CO-OPERATIVE BANKS DEVELOPMENT AGENCY

Annual Report

of the Co-operative Banks Development Agency

for the year ended 31 March 2011

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Administrative information

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Mr Nkosana Mashiya

Director: Capacity Building & Information
Mr Robert Mbeza

Supervisor: Co-operative Banks
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Mission, Vision and Values

Mission

The CBDA mission focuses on the development of the Co-operative banking sector within the context of protecting those who participate in it through:

- Appropriate regulation and supervision
- Innovative capacity development and support
- Promoting the value of Co-operative values and principles
- Promoting a savings culture and financial literacy
- Protecting depositors

Vision

Creating a strong and vibrant Co-operative banking sector that broadens access to and participation in diversified financial services towards economic and social well-being.

Values

- Passion
- Integrity
- Mutual Respect
- Commitment to solidarity and co-operation
- Excellence
- Confidentiality

Submission of the Annual Report to the Executive Authority

To the Minister of Finance, Mr Pravin Gordhan:

I have the honour of submitting to you, in accordance with the Public Finance Management Act (1999), the annual report of Co-operative Banks Development Agency for the period 1 April 2010 to 31 March 2011.

Sifiso Ndwandwe
Chairman and Accounting Authority

Acronyms used in this report

ACCOSCA	African Confederation of Co-operative Credit and Savings Association
AGM	Annual General Meeting
BANKSETA	Banking Sector Education and Training Authority
CBDA	Co-operative Banks Development Agency
CBF	Co-operative Bank Form
CBSU	Co-operative Banks Supervision Unit
CFI	Co-operative Financial Institutions
CFF	Central Finance Facility
CIPC	Companies and Intellectual Property Commission
DGRV	German Co-operative and Raiffeisen Confederation
dti	Department of Trade and Industry
FSC	Financial Services Co-operative
GRAP	Generally Recognised Accounting Practice
HR	Human Resources
IT	Information Technology
MIE	Managed Integrity Evaluation (Pty) Limited
MIS	Management Information System
MOU	Memorandum of Understanding
NEHAWU	National Education, Health and Allied Workers' Union of SA
NIA	National Intelligence Agency
NQF	National Qualifications Framework
NT	National Treasury
PEARLS	Protection, Effective Financial Structure, Asset Quality, Rates of Return Liquidity, Signs of Growth
PFMA	Public Finance Management Act
ROAC	Regulatory and Oversight Advisory Committee
SACCO	Savings and Credit Co-operative
SACCOL	Savings and Credit Co-operative League of South Africa
SLA	Service Level Agreement
samaf	South African Micro-Finance Apex Fund
SAMWU	South African Municipal Workers Union
SARB	South African Reserve Bank
SRO	Self-Regulatory Organisation

Minister's Statement

Government contextualises the role of the Co-operative Banks Development Agency (CBDA) within its policy priority of expanding access through financial inclusion. The key responsibilities of the Agency include creating a regulatory framework that provides for the registration of cooperative banks; ensuring the safety and soundness of Co-operative financial institutions; supporting, promoting and developing Co-operative financial institutions (CFIs); and establishing a deposit insurance fund for Co-operative banks.

These institutional interventions take due cognizance of the historical developments in the sector in South Africa, while ensuring that government's interventions do not stifle the self-help and self-reliance characteristics of the sector.

As a new Agency, much of the work of the CBDA has been around establishing the context of the sector and identifying key interventions which could accelerate growth while paying due regard to the need to ensure that members deposits are safe.

Such interventions include the capacitation of CFIs as a more attractive offering to the public through a joint strategy of better oversight and accountability and better service to members. Going forward, consolidation of legislation and regulation within the sector will assist all role players with regard to clarifying the minimum standards and requirements to operate as a safe and sound deposit taking Co-operative institution.

I would like to thank the CBDA Board, MD and staff for all their hard work in establishing and getting the Agency operational.

As Government, we remain committed to ensuring that CFIs continue to compliment government's efforts to accelerate financial inclusion and in the process accelerate savings mobilization in South Africa.

Pravin Gordhan

Pravin J. Gordhan
Minister of Finance

1. Report of the Accounting Authority

The CBDA has been in operation since August 2008 after the Minister of Finance appointed the first Board of Directors in terms of section of 58 of the Co-operative Banks Act, 2007 (the Act). The Minister appointed eleven persons as non-executive directors of the Board. Two directors resigned. These two directors were representing their respective departments in the Board. In line with the Co-operative Banks Act and the Public Finance Management Act, the Board established four committees to deliver on its legislative mandate and to guide it in its fiduciary duties; namely:

- Audit and Finance Committee;
- HR and Remuneration Committee;
- Technical Committee; and
- Regulatory and Oversight Advisory Committee.

The Board of the CBDA is the accounting authority of the CBDA. As such, the Board developed a number of policies and procedures to guide the operations and administration of the CBDA. During 2009, the Board, together with the National Treasury, were instrumental in the appointment of the Managing Director and the Supervisor of Co-operative Banks by the Minister. The incumbents, Ms Sharda Naidoo and Mr. David de Jong started in their positions with effect from March 2009 and May 2009 respectively. The Board also appointed consultants to assist with Human Resources and Finance functions of the CBDA. In March 2011, Ms Naidoo resigned as the Managing Director. The Board immediately began the recruitment process for a new Managing Director. An acting MD, Nkosana Mashiya, is in place.

The Board of the CBDA is now fully functional and the oversight over the management of the programmes of the CBDA is gaining traction.

Sifiso Ndwandwe
Chairperson of the Board
Co-operative Banks Development Agency

2. Report of the Managing Director

Introduction

Achieving sustainable and inclusive development in the financial sector goes hand in hand with improving access to financial services, particularly for the most vulnerable communities. It goes without saying that specific interventions should take cognisance of the communities' own ownership of the development process. The specific institutional peculiarities of such member owned deposit taking financial institutions (not for profit and mutuality, relationship based conduct, and economic democracy) as well as the historical developments in the sector necessitated policy initiatives designed to protect members/depositors of the institutions.

It is within this context that the Act provides space for communities to participate in their own deposit taking financial institution that can be geared towards their own service needs, in the process allowing for empowerment and self-determination. At the same time, the Act affords such institutions and their members the same level of safety and protection (deposit insurance and supervisory oversight) as that enjoyed by depositors of first tier banks.

Mandate

The CBDA's mandate, as provided in section 2 of the Co-operative Banks Act of 2007, is to promote and advance the social and economic welfare of all South Africans by enhancing access to banking services under sustainable conditions. This is achieved through the development of sustainable and responsible Co-operative financial institutions (CFIs) as well as ensuring appropriate regulatory and supervisory oversight over the same.

Establishment of the Agency

While the Co-operative Banks Act itself was passed in 2007, work around establishing the Agency started with the appointment of the board in October 2008. The CBDA programmes started after the appointment of the Managing Director in March 2009 and the Supervisor of Co-operative Banks in May 2009. The key thrust of these programmes were two fold. First, the Agency established the strategic goals which would capture the responsibilities of the Agency. Key to this process was formalising relationships with strategic partners that already had a presence in the CFI sector (development or regulatory) as well as understanding the sector. Relationships were formalised with institutions that were granted some regulatory oversight through the Exemption Notices issued by the Minister of Finance in terms of the Banks Act, Act 94 of 1990. These institutions include the South African Microfinance Apex Fund **(samaf)** and the Savings and Credit Co-operative League of South Africa (SACCOL).

Secondly, the Co-operative Banks Act required the Agency to start with registration processes a year after the Act came into effect, i.e. 1 August 2009. With the appointment of the Supervisor of Co-operative Banks in May 2009, the Agency published the draft rules and regulations for public comment in July 2009 and qualifying financial Co-operatives were requested to submit their applications for registration by 31st July 2009, however, this was extended to 31 May 2010. The rationale for the extension was to allow for the publication of the final Rules and to provide eligible CFIs sufficient time to align their constitutions with the Act (this would require CFIs to hold special meetings of members to obtain the necessary resolutions to convert to a Co-operative bank). The final rules and regulations were approved by the Minister in January 2010.

The Year under review

During the reporting year, the numbers of CFIs eligible for registration as Co-operative banks increased from the prior reporting year by one (1) to eighteen (18). Two (2) additional CFIs met the minimum requirements (R1,000,000 in deposits and 200 members) and one (1) CFI became ineligible for registration as its value of deposits fell below R1 million. As at 31 March 2011 the eligible CFIs had 28,034 members and approximately R160 million in deposits. The Agency developed and piloted its regulatory and supervisory processes resulting in the pre-registration assessment of all eleven (11)[1] received applications. As at March 2011, one CFI had been registered as a Co-operative bank, one CFI had received approval for registration, while nine (9) applications were rejected. A full scope risk based examination of the registered Co-operative bank was also conducted during the period under review. Operational and governance weaknesses militated against the registration of more Co-operative banks during the year, with the weaknesses and shortcomings being communicated to the CFIs.

Towards the end of the financial year, 2009/10, the Agency established a capacity building unit with a mandate to put in place developmental programmes to ensure a healthy pipeline of viable and sustainable CFIs that will eventually be registered as Co-operative banks. During the year, the unit conducted Benchmarking Workshops around the country to establish the status of the CFIs in the areas of governance, management, financial management, policies and procedures, Co-operative principles and marketing. The information gathered is assisting the Unit in developing relevant capacity building interventions. The unit also conducted a CFI skills assessment which reflected the paucity of skills in the sector. Emanating from the benchmarking workshops and the skills assessment, the unit developed a manual accounting system for Co-operative financial institutions. This system was developed with an accompanying Learners Manual which is aligned to NQF Unit Standards. Additionally, the CBDA also developed training materials for the Governance of the CFIs, also aligned to NQF Unit Standards.

Year Ahead

The prognosis of the sector remains mixed. While the sector has grown in terms of total assets, governance and operational metrics remain depressing. Membership has also not grown as fast as envisaged. There has also been a proliferation of small registered CFIs without sufficient supervisory and regulatory oversight. These small CFIs have been used as channels for development funding, to the detriment of the CFIs as deposit mobilisation vehicles.

In the year ahead, the Agency will proactively increase and deepen its partnerships in order to play a more vigorous role in ensuring a sustainable and viable CFI sector focused on sustainable and inclusive economic growth. This will be done without compromising on the supervisory mandate of the Agency so as not to undermine financial stability. The Agency will achieve this through:

(a) Improving the institutional safety and soundness of the existing and operational CFIs and of the financial stability of the sector as a whole;
(b) Consolidating the CFI sector by reducing the growth in the registration of CFIs and reduce the existing number and ensuring improved compliance rates;
(c) Obtain Ministers approval for the repeal of the FSC Exemption Notice and to move those powers to the CBDA;
(d) Assisting representative bodies to improve their leadership, management and operational capability;
(e) Establishing sector-specific learning programs with existing universities, colleges and support organisations; and
(f) Facilitate the establishment of an IT enabled environment for CFIs with linkages to the national payment system.

Finally, during the year under review, the CBDA's first Managing Director, Ms Sharda Naidoo resigned. We are grateful for Ms Naidoo's stewardship of the Agency during its formative years. Additionally, the following board members term expired Ms Gugulethu Princess Africa, Mr Neville John Melville and Nelisiwe Mokoena. Ms Olaotse Matshane and Mr Peter Koch were appointed to the board. On behalf of management and staff, I wish to express my appreciation for the role the past members have played on the board, and welcome Ola and Peter to the Board.

[1] Three of these applicants were transferred to the SARB supervisory unit as they had exceeded the CBDA thresholds as per the Co-operatives Banks Act.

While maintaining a hands-off approach the Board has ensured that the Agency has built sound platforms from which to grow its programmes and engage meaningfully in registering co-operative banks and further meeting its mandates.

Organisational Authority and Financial Management

One of the most important achievements has been the appointment of competent personnel in various positions in the CBDA. The setting up of the CBDA required an extensive administrative process which included the HR and Finance functions and their related systems. The approval by the board of a number of supervisory and capacity-building programmes has been a significant milestone for the CBDA.

The CBDA is a statutory body registered as a public entity in terms of the section 3 (a) of the Public Finance Management Act. The CBDA is funded from the transfer payments through National Treasury.

This year marks the first time that the activities of the CBDA are reported separately. In the 2009/ 10 financial year, the CBDA's activities were reported under the National Treasury Basic Accounting System (BAS). The comparative financial statements are as a result not stated since they were audited as part of National Treasury financial results. Assets purchased by CBDA and accruals not yet settled at the end of 2009/10 result in the opening deficit of R383 000. The CBDA operated at a deficit of R398 000, closing the year with an accumulated deficit of R781 000.

Acknowledgements

I wish to express my thanks to the Board for its guidance, the staff of CBDA and the former managing director for her role in taking CBDA from its days of inception to where it is today.

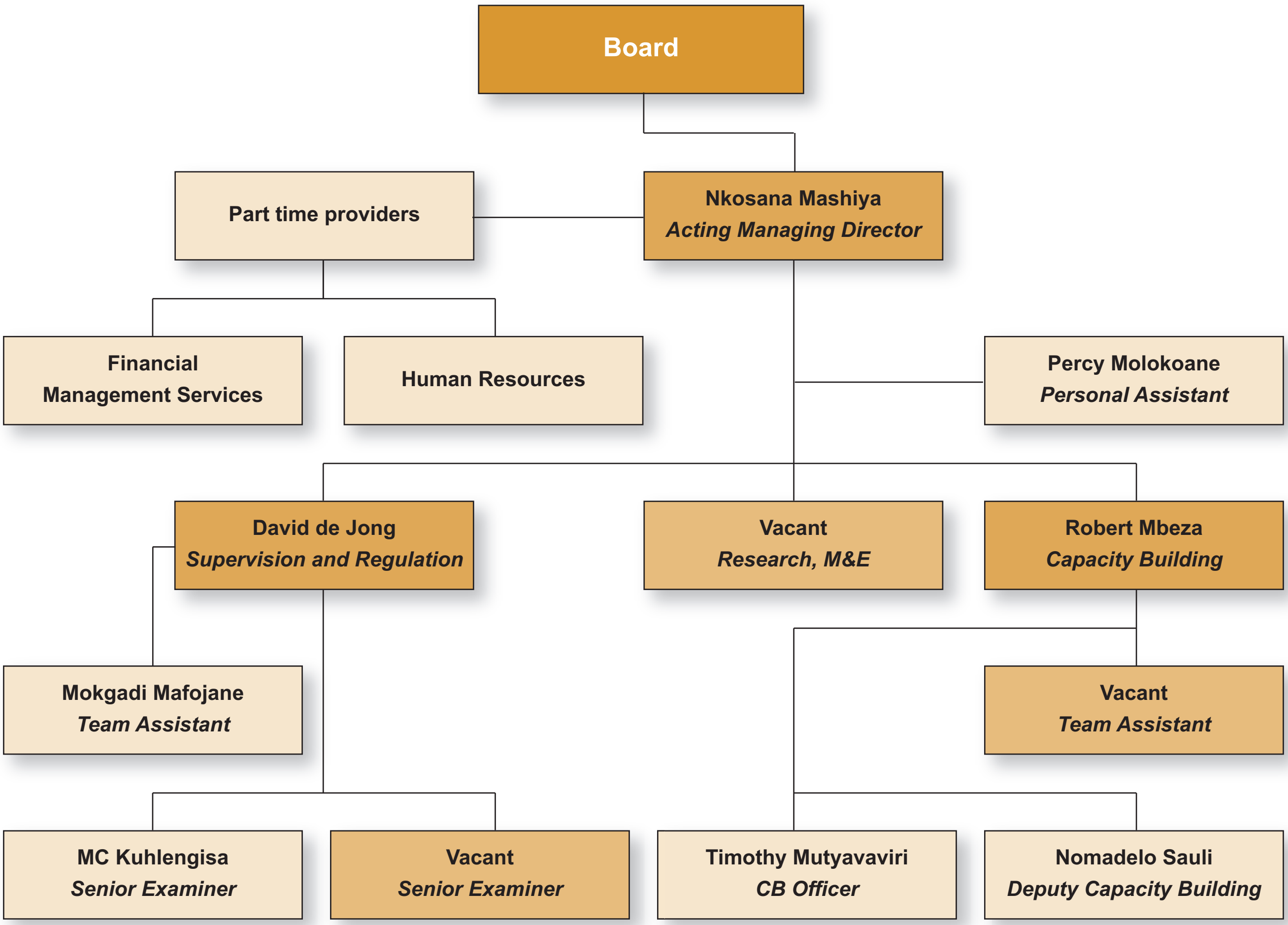
Nkosana Mashiya
Acting Managing Director

3. Human Resources

The CBDA's staff complement is 8 (2010 – 6). The increase of the staff complement will be in line with the increases in budget allocation and development of other programmes in the coming years.

The organogram of the CBDA is outlined in Figure 1.

Figure 1: Structure of the CBDA



4. Corporate Governance

Board of directors

The board of directors of the CBDA is appointed by the Minister of Finance in terms of section 58 of the Co-operative banks Act of 2007. The board of the Agency is the accounting authority of the Agency within the meaning of the Public Finance Management Act and must, in addition to the duties and responsibilities provided for in the Public Finance Management Act:

- Provide effective, transparent, accountable and coherent corporate governance and conduct effective oversight of the affairs of the Agency;
- Comply with all applicable legislation and agreements;
- Communicate openly and promptly with the Minister and any ministerial representatives;
- Deal with the Minister and any ministerial representatives in good faith; and
- At all times act in accordance with the code of conduct for members of the Agency as may be prescribed by the Minister.

CBDA Board of directors at 31 March 2011

Mr S Ndwandwe (Chairperson) (appointed on 18 July 2008; reappointed on 1 Oct. 2010)
Adv. EJZ Kuzwayo (Deputy Chairperson) (appointed on 18 July 2008; reappointed on 1 Oct. 2010)
Mr V Satgar (appointed on 18 July 2008; reappointed on 1 Oct. 2010)
Mr K Mahuma (appointed on 18 July 2008; reappointed on 1 Oct. 2010)
Mr J Theron (appointed on 18 July 2008; reappointed on 1 Oct. 2010)
Ms D Hamilton (appointed on 18 July 2008; reappointed on 1 Oct. 2010)
Ms GP Africa, (the term expired – 30 September 2010)
Mr N J Melville (the term expired – 30 September 2010)
Ms N Mokoena (the term expired – 30 September 2010)
Mr P Koch (appointed – 1 October 2010)
Ms O Matshane (appointed – 1 October 2010)
Ms S Naidoo – Ex officio Director (appointed on 1 March 2009 – resigned on 31 March 2011)

CBDA Board committees at 31 March 2011

Table 1: CBDA Committees

HR and Remuneration Committee	Audit Committee	Regulatory Overview and Advisory Committee (ROAC)
Adv EJZ Kuzwayo	Ms O Matshane	Adv EJZ Kuzwayo
Mr J Theron	Mr K Mahuma	Mr NJ Melville
Mr S Ndwandwe	Mr P Koch	

The board committees enable the Board to properly discharge its responsibilities and duties. Each committee acts in accordance of its charter and is chaired by an independent non- executive director.

The CBDA held 7 meetings for the year ended 31 March 2011. A board members attendance for these meetings is shown on Table 2.

Table 2: CBDA board meetings

Name	Meeting Scheduled	Attended
Mr S Ndwandwe	7	7
Adv. EJZ Kuzwayo	7	4
Ms D Hamilton	7	6
Mr K Mahuma	7	5
Mr J Theron	7	3
Ms O Matshane	7	2
Mr P Koch	7	4
Mr V Sagtar	7	5
Ms GP Africa	7	0
Mr NJ Melville	7	3
Ms N Mokoena	7	0
Ms S Naidoo	7	7

Remuneration of board members

The CBDA board members are remunerated at rates determined and issued by the National Treasury in terms of service benefit packages for office- bearers of certain statutory and other institutions.

The remuneration for board meetings are summarised in note 25.2 in the annual financial statements.

Audit Committee

The CBDA audit committee function is shared with that of National Treasury. Ms O Matshane is the CBDA board representative in the National Treasury audit committee.

Risk Management Committee

Likewise, the CBDA utilises the National Treasury Risk Committee. The MD attended the risk management committee meetings to represent the CBDA.

5. Performance against Strategic Achievements

Table 3: Co-operative Banks Supervision Unit

Co-operative Banks Supervision Unit Performance Against Targets					
Objective 1	**Indicators**	**Actual Performance Against Target**			**Reasons for Variance**
Register co-op banks and redirect non qualifying CFI		**Target**	**Actual**	**Variance**	
Implement and maintain processes for early screening of licensing applications	Receipt and process co-op bank applications	17	12	5	Applications not received by all eligible CFIs
	Input applications into tracking system	17	12	5	Applications not received by all eligible CFIs
	Apply application dash-board and application monitoring tool	17	12	5	Applications not received by all eligible CFIs
Evaluate applications of proposed new co-op banks	Design pre-registration assessment manual	1	1	0	
	External assessment of fitness of directors	1	2	0	Use of NIA. Contract concluded with MIE
	Onsite review of licensing applications	8	8	0	Pre-assessments conducted
	Publish notices on registered co-op banks	2	1	1	Only one co-op bank qualified
Deploy new or enhance existing MIS to support effective licensing	Develop database and website	1	1	0	
Ensure up to date licensing policies and procedures	Internal review of licensing policies and procedure	1	0	1	Deferred to September 2011
Objective 2	**Indicators**	**Actual Performance Against Target**			**Reasons for Variance**
Carry out scheduled and targeted onsite examinations of registered co-op banks		**Target**	**Actual**	**Variance**	
Adopt risk based supervisory approach for co-op banks	Develop risk based supervisory manual	1	1	0	
Conduct risk focused examination of co-op banks	Conduct full scope examinations of co-op banks	10	1	9	Only one bank registered to date. Others did not qualify
Objective 3	**Indicators**	**Actual Performance Against Target**			**Reasons for Variance**
Carry out offsite analysis of registered co-op banks		**Target**	**Actual**	**Variance**	
Adopt and implement appropriate supervisory processes to manage offsite monitoring	Monitor receipt of returns	1	1	0	
	PEARLS monitoring system operational	1	1	0	
	Evaluation of interpreta-tion of submitted returns	10	0	10	No returns submitted as yet
Develop and deploy MIS for efficient and effective oversight of co-op banks	Design user requirements for online system	1	0	1	Budget redirected for other projects

Performance against Strategic Achievements

Co-operative Banks Supervision Unit Performance Against Targets					
Objective 4	**Indicators**	**Actual Performance Against Target**			**Reasons for Variance**
Clear, appropriate and up to date regulatory framework which provides for an effective supervisory process		**Target**	**Actual**	**Variance**	
Up to date regulatory framework	Internal assessment on compliance to Base Principles	1	0	1	Required to complete the full cycle to assess compliance. Moved to year 2012
	Revise and introduce guidance notes to provide clarity on regulatory matters to co-op banks	9	9	0	
Efficient co-ordination of all regulatory requirements affecting co-op banks	Meetings with self-regulators	2	2	0	
Regulatory overview and assessment	ROAC meetings	2	2	0	
	Written responses to position papers	1	1	0	
	Parliamentary presentations	1	0	1	Responses to legislation have been prepared. But not before parliament at this time
	Exemption notices reviewed	0	1	1	Position paper has been presented to board
Objective 5	**Indicators**	**Actual Performance Against Target**			**Reasons for Variance**
Own compliance with regulatory framework		**Target**	**Actual**	**Variance**	
Develop and formalise institutional relationships with relevant stakeholders	MOUs	8	1	7	Meetings held with stakeholders. Only two stakeholders felt need for formal MOU. One signed
	Assist SROs meet their regulatory and supervisory mandates in an advisory capacity	2	1	1	SRO did not invite us to any meetings
Represent the CBSUs interest to relevant stakeholder groups	Presentations at workshops and conferences	2	3	1	Requested to present at three forums
Provide updates to Minister of Finance on developments with the sector	Quarterly report to the minister on performance of co-op banks sector	4	4	0	
	Annual co-operation and co-ordination plan	1	1	0	
Research and advocacy	Regularly inform members and communicate about development in the sector	4	1	3	Only one gazette publication thus far
	Up to date on develop-ment on local and international co-op banking	2	2	0	

Table 3: Co-operative Banks Supervision Unit (continued)

Co-operative Banks Supervision Unit Performance Against Targets					
Objective 6 and 7	**Indicators**	**Actual Performance Against Target**			**Reasons for Variance**
Stabilise problem and distressed co-op banks		**Target**	**Actual**	**Variance**	
Appropriate distressed co-op bank resolution framework in place	MOU with CBDA/deposit insurance on treatment of problem co-op banks	1	0	1	Deposit insurance framework not approved as yet
	Formulate acceptable programs for troubled co-op banks	0	0	0	Contingent item once banks registered
Appropriate winding up processes in place	Facilitate the winding up of Co-operative banks	0	0	0	Contingent item once banks registered

Table 4: Capacity Building Information Unit

Capacity Building and Information Unit Performance Against Targets					
Objective 1	**Indicators**	**Actual Performance Against Target**			**Reasons for Variance**
		Target	**Actual**	**Variance**	
To assemble an effective capacity building and information team of three (3) that are capable of providing capacity building programmes to the financial Co-operative sector by 31st December 2010.	Recruit Staff in the Unit	2	2	0	Achieved
	Development of Accredited Training Materials	2	2	0	Achieved
	Development of Capacity Building Tools	2	5	3	Staff developed other critical tools for capacity building
	Facilitating Workshops	7	19	12	Achieved more than planned due to additional funding from within and strategic partner – samaf
	Direct Technical Assistance	17	8	9	Most of the CFIs are still unable to produce financial reports
	Coordination of Capacity Building Workshops	6	8	2	Achieved more than planned
	Number of Publications	5	7	2	Achieved more than planned
Objective 2	**Indicators**	**Actual Performance Against Target**			**Reasons for Variance**
		Target	**Actual**	**Variance**	
To conduct 3 capacity building programmes and collect information that will enable the CBDA to understand the Co-operative Financial Institutions Sector in depth by 31st March 2011	Conducting Bench-marking Workshops	7	16	9	Achieved more due to additional funding from a strategic partner – samaf
	Financial Co-operatives Benchmarking Performance	38	110	72	Achieved more due to increased number of benchmarking workshops
	Development of a CFI Staff Skills Assessment	56	67	11	Some CFIs had more than one member of staff

Objective 2	Indicators	Actual Performance Against Target			Reasons for Variance
		Target	Actual	Variance	
To conduct 3 capacity building programmes and collect information that will enable the CBDA to understand the Co-operative Financial Institutions Sector in depth by 31st March 2011 *(continued)*	Tool and conducting skills assessment of 56 CFI staff				and also due to the registration of new CFIs
	Collection of Financial Reports from CFIs	44	11	33	Many CFIs are still unable to produce financial reports and others are behind by over two years and are still updating their accounts
Objective 3	**Indicators**	**Actual Performance Against Target**			**Reasons for Variance**
		Target	**Actual**	**Variance**	
To support, promote and develop Co-operative banking including deposit taking Co-operatives by developing 2 accredited training materials aligned to the National Qualifications Framework and conduct 4 training programmes on the materials by 31st March 2011	Development of Bookkeeping for CFIs Manual Accounting System Learners Manual aligned to NQF Unit Standards	1	1	0	Achieved
	Conducting Manual Accounting System Training	3	5	2	Achieved more due to additional funding to the Unit budget and from a strategic partner – samaf
	Development of Governance Training Materials for CFIs aligned to NQF Unit Standards	1	1	0	Achieved
	Conducting Governance Training	1	1	0	Achieved
Objective 4	**Indicators**	**Actual Performance Against Target**			**Reasons for Variance**
		Target	**Actual**	**Variance**	
To conduct three (3) accessible programmes to meet sector learning needs by 31st March 2011	Conducting Ratio Analysis and Setting of Interest Rates for CFIs, Loan Management and CFI Returns Training Programmes	3	3	0	Achieved however the CFI Returns was substituted with FSC Registration and Regulation
	Number of Financial Co-operatives in Training	38	103	65	Achieved more because the number includes CFIs trained in manual accounting system and governance
Objective 5	**Indicators**	**Actual Performance Against Target**			**Reasons for Variance**
		Target	**Actual**	**Variance**	
To Implement a CFI development monitoring system by providing off-site and on-site technical assistance to CFIs by 31st March 2011	Assisting 25 % of the CFIs that attended the Manual Accounting System training in production of their financial reports	14	6	8	Not achieved because many CFI were still bringing their books up to date before producing their financial reports; with some being more than two years behind

Table 4: Capacity Building Information Unit (continued)

Capacity Building and Information Unit Performance Against Targets					
Objective 5	**Indicators**	**Actual Performance Against Target**			**Reasons for Variance**
		Target	**Actual**	**Variance**	
To Implement a CFI development monitoring system by providing off-site and on-site technical assistance to CFIs by 31st March 2011 *(continued)*	Providing technical advice by conducting ratio analysis and advising the CFIs accordingly	17	8	9	Not achieved because many CFI are still not able to produce financial reports
	Assisting CFIs that have qualified to register as co-op banks to review and develop strategic plans	0	3	3	Unit provided with additional funding for this exercise after management discussion on CFIs that qualify for registration

6. Co-operative Banks Supervision Report

Introduction

The Co-operative Banks Act of 2007 envisages the establishment of an “appropriate regulatory framework and regulatory institutions for Co-operative banks that protects members of Co-operative banks, the registration of depositing taking financial services Co-operatives as Co-operative banks and to provide for the regulating and supervision of Co-operative banks”. This is to be implemented by the establishment of Co-operative banks Supervisors.

Scope

This strategic plan of the CBDA started as a Co-operative Banks Supervisory Unit (CBSU) collaborative initiative to align the supervisory units of both the CBDA and South African Reserve Bank (SARB), recognising that each institution has its own unique mission, future vision, organisational values and strategic aims.

These strategic guidelines orientate the conduct of the units macro processes, as well as the risk based supervision approach to ensure the safety and soundness of the sector. Additionally, the strategic guideline includes the definition of the projects that will ensure the feasibility of the intended strategy, the establishment of priorities in the use of available resources and, in addition, promote improvements in our co-ordination of practices and processes toward our common mission.

Responsibilities

Apart from the registration of Co-operative banks, the staff members of both the CBDA and the SARB are primarily responsible for the two logical functions flowing from the Act, namely regulation and supervision:

i) Regulation

The primary functions in this regard include establishing and maintaining subordinate legislation in accordance with the Act governing the regulation of Co-operative banks; the effective use of powers to enforce compliance with legislation by the Co-operative banks under the supervision of the SARB and CBDA; and to ensure that the SARB and CBDA comply with the requirements of the Act and other relevant legislation. It is also the aim to influence primary legislation, namely the Act and the Regulations issued in terms of the Act, in order to minimise regulatory arbitrage and to maximise efficiency.

ii) Supervision

The primary functions in this regard include on- and off-site supervision of all Co-operative banks under the respective supervision of the SARB and the CBDA in order to establish whether such entities are financially sound, well managed and not posing a threat to the interests of their members. In pursuing these objectives, it is necessary to evaluate the risk to which supervised Co-operative banks are exposed; and to evaluate the intangible and tangible resources available to manage and balance the risks identified effectively. The CBDA and SARB engage with the management of Co-operative banks on an ongoing basis to ensure that corrective actions are taken when necessary; whether voluntary or enforced in accordance with the Act. Pursuant to their mission, the Supervisors’ approach is in line with international best practice. At this early stage of developing the optimum supervisory approach, the recommendations of the World Council of Credit Unions (WOCCU) and the Basel Committee on Banking Supervision (the Basel Committee) of microfinance activities[2] are duly taken into consideration, bearing in mind the unique nature of the sector at this juncture.

[2] “Microfinance Activities and the Core Principles for Effective Banking Supervision: 2010”.

Current structure of the Co-operative Banks Development Agency

The CDBA's regulatory and supervisory function is located in its supervisory unit. The unit comprises the Supervisor, D de Jong, the examiner, M Kuhlengisa, and an administrative assistant, M Mafojane, who provides administrative assistance to both the Supervision and Development units in the CBDA. One additional post has been created and will be filled during 2011.

Strategic Goals, Sub-goals and Objectives (2011)

The CBSU has three strategic goals:

1) Register and supervise Co-operative banks;
2) Ensure an appropriate regulatory framework for Co-operative banks; and
3) Handle troubled Co-operative banks.

Sub-Goals and strategies were established for each strategic goal. Sub-Goals further defined the intended outcomes of each goal. Strategies are the means to align our operational processes, skills, technologies, and resources to achieve our strategic goals and sub-Goals.

Strategic Goal 1: Register and Supervise Co-operative Banks

Sub-Goal 1: Register Co-operative Banks and re-direct non-qualifying CFIs.

a) Implement and maintain processes for early screening of licensing applications.
b) Evaluation of applications of proposed new Co-operative banks.
c) Deploy new or enhance existing technology solutions that support effective licensing operations.
d) Ensure up to date policies and procedures

Sub-Goal 2: Carry out scheduled and targeted onsite examinations of registered co- operative banks.

a) Adopt risk-based supervision for Co-operative banks.
b) Conduct risk based onsite examinations of Co-operative banks.

Sub-Goal 3: Carry out Offsite Analysis of Registered Co-operative Banks.

a) Adopt and Implement appropriate offsite monitoring processes.
b) Develop and deploy Management Information System (MIS) for effective and efficient offsite oversight of registered Co-operative banks

Strategic Goal 2: Compliance with and Review of Legislative Frameworks

Sub-Goal 4: Provide for Regular Review of Regulatory Framework

a) Up to date regulatory framework.
b) Efficient co-ordination of all regulatory requirements of the other regulatory instruments affecting Co-operative banks
c) Regulatory Overview and Assessment

Sub-Goal 5: Ensure Own Compliance with Regulatory Framework

a) Develop and formalise institutional relationships with other relevant stakeholders.
b) Assist Self Regulatory Organisations (SRO) with their regulatory and supervision mandates in an advisory capacity.
c) Represent the CBSU's interest on relevant stakeholder groupings.
d) Provide updates to parent Ministry on developments in the sector.

e) Migration of Co-operative Banks
f) Research and Advocacy on issues pertinent to the Co-operative banking sector

Strategic Goal 3: Handling troubled Co-operative banks

Sub-Goal 6: Stabilise problem and distressed Co-operative banks

a) Appropriate distressed Co-operative bank resolution framework in place

Sub-Goal 7: Ensure orderly exit of failing Co-operative banks

a) Appropriate winding up process in place

Performance against targets

Strategic Goal 1: Register and Supervise Co-operative Banks

Sub-Goal 1: Register Co-operative Banks and re-direct non-qualifying CFIs.

- **Implement and maintain processes for early screening of licensing applications**

Applicant CFIs are expected to meet certain requirements to be considered for registration. In this regard, a comprehensive registration framework is adopted that allows only sustainable CFIs adhering to the Co-operative principles to register as Co-operative banks. Given the “supervisory split”, the approach adopted in evaluating applications received by the Supervisors seeks to balance the developmental objectives of the Act with that of full compliance with the regulatory requirements of the Act.

On receipt of an application a preliminary evaluation of the submitted application documents is done. This entails assessing whether all the required forms and appendices have been received as per sections 6 and 7 of the Act. If some documentation is outstanding the supervisors request the outstanding documents and place a deadline on submission. It is furthermore processed into a tracking system, and assessed through an application dashboard and application monitoring tool

Taking due cognisance of the nature, size and developmental potential of each applicant, the Supervisor concerned will register an applicant as a Co-operative bank if, inter alia, it has:

- The characteristics of a Co-operative, adhering to the Co-operative principles;
- Sufficient human, financial and operational capacity;
- Fit and proper directors, and a competent management team, including proper governance;
- Adhered to minimum prudential requirements;
- Adequate policies and procedures in place, including risk management systems; and
- Adequate internal control systems.

Thereafter, a detailed evaluation of the application is done. This entails assessing submitted information, using a checklist based on the application form (CBF1) to determine whether the submissions meet the requirements as per the Guidance Note 1.

Failure to comply with all the above requirements will result in the rejection of the application. If an applicant at this time does not meet the definition of a Co-operative bank, or cannot provide an annual financial statement for the past year, these would be considered material weaknesses and a meeting will be set up with the applicant to discuss the reasons for delay in submitting outstanding information and the action the Supervisor intends to take.

If the applicant complies with the aforementioned requirements, a pre-registration on-site assessment is scheduled.

- **Evaluate applications of proposed co-op banks**

Shortly after the implementation of the Act, the Supervisors sent a notice to CFIs to remind them that they had met the criteria and were obliged to apply for registration as Co-operative banks. A total of 17 CFIs were eligible to apply for registration as at 31 March 2010. During the period under review, 2 additional CFIs met the minimum requirements and 1 CFI became ineligible for registration as its value of deposits fell below R1 million. As a result, there were therefore 18 eligible CFIs as at 31 March 2011 with a total of 28 034 members and approximately R160 million in deposits as reflected in Table 5.

Table 5: Consolidated statistics for eligible CFIs as at 31 March 2011

CFI/Province	Type	Members	Assets	Loans	Deposits
Mathabatha	FSC	1 928	1 711 834	350 837	1 654 548
Limpopo		**1 928**	**1 711 834**	**350 837**	**1 654 548**
Mayibuye	SACCO	223	1 475 283	1 054 126	1 315 290
Eastern Cape		**223**	**1 475 283**	**1 054 126**	**1 315 290**
Alrode	SACCO	1 995	10 314 411	6 948 027	6 865 888
Oranjekas	SACCO	696	33 916 311	19 295 098	32 528 364
Kleinfontein	SACCO	336	36 868 864	31 397 439	36 012 545
Gauteng		**3 027**	**81 099 586**	**57 640 564**	**75 406 797**
Ziphakamise	SACCO	764	1 956 691	1 931 691	2 314 630
KwaZulu-Natal		**764**	**1 956 691**	**1 931 691**	**2 314 630**
Beehive	SACCO	3 148	1 208 217	333 438	1 350 382
Mpumalanga		**3 148**	**1 208 217**	**333 438**	**1 350 382**
Orania	SACCO	369	45 841 725	29 626 882	42 748 721
Northern Cape		**369**	**45 841 725**	**29 626 882**	**42 748 721**
Ditsobotla	SACCO	902	6 716 708	5 063 951	6 314 405
Boikago	FSC	614	1 728 608	706 634	1 345 615
Lothlakane	FSC	1 088	1 609 986	15 563	1 349 298
Kraaipan Village	FSC	2 321	3 526 815	Nil	3 250 126
Motswedi	FSC	3 275	6 231 549	31 041	6 219 408
North West		**8 200**	**19 813 666**	**5 817 189**	**18 478 852**
Sibanye	SACCO	2 225	6 719 579	4 009 037	5 146 752
Western Cape		**2 225**	**6 719 579**	**4 009 037**	**5 146 752**
CFF	SACCO	34	4 342 034	2 567 023	3 502 379
SAMWU	SACCO	2 558	5 973 414	2 208 214	4 324 193
Flash	SACCO	2 804	2 977 128	270 468	2 073 089
NEHAWU	SACCO	2 754	2 777 858	1 451 691	2 680 920
National		**8 150**	**16 070 434**	**6 497 396**	**12 580 581**
Total		**28 034**	**175 897 015**	**107 261 160**	**160 996 553**

* Statistics based on unaudited figures extracted from compliance reports submitted to self-regulatory bodies SACCOL and **samaf.**

Pre-registration on-site assessments were conducted on applications that met the minimum requirements. The objective of the pre-registration onsite assessment is to validate that the information submitted correlates with the vision and practices of the institution, and to assess the readiness of the applicant to begin operations as a Co-operative bank. The Supervisors make use of the pre-registration onsite assessment questionnaire to obtain additional clarity on the strategic intentions and operations of the applicant and on the risks inherent in the proposed Co-operative bank.

The application checklist, institutional profile and risk matrix form the basis for the recommendation made by the members of the Registration Panel. The issuance of the certificate is subject to the applicant institution successfully reserving its proposed name and approved constitution with the Companies and Intellectual Property Commission (CIPC). If the application is declined, the supervisor concerned informs the applicant of the reason in accordance with the Promotion of Administrative Justice Act 3 of 2000.

Nine (9) CFIs did not meet the registration requirements. The Supervisors have communicated the shortcomings and reasons for non-registration to the applicants. Once these shortcomings have been addressed, the Supervisors will re-consider their applications for registration. The Supervisors requested progress reports to be submitted to their self-regulatory bodies and copies thereof to be submitted to the Supervisor concerned.

- **Registration of Co-operative banks**

During the year under review, only 11 applications were completed adequately that enabled pre-registration assessments to be conducted.

Ditsobotla was registered as the first Co-operative bank on 17 February 2011. Approval for registration was also given to Orania Savings and Credit Co-operative Limited, however, its registration is pending the successful reservation of its name by the CIPC and the publication of the required notice of registration in the *Government Gazette* in compliance with section 8 of the Act.

- **Deploy new or enhance existing technology solutions that support effective licensing operations**

The Supervision unit, as per regulations toward facilitating communications with Co-operative banks, the public, and groups of persons interested in establishing a financial Co-operative, maintains a website at www.treasury.gov.za/coopbank. The site has been updated regularly during the year and is up to date with the latest guidance notes and notifications.

Sub-Goal 2: Carry out scheduled and targeted onsite examinations of registered Co-operative banks.

- **Adopt risk-based supervision for Co-operative banks**

On-site examination is a critical component of the supervisory process, and may range from an examination of specific areas (i.e., targeted examination) to a comprehensive review (i.e., full-scope examination) of an institution's operational activities. In line with the risk-based approach, the Supervisors conduct a full-scope examination as soon a Co-operative bank is registered. Thereafter, on-site examinations are tailored to the risk profile of the institutions, and institutions with higher risks are placed under more frequent surveillance.

The Supervisors have adopted the internationally recognised Capital Adequacy, Asset Quality, Management, Earnings, and Liquidity (CAMEL) rating system in the evaluation of the performance of Co-operative banks. The standardised rating system also facilitates the identification of those institutions whose financial, operational, managerial or compliance weaknesses require special supervisory attention and/or warrant a higher-than-normal degree of supervisory concern. The rating system, on a scale from 1 to 5, is an important tool to determine the frequency of on-site supervision. As a general rule, the existing minimum frequency for the conduct of on-site examinations based on the rating of Co-operative banks is as follows:

Table 6: Rating and frequency of on-site examinations

Safety and soundness rating*	Frequency of on-site examinations
1	Once every 12 months
2	Once every 6 months
3	Once every 3 months
4	Once every 2 months
5	Once every month

* 1 = strong, 2 = satisfactory, 3 = fair, 4 = weak, 5 = critical

- **Examination of registered Co-operative banks**

During the year under review, Ditsobotla was registered and, consequently, a full-scope examination of the institution was undertaken. The examiners were satisfied with the outcome, details of which will be reported in a consolidated manner in the next annual report on Co-operative banks.

Sub-Goal 3: Carry out Offsite Analysis of Registered Co-operative Banks.

The Supervisors are in the process of developing a system through which all registered Co-operative banks will be able to submit their returns electronically, whether supervised by the CBDA or SARB. The objective is to make the completion and submission of returns by registered Co-operative banks as easy as possible. The intention is that all financial information relating to Co-operative banks will be captured on a single platform, thereby alleviating the potential problems associated with the future migration of Co-operative banks between Supervisors and to enable macro prudential analysis of the Co-operative banking sector.

An initial program of the supervision unit to call for quotations on building a master plan for such a returns system, was suspended due to the redirection of funding to other projects within the CBDA. Notwithstanding, the Supervisory unit has obtained a licence to utilise the World Council of Credit Unions (WOCCU) PEARLs monitoring system (at no cost) which will adequately service our needs until such time as a home based system can be designed and implemented.

The Ditsobotla Co-operative bank submitted its first monthly returns which are currently being captured in the PEARLS and on a designed spread sheet.

Strategic Goal 2: Compliance with and Review of Legislative Frameworks

Sub-Goal 4: Provide for Regular Review of Regulatory Framework

- **Internal assessment on compliance to Basel Principles**

At this early stage of developing the optimum supervisory approach, the recommendations of the World Council of Credit Unions (WOCCU) and the Basel Committee on Banking Supervision (the Basel Committee) of microfinance activities[3] are duly taken into consideration, bearing in mind the unique nature of the sector at this juncture. It had been intended that the supervisory unit would conduct an internal assessment against its compliance to the Basel Core Principles for effective banking supervision of deposit taking microfinance activities. Half way during the year though, this sub objective was reviewed and it was agreed, that it would be better scheduled toward the end of the financial year end 2012.

- **Guidance notes**

Guidance notes are published in terms of section 45(e) of the Act to provide guidelines to applicants and registered Co-operative banks.

[3] "Microfinance Activities and the Core Principles for Effective Banking Supervision: 2010".

Table 7: Guidance notes issued to date

Applicable to forms	Description	Refer to Guidance Note No.
CBF1	Application Process	GN1/2010
CBR0	Declaration by Managing Director, Chief Executive Officer or Chairperson in Respect of Returns Submitted to the Supervisor	GN2/2010
CBR1	Balance Sheet	GN3/2011
CBR2	Year to Date Income Statement	GN4/2011
CBR3	Report on Prudential Requirements	GN5/2011
CBR4	Report on Board and Staff Related Loans	GN6/2011
CBR5	Report on Large Exposures	GN7/2011
CBR6	Liquidity Risk-Maturity Ladder	GN8/2011
CBR7	Credit Risk	GN9/2011

Guidance notes were issued after due consultation with the sector, taking into consideration the comments received from CFIs, the **dti** and the self-regulatory bodies.

- **Meeting with self-regulators**

During 2008, **samaf** established a CFI Regulatory Unit, which established a Regulation, Registration, Supervision and Stabilisation Committee (RRSSC). The CBDA Supervisor attended the RRSSC meetings in an advisory capacity. The RRSSC is chaired by the **samaf** Regulator who is responsible for CFIs registration, regulation and supervision. The off-site supervision of such CFIs is primarily done through the analysis of quarterly reports submitted by members. **Samaf's** provincial co-ordinators are responsible for monitoring the performance of member CFIs in their respective provinces. The RRSSC met 7 times during the period under review, during which 12 first-time applicants were considered for membership. A similar arrangement between SACCOL and the CBDA Supervisor is envisaged. General information obtained during these meetings is shared by the CBDA Supervisor with the SARB and the dti during the ROAC meetings.

- **Regulatory and Oversight Advisory Committee**

The Regulatory and Oversight Advisory Committee (ROAC) is a joint committee of the SARB Supervisor, the CBDA Supervisor, the Managing Director of the CBDA, the Registrar of Co-operatives and representatives of the CBDA Board. Consideration is currently being given to extend membership to the National Treasury and the Co-operatives Policy Unit of the **dti.**

The purpose of this committee is primarily to review and develop policy and legislation applicable to CFIs and Co-operative banks, and to co-ordinate efforts between the Supervisors, the Registrar of Co-operatives, and the CBDA. The inaugural meeting of ROAC was held on 9 March 2010, which was followed by a meeting held on 22 February 2011.

ROAC reviewed some of the key legislative issues affecting the sector. These included reviewing the unintended consequences of, and possible amendments to the Act. Of significance to the sector and committee is the current review of the Co-operatives Act, which could have indirect consequences for the application of the Act. The exemption notices and the application thereof by the self-regulatory bodies were also debated. ROAC also reviewed the Supervisors' minimum registration requirements, set within the ambit of the Act, and the supervisory approach to those not meeting the registration requirements.

- **Up to date co-operatives regulatory framework – written response to position papers**

In the drafting of the Regulations and the Rules, it became apparent that certain amendments to the Act were necessary. However, at the time the decision was made to postpone any further amendments to the Act until there was certainty that all unintended consequences of the Act and any further possible amendments had been identified during the implementation phase. Approximately 14 (primarily minor) possible amendments have been identified to date.

The CBDA and the SARB submitted their comments to the **dti** following a call for comments on the Co-operatives Amendment Bill (B-2010) (Co-operatives Amendment Bill).[4] It was pointed out to the **dti** that while consequential amendments to the Co-operative Banks Act would be necessary, it would simplify matters and avoid confusion if the amendments proposed by CBDA and SARB could be accommodated in the Co-operatives Amendment Act.[5] A meeting has been scheduled with the **dti** to discuss the potential impact of the Co-operatives Bill on the Act. The planned parliamentary presentation did not take place as the bill did not proceed with the haste as initially anticipated.

A Co-operative Banks Amendment Bill will be drafted in due course to address the necessary amendments as a direct consequence of the amendments to the Co-operatives Act. At the same time, the amendments to the Act, as identified prior to the publication of the Co-operatives Amendment Bill, will also be addressed.

- **Regulations and Rules**

Following the receipt of public comments, the Minister of Finance published the Regulations in terms of section 86 of the Act.[6]

Notwithstanding that the Act allows the Supervisors to publish separate Rules, the Supervisors agreed to publish combined Rules after the public comments had been incorporated. The Rules were published in terms of section 46(1) of the Act.[7]

Since none of the potential primary Co-operative banks to be supervised by SARB had deposits that posed a systemic threat to the financial system at the time, it was decided that the Regulations and the Rules should initially apply to all Co-operative banks, whether supervised by the CBDA or SARB. This decision was also taken to avoid regulatory arbitrage and to cater for the specific needs of the sector at this early stage of development.

Furthermore, no differentiation is made with regard to prudential requirements. For the sake of simplicity, such requirements are not based on weighted risks. The development of Co-operative banks will, however, be closely monitored by the Supervisors and, if necessary, the Regulations and Rules will be adapted accordingly. In this regard, the Supervisors are in the process of familiarising themselves with the effect that the CBDA will have on the development of capacity and the level of expertise in this sector. Further valuable information is also being gained through the on-site assessments of applicants and the examinations of Co-operative banks, once registered.

Sub-Goal 5: Ensure Own Compliance with Regulatory Framework

- **Develop and formalise institutional relationships with relevant stakeholders**

The supervisory unit has held joint discussions with various financial regulatory authorities, including the Financial Services Board, the Financial Intelligence Centre (FIC) and National Credit Regulator (NCR), the South African Micro-finance Regulator **(samaf)**, the Savings and Credit Co-operative League of SA (SACCOL), the Payment Association of SA (PASA), the **dti** Co-operative unit and registrar of Co-operatives

[4] *Government Gazette* No. 33942, dated 21 January 2011.
[5] The SARB and NT proposed approximately 40 amendments to the Co-operatives Amendment Bill to the dti.
[6] *Government Gazette* No. 32357 dated 1 July 2009.
[7] *Government Gazette* No. 32860 dated 12 January 2010.

located at the CIPC, National Treasury (NT) in order to familiarise themselves with the statutory responsibilities of Co-operative banks and to verify compliance therewith by applicant CFIs during the conduct of pre-registration assessments.

Only one Memorandum of Understanding, with the SACCOL was formalised. In discussions with all other relevant stakeholder, besides the **samaf**, it was felt that at this time, no such MOU was required.

In the section above, meeting with self-regulators" our interaction with the **samaf** is elaborated on.

- **Participation in national and international regulatory or supervisory forums**

The Supervisors are expected to participate in the activities of international bodies and authorities whose main purpose is to develop, advance and promote the sustainability of Co-operative banks, and to co-operate with international bodies and authorities in respect of matters relating to Co-operative banks.
The CBDA participated in the following forums during this period:

- African Confederation of Co-operative Savings and Credit Associations (ACCOSCA) (United in Tackling the Challenges Facing SACCOs in Africa), Benoni, 24–26 March 2010;
- Annual Savings and Credit Co-operative Association of Africa (Fostering the Culture of Entrepreneurship and Innovation in SACCOs), Swaziland, 4–8 October 2010; and
- The 3rd African SACCO Regulators' Roundtable, Malawi, 1–3 December 2010.

Mr de Jong was invited to make presentations to at three of the above forums. The supervision unit was furthermore invited to provide capacity building training to the **samaf** whilst Mr Kuhlengisa (the examiner at CBDA) was invited, and made presentation to the ACCOSCA Capacity building workshop held in Swaziland, whilst the unit attended the SACCOL AGM held in East London and the dates of the presentations are summarised below.

- **samaf** Capacity Building Workshop, Pretoria, 1–3 September 2010
- SACCOL's Annual General Meeting, East London, 16–18 September 2010
- ACCOSCA Capacity Building Workshop to the Ministry of Commerce, Industry and Trade, Swaziland, 15th–19th November 2010

- **Annual co-operation and co-ordination plan**[8]

There is good co-operation and co-ordination between the Supervisory units of the CBDA and the SARB. The Supervisors have been working jointly on the operational parameters and the drafting of the Regulations and Rules. Joint work was conducted on establishing an ongoing legislative review process, a similar document management system to enable the storage of records, and the joint submission of statutory reports to the Minister of Finance.

Some of the activities that were conducted in a joint manner include:

- Weekly co-ordination meetings;
- Meetings with stakeholders and regulatory authorities;
- Input into Regulations;
- Publication of Rules;
- Comments on relevant financial Bills;
- Issuance of statutory reports and guidance notes;
- Comments on discussion documents;[9]
- Assessment and evaluation of applications; and
- Co-ordination of manuals and administrative systems.

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[8] For a detailed report on the joint activities of the SARB and CBDA capacity building units, refer to the Combined Annual Report of the Supervisors of the Co-operatives Banks Development Agency and the South African Reserve Bank 2010/11.
[9] Such as the *Conceptual Design for the Deposit Insurance Fund and the Core Principles for Effective Banking Supervision of Micro Finance Activities.*

- **Quarterly reports to the Minister of Finance on the performance of co-op banking sector**

The following statutory reports have been submitted as required by regulation to the Minister of Finance:

- The Co-operation and Co-ordination Plan to the Minister of Finance for the period 1 April 2010 to 31 March 2011, dated 9 November 2009.
- Quarterly feedback on the performance and operations of Co-operative banks for the periods ending 30 March 2010, 30 June 2010, 30 September 2010 and 31 December 2010 respectively have been submitted to the Minister of Finance.
- Feedback on the implementation of the Co-operation and Co-ordination Plan for the period 1 April 2010 to 31 March 2011.

- **Research and advocacy**

The supervisors of Co-operative banks are to encourage research relating to Co-operative banks, whether conducted by the CBDA or SARB, or by third parties or institutions/persons appointed as consultants. The following research was conducted by the following parties:

- The Capacity Building Division of the CBDA conducted research on existing financial services Co-operatives and supplied the Supervisors with its findings.
- M Kuhlengisa (examiner at the CBDA) presented a research report styled “Evaluation of the Regulation and Supervision of Co-operative Financial Institutions in South Africa” in partial fulfillment of the requirements for the degree of Masters in Development Finance in the Faculty of Economic and Management Sciences at Stellenbosch University.

A joint committee of the SARB and CBDA supervisory units made comment on and submitted in response to the draft Basel paper on “Microfinance Activities and the Core Principles for Effective Banking Supervision”.

Strategic Goal 3: Handling troubled Co-operative banks

Sub-Goal 6: Stabilise problem and distressed Co-operative banks

Sub-Goal 7: Ensure orderly exit of failing Co-operative banks

In view of the development objectives of the Act, the Supervisors have not yet initiated the winding up of any Co-operative that failed to apply for registration in terms of section 92(2) of the Act. There is currently close co-operation with the CBDA Capacity Building Unit and the self-regulatory bodies to ensure that the outstanding applications are received in due course.

Until a clear policy decision has been taken regarding the future regulation of deposit-taking CFIs not registered as Co-operative banks, either by not being approved for registration as a Co-operative bank or not meeting the minimum criteria to apply for registration, such CFIs will continue to operate under the exemption notices and will continue to be regulated by the self-regulatory bodies as designated in terms of the existing exemption notices.

The methodology to co-operate in a crisis situation in order to establish and facilitate the actions and the timely decision making process of the authorities responsible for the management and resolution of the crisis will be finalised once the Deposit Insurance Fund has been established. The Supervisors submitted their comments and suggestions on the *Conceptual Design for the Deposit Insurance Fund* received from National Treasury.

7. Capacity Building and Information Report

Introduction

The Co-operative Banks Development Agency (CBDA) 2010–2013 Strategic Plan was developed based on the Board's ten strategic priorities which were intended to guide the design and implementation phases of the Agency. The actual delivery was divided into five phases and these were:

- Set-up Phase
- Foundation Phase
- Establishment Phase
- Implementation and Learning Phase
- Consolidation Phase

The set-up and foundation phases were largely accomplished in 2009-2010 while the 2010-2011 and 2011–2012 would cover the establishment, implementation and learning phases while the consolidation phase will commence in 2012–2013.

The major source of information regarding the needs of the Co-operative Financial Institutions (CFIs) was developed from the institutional assessments performed in 2009–2010 financial year, which provided key areas that require urgent support for the sector. These key areas are:

- Inadequate financial management, record keeping and accountability
- Low levels of awareness among members of their ownership and right to participate and shape the Co-operative
- Limited understanding of ownership structure of Co-operatives
- Formation or control of the CFI by external groups
- Limited education and training of members
- Lack of knowledge and practice of sound governance
- Insufficient knowledge of how to manage the CFIs
- Balance between savings and loans - how to manage cash flow

The capacity building programmes in 2010 - 2011 were designed to deal with the issues above in line with strategic direction provided by the Board in establishing the state of the sector, learning and implementing programmes that would assist in developing the sector. The programmes were also guided by some of the general functions of the Agency as stated in the Co-operative Banks Act No. 40, of 2007. Three general functions were implemented and these were:

- Support, promote and develop Co-operative banking, including, despite section 3(1), deposit-taking Co-operatives;
- Facilitate, promote and fund education, training and awareness in connection with, and research into, any matter affecting the effective, efficient and sustainable functioning of Co-operative banks;
- Consult with the South African Qualifications Authority established by the South African Qualifications Authority Act, 1995 (Act No. 58 of 1995), or anybody established by it and liaise with the relevant National Standards Body established in terms of Chapter 3 of the regulations under the South African Qualifications Authority Act, 1995, in respect of Co-operative banks and support organisations.

The capacity building programmes were therefore designed to deal with the issues above and the following objectives and expected outcomes were set out for the year:

Table 8: Capacity Building Objectives and Expected Outcomes

Capacity Building	
Objectives	**Outcomes**
Assemble an effective capacity building and information team	• Dedicated and motivated staff • Well-coordinated capacity building team in place • Conducive working environment
Understand existing CFI sector in-depth	• Sector status, needs and gaps identified leading into capacity building and technical assistance plan development for the sector
Support, promote and develop Co-operative banking including deposit-taking Co-operatives	• CFIs compiling and reporting on financial and banking activities using a standard accounting system • Sector starting to comply with performance and governance standards • CFIs adopting new loan policies and procedures • CFIs implementing image building and marketing strategies
Accessible programmes to meet sector learning needs	• Evidence of CFIs moving along learning pathways • Evidence of growth and better performance among CFIs
Implement a CFI development monitoring system	• System in place to track and monitor safety and soundness of Co-operative Banks • CBs rated and ranked according to their performance • CFIs' image starts to improve

2010–2011 Objectives, Indicators and Performance against Targets

Objective 1: Assemble an effective capacity building and information team

The Unit recruited two (2) technical staff, Nomadelo Sauli in September 2010 and Timothy Mutyavaviri in December 2010 as Deputy Director and Capacity Building and information officer finance respectively, in addition to the Director who was recruited towards the end of the 2009-2010 financial year. The Unit received administrative support from the Team Assistant who also assists the Supervisory Unit.

The team was assigned to:

- Develop two (2) accredited training materials;
- Develop two (2) capacity building tools;
- Facilitate seven (7) workshops;
- Provide direct technical assistance to CFIs in producing financial reports,
- Co-ordinate six (6) capacity building workshops; and
- Release five (5) publications.

The Capacity Building Team achieved all the targets except for the provision of direct technical assistance to CFIs in the production of financial reports. Most of the CFIs are still unable to produce financial reports and despite the manual accounting system training where sixty one (61) CFIs attended, only eight CFIs requested technical assistance in producing their financial reports. Most of the CFIs have never produced financial reports since registration with many having a backlog of over two years.

Objective 2: Understand existing CFI sector in-depth

The Unit planned to conduct three capacity building programmes and collect information that will enable the CBDA to understand the financial Co-operative sector. To accomplish this, the Unit planned to:

- Conduct seven (7) benchmarking workshops involving participants from thirty eight (38) CFIs;
- Conduct an assessment of fifty six (56) members of staff of CFIs in order to establish their skills levels and training needs; and
- To collect forty-four (44) financial reports from the CFIs in order to establish the financial position of the sector so that capacity building programmes in the area of financial management can be developed to assist the development of the CFIs.

Due to additional funding made available to the Unit and also funding from its strategic partner – **samaf,** sixteen (16) Benchmarking Workshops were conducted around the country in order to establish the status of the CFIs in the in the areas of governance, management, financial management, policies and procedures, Co-operative principles and marketing. The information gathered is assisting the Unit in developing relevant capacity building interventions. The benchmarking workshops were also used as consultative process for the development of performance standards for the Sector. Performance standards are a set of benchmarks most of which are internationally accepted best practices for the financial Co-operative sector that would enable CFIs to perform better if they worked towards meeting and performing according to the standards.

A CFI staff skills assessment was conducted after sending out the questionnaire to the CFIs through **samaf** and SACCOL. A total of 67 returns were received from six (6) Provinces. The analysis is summarised in table 9 below.

Table 9: Analysis of the CFI skills assessment

Skills level	Percentage
High school as their highest level education	53
College diploma	32
University qualifications	15
Professional qualifications in Information Technology	3
Fairly new and have not attended any CFI related training	67
Lack knowledge in the management of financial Co-operatives	57

The information gathered from this assessment is helping the Unit in designing training materials that are aligned to the National Qualifications Framework that matches the skill sets in the sector.

Another way to understand the CFI sector was by collecting and analysing financial reports from the CFIs since financial statements are a tool for measuring performance of an organisation. The Unit planned to collect financial reports from 80% of the CFIs in the sector. The assumption was that CFIs submit these reports to their self-regulatory bodies and through relationships developed with **samaf** and SACCOL, the CBDA would have access to these reports. Unfortunately, almost all the FSCs under **samaf** on one hand do not produce conventional balance sheet and income statements but have a different report format which they use to report their finances. SACCOs on the other hand have not been consistent in sending reports to SACCOL. The Unit managed to collect eleven financial reports from the planned 44 CFIs. This state of affairs collaborates with the findings from the institutional assessments that showed that there is inadequate financial management, record keeping and accountability in the sector.

The information below shows significant growth in number of CFIs that are reporting to **samaf** and SACCOL. There were 56 CFIs reporting to **samaf** and SACCOL in March 2010, but the number grew to 121 in March 2011. The table below shows the growth trend for the sector.

Table 10: The growth in the number of CFIs that are reporting to samaf

	2009–2010	2010–2011	Growth Percentage
No. of CFIs	56	121	116%
Membership	36 434	59 394	63%
Savings	R 124 365 000	R 175 265 000	41%
Loans	R 93 651 000	R 116 577 000	24%
Assets	R 142 069 000	R 195 213 000	37%

Objective 3: Support, promote and develop Co-operative banking including deposit-taking Co-operatives

Service providers were hired to develop a standardised manual accounting system and a set of Governance Training Materials. After the development of the materials, pilot testing and training was done. Four other training programmes after the pilot were done for the manual accounting system. Participants to the Manual Accounting training expressed concern that they have a huge backlog of transactions that would take a long time to bring up to date to enable them start producing current financial statements.

Table 11: The manual accounting training materials used the following unit standards

Unit Standard ID	Unit standard Title	Level
117421	Demonstrate basic accounting concepts	3
117420	Administer payments and expenses	3
114736	Record business financial transactions	4
117425	Compile reconciliation statements	3
120106	Compile elementary accounting reports	3
117156	Interpret basic financial statements	4
116940	Use a Graphical User Interface (GUI)-based spread sheet application to solve a given problem	3

Table 12: The governance training materials used the following unit standards

Unit Standard ID	Unit standard Title	Level	Credits
242822	Employ a systematic approach to achieving objectives	4	10
242816	Conduct a structured meeting	4	5
117156	Interpret basic financial statements	4	4

Objective 4: Accessible programmes to meet sector learning needs

Three (3) training programmes were planned for this objective i.e. ratio analysis, loan management training, and training on prudential returns (returns which registered Co-operative banks are required to submit to the CBDA on monthly basis according to the rules and regulations of the Co-operative Banks Act). This training programme was however postponed considering that only one CFI was registered as a Co-operative bank.

In addition to the scheduled training programmes above and in keeping with the working relationship with **samaf,** a training programme was designed and conducted for **samaf** staff from all the Provinces on FSC Registration Requirements and Regulation. This was joint training programme facilitated by the Supervision and the Capacity Building Unit.

Objective 5: Implement a CFI development monitoring system

- **Providing on-site technical assistance to CFIs**

Only two SACCOs consistently submitted their ratio analysis as a result of the ratio analysis training while only 5 CFIs out of 61 CFIs that attended the manual accounting training sent their financial reports. Almost all the CFIs indicated after the training that they have a huge backlog of financial transactions dating as far as two or more years back which need to be updated into the new system for them to start producing financial statements; hence the small number of CFIs that were able to submit the reports. The Unit also had to assist them to finalise the reports because most of them had errors. The Unit analysed the reports and provided technical advice to the CFIs.

- **Development of Strategic Plans**

Some of the CFIs that applied for registration as Co-operative Banks were given more time to meet all the requirements to be registered. An approach was agreed upon that the Capacity Building Unit should work with these CFIs and assist them to review and develop new strategic plans that would address all the risk factors identified during the pre-registration assessment done by the supervisor.

In fulfilment of this, the Unit assisted three CFIs out of the eight (8) that underwent the pre-registration assessment to review their strategic plans. The Unit facilitated the planning sessions; one jointly with SACCOL and provided guidance in putting together the strategic plan. The Unit was still assisting the other two to finalise the strategic plan documents.

Other Activities

- **Strategic Alliances**

The CBDA developed a draft Service Level Agreement (SLA) and asked **samaf** for their input into the agreement. However, **samaf** later decided to change it to a Memorandum of Understanding (MOU) because they felt an MOU was more binding and encompassing than an SLA. **Samaf** submitted a draft MOU to the CBDA which is under review. Although an MOU had not been signed, the Unit worked closely with the Head of Capacity Building of **samaf** and the collaboration led to **samaf** financing eight (8) of the benchmarking workshops conducted during the year.

The CBDA also signed a Joint Statement of Collaboration with SACCOL which was supposed to lead to a Memorandum of Understanding but progress has been slow. The Joint Statement was read to delegates at the SACCOL 2010 Annual General Meeting held from 16 to 17 September, 2010. The delegates made a resolution allowing the Board and Management to pursue the agreement with the CBDA.

A Capacity Building Guidance Committee was formed amongst the stakeholders; the CBDA, **samaf,** SACCOL, DGRV and the BANKSETA in order to have a coordinated and comprehensive approach to education and training in the sector. The committee is yet to draw terms of reference and map out a common strategy to capacity building for the financial Co-operative sector.

The CBDA and the BANKSETA collaborated in the co-ordination of a training program for CFIs. The BANKSETA organised a training programme to train CFI staff and board members in computer skills and micro lending using their Training Materials where 36 participants (18 each) from Mpumalanga and North West Provinces participated. The Unit also collaborated with the BANKSETA in identifying appropriate unit standards for the governance training

8. Report of the Audit Committee

The audit committee is pleased to present its audit committee report for the year ended 31 March 2011 in terms of section 77 of the PFMA and Treasury Regulations 27.

The audit committee reports that it has adopted and has discharged its responsibilities as contained in the Audit Committee Terms of Reference.

In the execution of its duties, the committee has reviewed the following:

- The effectiveness of the internal control systems;
- The risk areas of the CBDA's operations covered in the scope of the internal and external audit reports;
- The adequacy, reliability and accuracy of financial information provided by management;
- Accounting and auditing concerns identified through internal and external audit reports;
- The activities of the internal audit function, its annual plan, independence, and the objectives of the internal audit function to provide adequate support to enable the audit committee to meets its objectives;
- The coordination between the internal and external audit functions;
- The independence and objectivity of the external auditors;
- The annual report and financial statements and considered whether they are complete, consistent with information known to committee members and reflect appropriate accounting principles; and
- The external audit findings and reports submitted to management.

Based on the information and explanations provided by management regarding the internal control environment and the integrity of information and the discussions with the internal and external auditors; the audit committee believes that the internal controls are adequate to ensure that the financial records may be relied on for the preparation of the annual financial statements.

The audit committee is satisfied that the financial statements are prepared on the basis of appropriate accounting policies, supported by reasonable and prudent judgements and estimates.

The audit committee has evaluated the financial, statements and based on the information provided, considers that the financial statements comply, in all material respects, with the relevant provisions of the PFMA and the basis of preparation set out in the accounting policies outlined in note 1 of the financial statements.

The audit committee has noted the following material findings from the Report of the Auditor General:

- Irregular expenditure – was in respect of the contravention of Treasury Regulation 16A 9.1(d) relating to supply chain management. The accounting authority did not ensure that CBDA did not end the working relationship with SACCOL when a tax clearance certificate was not furnished and that the entity owed taxes. An expenditure amounting to R404 000 was incurred with the supplier.
- Fruitless and wasteful expenditure – as a result of a non-refundable flight ticket to Los Angeles that was paid for and not utilised.
- Non-compliance with laws and regulations – Goods and services of three contracts to the transaction value of between R10 000 and R500 000 were procured without obtaining valid tax clearance certificates from suppliers, as per the requirement of Practice Note 8 of 2007-08 issued in terms of section 51(1)(a)(iii) of the PFMA.

Risk management

A Risk management Strategy is in place. The effectiveness and the relevance of the risk plans are assessed on a regular basis. Risks identified as significant to CBDA will be periodically evaluated and the risk management plans reviewed accordingly.

Going concern

The annual financial statements indicate that the CBDA has a loss of R398 000 for the year ended 31 March 2011, and the CBDA's liabilities exceeds the total assets by R781 000.

The Agency's ability to continue as a going concern is dependent on the continued financial support of the shareholder. The CBDA's budget allocation for future MTEF periods has been approved and the National Treasury is committed to supporting the CBDA's mandate. The managing director has started the process of engaging the Executive Authority to condone the accumulated deficit in terms of the section 53 (3) of the PFMA.

The committee therefore concurs that the adoption of the 'going concern' premise in the preparation of the financial statements of CBDA is appropriate.

The audit committee therefore recommends the approval of the annual financial statements of CBDA to the board.

Chairman of the Audit Committee
20 July 2011

Co-operative Banks Development Agency

Annual Financial Statements

for the year ended 31 March 2011

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9. Statement of Responsibility

The CBDA Board is responsible for preparing and presenting financial statements that fairly present the financial position, performance and cash flows for the period. The CBDA board would like to draw attention to the following with regards to the annual financial statements:

The Co-operative Banks Act commenced on 1 August 2008. The CBDA Board was appointed on 15 August 2008. The CBDA commenced its operations on 1 January 2009 when the Managing Director was appointed. The operations of the CBDA were accounted for and audited under the National Treasury records from the date of its commencement until 31 March 2010. In agreement with the National Treasury, the CBDA comparatives have been disclosed under the National Treasury. The net balance of assets and accruals reflect as the opening deficit in the 2010/11 financial year. The auditors have been provided with the records and supporting documents to confirm the accuracy of the opening deficit balance.

The CBDA maintained adequate accounting records and an effective system of internal controls and risk management and complied, in all material respects, with applicable laws and regulations.

The annual financial statements, presented from pages 35 to 55 are prepared using Standards of GRAP, and in the manner prescribed by the PFMA. Appropriate accounting policies, supported by reasonable and prudent judgements and estimates have been used consistently.

The CBDA is financially dependent on a transfer payment from the National Treasury. On the basis that the transfer payment has been listed in the Estimates of National Expenditure, the board believes that the CBDA will continue to be a going concern in the year ahead. For this reason, the annual financial statements are prepared on a going concern basis.

The external auditors of the CBDA for the year under review were the Auditor General SA. The Auditor General is responsible for reporting on whether the financial statements are fairly presented. The report of the Auditor General is presented on page 31.

The annual financial statements for the year ended 31 March 2011 were approved by the board of directors on 24 June 2011 and are signed on its behalf by:

Sifiso Ndwandwe
Chairman of the Board
Co-operative Banks Development Agency

10. Report of the Auditor-General to Parliament on the Co-operative Banks Development Agency

Report on the Financial Statements

Introduction

1. I have audited the accompanying financial statements of the Co-operative Banks Development Agency, which comprise the statement of financial position as at 31 March 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages 36 to 56.

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 South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) PFMA and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the Co-operative Banks Act of 2007, my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. 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

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Co-operative Banks Development Agency as at 31 March 2011, and their financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the PFMA.

Emphasis of matters

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

Irregular expenditure

8. As disclosed in note 25 to the financial statements, the Agency incurred irregular expenditure of R404 000 as the expenditure incurred was in contravention of Treasury Regulation 16A 9.1(d) relating to supply chain management. The accounting officer does not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control. The accounting authority did not ensure that the Agency discontinued the working relationship with a supplier who did not provide a valid tax clearance certificate and owed taxes.

Fruitless and wasteful expenditure

9. As disclosed in note 25 to the financial statements, the Agency incurred a fruitless and wasteful expenditure of R55 000 due to a non-refundable flight ticket to Los Angeles that was paid for and not utilised.

Going concern

10. As disclosed in note 20 to the financial statements the Agency incurred a loss of R398 000 for the year ended 31 March 2011,as at that date, the entity' liabilities exceeds to total assets by R781 000.The agency's ability to continue as a going concern is dependent on the continued financial support of the shareholder, as disclosed in note 20 to the annual financial statements.

Report on other legal and regulatory requirements

11. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I include below my findings on the annual performance report as set out on pages 8 to 12 and material non-compliance with laws and regulations applicable to the Public entity.

Predetermined objectives

12. There were no material findings on the annual performance report.

Compliance with laws and regulations

Included below are findings on material non-compliance with laws and regulations applicable to the national public entity.

Procurement and contract management

13. Goods and services with a transaction value of between R10 000 and R500 000 were procured without obtaining valid tax clearance certificates from suppliers, as per the requirement of Practice Note 8 of 2007-08 issued in terms of section 51(1)(a)(iii) of the PFMA.

Strategic planning and performance management

14. The Accounting authority did not obtain approval of the strategic plan as per the requirements of s30.1.1 of TR's.

15. The Accounting authority did not ensure that there was a Fraud prevention plan in place as per the requirements of s52 of the PFMA.

16. The entity did not submit quarterly reports on performance against predetermined objectives as required by s55 (2) (a) of the PFMA.

Annual financial statements

17. The financial statements submitted for audit did not comply with section 55(1) (c) (i) of the PFMA and material misstatements were identified during the audit.

Co-operative Banks Act of South Africa, 2007

Non adherence to legislation

18. Contrary to the requirements of s25 of Co-operative Banks Act, the Accounting officer did not ensure that a Deposit Insurance Fund is in place.

Internal control

19. In accordance with the PAA and in terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. There are no significant deficiencies in internal control that resulted in a qualification of the auditor's opinion on the financial statements, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

Oversight responsibility over reporting

20. Management did not follow policies and procedures to guide the operations of the Agency as a result numerous instances of non-compliance with PFMA and TR's were noted.

Financial and performance management

Prepare regular accurate and complete financial and performance reports

21. Management did not follow policies and procedures to complete the reporting of Co-operative Banks Development Agency as a result numerous instances of non-compliance with the TR's were noted.

Governance

In accordance with legislated requirements, the internal audit function assists management in maintaining efficient and effective controls by evaluating those controls to determine their effectiveness and efficiency, and by developing recommendations for enhancement or improvement.

22. Management did not follow policies and procedures to guide the internal controls of the Agency and as a result numerous instances of non-compliance with the PFMA and TR's were noted.

Auditor General

Pretoria
27 July 2011

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

11. Financial Statements

	Note	2011 R'000
Assets		
Non-current assets		
Property, plant and equipment	2	100
Intangible Asset	3	6
		106
Current assets		
Cash and cash equivalents	4	31
Trade and other receivables	5	19
		50
Total Assets		**156**
Liabilities		
Non-current liabilities		
		–
Current liabilities		
Trade and other payables	6	804
Provisions	7	133
		937
Total Liabilities		**937**
Net Assets		
Accumulated deficit		(781)
		(781)
Minority interest		–
Total Net Assets		**(781)**
Total Net Assets and Liabilities		**156**

Co-operative Banks Development Agency

Statement of Financial Performance

– for the year ended 31 March 2011 –

	Note	2011 R'000
Revenue		
Non-exchange revenue		**8 200**
Transfers and subsidies	8	8 200
Exchange revenue		**78**
Sale of goods and rendering of services	9	35
Interest, dividends and rent on land	10	43
		8 278
Expenditure		
Goods and services	11	(4 677)
Compensation of employees	12	(3 947)
Depreciation/amortisation and impairment		(52)
		(8 676)
Deficit (before tax)		**(398)**
Taxation		–
Deficit from continuing operations		**(398)**
Deficit for the year from discontinued operations		–
Deficit for the year		**(398)**
Attributable to:		
Owners of the controlling entity		(398)
		(398)

Co-operative Banks Development Agency

Statement of Changes in Net Assets

– for the year ended 31 March 2011 –

	Note	2011 Accumulated surplus/deficit R'000
Balance at 1 April as originally stated		
– correction of prior period error		–
– change in accounting policy		–
As restated		–
Deficit for the year	13	**(383)**
Depreciation transfer on property, plant and equipment		–
Balance at 1 April as originally stated		**(383)**
– correction of prior period error		–
– change in accounting policy		–
As restated		**(383)**
Deficit for the year		(398)
Depreciation transfer on property, plant and equipment		–
		(781)

Cash Flow Statement

– for the year ended 31 March 2011 –

	Note	2011 R'000
Cash flow from operating activities		
Cash receipts		**8 278**
Transfers and subsidies		8 200
Taxation revenue		–
Interest, dividends and rent on land		43
Other operating revenue		35
Cash payments		**(8 219)**
Compensation of employees		(3 814)
Goods and services		(4 405)
Taxation paid		–
Net cash generated from operating activities	14	**59**
Cash flow from investing activities		
Acquisition of controlled entity (net of cash acquired)		–
Purchase of assets		(28)
Proceeds from the sale of assets		–
Loans granted to associates/other economic entities		–
Loan repayments received from associates/other economic entities		–
Net cash used in investing activities		**(28)**
Cash flow from financing activities		
Proceeds from issuance of ordinary shares/contributed capital		–
Repayments of borrowings		–
Net cash used in financing activities		**–**
Net increase in cash, cash equivalents and bank overdrafts		31
Cash, cash equivalents and bank overdrafts at beginning of the year		–
Exchange gains/(losses) on cash and bank overdrafts		–
Cash, cash equivalents and bank overdrafts at end of the year		**31**

Accounting Policies

1.1 Basis of preparation

The annual financial statements have been prepared using the accrual basis of accounting, in terms of which items are recognised as assets, liabilities, net assets, revenue and expenses when they satisfy the definitions and recognition criteria for those elements, which in all material aspects are consistent with those applied in the previous year, except where a change in accounting policy has been recorded.

The financial statements are prepared in South African Rand (R).

The Annual Financial Statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB).

The principal accounting policies adopted in the preparation of these financial statements are set out below. Assets; liabilities; revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.2 Changes in Accounting Policy and Comparability

The CBDA is preparing the first set of financial statements since its inception. The accounting policies will be applied consistently. The CBDA will prepare financial statements in accordance with Generally Recognised Accounting practice

The CBDA will change an accounting policy only if the change results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

1.3 Going Concern Assumption

The Annual Financial Statements have been prepared on the assumption that the CBDA will continue to operate as a going concern for at least the next 12 months.

1.4 Revenue recognition

Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the entity directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable. Revenue is recognised to the extent that it is probable that the economic benefits will flow to CBDA and revenue can be reliably measured. Revenue is measured at fair value of the consideration receivable on an accrual basis. Revenue includes investment and non-operating income exclusive of value added taxation, rebates and discounts. The following specific recognition criteria must also be met before revenue is recognised:

a. Revenue from sale of goods

Revenue from the sale of goods is recognised when significant risk and rewards of ownership of goods are transferred to the buyer. Sale of goods includes publications.

b. Interest income

Revenue is recognised as interest accrued using the effective interest rate, and is included in other revenue in the statement of financial performance.

c. Revenue arising from application of tariff

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazette tariff. This includes registration of Co-operative banks.

d. Revenue from non- exchange transactions

Revenue from non- exchange transactions refers to transactions where the entity received revenue from another entity without directly giving 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.

1.5 Taxes

CBDA is exempt from income tax in terms of section 10 (1) of the Income Tax Act No 58 of 1962.

1.6 Property, plant and equipment

Initial recognition

Property, plant and equipment are tangible 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 more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs 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. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of plant, property and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Where an asset is acquired by the entity for no or nominal consideration (non- exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange of 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 was not determinable, it's deemed cost is the carrying amount of the asset (s) given up.

Subsequent measurement

Subsequent to initial recognition, items of property, plant and equipment are measured as cost less accumulated depreciation and impairment losses.

Where the entity replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Depreciation and impairment

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 annual depreciation rates are based on the following estimated average asset lives.

Repairs and maintenance costs are charged to the statement of financial performance.

Equipment, furniture and fittings

The annual depreciation rates applied to the various categories of equipment are:

- Computer and other equipment 3 years
- Furniture and fittings 5 years

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits or service potential expected from the use of the asset. The gain or loss arising on 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.

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

1.7 Intangible assets

Software is classified as intangible assets. Initial expenditure on software is recognised at cost and capitalised. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the asset to which it relates. The amortisation is calculated at a rate considered appropriate to reduce the cost of the asset less residual value over the shorter of its estimated useful life or contractual period. Residual values and estimated useful lives are reviewed annually.

Intangible assets that meet the recognition criteria are stated in the statement of financial position at amortised cost, being the initial cost price less any accumulated amortisation and impairment losses.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

- IT Software 3 years

1.8 Impairment of non-financial – assets

The CBDA assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That excess is an impairment loss and it is charged to the Statement of financial performance.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in the Statement of financial performance. Any impairment deficit of a revalued asset is treated as a revaluation decrease in the revaluation reserve.

The CBDA assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated and matched against their carrying values and any excess of the recoverable amounts over their carrying values is reversed to the extent of the impairment loss previously charged in the statement of financial performance.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. The classification of the leases is determined using GRAP 13 – Leases.

a. Operating leases – lessee

Lease agreements are classified as operating leases where substantially the entire risks and rewards incident to ownership remain with the lessor. Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments is recognised as an operating lease asset / liability. The asset is not discounted.

b. Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the market related interest rate approved by the CBDA. The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

1.10 Employee benefits

a. Short term employee benefits

The cost of short term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave or bonuses) are recognised in the period in which the service is rendered and are not discounted.

1.11 Foreign currency transactions

Transactions in foreign currencies are accounted for at the rate of exchange ruling on the date of the transaction. Liabilities in foreign currencies are translated at the rate of exchange ruling at the reporting date or at the forward rate determined in forward exchange contracts. Exchange differences arising from translations are recognised in the statement of financial performance in the period in which they occur.

1.12 Provisions and contingencies

Provisions are recognised when:

- CBDA has a present obligation as a result of past events;
- probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations; and
- a reliable estimate can be made of the obligation.

Provisions are not recognised for future operating losses.

If CBDA has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised.

1.13 Financial instruments

Initial recognition

Financial instruments are initially recognised at fair value.

Subsequent measurement

Financial assets are categorised according to their nature as either financial assets at fair value through profit or loss, held – to maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost. The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP

a. Trade and other receivables

Trade receivables are categorised as financial assets: loans and receivables are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured for all debtors with indications of impairment. Impairments is determined based on the risk profile of each debtor. Amounts that are receivable within 12 months from the reporting date are classified as current.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the statement of financial performance within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

b. Trade and other payables

Financial liabilities consist of trade payables and borrowings. They are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method which is initial carrying amount, less repayments, plus interest.

c. Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash equivalents in the statement of financial position comprise of cash at banks and on hand, including investments and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

These are initially and subsequently recorded at fair value.

1.14 Unauthorised expenditure

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

1.15 Irregular expenditure

Irregular expenditure is the expenditure that is contrary to the Public Finance Management Act (Act 1 of 1999 as amended) or is in contravention of the CBDA's supply chain management policy. 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.

1.16 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 it is recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.17 Related parties

The CBDA operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning directing and controlling the activities of the entity. We regard all individuals from the level of Managing Director to the Board members of the CBDA as key management per the definition of the financial reporting standard.

Close family members of key management personnel are considered to be those family members who may be expected to influence, or be influenced by key management individuals, in their dealings with the entity.

1.18 Standards approved but not yet effective

At the date of authorisation of these financial statements, the following accounting standards of Generally Recognised Accounting Principles (GRAP) were in issue, but not yet effective:

GRAP 18	Segment Report
GRAP 21	Impairment of Non Cash Generating Assets
GRAP 23	Revenue from Non Exchange Transactions (Taxes and Transfers)
GRAP 24	Presentation of Budget Information in Financial Statements
GRAP 25	Employee Benefits
GRAP 26	Impairment of Cash – Generating Assets
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments

There is no impact on the financial statements since there are no comparative financial statements. Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

2. Property, plant and equipment

	2011 Computer Equipment R'000
Reconciliation of Carrying Value	
Opening net carrying amount	–
Gross carrying amount	–
Accumulated depreciation	–
Additions & Revaluations	**148**
Transfer from National Treasury	120
Additions	28
Disposals & Adjustments	–
Depreciation	48
Closing net carrying amount	**100**
Gross carrying amount	167
Accumulated depreciation	67

3. Intangible Asset

	2011 Computer Software R'000
Reconciliation of Carrying Value	
Opening net carrying amount	–
Gross carrying amount	–
Accumulated Amortisation	–
Additions & Revaluations	**10**
Transfer from National Treasury	10
Disposals & Adjustments	–
Amortisation	4
Closing net carrying amount	**6**
Gross carrying amount	10
Accumulated Amortisation	4

	2011 R'000

4. Cash and cash equivalents

Cash at bank	31
Total	31

5. Trade and other receivables from exchange transactions

Trade receivables	2
Staff Loans	17
Trade and other receivables	19

5.1 Trade receivables: Ageing

Current (0–30 days)	–
3–60 Days	–
61–90 Days	–
91–120 Days	–
121–365 Days	2
+ 365 Days	–
Total	2

5.2 Trade and receivables past due but not impaired

Trade receivables which are less than 3 months past due are not considered to be impaired.

At 31 March 2011, R2 400 were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	–
2 months past due	–
3 months past due	–
	–

5.3 Trade receivables impaired

There are no trade receivables that are impaired.

The ageing of these receivables is as follows:

3 to 6 months	2
	2

The fair value of trade receivables approximates their carrying amounts.

6. Trade and other payables from exchange transactions

Trade creditors	803
Accruals	1
	804

The CBDA considers that the carrying amount of trade and other payables approximates their fair value.

	2011 R'000

7. Current provisions

Provision for leave	133
	133

The 'Provisions' balance includes leave pay which relates to the CBDA's estimated liabilities arising as a result of services rendered by employees.

Provision for leave

1 April 2010	–
Contributions to provision	360
Expenditure incurred	(227)
31 March 2011	133

8. Parliamentary Grants

Parliamentary grants received	8 200
	8 200

9. Sale of goods and rendering of services

Application Fee to Register as a Co- Op Bank	12
Workshop Registration Fee	23
	35

10. Interest, dividends and rent on land

Interest Received	43
	43

11. Goods and services

Administrative Fees	80
Advertising	70
Audit fees	–
Net foreign exchange gains/(loss)	1
Communication	12
Computer Expense	–
Consultants, Contractors and agency/ outsourced services	1 781
Maintenance, repairs and running costs	11
Operating lease	38
Travel and subsistence	480
Training and staff development	130
Other operating expenditure	2 074
	4 677

	2011 R'000

12. Short-term employee benefits

Employee Costs	2 842
Executive Director's emoluments	972
Leave pay Provision	133
	3 947

13. Deficit for the prior year

Assets transferred from National Treasury at cost less accumulated depreciation in terms of GRAP Standard 17 recognition criteria	130
Invoices accrued in terms of GRAP Standard 1	(513)
Opening deficit at 1 April 2010	**(383)**

14. Net cash flows from operating activities

Surplus/(deficit) for the year	(398)
Adjustment for:-	
Depreciation and amortisation	52
Current Provisions	133
Operating surplus before working capital changes:	**(213)**
(Increase)/decrease in trade receivables	(19)
Increase/(decrease) in trade payables	291
Cash generated by/(utilised in) operations	**59**

15. Operating Lease arrangements as the Lessee:-

15.1 Future minimum lease payments

Up to 12 months	
Photocopier/ Printer equipment	41
	41
1 year to 5 years	
Photocopier/ equipment	45
	45

The rental agreement is for a period of 36 months ending 30 April 2013 with fixed rental payments.

In the event of a 24 month extension period, the rental will be reduced by 75%.

16. Capital Commitments

There were no capital commitments made in the current financial year.

17. Contingent liabilities

Pending claims

Management is not aware of any pending contingent liabilities against CBDA.

18. Events after the reporting date

Management is not aware of any material events impacting the Annual Financial Statements after the reporting date.

19. Taxation

No provision has been made for taxation as the CBDA is exempt from tax in terms of section 10 of the Income Tax Act.

20. Going concern assumption

The CBDA has a deficit of R398 000 and its total liabilities exceeded its total assets by R781 000. The CBDA was established in terms of the Co-operatives Banks Act of 2007. It is the intention of the government to continue funding the entity in the future EMTEF periods.

The financial statements are therefore prepared on a going concern basis.

21. Standards issued but not yet effective

At the date of authorisation of these financial statements, the following accounting standards of Generally Recognised Accounting Principles (GRAP) were in issue, but not yet effective:

GRAP 18 – Segment Reporting
GRAP 21 – Impairment of Non-cash-generating Assets
GRAP 23 – Revenue from Non-exchange Transactions (Taxes and Transfers)
GRAP 24 – Presentation of Budget Information in Financial Statements
GRAP 25 – Employee Benefits
GRAP 26 – Impairment of Cash-generating Assets
GRAP 103 – Heritage Assets
GRAP 104 – Financial Instruments

The application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

22. Significant accounting judgments, estimates and assumptions

The preparation of CBDA financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgments

There were no items that required management's judgement in the process of applying the CBDA accounting policies.

Estimates and Assumptions

There were no key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year.

23. Reconciliation of budget surplus / deficit with the surplus / deficit in the statement of financial performance

	R'000
Net deficit per the statement of financial performance	
Adjusted for:	(398)
Increase in current provisions	133
Net foreign exchange (Gain) or loss	1
Depreciation	52
Interest received	(43)
Other Income	(35)
Net deficit per approved budget	(290)

24. Related parties

The CBDA is a schedule 3A National Public Entity in terms of the Public Finance Management Act (Act 1 of 1999 as amended) and therefore falls within the national sphere of government. As a consequence the CBDA has related parties being entities that fall within the national sphere of government.

Unless specifically disclosed, these transactions are concluded on an arm's length basis. There are no restrictions in the CBDA's capacity to transact with an entity.

24.1 Transactions with related parties

South African Micro-Finance Apex Funding **(samaf)**

Services rendered		Services received	
2011		2011	
Transactions R'000	Balance R' 000	Transactions R'000	Balance R' 000
69	–	65	–
	–	–	–
69	–	65	–

24.2 Fees paid to the board members and Executive Management salaries

	Allowance R'000	Travel R'000	2011 Total R'000
Mr SM Ndwadwe	74	5	79
Mrs J Kuzwayo	37	1	38
Mr P Koch	19	20	39
Mr K Mahuma	21	1	22
Mr V Satgar	14	1	15
Mrs D Hamilton	15	3	18
Mr J Theron	14	17	31
Ms O Matshane	8	–	8
Managing Director	952	–	952
Executive Management	1 464	–	1 464
	2 618	48	2 666

25. Statement of Unauthorised, Irregular and Fruitless and Wasteful Expenditure

25.1 Unauthorised expenditure

Reconciliation of unauthorised expenditure

Opening balance	–
Unauthorised expenditure – current year	781
Unauthorised expenditure approved by Parliament/Legislature	–
Transfer to receivables for recovery (not approved)	–
Unauthorised expenditure awaiting authorisation	**781**

Analysis of Current Unauthorised expenditure

Incident	Disciplinary steps taken/criminal proceedings
Unauthorised expenditure is as a result of spending in excess of the allocated funds.	None

Comments

The subordination letter has been written and submitted to the Public Entities Support unit in National Treasury. No response has been given yet.

25.2 Fruitless & Wasteful Expenditure

Reconciliation of fruitless and wasteful expenditure

Opening balance	–
Fruitless and wasteful expenditure – current year	55
Fruitless and wasteful expenditure condoned	–
Transfer to receivables for recovery	–
Fruitless and wasteful expenditure awaiting condonement	**55**

Analysis of Current Fruitless and wasteful expenditure

Incident	Disciplinary steps taken/criminal proceedings
An Employee's travel ticket to the conference in the USA was booked. The ticket was cancelled because the employee's VISA application was declined. The CBDA was not refunded due to that travel agents had a ruling that flights cancelled during the World Cup period (June) would not be refunded.	None

25.3 Irregular Expenditure

Reconciliation of irregular expenditure

Opening balance	–
Irregular expenditure – current year	404
Irregular expenditure condoned	–
Transfer to receivables for recovery	–
Irregular expenditure awaiting condonement	**404**

Analysis of Current irregular expenditure

Incident	Disciplinary steps taken/criminal proceedings
The service provider who is the only supplier that could provide the nature of services required for CBDA on the Benchmarking of Co-operative banks in the country was appointed without a tax clearance certificate.	None

Comments

The submission to National Treasury to request condonation of non- compliance with the PFMA has been written. Authorisation has not yet been obtained.

26. World Cup Expenditure

	2010/11 Quantity	2010/11 R'000
Tickets acquired		
Distribution of tickets		
Clients/Stakeholders	–	–
Accounting Authority	–	–
Executive	–	–
Non-executive	–	–
Accounting Officer	–	–
Senior Management	–	–
Other government entities	–	–
Audit Committee members	–	–
Total	–	–

	2010/11
Travel costs	
Clients/Stakeholders	–
Accounting Authority	–
Executive	–
Non-executive	–
Accounting Officer	–
Senior Management	–
Other employees	–
Family members of officials	–
Other government entities	–
Audit Committee members	–
Other	–
	–

	2010/11 Quantity	2010/11 R'000
Purchase of other world cup apparel		
Specify the nature of the purchase (e.g t-shirts, caps etc)		
	–	–
Total world cup expenditure		–

	2010/11 Quantity	2010/11 R'000
Tickets acquired after year-end (30 June 2010)		
Distribution of tickets acquired after year-end		
Clients/Stakeholders		–
Accounting Authority		–
Executive		–
Non-executive		–
Accounting Officer		–
Senior Management		–
Other employees		–
Family members of officials		–
Other government entities		–
Audit Committee members		–
Other		–
Total		–

27. Comparative Figures

The transactions of the CBDA in the 2009/10 financial year were recorded in the National Treasury's accounting system because the CBDA did not have its own bank account. As a result, the comparatives are not stated since they are reported and audited in the financial statements of National Treasury.

28. Financial Instruments

In the course of the CBDA operations it is exposed to interest rate, credit, liquidity and market risk. The CBDA has developed a comprehensive risk strategy in order to monitor and control these risks. The risk management process relating to each of these risks is discussed under the headings below:

Credit risk

Financial assets, which potentially subject the CBDA to the risk of non-performance by counter-parties and thereby subject to credit concentrations of credit risk, consist mainly of cash and cash equivalents and receivables from exchange transactions.

Refer to note 5 for the aging of receivables from exchange transactions.

The CBDA manages/limits its treasury counter-party exposure by only dealing with well-established financial institutions approved by National Treasury through the approval of their investment policy in terms of Treasury Regulations.

Liquidity risk

The CBDA manages liquidity risk through proper management of working capital, capital expenditure and actual vs. forecast cash flows and its cash management policy. Adequate reserves and liquid resources are also maintained.

Market risk

The CBDA is exposed to fluctuations in the employment market. For example sudden increases in unemployment and changes in the wage rates. No significant events occurred during the year that the CBDA is aware of.

Fair values

The CBDA's financial instruments consist mainly of cash and cash equivalents. No financial instrument was carried at an amount in excess of its fair value and fair values could be reliably measured for all financial instruments. The following methods and assumptions are used to determine the fair value of each class of financial instruments:

Cash and cash equivalents

The carrying amount of cash and cash equivalents approximates fair value.

Other receivables from exchange transactions

The carrying amount of other receivables from exchange transactions approximates fair value due to the relatively short-term maturity of these financial assets.

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