair value of trade and other payables approximates their carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

7. TOTAL INCOME

	Note	2013/14 ZAR	2012/13 ZAR
CHDM operating grant		9 307 559	3 228 070
Project implementation activities		1 263 158	473 596
Investment summit project		-	1 754 390
Other investment funds		-	592 281
Tender fees		6 850	10 318
Total		10 577 567	6 058 655

The agency had previously recognised funds received from the parent CHDM for bursaries awarded as skills development income. The agency has discovered that this treatment was incorrect as it acts as an agent in the administration of the funds on behalf of the principal (CHDM). Refer to Note 28.

NOTES TO THE FINANCIAL STATEMENTS

8. PROJECT COSTS

	Note	2013/14 ZAR	2012/13 ZAR
Livestock development		1 511	-
Crop production		11 211	-
Rural programmes - mechanisation centre		1 760	-
Planning activities - Phase 1		152 861	-
Bursaries and related costs		-	-
Career exhibitions		64 449	-
Skills facilitation		1 274	-
Annual report		22 547	-
Investment conference		1 662 572	2 132 703
Stakeholder engagement		136 000	864 578
Strategic planning and review		108 227	-
Consulting		53 257	-
Corporate research		15 000	350 000
TOTAL		2 230 669	3 347 281

The agency had previously recognised funds paid on behalf of the parent CHDM for bursaries awarded to educational institutions as project costs (bursaries and related costs). The agency has discovered that this treatment was incorrect as it acts as an agent in the administration of the funds on behalf of the principal (CHDM). Refer to Note 28.

NOTES TO THE FINANCIAL STATEMENTS

9. ADMIN EXPENSES

	Note	2013/14 ZAR	2012/13 ZAR
Bank charges		8 614	8 941
Board - fees		285 678	584 829
Board - travel and other		141 184	183 034
Board - training and development		96 621	-
Board - secretariat and admin		-	-
Consulting/shared services/professional fees		90 800	580 981
Cleaning stores and materials		7 638	9 294
General expenses		2 591	-
Printing and consumables		-	-
Stationery expenses		-	-
Subscriptions		1 008	-
Subsistence and travel		-	-
Staff teas and meals		5 210	-
TOTAL		639 343	1 367 080

NOTES TO THE FINANCIAL STATEMENTS

10. EMPLOYEE-RELATED COSTS

	Note	2013/14 ZAR	2012/13 ZAR
HR/payroll services		4 235	-
Recruitment costs		324 038	-
Salaries and wages - CTC		2 850 374	778 617
Staff training and development		56 814	-
Staff gifts and welfare		1 350	-
Statutory - UIF levies		12 114	-
Provision for 13th cheque expense		6 681	-
Leave pay expenses		58 782	41 757
Penalties on PAYE and UIF		-	11 339
TOTAL		3 314 387	831 712

NOTES TO THE FINANCIAL STATEMENTS

11. CASH GENERATED FROM OPERATIONS

	Note	2013/14 ZAR	2012/13 ZAR
SURPLUS/(DEFICIT) AS PER STATEMENT OF FINANCIAL PERFORMANCE		2 365 257	(717 026)
ADJUST FOR NON-CASH ITEMS:			
Depreciation		125 534	70 929
Loss on disposal of assets and donation		16 683	-
CHANGES IN WORKING CAPITAL:			
Movement in receivables from non-exchange transactions		(1 095 978)	(1 020 998)
Movement in payables from exchange transactions		1 249 610	1 107 391
Movement in payables from non-exchange transactions		(139 866)	1 357 019
CASH GENERATED FROM OPERATIONS		2 521 240	797 315

NOTES TO THE FINANCIAL STATEMENTS

12. UNAUTHORISED EXPENDITURE

The municipal entity did not incur any unauthorised expenditure during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

13. FRUITLESS AND WASTEFUL EXPENDITURE

	Note	2013/14 ZAR	2012/13 ZAR
OPENING BALANCE		13 508	-
Fruitless and wasteful expenditure incurred during the year		96 916	13 508
Less: Amounts resolved		(76 849)	-
Less: Amounts transferred to receivables for recovery		-	-
FRUITLESS AND WASTEFUL EXPENDITURE AWAITING RESOLUTION		33 575	13 508

ANALYSIS OF AWAITING RESOLUTION PER ECONOMIC CLASSIFICATION

Current	-	-
Capital		
TOTAL	33 575	13 508

ANALYSIS OF CURRENT YEAR'S FRUITLESS AND WASTEFUL EXPENDITURE

Incident	Disciplinary steps taken/ criminal proceedings	2013/14 ZAR
Interest and penalties incurred on late payment	Matter under investigation	20 068
CEO appointment process aborted	N/A	76 848
TOTAL		96 916

The above fruitless and wasteful expenditure has been incurred due to the non-submission and/or the late submission of returns for payroll levies as a result of the lack of internal control and capacity during the reporting period. The CEO appointment process was aborted due to delays in the process.

NOTES TO THE FINANCIAL STATEMENTS

14. IRREGULAR EXPENDITURE

	Note	2013/14 ZAR	2012/13 ZAR
OPENING BALANCE		1 985 761	-
Add: Irregular expenditure incurred during the year		3 954 702	4 334 021
Less: Prior year amounts condoned			
Less: Current year amounts condoned			(2 348 260)
Less: Amounts recoverable (not condoned)			
Less: Amounts not recoverable (not condoned)			
IRREGULAR EXPENDITURE AWAITING CONDONATION		5 940 463	1 985 761

ANALYSIS OF AWAITING CONDONATION PER AGE CLASSIFICATION

	2013/14 ZAR	2012/13 ZAR
Current	3 954 702	1 985 761
Capital	1 985 761	-
TOTAL	5 940 463	1 985 761

The reason for the increase in irregular expenditure is the additional irregular expenditure identified in the current year.

DETAILS OF IRREGULAR EXPENDITURE – CURRENT YEAR

Incident	Disciplinary steps taken/ criminal proceedings	2013/14 ZAR
Non-compliance with SCM procedures	No criminal proceedings	88 894
Bid processes not followed	No criminal proceedings	-
Procurement processes not followed	No criminal proceedings	3 568 044
Human resource procedures not followed	No criminal proceedings	293 586
Payment of Board fees not aligned to the policy	No criminal proceedings	4 178
TOTAL		3 954 702

DETAILS OF IRREGULAR EXPENDITURE CONDONED

Incident	Disciplinary steps taken/ criminal proceedings	2013/14 ZAR
Non-compliance with SCM processes	Accounting Authority	-
TOTAL		-

NOTES TO THE FINANCIAL STATEMENTS

15. COMMITMENTS

	2013/14 ZAR
CURRENT EXPENDITURE	
Approved and contracted	1 903 965
Approved but not yet contracted	-
CAPITAL EXPENDITURE	
Approved and contracted	-
Approved but not yet contracted	-
TOTAL COMMITMENTS	1 903 965

OF THE APPROVED CURRENT YEAR COMMITMENTS THEIR AGEING IS AS FOLLOWS:	Due within 1 year ZAR	Due within more than 1 year ZAR
Approved and contracted	1 903 965	-

NOTES TO THE FINANCIAL STATEMENTS

16. KEY MANAGEMENT PERSONNEL

	Note	2013/14 ZAR	2012/13 ZAR
REMUNERATION OF CHIEF EXECUTIVE OFFICER			
Annual remuneration including social contributions		137 134	-
Allowances		36 666	-
Performance bonus		-	-
		173 800	-
REMUNERATION OF CHIEF OPERATIONS OFFICER			
Annual remuneration including social contributions		627 692	-
Car allowance		-	-
Bonus		52 308	-
		680 000	-
REMUNERATION OF INTERIM CHIEF EXECUTIVE OFFICER			
Annual remuneration including social contributions		-	-
Acting allowance		393 145	-
Bonus		36 455	-
		429 600	-
TOTAL		1 283 400	-

NOTES TO THE FINANCIAL STATEMENTS

17. DIRECTORS' REMUNERATION

	2013/14 ZAR		2013/14 ZAR
Director - M Sigabi		Audit committee chairperson - V Hlehliso	
Seating fees	46 500	Seating fees	9 000
Director - S Dzengwa		Audit committee member - J Mbawuli	
Seating fees	44 000	Seating fees	8 000
Director - M Manjezi		Director - X Mtirara	
Seating fees	57 500	Seating fees	8 924
Director - UN Ntsubane		Director - S Ngwala	
Seating fees	32 500	Seating fees	4 000
Director - C Beck-Reinhardt		Audit committee member - G Rasmeni	
Seating fees	10 000	Seating fees	4 000
Director - N Sikeyi		Director - R Schley	
Seating fees	13 000	Seating fees	5 254
Director - T Mashologu		Director - S Somdyala	
Seating fees	21 500	Seating fees	5 500
Audit committee member - L Galada		Director - P Xuza	
Seating fees	8 000	Seating fees	4 000
Director - N Zonke			
Seating fees	4 000		
TOTAL FEES PAID TO DIRECTORS AND AUDIT COMMITTEE MEMBERS			285 678

The rates paid to the Board are in line with the rates approved by the parent municipality (Chris Hani District Municipality). No other allowances were paid to Board members

NOTES TO THE FINANCIAL STATEMENTS

18. AUDIT FEE ACCRUAL

	Note	2013/14 ZAR	2012/13 ZAR
Opening balance		-	-
Current year audit fee		470 627	-
Amount paid - current year		(470 627)	-
Amount paid - prior year		-	-
Balance outstanding		-	-
TOTAL		-	-

NOTES TO THE FINANCIAL STATEMENTS

19. PAYE AND UIF DEDUCTIONS

	Note	2013/14 **ZAR**	2012/13 **ZAR**
Opening balance		17 031	-
Current year payroll deductions		554 492	156 336
Amount paid – current year		(469 608)	(139 305)
Amount paid – prior year		(17 031)	-
Balance outstanding		-	-
TOTAL		84 884	17 031

NOTES TO THE FINANCIAL STATEMENTS

20. PERFORMANCE BONUSES

No performance bonuses were paid by the entity during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

21. SUPPLY CHAIN MANAGEMENT/ NON-COMPLIANCE WITH MFMA

NON-COMPLIANCE PARAGRAPH/S:

A supplier was used beyond the contract period and beyond contract scope (Section 116(3) of MFMA).
The implementation of the SCM policy was not reviewed annually (Supply Chain Management Regulation 3(1)(b)).
A member of a bid evaluation committee was a member of a bid adjudication committee (Supply Chain Management Regulation 29 (4)).
Winning bidder did not submit proof that municipal rates are not in arrears (Supply Chain Management Regulation 38(1)(d)(i)).
No declaration of interests or tax certificates (Section 44 Supply Chain Management Regulations).

DEVIATIONS:

The entity obtained less than three quotes for the supply of goods/services amounting to R202 801. The entity requested quotes, however fewer than three potential service providers responded to the request for quotes. This was duly recorded and approved by the accounting officer.

NOTES TO THE FINANCIAL STATEMENTS

22.1 RELATIONSHIPS

Related Parties	Relationship
Chris Hani District Municipality - CHDM	Parent municipality
Chris Hani Co-operative Development Centre	Related entity
Mayibuye Trust	Related entity

All members of the Board of Directors and key management personnel of the entity are considered related parties.

NOTES TO THE FINANCIAL STATEMENTS

22.2 RELATED PARTY BALANCES

AMOUNTS INCLUDED IN TRADE AND OTHER RECEIVABLES (TRADE AND OTHER PAYABLES) REGARDING RELATED PARTIES:	Note	2013/14 **ZAR**	2012/13 **ZAR**
Grant receivable - CHDM		2 015 877	380 000
Skills fund liability - CHDM		(42 020)	(6 592)
CHDA liability to skills fund - CHDM		(246 450)	(1 200 000)
TOTAL		1 727 407	(826 592)

NOTES TO THE FINANCIAL STATEMENTS

22.3 RELATED PARTY TRANSACTIONS

	Note	2013/14 **ZAR**	2012/13 **ZAR**
Operational grant - CHDM		9 307 559	3 228 070
Investment summit income - CHDM		-	1 754 390
Project implementation activities - CHDM		1 263 158	473 596
TOTAL		10 570 717	5 456 056

Related party transactions with Mayibuye Trust and Chris Hani Co-operative Development Centre were at arm's length, and thus according to GRAP 20.33, are exempt from the disclosure requirement of related party transactions per GRAP 20.27, and thus have not been disclosed.

NOTES TO THE FINANCIAL STATEMENTS

23. EVENT AFTER THE REPORTING DATE

There are no known events after the reporting date.

NOTES TO THE FINANCIAL STATEMENTS

24. OPERATING LEASE COMMITMENTS

2013/14	Rental of Premises ZAR	Rental of Machinery ZAR	Total ZAR
Not later than 1 year	279 236	26 067	305 303
Later than 1 year and not later than 5 years	-	60 698	60 698
Later than 5 years	-	-	-
TOTAL LEASE COMMITMENTS	279 236	86 765	366 001

2012/13	Rental of Premises ZAR	Rental of Machinery ZAR	Total ZAR
Not later than 1 year	258 552	23 647	282 249
Later than 1 year and not later than 5 years	279 236	94 351	373 587
Later than 5 years	-	-	-
TOTAL LEASE COMMITMENTS	537 788	118 048	655 836

The above operating leases relate to the rental of premises occupied by the agency and the rental of photocopier machines.

NOTES TO THE FINANCIAL STATEMENTS

25. PROVIDENT/PENSION FUND CONTRIBUTION

There were no pension/provident fund contributions paid by the entity during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

26. MEDICAL AID CONTRIBUTIONS

There were no medical aid fund contributions paid by the entity during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

27. VALUE ADDED TAX

As at 30 June 2014 all VAT returns for the current reporting period were not submitted to SARS.

NOTES TO THE FINANCIAL STATEMENTS

28. CORRECTION OF ERROR

	Note	2013/14 ZAR	2012/13 ZAR
DESCRIPTION OF ERROR:			
Debtor owing by the parent municipality not recorded in the prior year.			
Property, plant, and equipment additions expensed in error in the prior year.			
Year-end accruals not raised in the prior year.			
Irregular expenditure not disclosed in the prior year.			
Operating expenses not raised.			
Skills liability treated incorrectly.			
An amount owing by the agency to the skills fund was not recognised at year-end 2012/13.			
THE COMPARATIVE AMOUNT HAS BEEN RESTATED AS FOLLOWS:			
Depreciation (depreciation errors)		-	(1 208)
Office rental expense (PPE expensed in error)		-	22 125
Intangible assets (intangible assets expensed)		-	30 000
Employee costs (tax not recognised)			(14 649)
Project costs (skills expense raised in error)			649 016
Skills development Income (skills income raised in error)			(1 754 386)
Project initiation cost (skills expense raised in error)			(200)
Bank charges (skills expense raised in error)			249
Interest (skills income raised in error)			(6 084)
Penalties on VAT not declared			(101 607)
Other income (income not raised in prior period)			473 596
Grant income (income not raised in prior period)		-	333 333
NET EFFECT ON SURPLUS/(DEFICIT) FOR THE YEAR		-	(369 815)
Property, plant and equipment: CA (PPE expensed in error)		-	23 273
Intangible assets: CA (Intangible assets expensed in error)		-	27 644
Payroll payables (employee tax not recognised)		-	(14 649)
Skills fund liability (liability not recorded not recognised)		-	(157 019)
Liability to skills fund (amount owing to skills fund)		-	(1 200 000)
VAT payables (VAT on skills income recognised in error)		-	245 613
Operational grant receivable (unrecorded income)		-	380 000
Summit income receivable			539 900
VAT payables (VAT on unrecorded income)		-	(112 970)
VAT payables (penalties on VAT not declared)			(101 607)
NET EFFECT ON STATEMENT OF FINANCIAL POSITION		-	(369 815)

NOTES TO THE FINANCIAL STATEMENTS

29. CORRECTION OF ERROR (CONTINUED)

	Note	2013/14 ZAR	2012/13 ZAR
Accumulated surplus		-	(369 815)
NET EFFECT ON OPENING ACCUMULATED SURPLUS		-	(369 815)

NOTES TO THE FINANCIAL STATEMENTS

30. RECONCILIATION OF STATEMENT OF BUDGET SURPLUS WITH NET CASH GENERATED FROM OPERATING, INVESTING AND FINANCING ACTIVITIES

	Operating ZAR	Investing ZAR	Total ZAR
Actual amount as presented in the budget statement	2 507 474	(191 307)	2 316 167
Basis differences	-	-	-
Timing differences	13 766	-	13 766
ACTUAL AMOUNT IN THE CASH-FLOW STATEMENT	2 521 240	(191 307)	2 329 933

NOTES TO THE FINANCIAL STATEMENTS

31. REASONS FOR VARIANCES BETWEEN BUDGET AND ACTUAL

31. 1

The reason for the 40% under-achievement in revenue is a result of potential funders that had shown interest in partnering with the agency that did not come through. In certain cases, less than the envisaged amount was received.

31. 2

53% of the budgeted expenditure was spent in the current year. The agency is in the process of stabilising its operations. The organisational structure has recently been approved and a CEO appointed. A number of vacancies are in the process of being filled, hence an underspending in employee costs for the current year. This inevitably had a negative impact on the spending on implementing projects, which is the core of the agency's mandate.

13
14

CHRIS HANI
DEVELOPMENT AGENCY

ANNUAL REPORT

2013/14

chda chris hani development agency

www.chda.org.za