

28th March 2007

Mr. N Kotze
Office of the Auditor General
Port Elizabeth
6033

Dear Mr. Kotze

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF KOUGA DEVELOPMENT AGENCY FOR THE FINANCIAL YEARS ENDED 30 JUNE 2004, 30 JUNE 2005 AND 30 JUNE 2006

Pursuant to your letter dated 20th December 2006 I would like to respond to the matters raised as follows:

1. Non-adherence to the financial statement preparation framework

The contents of paragraph 5.1 (a) are noted and will be adhered to when the financial statements for the financial year ending 30 June 2007 ("2007 financial statements") are prepared.

The two accounting policies referred to in paragraph 5.1 (b) will be included in the 2007 financial statements.

We were not aware of the fact that budgeted figures were required by GRAP 1, as the example of the financial statements annexed to GRAP 1 does not indicate the inclusion of budgeted figures. Furthermore, samples of major cities' financial statements available at the time of compiling the financial statements did not indicate the need to include budgeted figures. However, after studying GRAP 1, in particular paragraph .12, we concur that budgeted figures should have been included. We will therefore ensure that budgeted figures are included in the 2007 financial statements.

The comments made in paragraphs 5.1 (d) and (e) are noted and will be corrected in the 2007 financial statements.

2. Non-compliance with statutory requirements

In paragraph 5.2 (a) it is mentioned that no mutual agreement exists between the parent municipalities of Kouga Development Agency, as is required by the Local Government: Municipal Systems Act of 2000,

as amended in 2003. We believe that this statement is incorrect, as we are in possession of a copy of an agreement between Cacadu District Municipality and Kouga Local Municipality dated 7 June 2005, which agreement regulates the relationship between the two parent municipalities with regard to Kouga Development Agency.

In paragraph 5.2 (c) it is noted that the Board of Directors was appointed on the 21st of July 2005. The CEO was appointed 1st February 2006. As the CEO was appointed during the year under review, all the fiduciary duties and other relevant responsibilities, as stipulated in section 94 to 100 of the MFMA, could not be performed and adhered to. The comment has been noted and will be ratified in 2007 financial year.

In paragraph 5.2 (d) it is mentioned that the financial statements were not prepared within two months after the financial year-end as is required by the Local Government: Municipal Finance Management Act of 2003. The financial statements were completed by the 31st of August 2006 and were duly submitted to the AG's office in Port Elizabeth on the 7th of September 2006.

In paragraph 5.2 (e) it is stated that the Audit Committee was only established on the 3rd September 2006. This statement however is incorrect as the Audit Committee was established on the 3rd September 2005, the terms of reference were adopted on the 23rd June 2006 and copies of minutes of all these meetings and the TOR were provided to the AG's representative during the audit.

3. **Weaknesses in internal control**

We are not in a position to comment on weaknesses in the internal control system identified in paragraph 5.3, as the financial administration for the period under review was handled by Cacadu District Municipality.

It should be mentioned that Kouga Development Agency commenced administering itself on 1 July 2006. Internal control measures have been instituted which allow for a reasonable degree of internal control, given that the Agency's employees comprise of a small number of people.

4. **Employee related costs**

We are aware of the comment contained in paragraph 5.4, but could not resolve the difference when the financial statements for the year

ended 30 June 2006 were finalised. As the administration of employee's remuneration is now done by Kouga Development Agency, a repetition of the problem in the 2007 financial statements is unlikely.

5. **Loan From Cacadu District Municipality**

The loan was since repaid in full on the 8th December 2006.

6. **Material financial statement adjustments**

Matter has been noted and the situation will not reoccur in 2007 financial statements.

We trust that the above comments are satisfactory. Please do not hesitate to contact the undersigned, should the need arise.

Thank you,
Yours truly,

Zola Tshefu
Chief Executive Officer