

Annual Report

2012/2013



enterprise ilembe
ECONOMIC DEVELOPMENT AGENCY

Vision

*To make iLembe District the destination
of choice for investment and business*

Mission

*To drive economic development in the
iLembe District*

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CHAPTER 1

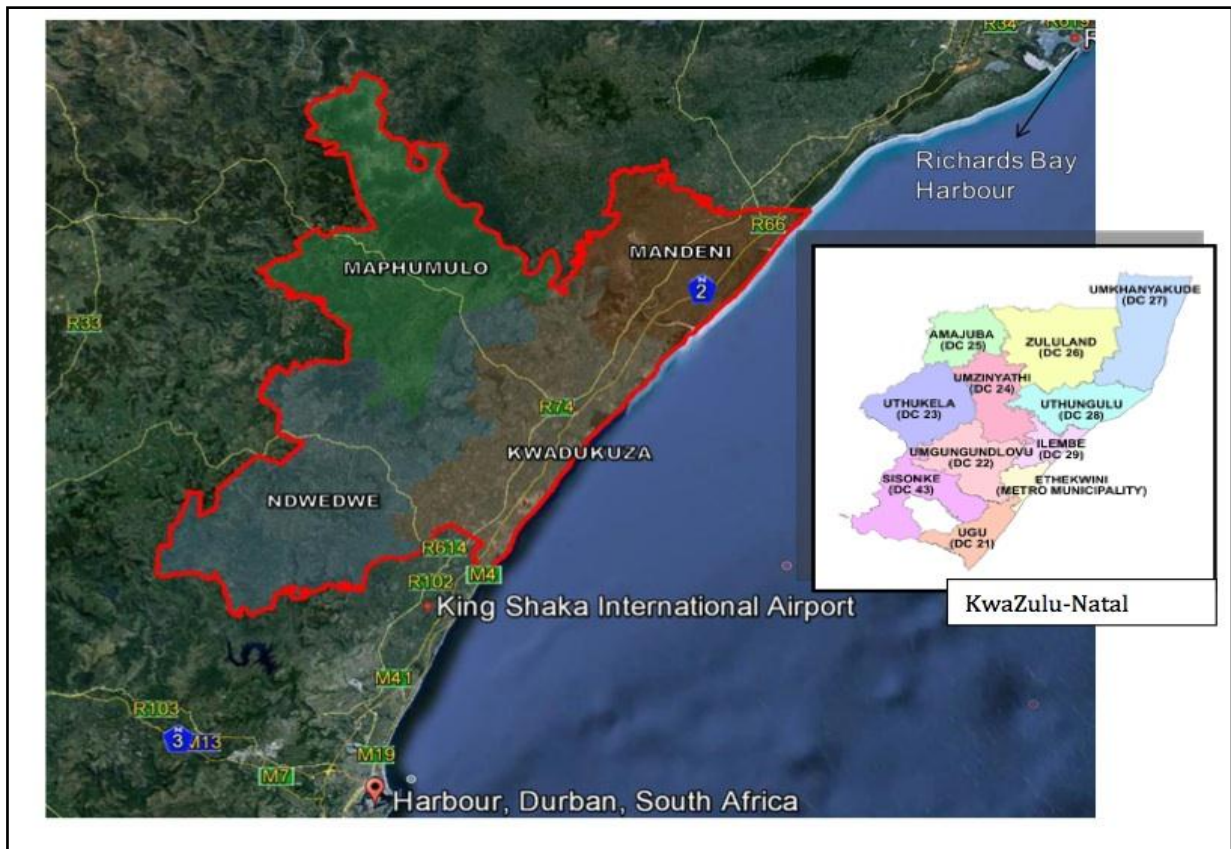
Introduction & Overview

1.1. *Overview of iLembe District Municipality*

The iLembe District Municipality is situated on the East Coast of South Africa in the Province of KwaZulu Natal iLembe District is bordered by eThekweni Metro in the South and linked to Uthungulu District in the north by the coastal highway, which is a key corridor in the region. It is located between Africa's busiest ports of Richards Bay and Durban and is in close proximity to the King Shaka International Airport and the Dube Tradeport. It is the smallest District Municipality in the province with a total population of approximately 563 000. The municipality covers 3260 square kilometres and is divided into four local municipalities:

- Maphumulo Municipality
- Ndwedwe Local Municipality
- KwaDukuza Local Municipality

- Mandeni Local Municipality



The economic sectors that constitute the pillars of iLembe's economy are the following:

- **Agriculture** - This sector is characterised by two main distinct types:
 - Commercial agriculture, such as sugar cane farming along the coastal strip
 - Subsistence agriculture in the rural hinterland and inland areas
- **Manufacturing** - This sector is mainly characterized by the following types of industries:
 - Primary sector comprises of heavy industries, such as sugar and paper mill production in the Isithebe Industrial Estate near Mandeni
 - Secondary sector activities include light industries that are prevalent throughout the district and with a focus on the rural areas of the district.
- **Tourism** - iLembe is one of the prime domestic tourism attractions in South Africa due to its favourable climate and its excellent beaches. This sector has consistently grown in iLembe and offers a variety of tourism facilities that can be categorised as follows:
 - Cultural and heritage tourism

- Beach tourism
- Nature-based tourism
- **Commerce and Services** - This sector includes the following sub sectors and is found in all the main urban centres throughout the district with specific reference to the towns of KwaDukuza and Ballito:
 - Wholesale / retail trade Transport / storage Communication Financial / insurance
 - Real estate Business / Community / social / personal services Government services

1.2. Foreword by the Chairman

Enterprise iLembe sees the end of yet another very challenging but fulfilling year.

This was the year in which I took the baton from Mr. Clive Manci the founding chairman who had provided the Board and the organization with impeccable leadership, establishing very strong foundations upon which the Board and Management have been able to deliver to the expectations of both the iLembe District Municipality being the parent municipality of Enterprise iLembe and our funding partners being the Industrial Development Corporation (IDC) and the Department of Co-operative Governance & Traditional Affairs (DCOGTA) in the year ended.

The unprecedented increase in the volume of projects approved in the 2011/12 financial years enjoined the Board to focus management on finalising implementation of those projects. We are happy to report that all outstanding projects were implemented and as a result, the Department of Co-operative Governance and Traditional Affairs has accepted ten (10) new applications for project funding from enterprise iLembe.

Amongst others, the year under review has seen:

- Enterprise iLembe strengthening its working arrangements with the Local Municipalities within iLembe District.

- Enterprise iLembe successfully pioneering the Schools Nutrition Programme creating a conducive environment for the poorest of the poor from the deep rural areas of the district to actively participate in the economic growth of their district
- The KZN Cabinet adopting a Resolution that Enterprise iLembe be tasked to assist other municipalities in the province to establish economic development agencies.

The implementation of the National Schools Nutrition Programme in the District, pioneered by Enterprise iLembe presented many unforeseen challenges. Co-operation between management, Board, the Audit Committee and iLembe District Municipality made it easy to overcome most of the challenges posed by the swift implementation of this programme.

As the Board, we are proud of our achievements to date. We are also grateful of the political leadership provided by the Council of iLembe District led by His Worship, Mayor of iLembe District Cllr. S.W. Mdabe and the Management team led by the Acting CEO Mr Zakhele Gumede.

As in the words of Dr. Nelson Mandela, when he said: "After climbing a great hill, one only finds that there are many more hills to climb", the Board looks forward to "more hills to climb" with success in the coming year.

MR. B.N. LINDA

Chairman

1.3. Foreword by Acting Chief Executive Officer

The economic situation continued to be challenging and uncertain during the past financial year making investment decisions very difficult. Despite these difficult conditions, iLembe District continued to show steady investment growth mainly concentrated in the Ballito and surrounding area. This is partly due to the effect of the relocation of the King Shaka Airport about 5 kilometres from the iLembe border.

Poverty, unemployment and inequality continue to bedevil the district especially in the more rural areas of the district. Enterprise iLembe continued to focus on economic development in the areas where the poorest of the poor reside.

- During the financial year, Enterprise iLembe transferred day-to-day management of the Agricultural Hydroponic Tunnels to a consortium that had been selected as Technical Partners to the project. This has ensured that the project is managed in a

professional and sustainable manner. Unfortunately the 2 tunnels in Ndwedwe could not be commissioned due social and other challenges.

- The vineyards in Ndwedwe, Maphumulo and Mandeni were harvested for the first time this year and they have produced about 8500 litres of Villard Blanc white wine. The Economic Development Portfolio Committee of iLembe District Municipality, together with the Department of Co-operative Governance and Traditional Affairs (DCOGTA) are working closely with Enterprise iLembe to develop the appropriate ownership model for the iLembe Co-operative Winery.
- Commissioning of the biodiesel plant is still awaiting the finalization of the sourcing of additional funds to complete the project. The Moringa plantations project will be revitalized during the 2013/14 financial year in order to ensure that the communities derive maximum economic benefit from the project.

With funding from the Department of Cooperative Governance & Traditional Affairs (DCOGTA), two new projects commenced during this year. The first project was the establishment of Agricultural processing hubs in the four local municipalities where the hubs receive; process, package and store agricultural produce from growers, which is later dispatched to the various markets.

The second project being phase one of the Development of an Integrated Development Plan for the district. The plan will be completed during the next financial year.

The most ambitious project conceived by the Honourable MEC for Education in KZN, S. Mchunu and His Worship, Mayor of iLembe District Cllr. S.W. Mdabe is the National Schools Nutrition Programme which supplies locally grown vegetables to schools in the iLembe District. The programme, when fully implemented, will use over 200 hectares of land to grow over 3000 tons of vegetables per year. This will bring in over R20 million which will benefit over 600 members of rural co-operatives in the iLembe District.

Tourism continues to be a significant contributor to the economy of iLembe District. Enterprise iLembe, collaborates with the District's tourism businesses to ensure that more and more tourists visits the region; working closely with our provincial partner Tourism KZN. Enterprise iLembe is a lead participant in the development of the Liberation Heritage Route from Durban through Inanda, Ndwedwe, KwaDukuza, Maphumulo and Mandeni. As part of this development, Enterprise iLembe is preparing a feasibility study for the re-development of King Shaka Observation Rock in Groutville to be a world-class heritage and tourism site.

The KwaZulu-Natal Provincial Growth and Development Plan identified iLembe District as ideal for the Special Economic Zone for renewable energy. To live up to the plan Enterprise iLembe is working on a number of initiatives to start renewable energy businesses in the District. Among others, is a renewable energy profile for the District in order to highlight those areas in the district where there are opportunities to develop renewable energy ventures. These will include small hydropower plants, biomass, wind and solar projects.

Enterprise iLembe aims to conclude all the projects that have not been commissioned within this financial year.

Our gratitude goes to the fourteen member staff of the Entity whose tireless efforts are contributing to uplifting poverty in the District. Our shareholder the iLembe District Municipality under the able leadership of His Worship Mayor Cllr. S.W. Mdabe and the Economic Development Portfolio Committee of Council as well as the iLembe Chamber of Commerce and Industry all deserve gratitude.

We are also extremely appreciative and grateful to our funders who give us the capacity to carry out the mandate. These include the Department of Co-operative Governance and Traditional Affairs DCOGTA), Department of Economic Development (DEDT) and Tourism and Industrial Development Corporation (IDC).

Last, but not least Enterprise iLembe thanks the Board of Directors and The Audit Committee for their leadership and guidance.

Z.S. GUMEDE

Acting Chief Executive Officer

1.4. Executive Summary

The key economic drivers in the district are still consistent in the sectors of agriculture, tourism, manufacturing & services and as a district we strive to continuously bridge the huge divide between the first and second economies through the identification, facilitation and implementation of catalytic and high impact projects.

Enterprise iLembe has progressed well in building capacity appropriate for a well resourced Entity, whilst implementing a number of projects in addition to being a leader within the Local Economic Development space . Our success over the past few years has seen us receive recognition by industry, peers, government, but more importantly and most rewarding, the appreciation expressed by the communities that have benefited from the LED projects we have implemented hitherto.

1.5. Objectives & Functions of Enterprise iLembe

Enterprise iLembe was established primarily to drive Economic Development in the iLembe District and to promote trade and investment in the region.

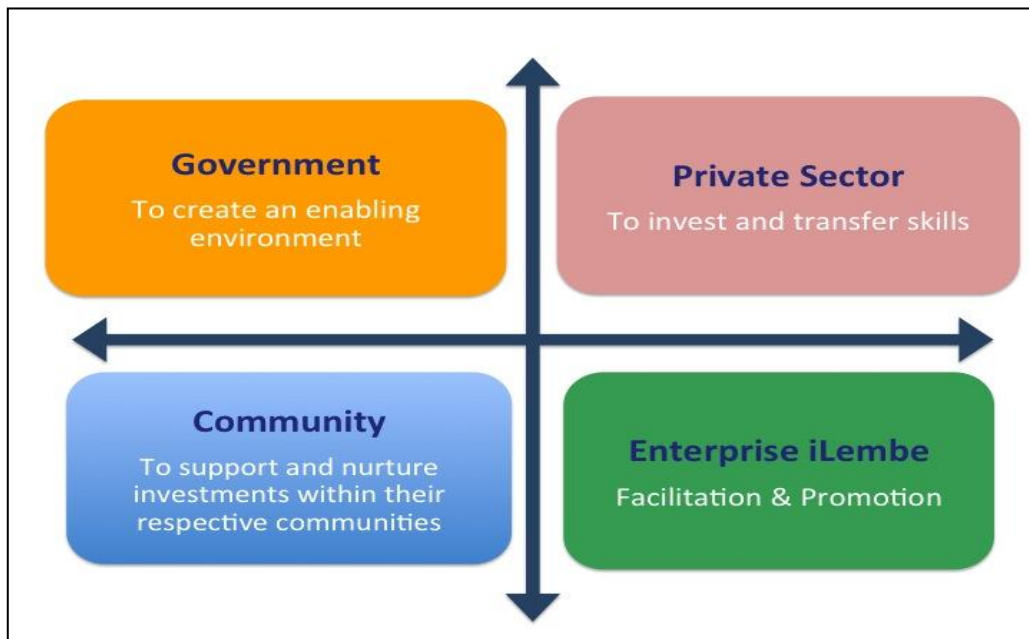
1.4.1. Strategic objectives

- Facilitate research that assists with policy development and formulation that impacts the mandate of the agency
- Influence policy and the regulatory environment for socio-economic development and investment
- Identify, build and coordinate partnerships among socio-economic stakeholders
- Facilitate the packaging and implementation of projects in existing and new sectors
- Marketing and promotion of iLembe District as an investment, tourism and business destination
- Research other potential growth sectors in addition to the current four sectors of main focus

1.4.2. Operating principles

- Address the challenges of unemployment, inequality and poverty
- Focus LED on realistic catalytic initiatives and any other projects that will benefit the region whilst exploiting local competitive advantages.
- Build capacity to nurture effective and mutually beneficial partnerships based on fair and equitable business principles.

1.4.3. Roles and Responsibilities



1.6. Audit Committee Report

The Enterprise iLembe Audit Committee presents its report to the Board for the year ended 30 June 2013, below.

The legal responsibilities of the Audit Committee are set out in terms of the Municipal Finance Management Act, No. 56 of 2003 (Section 166) and the Companies Act, No. 71 of 2008 (Section 94).

Audit Committee members and attendance at meetings

The Audit Committee comprised of 4 independent, external members and is required to meet at least 4 times per annum as per the Audit Committee Charter. Additional meetings may be called for as the need arises. Members' attendance at the meetings is listed below:

| <u>Name</u> | <u>No of Meeting s Attended</u> | <u>28 Aug 2012</u> | <u>09 Nov 2012</u> | <u>26 Nov 2012</u> | <u>17 Jan 2013</u> | <u>04 Apr 2013</u> |
|-------------------------------------|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Mrs. C Jugnarayan (Chairperson) | 5 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Mr. D Bosch (Deputy Chairperson) | 5 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Mr. J Muir | 4 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | | <input type="checkbox"/> |
| Mr. S Nel | 3 | <input type="checkbox"/> | | | <input type="checkbox"/> | <input type="checkbox"/> |

The Mayor of the Municipality, the Chairperson of the Board and the Chairperson of the Municipal Public Accounts Committee are invited to the Audit Committee meetings.

Audit Committee responsibility

The Audit Committee has been set up in accordance with the Municipal Finance Management Act, No. 56 of 2003 (Section 166) and operates within the terms of the Audit Committee Charter approved by the Council of the iLembe District Municipality and the Board of Enterprise iLembe.

Section 121(4)(g) of the Municipal Finance Management Act, No. 56 of 2003 requires that the annual report must include any recommendations of the Municipality's Audit Committee

In the conduct of its duties, the Audit Committee has performed the following statutory duties:

1. Reviewed internal financial control and internal audits

The internal audit function was operational for the financial year.

KPMG continued as internal auditors to the entity performing all internal audit duties other than the audit of performance management. The latter is conducted by the internal audit unit of the iLembe District Municipality.

The internal audit plan for the financial year ending 30 June 2013 was presented and accepted by the Audit Committee.

Six internal audit reports were completed and tabled at the Audit Committee meetings. Internal audit reports include recommendations to improve internal controls together with agreed management action plans to resolve the issues reported on. To further enhance the processes in place, internal audit conducts follow up audits on previously reported internal audit findings and reports progress to senior management and the Audit Committee.

Management is required to implement appropriate systems of internal controls and corrective action to address the identified weaknesses and possible irregularities. Although there are controls in place, the existing systems and procedures require enhancement and continued monitoring.

2. Risk Management

The Risk Management Committee, at its meeting held on 14 June 2013, discussed and approved the risk register for 2013/2014. The Entity conducted a risk assessment workshop in July 2013 and the top key risks were identified, measured and prioritised. The updated risk register will be tabled at the next meeting of the Entity's Board of Directors.

3. Review of financial statements and Accounting Policies.

The Audit Committee, during its review of the financial statements of the entity for the year ended 30 June 2013, considered the appropriateness, adoption and consistent application of the South African Statement of Generally Recognised Accounting Practices (GRAP).

The Audit Committee is satisfied that the financial statements of the entity for the year ended 30 June 2013 comply with relevant provisions of the Municipal Finance Management Act and the South African Statement of Generally Recognised Accounting Practices and the Companies Act and has approved the annual financial statements for submission to the Auditor-General.

4. The adequacy, reliability and accuracy of financial reporting and information

No information was furnished by Internal Audit, the Auditor General and Management itself, has caused the Audit Committee to believe that the Entity's system of internal financial control is not effective and does not form a basis for the preparation of reliable financial statements.

5. Performance Management

The Audit Committee also serves as the performance Audit Committee for Enterprise iLembe.

The Audit Committee reviewed the four quarterly performance reports and the internal audit reports on performance management for 2012/2013 based on the Entity's scorecard.

The Audit Committee is pleased to note that the overall internal audit ratings of the effectiveness of internal controls around performance management is satisfactory and controls are in place to provide management with reasonable assurance that risks will not materialize but there is a room for improvement.

The Audit Committee however expresses concern that only half of the overall performance targets set by the Entity were met.

6. Effective Governance

The Audit Committee has satisfied itself that the external auditor was independent of the Entity, as required by the Public Audit Act, No. 25 of 2004 and as set out in section 94(8) of the Companies Act, 2008.

The Audit Committee fulfils an oversight role regarding the Entity's reporting process, including the system of internal financial control. It is responsible for ensuring that the Entity's internal audit function is independent and has the necessary resources, standing and authority within the Entity to enable it to discharge its duties. Furthermore, the Audit Committee oversees cooperation between the internal and external auditors, and serves as a link between The Board and these functions.

The internal and external auditors have unlimited direct access to the Audit Committee, primarily through its chairperson.

7. Compliance with Legislation and Ethics

The Audit Committee has noted instances of non-compliance with policies and procedures, the Municipal Finance Management Act and National Treasury Regulations. The areas of non-compliance have been noted, mainly through the reports submitted by internal audit. The non-compliance and recommendations to management have been documented in the internal audit reports. In these internal audit reports, management have provided comments on the findings, recommendations and timing of the action thereof.

Recommendations

- Management should ensure that accurate, reliable and complete financial and performance information is submitted monthly for review to The Board.
- Management should interact with the external auditors for interim audits with a view to identify and address shortcomings timely.

Conclusion

The Audit Committee is of the opinion that in addition to the recommendations to The Board, management is required to implement appropriate systems of internal controls and/or corrective action to address the agreed concerns as identified by both Internal Audit, the Auditor General and Senior Management. The status of implementation of corrective measures is to be reported at every meeting of the Audit Committee to enable monitoring.

On behalf of the Audit Committee

Mrs. Charmaine Jugnarayan

Chairperson

31 August 2013

CHAPTER 2

Service Delivery and Performance Highlights

2.1. Key Successes and Challenges

The piloting of the Schools Nutrition Programme by Enterprise iLembe is seen as one of the key successes for the Entity as Cabinet has resolved to roll-out the programme across the entire province. The project involves the weekly supply of vegetables via approximately 105 service providers to 410 schools (comprising approximately 155 583 students) located in the iLembe District Municipality. Approximately 70% of all the vegetables are sourced from small-scale farmers from within the iLembe District, with the aim to be at 100% early in the next financial year. The challenge however is ensuring sustainability as Enterprise iLembe had to initially fund the project without having the necessary budget to do so. This impacted negatively on the Entity's spending.

The first harvest of the iLembe Vineyards project was certainly a major highlight for the Entity, approximately 28 tons of grapes were harvested the sites in Maphumulo, Mandeni and Ndwedwe in February 2013 and transported to the iLembe Co-operative Winery at Collisheen Estate. A successful launch and first bottling of the wine by the MEC for Co-operative Governance and Traditional Affairs Nomsa Dube and His Worship Mayor of iLembe District Cllr. S.W. Mdabe followed in August 2013. The wine is aptly named after King Shaka's birth date; Seventeen Eighty Seven.

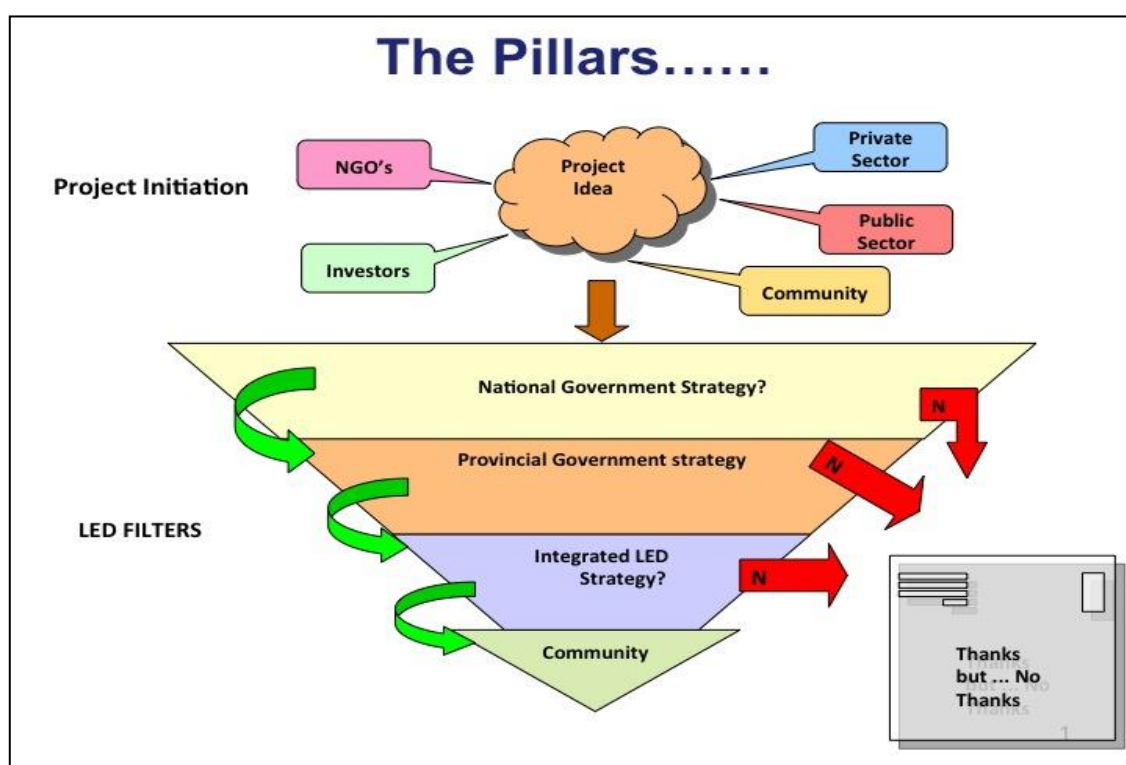
The Entity was also hard at work in developing an Ownership Model that will see the communities in which the projects are located having a majority shares. This development of the model albeit a long process will ensure long-term beneficiation and sustainability of the projects.

The facilitation and securing of direct investments to the hinterlands and rural areas of the district remains a challenge. Enterprise is a grant funded institution and the challenge of securing grant funding and receiving it on time will always be there. The ability to spend the

funding received in order to secure further funding also impacts on our operations and completion of projects.

2.2. Projects Undertaken

2.2.1 The Pillars for project identification



2.2.2. Multi-Year Funded Projects

| Project Name | Project Description & Status Quo |
|-------------------------------------|---|
| iLembe Vineyards and Winery Project | <p><i>Budget Allocation 2012/2013 – R1 600 000</i> <i>Expenditure as at 30/06/2013 – R2 139 000</i> <i>Project Funder/s: DCOGTA and IDC</i></p> <p>This project involves the establishment of a primary Villard Blanc crop that will be grown as a catalyst to the establishment of a wine industry in the district. A total of 10.1 hectares of vines have been planted across Mandeni, Maphumulo and Ndwedwe and a winery located at the Colisheen Estate in Mandeni.</p> |

| | |
|--------------------------|--|
| | <p>The District celebrated its first harvest of grapes grown on iLembe soil in February 2013. The 28 tons (15 tons in Nyoni, 7 tons in Maphumulo and 6 tons in Ndwedwe) of grapes harvested from the three sites produced 8000 litres of dry white wine after fermenting in the barrels located at the Winery for 6 months.</p> <p>At a Project launch hosted by Enterprise iLembe and the MEC of the Department of Cooperative Governance and Traditional Affairs Ms Nomsa Dube on the 15th of August at the iLembe Winery, Enterprise iLembe confidently introduced its first bottle of wine called Seventeen Eighty Seven named after the birth year of King Shaka.</p> <p>These cooperative drive projects have collectively created 52 job opportunities.</p> |
| iLembe Open Farms | <p><i>Budget Allocation 2012/2013 – R1 900 000</i> <i>Expenditure as at 30/06/2013 – R1 787 000</i> <i>Project Funder/s: iLembe District Municipality</i></p> <p>The project entails establishing and supporting community-based co-operatives to operate viable agricultural farms, which produce vegetables and other cash crops for both the community's needs and for sale to the Department of Education's Service Providers for the National Schools Nutrition programme. The District's piloting of the Schools Nutrition programme opened up sustainable and reliable markets for the local small scale farmers, the farms have been producing vegetables as per the Department of Education's menu plan, vegetables such as cabbages; butternut; spinach; carrot and green beans are then harvested weekly and supplied for the National Schools Nutrition programme.</p> <p>Phase one has seen 40 farms being prepared and producing vegetables for the programme. Every year 40 additional farms will be identified to increase production levels. Forty small-scale co-operative farmers have been involved in phase one, this translated to 530 participants.</p> |

2.2.3. New Projects funded 2012/2013

| Project Name | Project Description & Status Quo |
|-----------------------------------|---|
| iLembe processing Facility | <p><i>Budget Allocation 2012/2013 – R 7 400 000</i> <i>Expenditure as at 30/06/2013 – R1 387 000</i> <i>Project Funder/s – DCOGTA</i></p> <p>The iLembe Processing Facility is established to ultimately link the greenhouses and open fields in the four local municipalities to 6 decentralised processing facilities, these centres are located in the four local municipalities. The processing facilities have also been used as temporary storage and dispatch points for the National Schools Nutrition Programme.</p> |
| Review of the LED Strategy | <p><i>Budget Allocation 2012/2013 – R500 000</i> <i>Expenditure as at 30/06/2013 – R393 000</i> <i>Project Funder/s – DCOGTA</i></p> |

| | |
|---|---|
| | Enterprise iLembe is in the process of reviewing the current Local Economic Development Strategy. An inception report was present at a Project Steering Committee on the 5 March 2013. Again, the Situational Analysis report was presented to the Project Steering Committee on the 31 May 2013. The Draft Local Economic Development Strategy and Implementation Plan was presented to the Project Steering Committee on the 19th of July 2013, the final document will be made available in October 2013. |
| National Schools Nutrition Programme | <p><i>Budget Allocation 2012/2013 – R8 700 000</i> <i>Expenditure as at 30/06/2013 – R4 304 777</i> <i>Project Funder/s: Department of Education</i></p> <p>The National Schools Nutrition programme was piloted as a District Project in January 2013. The aim of the Programme is to enable the District's small-scale framers to produce and sell vegetables to be consumed by the learners in the District's 406 schools. At the onset of the project, the Department of Education who are the custodians of the Project appointed Enterprise iLembe as the Implementing Agent whose responsibility is to ensure that the vegetables are available on a weekly basis for procurement. Since the inception of the programme the District's local farmers have supplied the programme with 114.74 tons of vegetables and this has generated a total of R 355 000.00 towards the rural economy since the inception of the programme.</p> |

2.3. Capital Used

2.3.1 Below is a summary of the operating income and expenditure compared with budget for the 2012/2013 financial year.

| REVENUE | Actual 2013 R | Budget 2013 R | Variance Actual/Budget % |
|------------------------------------|---------------------|---------------------|--------------------------------|
| Opening Surplus | 24 010 022 | - | - |
| Operating income for the year | 16 384 987 | 34 853 000 | (53.0) |
| Sundry transfers | 1 250 331 | - | - |
| Total | 41 645 340 | 34 853 000 | |
| EXPENDITURE | | | |
| Operating expenditure for the year | 19 212 943 | 34 853 000 | (44.9) |
| Closing surplus | 22 432 397 | - | - |
| Total | 41 645 340 | 34 853 000 | |

The under expenditure when compared with budget is due to the fact that the Department of Education, National Schools Nutrition Programme is under spent by R4.4 million and projects are under spent by R6.3 million.

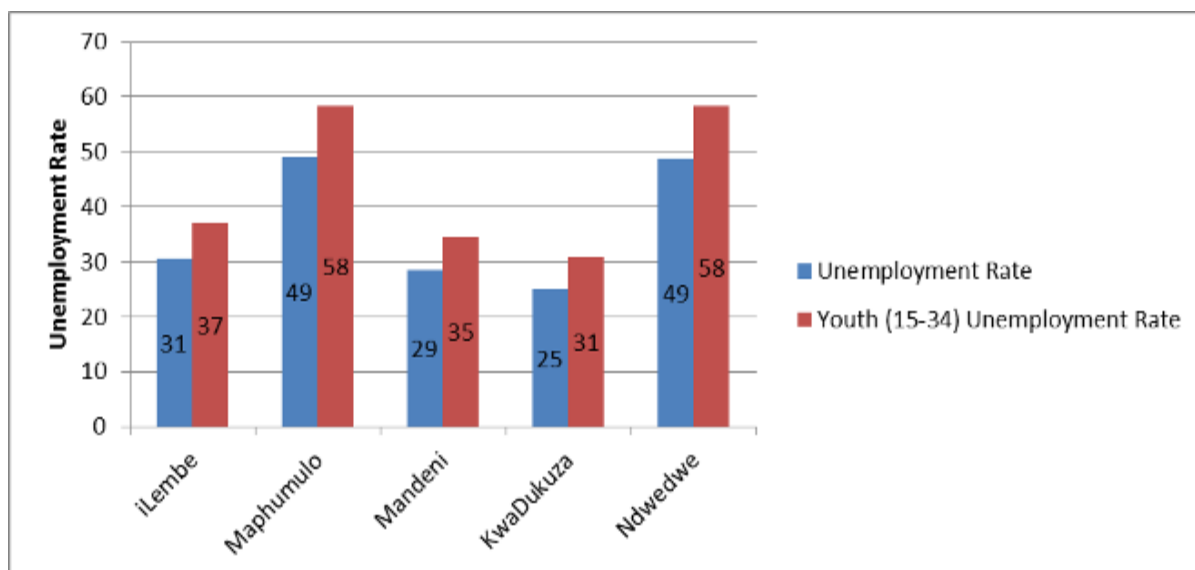
2.3.2 In the 2012/2013 financial year R7.2 million was spent on projects. Details set out below.

| R' 000 | | | | | |
|----------------------------|------------|-------------------|--------------------|---------------------------------|---------------------|
| Capital Projects | 2012/13 | | | | |
| | Budget | Adjustment Budget | Actual Expenditure | Variance from adjustment budget | Total Project Value |
| Open Fields | 0 | 1 900 | 1 787 | -6% | 1 900 000 |
| Agri Processing Hubs | 0 | 800 | 478 | -40% | 21 000 000 |
| Vineyards & Winery | 0 | 1 600 | 2 146 | 34% | 18 000 000 |
| Bio-Diesel | 0 | 10 | 3 | -70% | 7 400 000 |
| Moringa Plantations | 0 | 0 | 25 | 100% | 4 000 000 |
| Tourism | 848 | 848 | 750 | -12% | 848 000 |
| Container Project | 0 | 200 | 218 | 5% | 213 000 |
| Agri Processing Facilities | 0 | 7 400 | 1 387 | -81% | 7 400 000 |
| LED Strategy | 0 | 500 | 393 | -21% | 500 000 |
| | | | | | |
| TOTAL | 848 | 13 258 | 7 187 | | |

2.4. Job Creation & Skills Development

2.4.1 Unemployment Rate

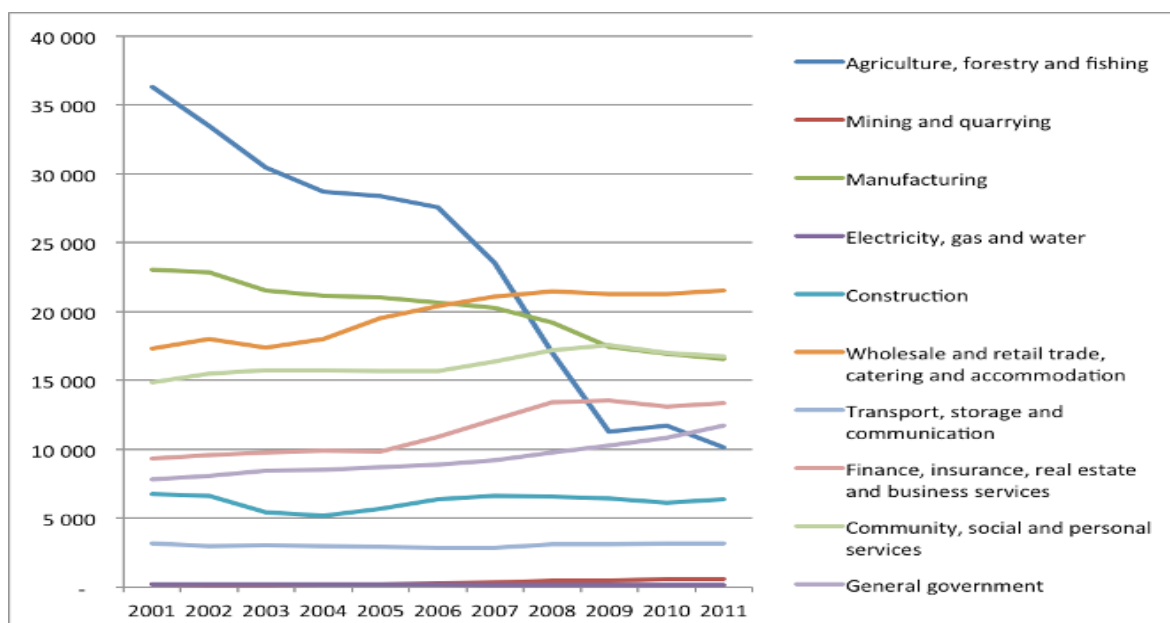
The district's unemployment rate is 31% in general and 37% amongst the youth (15-35). While unemployment is above the national average, it is average for KZN. Youth unemployment is substantially lower than both the national and KZN average (with the exception of Maphumulo and Ndwedwe). Employment and youth unemployment is highest in Maphumulo and Ndwedwe at 49% and 58% respectively.



Source: StatsSA Census, 2011 (2012)

2.4.2. Employment by Sector

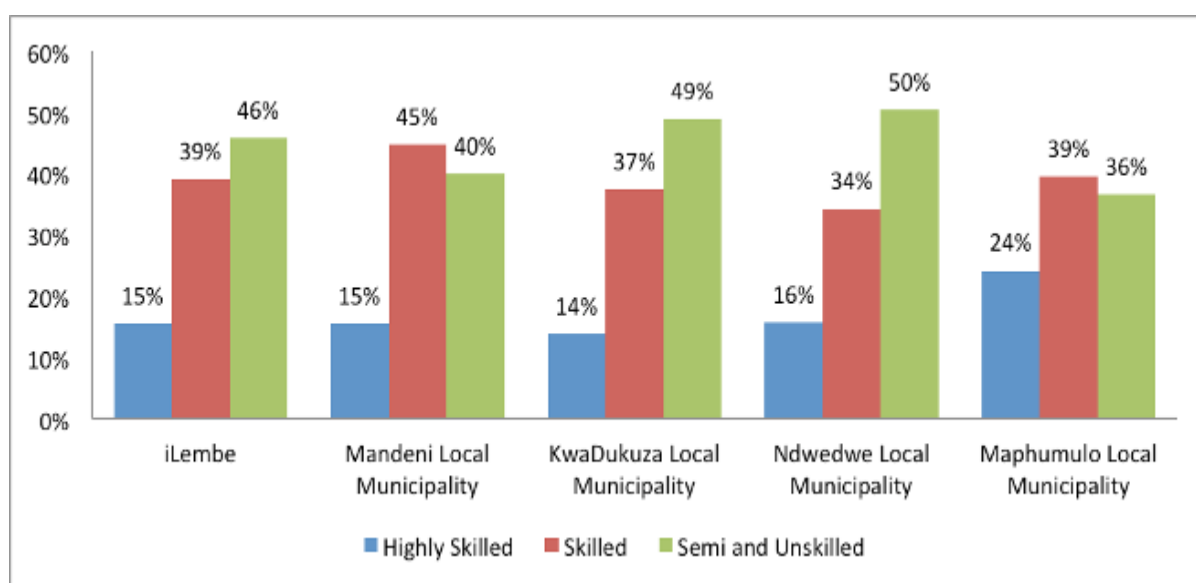
The graph below shows the 10year employment trend for iLembe. Agriculture has gone from the sector that employs the most people, to the sector that employs the 6th most people. Both the manufacturing and agricultural sectors have declined over the previous 5 years by 4 100 and 17 400 jobs respectively. The majority of job gains over the previous 5 years were in the finance, insurance, real estate and business services sectors and the government and community services sectors.



Source: Quantec's Standardised Regional Dataset (2012)

2.4.3. Formal Employment by Skill

Between 14% and 16% of the formally employed in all municipalities are highly skilled, with the exception of Maphumulo, which has 24% of its employment as highly skilled. This increase is mainly in government services, but also transport and communications. The overall contribution of highly skilled persons in iLembe has increased by 4% over the previous year; however, it is still lower than the average for KZN of 18%. Just over 39% of the formally employed district population are skilled persons, and 45.7% are semi and unskilled.



Source: Urban-Econ Estimates based on Quantec's Standardised Regional Dataset (2012)

2.4.2. Enterprise iLembe Jobs Created and Retained

| Project Name | 2011/2012 | 2012/2013 |
|---------------------|------------|----------------------------------|
| iLembe Agri-Hubs | 159 | 57 |
| iLembe Vineyards | 60 | 49 |
| iLembe Open Fields | 529 | 530 |
| Processing Facility | 0 | 5 Permanent 16 semi-permanent |
| TOTAL | 748 | 657 |

2.4.3. Number of Co-operatives Registered by Enterprise iLembe

| NAME OF CO-OPERATIVE | REGISTRATION DATE | NUMBER OF JOBS |
|--|-------------------|----------------|
| Batheni Supermarket Co-operative Limited | 12/09/2012 | 5 |
| Khelelani Agricultural & Supply Co-operative Limited | 21/09/2012 | 18 |
| Dabangu 2 Agricultural co-operative Limited | 10/09/2012 | 29 |

| | | |
|--|------------|------------|
| Ezibisini Trading and Projects Co-operative Limited | 31/07/2013 | 5 |
| Abakholwayo Abesweli & Projects Co-operative Limited | 04/07/2013 | 5 |
| Shandufekantuli Multi-purpose Co-op Limited | 26/06/2013 | 5 |
| Mangamahle Co-operative Limited | 26/06/2013 | 5 |
| Qalakahle Wetane Primary Co-operative Limited | 21/01/2013 | 5 |
| Kumile Projects & Multi-purpose Primary Co-operative Limited | 02/04/2013 | 6 |
| Inkos'nomusa Co-operative Limited | 07/03/2013 | 5 |
| Amandlendodawapheli Agricultural & Supply Primary Co-operative Limited | 26/04/2013 | 5 |
| Intethe Farming & Trading Primary Co-operative Limited | 26/01/2013 | 8 |
| Sesihawukelwe Primary Co-operative Limited | 30/04/2013 | 7 |
| Senzele Mdali Agricultural Primary Co-operative | 08/04/2013 | 11 |
| TOTAL | | 119 |

2.5. Performance Management

The Entity utilises the Service Delivery Budget implementation Plan (SDBIP) as a performance management tool for the Entity as an organization. Reporting on this tool is done on a monthly and quarterly basis to the shareholder, iLembe District Municipality and includes Portfolio Of Evidence. The Performance Management Unit conducts a review of the report; this was then followed with coaching sessions held with the Acting Chief Executive Officer of the Entity.

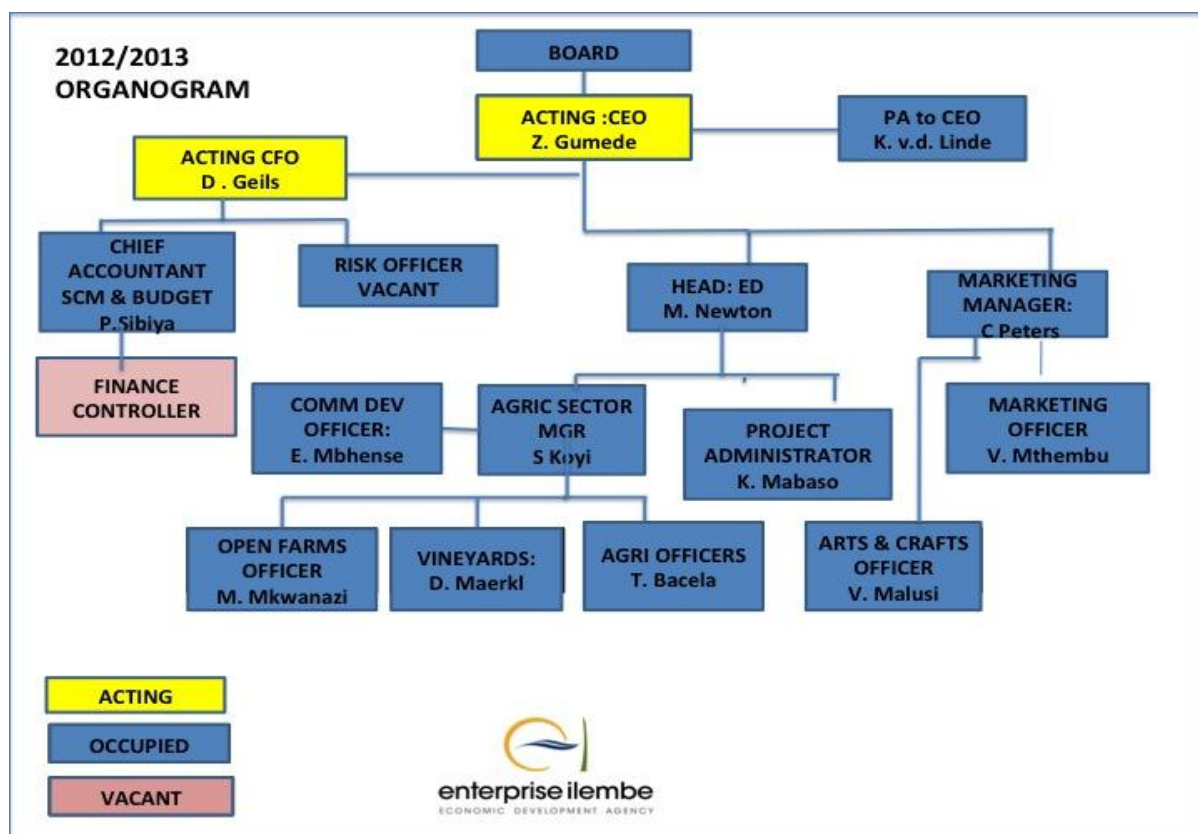
In respect of individual staff members, the Job Descriptions of employees have been reviewed to be in line with the actual tasks and duties being performed by each person. Review sessions are held with each staff member by the respective manager and signed off by the Acting Chief Executive Officer.

Enterprise iLembe was allocated a budget of R34.9 million of which R21.0 million was for operational costs and R13.9 million was for projects. Of the total budget allocation, a total of R19.1 million was spent of which R11.9 million was spent on operational costs and R7.2 million on projects. The majority of the grant funding allocated to Enterprise iLembe was spent and R11.9 million remained unspent as at 30 June 2013.

CHAPTER 3

Human Resources & Organisational Management

3.1. Organisational Structure



Vacancies & Resignations

The following personnel resigned within the 2012/2013 financial year;

- Mr. Roy Newlands – Agricultural Officer
- Ms. Phila Khuzwayo – Finance Controller

The following new appointments were made in the 2012/2013 financial year;

- Ms. Phumelele Sibiya - Chief Accountant
- Mr. Thamsanqa Bacela - Agricultural Officer

3.2. Institutional Transformation & Employment Equity

In compliance with the Employment Equity Act, 55/1998, the Enterprise iLembe's Employment Equity Plan has been crafted with the aim to remedy any form of discrimination in the workplace by removing all barriers in the employment policies, practices.

Affirmative Action has been defined as the tool to implement immediate positive remedial action. Programmes and procedures to address both historic and existing inequalities and

imbalances of the past are being implemented.

The Entity acknowledges the value of retaining staff especially employees with scarce skills and those who possess experience that is required for the Entity to fulfill its objectives. The Entity recognises that in order for it to be able to retain staff, it is very important to create an environment that encourages staff not only to succeed in their jobs but also to grow and achieve their personal development goals and aspirations. To this end regular strategic and team building sessions are held with staff members.

CHAPTER 4

Audited Statements and Related Information

4.1. Financial Statements & Related Information

Attached hereto as Annexure A

4.2. Report of the Auditor-General

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the iLembe Management Development Enterprise (Pty) Ltd set out on pages ... to .. which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting office's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of General Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Companies Act of South Africa, 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 misstatements, whether due to fraud or error.

Auditor – general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conduct 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 disclosure in the financial statements. The procedures selected depend on the auditors 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 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 provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the iLembe Management Development Enterprise (Pty) Ltd as at 30 June 2013 and its financial performance and cash flows for the year then ended in accordance with SA Standard of GRAP and the requirements of the MFMA and Companies Act.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainty

8. With reference to note 28 to the financial statements, the iLembe Management Development Enterprise (Pty) Ltd made representation with regards to a possible value – added tax (VAT), on out VAT, payable on grants received from its apparent municipality. There has been no ruling on whether or not the transfer of grants between these entities is a taxable transaction. If the ruling is against the municipal entity, a VAT output of R10, 04 million will be payable.

Financial sustainability

9. Note 2 to the financial statements indicates that the iLembe Management Development Enterprise (Pty) Ltd had unspent grant of R11,94 million during the year ended 30 June 2013, whereas it had available funds of R2,90 million. This situation may affect the completion of existing economic development projects.

Significant transactions

10. As disclosed in note 32 to the financial statements, the municipal entity is currently negotiating with the funding organisations of the constructed projects to transfer certain projects into special purposes vehicles. Although the municipal entity registered three companies to manage these functions, the transfer had not taken place. Also, the companies have not traded to date.

Additional matter

11. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Other reports required by the Companies Act

12. As part of my audit of the financial statements for the year ended 30 June 2013, I have read the directors report for the purpose of identifying whether there are material inconsistencies between this report and the audit financial statements. This report is the responsibility of the respective prepares. I have not audited this report and accordingly do not express an opinion thereon.

REPORT ON THE OTHER LEGAL AND REGULATORY REQUIREMENTS

13. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to perform against predetermined objectives, compliance with laws and regulation and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages to ... of the annual report.
15. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the

National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measured (i.e. well defined, verifiable, specific, measurable and time bound) and relevant is required by the National Treasury 's Framework for managing programme performance information .

16. The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

17. There were no material findings on the annual performance report concerning the usefulness and reliability of the information.

Additional matter

18. Although no material findings concerning the usefulness and reliability of the performance information, were identified in the annual performance report, I draw attention to the following matter below.

Achievement of planned targets

19. Of the total number of 37 targets planned for the year, 20 of the targets were not achieved during the year under review. This represents 54 % of total planned targets that were not achieved during the year under view. This was mainly due to a delay in the approval of funding for projects identified during performance planning.

Compliance with laws and reputations

20. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non –compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Expenditure management

21. Reasonable steps were not taken to prevent irregular expenditure, as required by section 95(d) of the MFMA.

Annual financial statements

22. 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

misstatement of cash flow statement identified by the auditors in the submitted financial statement was subsequently corrected, resulting in the financial statement receiving an unqualified audit opinion.

Internal control

23. I consider internal control relevant to my audit of the financial statement, performance report and compliance with laws and regulations. The matter reported below under the fundamentals of internal control is limited to the significant deficiency that resulted in the findings on compliance with laws and regulations included in this report.

Financial management

24. Management did not implement adequate controls over the procurement of goods and services as legislated to ensure compliance with the requirements of the Municipal Supply Chain Management Regulations.

27. Chief financial officer did not perform an adequate review of the cash flow statement prior to the financial statements being submitted for audit.



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

4.3. Acting Chief Financial Officers Report

ILEMBE MANAGEMENT DEVELOPMENT ENTERPRISE (PTY) LTD

INTRODUCTION

The financial year ended 30 June 2013 has again been a successful year for the iLembe Management Development Enterprise (Pty) Ltd, trading as Enterprise iLembe.

OPERATING RESULTS

Details of the operating results are included in the financial statements included in this Annual Report. A summary of the results is as follows:

| REVENUE | Actual 2013 R | Budget 2013 R | Variance Actual/Budget % |
|------------------------------------|---------------------|---------------------|--------------------------------|
| Opening Surplus | 24 010 022 | - | - |
| Operating income for the year | 16 384 987 | 34 853 000 | (53.0) |
| Sundry transfers | 1 250 331 | - | - |
| Total | 41 645 340 | 34 853 000 | |
| | | | |
| EXPENDITURE | | | |
| Operating expenditure for the year | 19 212 943 | 34 853 000 | (44.9) |
| Closing surplus | 22 432 397 | - | - |
| Total | 41 645 340 | 34 853 000 | |

An amount of R7 180 000 was spent on projects during the 2012/13 financial year as per the following:

| Project | Spent 2012/13 R(000) |
|--------------------------|-------------------------------------|
| Open Fields | 1 787 |
| Agri Processing Hubs | 478 |
| Vineyards and Winery | 2 146 |
| Bio Diesel | 3 |
| Moringa Plantations | 25 |
| Tourism | 750 |
| Container Project | 218 |
| Agri Processing Facility | 1 387 |
| LED Strategy | 393 |
| | |
| TOTAL | 7 187 |

One of the challenges facing Enterprise iLembe is the timing of the receipt of grants from the Industrial Development Corporation and the Provincial Department of Co-Operative Government and Traditional Affairs. The grants from the Department of Co-Operative Government and Traditional Affairs are paid via the iLembe District Municipality while the Industrial Development Corporation grant is paid directly to Enterprise iLembe.

It has been very difficult for Enterprise iLembe to plan for the expenditure of the grants due to the fact that it was unknown when the grants would be received. This delayed the implementation of the projects as the supply chain management processes were only implemented once the grants had actually been received.

CONDITIONAL GRANTS

Due to the uncertainty as regards the timing of the receipt of the grants, alluded to above, the following amounts as regards conditional grants were unspent at 30 June 2013:

| Grant | Unspent Grant as at 30 June 2013 R(000) |
|---|--|
| Grant Disaster Management | 55 |
| Grant North Coast Wine Project Ex DCGTA | 544 |
| Grant Amacambini Dev Project Ex DCGTA | 758 |
| Grant Integrated Craft Hub | 227 |
| Siza water Concession | 2 086 |
| Maphumulo Small Town Rehabilitation | 86 |
| Nonoti Beach Resort Business Plan | 49 |
| Fresh Produce Market | 278 |
| IDC Projects Grant | 1 623 |
| Agri Processing Facility | 5 819 |
| Tourism Grant | 204 |
| LED Grant ex iLembe District Municipality | 100 |
| LED Strategy | 105 |
| TOTAL | 11 935 |

However the majority of the grant funds allocated to Enterprise iLembe had been spent by 30 June 2013.

ACCUMULATED SURPLUS

The accumulated surplus as at 30 June 2013 was R22 432 397.

CASH AND CASH EQUIVALENTS

As at 30 June 2013 the cash and cash equivalents held by Enterprise iLembe were as follows:

| Details | R. |
|---------------------|------------------|
| Cash at bank | 1 811 733 |
| Current Investments | 1 087 393 |
| TOTAL | 2 899 126 |

EXPRESSION OF APPRECIATION

Thanks to the Chairman of the Board, Board Members, Acting Chief Executive Officer and staff for their support and assistance. Special appreciation is also given to the Office of the Auditor-General for their support.

MR. D. GEILS

Acting Chief Financial Officer

4.4. Audit Action Plan

| No. | Audit Finding | Rating | Unit | Internal Control Deficiency | Action |
|-----|--|--------|------|--|--|
| 1 | Unspent grants - Insufficient cash on hand. it was established that there are insufficient cash on hand to cover the unspent conditional grants liability should it become immediately repayable | M | CFO | On-going monitoring and supervision by management is not undertaken to ensure effectiveness over cash management by ensuring that there is sufficient cash on hand in order to cover current liabilities. | It should be noted that there was VAT refundable by SARS to EI of R1 865 034 as at 30 June 2012 which amount has subsequently been refunded by SARS. There is also an unconditional grant of R6million from IDC for Phase 3 of Operations, which is being followed up by management at present. Controls are in place to ensure there is sufficient cash on hand and this is monitored on a monthly basis by the Acting CEO and Acting CFO. |
| 2 | It was established as per inspection of the organogram that Key Management positions are vacant which would affect the smooth operation of the entity | M | CEO | Management and those charged with governance of the entity failed to ensure that the key management positions are filled in order to facilitate the maintenance of an effective system of internal control. | The following posts to be filled: The Chief Executive Officer (Acting CEO in place) The Chief Financial Officer (Acting CFO in place) The Chief Accountant (Vacant) The Tourism Sector Manager (Vacant) |
| 3 | No signed employment contract in personnel file | M | CEO | On-going monitoring by management is not undertaken to ensure effectiveness of internal control over appointment of employees. Further the absence of a signed employment contract between Enterprise iLembe and an employee reflects a lack of acknowledgement of the terms of employment formally. | Both the employee and employer will sign all employment contracts. The CEO will ensure that the signed contracts are filed and safeguarded. |
| 4 | Irregular expenditure amounting to R27, 313 million was incurred during the year, as a result of contracts awarded to suppliers in contravention of the Municipal SCM regulations | H | SCM | SCM Regulations not adhered to. | All requirements of the SCM Regulations to be fully adhered to. Controls to be put in place to ensure irregular expenditure is identified and reported on. Systems to be put in place for the following: Valid tax clearance certificates. Declaration certificates to be verified and retained for record purposes. People in the service of the State to be identified and removed from database of approved prospective service providers. Advertise all requirements over R30 000 and less than R200 000 on website and notice boards. Get updated and compliant database of approved prospective service providers. |

CHAPTER 5: Functional Service Delivery Reporting

5.1. Service Level Agreement

Enterprise iLembe has a Service Level Agreement with iLembe District Municipality. The SLA guides the mandate of the Entity and sets out the function and services to be delivered as follows,

- 1) Promotion of Social Economic Development
- 2) Tourism
- 3) Markets
- 4) Abattoirs
- 5) Airports
- 6) Incidental Bylaws

The Chief Executive Officer as the Accounting Officer has been mandated by the Board of Enterprise iLembe to report on these functions to iLembe District Municipality. Regular meetings are held with the principals of the District, and the CEO reports into the various structures of Council including the Economic Development Portfolio Committee, Inter-governmental Forums and Management Meetings. The Shareholder also has ex-officio representation on the Board of Enterprise iLembe.

The Executive Committee of Council resolved on 13 May 2011 to amend the Service Level Agreement as part of the three year review to remove the function pertaining to Shared Services and Integrated Development Planning, as this function will remain at the District.

The Service Level Agreement will be reviewed by iLembe District in 2014.

CHAPTER 6: Annual Performance Management Reporting

6.1. Organisational Scorecard – Service Delivery Budget Implementation Plan

Attached hereto as Annexure B

6.2. Conclusion

As an organisation that has been in existence for only a few years, we are relatively proud of the achievements in building an Entity with an enviable profile and so we will continue to tackle challenges head on and will strive to make every rand work as hard as possible in order that the return on our investments manifests itself in long term for sustainable socio economic development.

ANNEXURES

A - Financial Statements for the period 2012/2013

B – Service Delivery Budget Implementation Plan (SDBIP) for the period 2012/2013