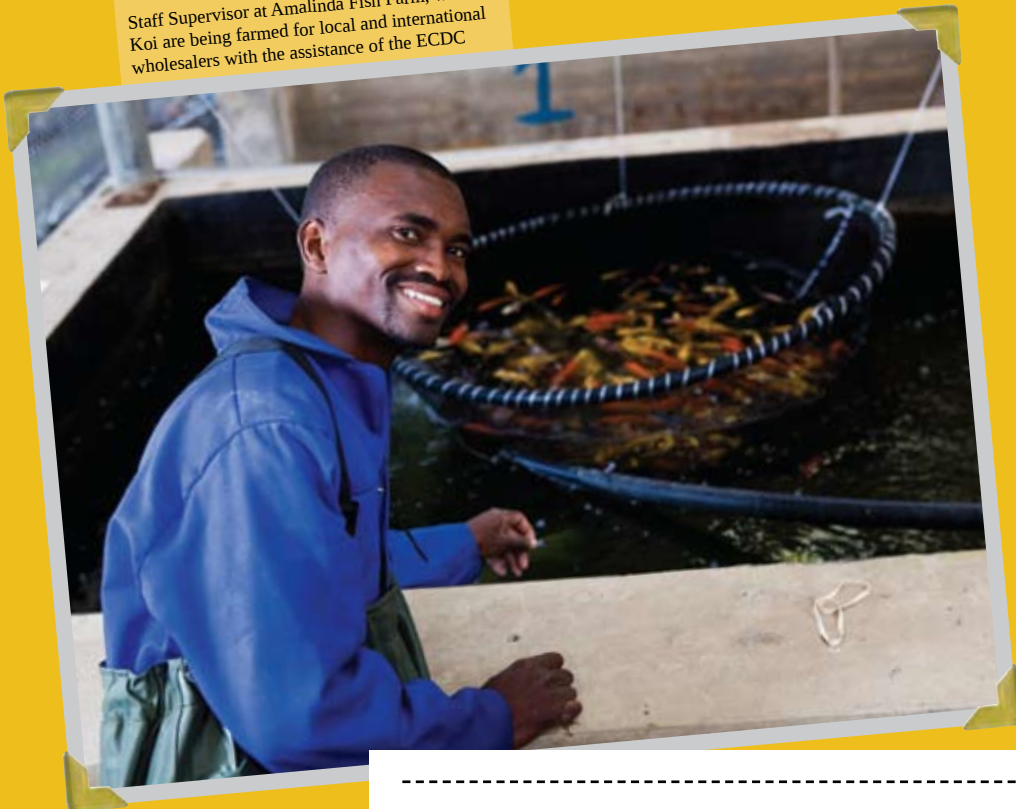


# FINANCIAL REPORTS AND ANNUAL FINANCIAL STATEMENTS

## Simphiwe Zono

Staff Supervisor at Amalinda Fish Farm, where Koi are being farmed for local and international wholesalers with the assistance of the ECDC



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# AUDITOR-GENERAL'S REPORT

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL LEGISLATURE ON THE CORPORATION AND GROUP FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF EASTERN CAPE DEVELOPMENT CORPORATION FOR THE YEAR ENDED 31 MARCH 2009

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying group financial statements and financial statements of the Eastern Cape Development Corporation which comprise the consolidated and separate balance sheet as at 31 March 2009, consolidated and separate income statement, consolidated and separate statement of changes in equity and consolidated and separate cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 62 to 112.

### The accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) and in the manner required by the Public Finance Management Act, 1999 (Act No. 1 of 1999) (PFMA), the Eastern Development Corporation Act, 1997 (Act No. 2 of 1997), (ECDCA) and the Companies Act of South Africa and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### Opinion

7. In my opinion the financial statements present fairly, in all material respects, the consolidated and separate financial position of the Eastern Cape Development Corporation as at 31 March 2009 and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended, in accordance with the South African Statements of Generally Accepted Accounting Practice (SA Statements of GAAP) and in the manner required by the PFMA and the Companies Act of South Africa.

### Emphasis of matter

Without qualifying my opinion, I draw attention to the following matters on which I do not express a qualified opinion:

#### Highlighting critically important matters presented or disclosed in the financial statements

8. Freehold title was held for the majority of investment properties disclosed in note 2 to the financial statements. However, properties with a combined value of R83,5 million were disclosed as being owned by government, tribal authorities and municipalities.

## AUDITOR-GENERAL'S REPORT

9. Although the Corporation's right to occupy properties to the value of R83,5 million has not been laid down in writing, it derives economic benefits from the use thereof and carries the risks that are incidental to ownership.

### Other matters

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

### Unaudited supplementary schedules

The supplementary information set out on pages 109 to 112 do not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

### Key governance responsibilities

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

Number	Matter	Yes	No
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	✓	
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		X
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	✓	
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines [section 55 of the PFMA]	✓	
<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.	✓	
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	Audit committee	✓	
	• The corporation had an audit committee in operation throughout the financial year.	✓	
	• The audit committee operates in accordance with approved, written terms of reference.	✓	
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 77 of the PFMA and Treasury Regulation 27.1.8.	✓	
7.	Internal audit	✓	
	• The Corporation had an internal audit function in operation throughout the financial year.	✓	
	• The Internal audit function operates in terms of an approved internal audit plan.	✓	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in Treasury Regulation 27.2.	✓	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	✓	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	✓	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	✓	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in Treasury Regulation 27.2.	✓	
12.	Powers and duties have been assigned, as set out in section 56 of the PFMA.	✓	

Number	Matter	Yes	No
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.	✓	
14.	SCOPA/Oversight resolutions have been substantially implemented.	✓	
<b>Issues relating to the reporting of performance Information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	✓	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	✓	
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the Eastern Cape Development Corporation against its mandate, predetermined objectives, outputs, indicators and targets (Treasury Regulation 29.1).	✓	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	✓	

11. The financial reporting unit has adequate skills and competencies. However various material adjustments were affected after the submission of the financial statements that resulted from revisions of the material judgements and fair value measurement assessments as a result of the audit process.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Report on performance information

12. I have reviewed the performance information as set out on pages 23 to 50.

### The accounting authority's responsibility for the performance information

13. The accounting authority has additional responsibilities as required by section 55(2)(a) of the PFMA to ensure that the annual report and audited financial statements fairly present the performance against predetermined objectives of the public entity.

### The Auditor-General's responsibility

14. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.
15. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
16. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my audit.

## APPRECIATION

17. The assistance rendered by the staff of the Eastern Cape Development Corporation during the audit is sincerely appreciated.

*Auditor-General*

East London  
31 July 2009



# AUDIT COMMITTEE'S REPORT

REPORT OF THE AUDIT COMMITTEE REQUIRED BY TREASURY REGULATIONS 27.1.7 AND 27.1.10 (B) AND (C) IN TERMS OF THE PUBLIC FINANCE MANAGEMENT ACT 1 OF 1999, AS AMENDED.

## 1. OVERVIEW

We are pleased to present our report for the financial year ended 31 March 2009.

### 1.1 Audit Committee members and attendance

The Audit Committee consists of the members listed hereunder. As per its terms of reference, the committee is required to meet at least 5 times a year. During the year under review, 5 meetings were held.

Name of member	Period of membership	Number of meetings attended
J Njeke - <i>Chairperson</i>	1 April 2008 – 31 March 2009	4
Prof S Buthelezi	1 April 2008 – 31 March 2009	4
E Heynes	1 April 2008 – 31 March 2009	4
T Nodada-Qhali	1 April 2008 – 31 March 2009	1
R Nicholls	1 April 2008 – 31 March 2009	4

### 1.2 Audit Committee responsibility

The Audit Committee is a committee of the Board and has discharged its responsibilities accordingly in terms of section 51 (1) a (ii) of the PFMA and 27.1.8 of the Treasury Regulations. The Audit Committee adopted a formal terms of reference, has regulated its affairs in compliance with these terms of reference and has discharged its responsibilities contained therein.

#### 1.2.1 Effectiveness of internal control

During the year various reports of the Internal Auditors as well as the Audit Report on the Annual Financial Statements and Management Letter of the Auditor General indicated that the system of internal control has shortcomings. The Audit Committee has noted these and based on the outcome of such reviews and the information provided by Management, the Audit Committee is of the opinion that the internal controls of the Corporation operated effectively throughout the year under review.

The Audit Committee is also of the view that progress has been made with respect to the control environment, especially in view of the fact that the Corporation has achieved its third successive unqualified audit report.

#### 1.2.2 Risk management and governance

A risk management framework and policy was adopted and approved by the Board during the current financial year. A process of enterprise wide risk management was implemented by the Corporation wherein risk assessments are conducted and updated on an annual basis by the Internal Audit function at both senior management and Board level.

During the year the Corporation adopted and approved various policies and procedures to strengthen the control environment. The governance of the various management committees was also improved, with the adoption and approval of formal terms of references.

#### 1.2.3 Monthly and quarterly performance information

The Audit Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Corporation during the year under review.

#### 1.2.4 Internal audit

The Audit Committee reviewed the activities of the internal audit function and has concluded the following:

- the function is effective and that there were no unjustified restrictions or limitations;
- the internal audit reports were reviewed at quarterly meetings, including its annual work programme, co-ordination with the external auditors, the reports of significant investigations and the responses of management to issues raised therein.

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1.2.5 External auditors

The Auditor-General acted as the external auditors throughout the year. The Audit Committee reviewed the external auditors' scope and work plan to ensure that key risk areas of the business were being addressed during the audit process.

## 2. EVALUATION OF ANNUAL FINANCIAL STATEMENTS

The Audit Committee has:

- reviewed and discussed with the Auditor-General and the Accounting Authority the audited annual financial statements to be included in the Annual Report;
- reviewed the Auditor-General's audit report, the management letter and management responses thereto; and
- reviewed the significant adjustments resulting from the audit.

The Audit Committee concurs and accepts the conclusions of the Auditor-General on the annual financial statements and is of the opinion that the audited financial statements be accepted and read together with the report of the Auditor-General and the Directors' Report. The Audit Committee agrees that the adoption of the going concern premise is appropriate in preparing the annual financial statements.



J Njeke  
*Chairperson of the Audit Committee*  
3 August 2009

# DIRECTORS' REPORT

The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 March 2009.

## 1. NATURE OF BUSINESS

### 1.1 Constitution

Established in terms of section 2 of the Eastern Cape Development Corporation Act, 1997 (Act No. 2 of 1997), the Eastern Cape Development Corporation (the Corporation) is a Provincial Government Business Enterprise listed in Schedule 3 D of the Public Finance Management Act, 1999 (Act No. 1 of 1999) (the PFMA). The Corporation became operational with effect from 1 April 2001. In terms of the PFMA the Board of Directors is the accounting authority of the Corporation.

### 1.2 Objectives

The objectives of the Corporation are to plan, finance, market, promote and implement the development of the Province of the Eastern Cape and its people in the fields of commerce, industry, transport, agriculture and finance.

The objectives set out above are attained through the following:

- Existing business support;
- Creating opportunities for new business;
- Growing and sustaining existing, and developing new, markets;
- Improving access to finance; and
- Ensuring that business development is supported by skills, infrastructure and policies.

Strategic objectives and activities were set for the Corporation to ensure the long term sustainability of the Corporation, which include:

- Establishing operational and budgetary alignment with the Department of Economic Development and Environmental Affairs;
- Maximising Operating Income to ensure self sustainability of the Corporation;
- Realising return from Investment Assets;
- Providing efficient, effective and integrated development and support services to SMMEs;
- Growing the Loan Book with sustainable businesses;
- Achieving expenditure ratios that are appropriate for the Corporation;
- Increasing the rate of debt collections to acceptable norms;
- Facilitating new investments in priority sectors in line with the Provincial Growth and Development Programme;
- Improving the Return on Assets to levels appropriate to the Corporation as a Development Finance Institution;
- Human Resource Management; and
- Finalising the Corporation's appropriate position of its shareholding in subsidiaries.

For the purpose of achieving its development mandate, the Corporation focuses on the provision of finance and support expertise to all businesses types, including small, medium and micro enterprises (SMMEs) and stimulation of domestic and foreign direct investment, and will continue facilitating high economic development impact projects. The Corporation has a clearly defined role of improving access to finance for business with an economic development impact and in improving entrepreneurial capacity for long term economic development and sustainability.

The Corporation also renders economic development services in the areas of investment promotion, export promotion and support to municipalities and local authorities in the Eastern Cape Province.

## 2. DEVELOPMENT LOANS ADVANCED

The total disbursement of development loans for the current year amounted to more than R310 million. The bulk of these development loans have been disbursed to SMMEs and are geographically spread throughout the province of the Eastern Cape. Striking a healthy balance between obtaining a commercial return and at the same time effecting sustainable socio-economic development impact remains a challenge due to perceptions in the market that Development Finance Institutions are "soft" lenders. This perception and expectation in the market provides its own challenges in the area of debt collection.

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### **3. INVESTMENT PROPERTIES**

The Corporation continued to improve the integrity of the Asset Register by integrating the information from the rental billing system onto the fixed asset register. The tenant and asset verification exercise which commenced in December 2008 is planned for completion during the 2009/10 financial year.

The Corporation continued with the implementation of the Asset Conversion Policy, which consists of disposal of residential properties. The global economic climate has affected rental collection and the sale of properties as financial institutions reviewed their lending criteria. Delays were experienced in transferring some of the properties to purchasers, as well as commencement with identified development projects because of land claims.

### **4. POST BALANCE SHEET EVENTS REVIEW**

The directors are not aware of any material matter or circumstance arising since the end of the financial year.

### **5. AUTHORISED AND ISSUED SHARE CAPITAL**

The authorised share capital of the Corporation remained unchanged at R1 billion worth of ordinary shares. Of this the Corporation issued R298, 683 million worth of ordinary shares to the Provincial Government of the Eastern Cape (Department of Economic Development and Environmental Affairs). The issued share capital is made up of 149, 342 million "A" shares of R1 each and 149, 341 million "B" shares of R1 each.

### **6. FINANCIAL RESULTS**

The results of the Corporation and the group are disclosed in the annual financial statements.

### **7. POLICY DIRECTIVES**

During the year under review, no new policy directives were received by the Corporation from the Member of the Executive Council responsible for the Department of Economic Development and Environmental Affairs.

### **8. DIVIDENDS**

The directors of Transkei Share Investments (Pty) Ltd, a subsidiary, declared a dividend of R31,9 million, including Secondary Tax on Companies and R783,000 due to minority shareholders.

### **9. INTEREST BEARING BORROWINGS**

No new borrowings were incurred during the year. The corporation continued to reduce its existing borrowings with the Development Bank of Southern Africa Limited.

### **10. SUBSIDIARIES**

Financial information in respect of interests of the Corporation in subsidiaries and associates is set out under Supplementary Information (1). During the financial year, funding agreements were concluded with the following subsidiaries in order to improve oversight and governance:

- East London Industrial Development Zone (Proprietary) Limited
- Automotive Industrial Development Company (Proprietary) Limited

## DIRECTORS' REPORT

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### **11. DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2009**

The directors are required, in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999, as amended), and the Eastern Cape Development Corporation Act, 1997 (Act No. 2 of 1997), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. The directors are further responsible to ensure that the annual financial statements fairly represent the state of affairs of the Corporation as at the end of the financial year, and the results of its operations and cash flows for the period then ended, in conformity with South African Statements of Generally Accepted Accounting Practice. The external auditors are engaged to express an independent opinion on the annual financial statements.

The Corporation's annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

Acknowledging their responsibility for the system of internal control established by the Corporation, the Directors place considerable importance on maintaining a strong control environment. The Directors set standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. These standards include 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 were monitored as far as reasonably possible throughout the Corporation and all employees are required to maintain the highest ethical standards in ensuring the Corporation's business is conducted in a manner that in all reasonable circumstances is above reproach. The risk management focus in the Corporation is on identifying, assessing, managing and monitoring all known forms of risk across the Corporation. It is acknowledged that operating risk cannot be fully eliminated. However, the Corporation endeavours to minimise it by ensuring that appropriate infrastructures, controls, systems and ethical behaviour are applied within predetermined procedures and constraints.

Based on the information and explanations provided by Management, the Directors are of the opinion that the system of internal control provides reasonable assurance that the financial records may be relied upon for the preparation of annual financial statements. Any system of internal control can, however, provide only reasonable, and not absolute, assurance against material misstatement or loss.

### **12. GOING CONCERN STATEMENT**

Having reviewed the Corporation's cash flow forecast for the year to 31 March 2010 and, in the light of this review and current financial position, the Directors are satisfied that the Corporation has, or has access to, adequate resources to continue its operational existence for the future.

### 13. DIRECTORS AND SECRETARY

The details of the Corporation's directors and Secretary are reflected in the Corporate Governance section of this Annual Report. The directors' and Audit Committee fees were paid as follows:

	Fees Board meeting	Fees Audit committee	Total
Nkuhlu, W L – <i>Chairperson</i>	102,500	-	102,500
Buthlezi, S	38,500	22,000	60,500
Fikeni, S	76,500	-	76,500
Ndabeni, M	63,000	-	63,000
Nonkwelo, L	58,500	-	58,500
Nodada-Qhali, T	33,000	2,000	35,000
Pakati, X	51,500	-	51,500
Tabata, S	104,000	-	104,000
Nicholls, RG	-	19,000	19,000
Njeke, JJ	13,000	43,000	56,000
Heynes, E	20,500	22,000	42,500
<b>Grand total</b>	<b>561,000</b>	<b>108,000</b>	<b>669,000</b>



Mr Bhekokuhle Sibiya  
Chairperson of the Board  
30 July 2009



Mr Mxolisi D Matshamba  
Chief Executive Officer  
30 July 2009