ANNUAL REPORT

2016

CO-OPERATIVE
BANKS DEVELOPMENT AGENCY

ANNUAL REPORT

2016

2015/16

RP: 120/2016 | ISBN: 978-0-621-44539-8

CO-OPERATIVE
BANKS DEVELOPMENT AGENCY

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CO-OPERATIVE BANKS DEVELOPMENT AGENCY

PART A:
GENERAL INFORMATION

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CO-OPERATIVE
BANKS DEVELOPMENT AGENCY

1.CONTACT INFORMATION

REGISTERED NAME:
Co-operative Banks Development Agency

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cbda@treasury.gov.za

WEBSITE ADDRESS:
www.treasury.gov.za/coopbank

EXTERNAL AUDITOR:
Auditor-General

BANKER:
First National Bank

BOARD SECRETARY:
Vacant

2. LIST OF ABBREVIATIONS/ ACRONYMS

ACCOSCA	African Confederation of Co-operative Savings and Credit Associations
AFS	Annual financial statements
AGM	Annual General Meeting
App	Application
ASISA	Association for Savings and Investment South Africa
BANKSETA	Banking Sector Education and Training Authority
BCP	Basel Core Principle
CAMEL	Capital adequacy, asset quality, management quality, earnings, liquidity
CBDA	Co-operative Banks Development Agency
CFI	Co-operative financial institution
CIPC	Companies and Intellectual Property Commission
CPD	Corporate public deposit
DED	Department of Economic Development
DPSA	Department of Public Service and Administration
DEDECT	Department of Economic Development, Environment, Conservation and Tourism
DEDTEA	Department of Economic Development, Tourism and Environment Affairs
DRDLR	Department of Rural Development and Land Reform
DSBD	Department of Small Business Development
ERM	Enterprise Risk Management
FSB	Financial Services Board
FICA	Financial Intelligence Centre Act
FMPPI	Framework for Managing Programme Performance Information
FNB	First National Bank
FSC	Financial Services Co-operative
GIBS	Gordon Institute of Business Science
GDP	Gross Domestic Product
GP	Gauteng Province
GRAP	Generally Recognised Accounting Practice
HR	Human Resources
HR&R	Human Resources and Remuneration
ICT	Information and Communication Technology
ICA	International Co-operative Alliance
ICURN	International Credit Union Regulators Network
IMF	International Monetary Fund
KZN	KwaZulu-Natal
IT	Information Technology
ISPPIA	International Standards for the Professional Practice of Internal Audit
MD	Managing Director
MOU	Memorandum of Understanding
MOA	Memorandum of Agreement
NACFISA	National Association of Co-operative Financial Institutions of South Africa
NCA	National Credit Act
NCR	National Credit Regulator
NEHAWU	National Education, Health and Allied Workers' Union
NIC	National Industrial Chamber
NT	National Treasury
NW	North West
PAA	Public Audit Act
PEARLS	Protection, Effective Financial Structure, Asset Quality, Rates of Return and Costs, Liquidity and Signs of Growth
PFMA	Public Finance Management Act
R	Rand
RHLF	Rural Housing Loan Fund
SA	South Africa
SACCA	Savings and Credit Co-operative Association Africa
SACCO	Savings and Credit Co-operative Organisation
SACCOL	Savings and Credit Co-operative League of South Africa
SAHRC	South African Human Rights Commission
SLA	Service Level Agreement
SAMAF	South African Micro-finance Apex Fund
SAMWU	South African Municipal Workers Union
SARB	South African Reserve Bank
SEDA	Small Enterprise Development Agency
SEFA	Small Enterprise Financing Agency
SMME	Small, Medium and Micro-sized Enterprise
SOE	State-Owned Entity
YWBN	Young Women in Business Network

3. STRATEGIC OVERVIEW

3.1 VISION

To create a strong and vibrant co-operative banking sector that broadens access to, and participation in, diversified financial services in order to achieve economic and social wellbeing.

3.2 MISSION

The mission of the Co-operative Banks Development Agency (CBDA) focuses on developing the co-operative financial institution (CFI) sector within the context of those who participate in the sector through:

- Ensuring appropriate regulation and supervision
- Implementing innovative capacity development and support
- Promoting the co-operative philosophy and principles
- Building confidence in the CFI sector.

3.3 VALUES

The CBDA's values are as follows:

- Passion: To be driven and dedicated, with a sense of urgency and encouraging full participation and a spirit of celebration
- Integrity: To be honest, frank, accountable and transparent
- Mutual respect: To be trustworthy, selfless, willing to serve and compassionate, with shared values and respect for decisions
- Commitment to solidarity and cooperation: To be committed to teamwork, which includes being supportive, having a common purpose, sharing information and taking responsibility
- Excellence: To add value and be diligent, professional, punctual and competent, which includes paying attention to detail and being committed to knowledge and learning
- Confidentiality: To maintain the privacy of all dealings with stakeholders.

3.4 STRATEGIC OUTCOME-ORIENTED GOALS

The CBDA's strategic outcome-oriented goals are to ensure the following:

- A CFI sector that is institutionally safe and sound
- The protection of members' deposits in CFIs
- A CFI sector with adequate capacity
- A CBDA brand and a CFI model that are widely known and recognised
- An organisation that is adequately capacitated to meet its statutory mandate and fulfil its vision and mission.

4. LEGISLATIVE AND OTHER MANDATES

These include the following:

- Co-operative Banks Act (No. 40 of 2007), as amended by the Financial Services Laws General Amendment Act (No. 45 of 2013)
- Banks Act Exemption Notice (No. 620 of 2014), Government Gazette 37903, 15 August 2014
- Public Finance Management Act (No. 1 of 1999) (PFMA)
- Treasury regulations.

5. ORGANISATIONAL STRUCTURE

Management has reviewed the CBDA organisational structure and made the following changes:

1. This position has been split into two positions going forward: personal assistant and researcher in the MD's office.
2. Three interns from the second phase of the Bankseta internship programme were retained with effect from 1 April 2016 – one intern was recruited in the Supervision unit and two in the Capacity Building unit.
3. The position of business analyst has been moved to the newly established unit, Central Support Services, which is responsible for implementing and supporting the banking platform project.

Pravin Gordhan
Minister of Finance

6. FOREWORD BY THE MINISTER

Transforming the lives of the poor and marginalised can only be achieved if all South Africans are afforded the opportunity to participate in the broadest sense in economic activity. Created to support, promote and develop co-operative banking as well as to register, supervise and regulate deposit-taking financial services co-operatives as well as savings and credit co-operatives, the CBDA assists in furthering government's objectives in shaping a South African economy that includes and benefits all South Africans.

Indeed, financial inclusion remains a central tenet of the mandate of the CBDA, which seeks to strengthen existing co-operative financial institutions (CFIs). During the financial year under review, the CBDA ensured that CFIs underwent rigorous examinations and participated in skills development and training programmes, with the aim of ensuring the implementation of stronger risk management and governance practices for CFIs to better serve the financially excluded. A total of 30 CFIS were registered by the CBDA, with a total membership of 29,752. These CFIs have mobilised a total of R233,763,289 in deposits, a strong illustration of the growth of the sector as the CFI model promotes a culture of savings before access to credit. The figures continue to grow, ensuring that CFIs prosper as mechanisms for financial inclusion and that communities have continued access to financial services.

Recognising the critical importance of financial literacy, the CDBA, in collaboration with South African tertiary institutions and sector education training authorities, has developed training programmes to address and increase financial literacy skills level, particularly in rural communities. Initiatives such as these go a long way towards effecting real change in the lives of the poor and in ensuring inclusive economic growth.

I wish to express my continued appreciation to the CBDA Board of Directors, management and staff for their efforts in promoting a sustainable co-operative banking sector that will take its rightful place in the heart of the country's development agenda. As government, we remain committed to supporting this critical sector.

It is my firm expectation that all entities reporting to the Ministry of Finance will always enhance integrity, financial prudence and make every effort to expose and fight corruption and management of public funds.

Pravin Gordhan.

Mr Pravin Gordhan
Minister of Finance

Desmond Golding
Acting Chairperson

7. FOREWORD BY THE ACTING CHAIRPERSON OF THE BOARD

Although the South African economy has remained confident, it has been a challenging financial year, given the declining growth in gross domestic product (GDP) and the South African Reserve Bank (SARB) embarking on a cycle of increasing interest rates. This has had an enormous effect on the rate of household savings in the country. The household debt-to-disposable income ratio accelerated to 78 percent, which led to a slower pace in household savings in general.

These pressures were bound to affect CFIs as well. However, the CFI sector has risen to the challenge and has continued to thrive throughout these tough economic times.

The CBDA has embarked on a journey to explore and understand the challenges faced by CFIs in servicing their members. The agency has had to look at ways of redefining the CFI model to make it more attractive for communities at grassroots level, and to meet their needs more effectively. The Gordon Institute of Business Science (GIBS) was brought on board to assist the CBDA in exploring a more innovative business model for the sector. The agency plans to implement some of the lessons emerging from that programme in the new financial year.

Under the guidance of the Managing Director, Ms Olaotse Matshane, the CBDA saw it necessary to continue to form strong partnerships and engage with stakeholders with the objective to source additional funding for some of its activities. The agency has liaised with key stakeholders such as the SARB and the Department of Rural Development and Land Reform (DRDLR) and continues to raise stakeholder funding. One of the successful engagements resulted in the CBDA obtaining Bankseta funding for five interns on a one-year programme.

Led by Mr David de Jong, the Supervision unit has efficiently monitored the performance of the CFIs; the consultation process on the revised rules was completed; and the rules became effective as of 1 July 2015. I am pleased to report that the unit has also launched a centralised online application and return submission portal. CFIs are now able to register and submit returns electronically on the portal. This is indeed a huge milestone.

Under the guidance of Ms Nomadelo Sauli, the Capacity Building unit has been responsible for supporting, promoting and developing CFIs by determining the sector's training needs and creating appropriate capacity enhancement programmes in conjunction with stakeholders such as the Bankseta, development agencies and universities. The unit has successfully launched a diploma in CFI management at the University of Fort Hare, with 25 students in the first intake. It also developed a standard operating procedure manual for assisting organised groups with preregistration support during the year under review.

Through great vision, the CBDA team conceptualised and launched the banking platform project. The agency had identified the need to establish a cost-effective integrated banking system that would enable CFIs and co-operative banks to participate in the National Payment System; to be more professional in rendering banking services; and to perform inter-CFI transactions at minimal cost.

Led by Mr Kobus van Niekerk, the banking platform project is the focus of our brand new unit, Central Support Services. I am proud to announce that three CFIs went live on the platform on March 2016, with seven more to follow in the new financial year. The banking platform project remains a priority for the CBDA. Central Support Services will continue to follow the latest global trends and innovative technologies relevant to the payment and retail banking sectors. To be where it is today, the project has had to overcome various obstacles, such as the need for funding, technical issues, and other challenges to be expected from such a worthy ground-breaking venture. Negotiations with a partner bank to connect CFIs to the National Payment System are ongoing.

As the CBDA we are honoured to welcome three new directors to the board, including myself. I would like to express my appreciation to the board for all its contributions. I also wish to thank management for its unquestionable dedication, and the staff for their commitment in ensuring that the CBDA realises its vision.

Mr Desmond Golding
Acting Chairperson

Olaotse Matshane
Managing Director

8. MANAGING DIRECTOR'S OVERVIEW

2015 HIGHLIGHTS

It is that time of year again to pause, reflect, take stock, celebrate successes, recognise and acknowledge challenges and chart a way forward, fully cognisant of the reality that a great deal still needs to be done. The year under review has been particularly challenging for consumers, given the rising interest rate and the numbers of overindebted people remaining stubbornly high. Furthermore, due to pressures on the fiscus, tax rates for high-income earners have increased in previous years. A study conducted by the South African Human Rights Commission (SAHRC) revealed that, of the 19 million credit-active consumers in South Africa, at least 50 percent have impaired credit records. South Africans are also reported to be among the worst savers in the world, as they tend to continue to borrow more money than they save. This is an indication that, as the CBDA, we have our work cut out for us.

THE YEAR UNDER REVIEW

CFI Value Proposition

During the year under review, the CBDA embarked on a journey to explore the co-operative financial institution (CFI) model more fully and improve on its value proposition. By refining the value proposition the CFI model will be more targeted and continue to change members' lives by way of increasing financial and economic inclusion.

In August 2014, the CBDA released its first CFI quarterly review report, which provides information on the social and economic impact of the CFI sector on the South African economy. Among other things, it reports on indicators such as the number of small, medium and micro-sized enterprises (SMMEs) financed and the number of jobs created.

Central Support Services

In the past, I reported on the CBDA's plans to roll out the long anticipated banking platform project. This project is intended to change the face of the sector; to bring major operational efficiencies to the business of the CFIs; and, ultimately, to connect to the National Payment System. It is with absolute pride that I can announce that, after appointing the head of the Central Support Services amid mainly resources-based challenges, the CBDA has been able to take at least seven CFIs on board, with more additions in the pipeline. Once all the teething problems have been dealt with, implementation will take place much quicker. Central Support Services is now a fully-fledged unit, ready to accelerate implementation.

Supervision

The Supervision unit has come a long way in terms of its developmental regulation and supervision, and in drawing CFIs into a culture of compliance with, and an appreciation for, the importance of a healthy and secure CFI sector. In the year under review, the CBDA launched an online application and return submission portal, where new CFIs can lodge applications and existing CFIs can submit returns.

Capacity Building

The Capacity Building unit has made superb progress in professionalising and formalising training in the CFI sector. In the past, only 5 percent of CFIs were able to submit accurate financial statements. Due to the capacity-building interventions, however, this figure has increased to at least 95 percent. The highlight of the year has been the launch of the diploma programme in CFI management at the University of Fort Hare.

RSA Financial Co-operative Retail Bonds

Formally launched in 2011, the amount invested by 16 CFIs in financial co-operative retail bonds has now officially reached the R6 million mark, with over R217 000 earned in interest. CFIs are encouraged to continue supporting this investment vehicle which is risk free, with guaranteed financial growth and the full backing of the South African government.

THE YEAR AHEAD

While reflecting on key achievements and celebrating successes, we should remain mindful of the amount of work that still needs to be done to accelerate the growth and sustainability of the CFI sector. We also need to be realistic with regard to what the CBDA can achieve, given its capacity and resource constraints.

As the CBDA, our focus in the year ahead will be on doing certain things differently. This entails clarifying some of the CFI rules; implementing innovative and customised capacity-building interventions, strategies and methodologies; assisting CFIs to improve their income-generation strategies; reducing operational expenses; enhancing product development; and re-engineering business processes. This work will unfold step by step.

The CBDA aims to continue to strengthen its stakeholder network. Thanks to its stakeholders the agency has been able to achieve much more than it would have with its limited resources. The banking platform project, for instance, would not have taken off without stakeholder funding. The internship programme and the bulk of the CBDA capacity-building programmes were also generously funded. The CBDA would like to extend its sincere gratitude to all the stakeholders and will endeavour to strengthen such relations for the benefit of the CFI sector and its valuable members.

One of the CBDA's important priorities is to improve communication with the CFIs, in particular, and with all its stakeholders, also by developing effective feedback mechanisms. This will assist the CBDA in staying relevant to the needs of the CFIs and the sector in general, and to keep improving its approach and processes.

Acknowledgements

I would like to thank all our partners and stakeholders who continue to work with the CBDA to address and solve many of the challenges facing the CFI sector. In particular, I would like to thank our colleagues at the National Treasury – the Minister of Finance, Minister Pravin Gordhan for his consistent support, and Deputy Minister Mcebisi Jonas, who has demonstrated sincere support for and interest in the work of the CBDA.

I would like to also thank the members of the CBDA Board for continuing to provide strategic direction and guidance, and putting in tremendous effort to drive the vision and mission of the agency.

Furthermore, I would like to express sincere appreciation to my fellow senior managers and staff at the CBDA for soldiering on with a passion for and commitment to the economic and social upliftment of the lives of ordinary South Africans.

To the hardworking men and women who selflessly give much of their time as members, staff and board members of the CFIs – most of whom have seen the sector through both good and bad times, and continue to believe in it despite numerous challenges – I have an enormous amount of respect for you.

Allow me to say that my work at the CBDA has moved from being a passion, to becoming an obsession to change people's lives by empowering communities by taking banking to the people.

I hereby present the 2015/16 Annual Report which outlines all the major activities of the CBDA for the year and trust that you will enjoy reading it.

Ms Olaotse Matshane
Managing Director

PART B:

GOVERNANCE

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1. INTRODUCTION

The CBDA is a public entity established in terms of the Co-operative Banks Act and listed under Schedule 3A of the PFMA as amended. Treasury regulations impose certain statutory and regulatory requirements on the CBDA.

2. EXECUTIVE AUTHORITY

For the period under review, and in terms of the PFMA and Treasury regulations, the CBDA has submitted to the executive authority its strategic and annual performance plans for 2016/17, quarterly reports for 2015/16, and the annual report and financial statements for 2014/15, within the given deadlines.

3. THE CBDA BOARD

3.1 BOARD MEMBERS

The chairperson and the board of directors of the CBDA are appointed by the Minister of Finance in terms of section 58 of the CBDA Act. The board is the accounting authority of the CBDA and must fulfil certain duties and responsibilities provided for in the CBDA Act, the PFMA and Treasury regulations.

The Deputy Chairperson, Mr P Koch, has been acting chairperson of the CBDA Board since 1 May 2014 after the then chairperson resigned. At its meeting in January 2016, the board nominated Mr Desmond Golding as acting chairperson. The minister approved four new board members to be appointed as from 1 November 2015.

3.2 ROLES AND RESPONSIBILITIES

The roles and responsibilities of the board are enshrined in the Board Charter, which is reviewed annually.

4. BOARD MEMBERS

Mr P Koch
Deputy Chairperson and Acting Chairperson from 1 May 2014

Mr SS Akrong
Member

Mr D Ginsberg
Member

Ms X Jozana
Member

Ms R Kisten
Member

Adv. LT Levondwe
Member

Ms V Matsiliza
Member

Mr J Ndumo
Member

Mr TV Shenxane
Member

Mr D Golding
Acting Chairperson

Ms O Matshane
Managing Director

4.1 COMPOSITION

Table 1: Composition of the CBDA Board, 2015/16

NAME	DATE APPOINTED	QUALIFICATIONS	END OF TERM/ REAPPOINTMENT
Mr P Koch, Deputy Chairperson and Acting Chairperson as from 1 May 2014	1 October 2013	MSc Industrial Relations and Human Resource Management BBusSc (Hons) Finance BCom (Hons) Postgraduate Dipl. Accounting BA PPE (Philosophy, Politics and Economics) Chartered Accountant	30 September 2016
Mr TV Shenxane, Member	1 October 2013	MA Economic Policy BCom (Hons) BCom Economics and Industrial Psychology Dipl. Advanced Project Management Certificates in Microeconomics; Finance for Non-financial Managers; Senior Management Development Programme	30 September 2016
Mr SS Akrong, Member	1 October 2013	MPhil Entrepreneurship and Small Business Management MSc Administration MA Development Finance MBA	Replaced by another member as from 1 November 2015
Ms R Kisten, Member	1 September 2013	BA (Hons) Public Administration BA	Resigned with effect from 31 July 2015
Mr D Ginsburg, Member	1 September 2013	MA BA (Hons)	31 August 2016
Adv. LT Nevondwe, Member	1 October 2013	LLD (in progress) LLM (Law) LLB Advocate of the High Court of South Africa Certificates in Ombudsman Training; Public-Private Partnership; National Business Initiative; Professional Training (Attorneys' Practice); Leadership Management and Training; Southern African Student volunteers (SASVO); Legal Drafting; Transaction Advisors' Training	30 September 2016
Ms O Matshane, Managing Director	1 October 2013; Managing Director as from May 2012	MSc Economics BCom (Hons) Economics Certificates in Taxation; Advanced Project Management	13 May 2018

NAME	DATE APPOINTED	QUALIFICATIONS	END OF TERM/ REAPPOINTMENT
Newly appointed board members			
Mr Desmond Golding	1 November 2015	LLM Banking and Finance MA International Relations Finance for Senior Executives Postgraduate Dipl. Macroeconomics	30 September 2018
Mr Jeffery Ndumo	1 November 2015	MA International Relations and Political Studies BA (Hons) International Relations and Political Studies BA International Relations and Political Studies Certificates in Finance (in progress); Executive Course in Globalisation and Environment; Labour Economics and Market Policy; Public Financial Management for Non-financial Managers; Co-operative Policy and Legislation; Social and Solidarity Economy	30 September 2018
Ms Vuyelwa Matsiliza	1 November 2015	MA Business Leadership BA (Hons) Economics (cum laude)	30 September 2018
Ms Xoliswa Jozana	1 November 2015	MA BA Political Science Certificates in Management Advancement Programme; Project Management	30 September 2018
Minister's Representative			
Ms Ingrid Goodspeed, Chief Director: Financial Sector Development	1 September 2013	CD (SA) LLB MBL (cum laude) BCom (Hons) Economics	31 August 2016

4.2 SUBCOMMITTEES

Through its committees, the CBDA Board is able to carry out its responsibilities and duties properly. Each committee acts in accordance with its charter and is chaired by an independent non-executive director.

Table 2: Subcommittees of the CBDA Board

HUMAN RESOURCES AND REMUNERATION (HR&R COMMITTEE)	AUDIT AND RISK COMMITTEE (COMBINED WITH THAT OF THE NATIONAL TREASURY) IN TERMS OF SECTION 77(C) OF THE PFMA
Mr D Ginsburg (Chairperson)	
Ms R Kisten (Member)[1]	
Mr TV Shenxane (Member)	Ms O Matloa (Chairperson)
Adv. LT Nevondwe[2]	Ms B Francis (Member)
Ms O Matshane (by invitation)	Mr J Lesejane (Outgoing Chairperson)[4]
	Ms A Badimo (Member)
	Mr A Amod (Member)
	Mr L Mangquku (Member)
	Ms I Goodspeed
	Ms O Matshane

Table 3: Board and committee attendance

MEMBERS	BOARD	HR&R COMMITTEE	AUDIT AND RISK COMMITTEE[1]
Mr P Koch	5/5	–	–
Adv. LT Nevondwe[2]	5/5	3/4	–
Mr D Ginsburg	5/5	4/4	–
Mr T Shenxane	5/5	4/4	–
Mr SS Akrong[3]	1/3	–	–
Ms R Kisten[1]	1/5	1/4	–
Ms O Matshane	5/5	4/4	2/3
Mr D Golding	2/2	–	–
Mr J Ndumo	0/2	–	–
Ms V Matsiliza	1/2	–	–
Ms X Jozana	1/2	–	–
Ms I Goodspeed	5/5	–	3/3

[1] Ms R Kisten resigned on 31 July 2015.
[2] Adv. LT Nevondwe replaced Ms R Kisten as a member of the HR&R Committee.
[3] Mr SS Akrong was replaced by Mr J Ndumo as from 1 November 2015.
[4] Mr J Lesejane's term of appointment ended 31 January 2016.

4.3 REMUNERATION

Board members are remunerated at rates determined by the National Treasury in terms of service benefit packages for office-bearers of certain statutory and other institutions. Employees of national, provincial and local government, or agencies and entities of government serving on public entities or institutions, are not entitled to additional remuneration. The remuneration of board members is shown in Note 26 of the annual financial statements (AFS).

5. RISK MANAGEMENT

5.1 RISK REGISTER

The CBDA makes use of the services of the Enterprise Risk Management (ERM) unit of the National Treasury. The Risk Register is reviewed annually to take account of changes in the operating environment. Strategic and operational risks have been identified and are monitored by the managing director (MD) and the Management Committee.

With the assistance of the ERM unit, the CBDA staff and management reviewed the Risk Register in the fourth quarter at a workshop held in February 2016. The updated register was presented to the board at its meeting in April 2016.

5.2 INTERNAL AUDIT AND AUDIT COMMITTEES

In terms of a Memorandum of Understanding (MOU) with the National Treasury, the CBDA utilises the services of the National Treasury's internal audit and risk functions, and forms part of the joint National Treasury Audit and Risk Committee.

In accordance with the internal audit plan for the period under review, the following audits were conducted:

- Review of the 2014/15 AFS
- Audit of performance information for the first and second quarters (June 2015 and September 2015, respectively)
- Review of financial internal controls for the 2015/16 financial year.

The following internal audit reports were finalised during the current financial year:

- Review of internal controls for the 2014/15 financial year
- Performance audit of the supervisory functions of CFIs
- Review of HR management processes.

All audit reports are tabled at meetings of the Audit and Risk Committee and are monitored through the Findings Register. Findings of reports are addressed and monitored by management.

5.3 COMPLIANCE WITH LAWS AND REGULATIONS

As a growing and developing agency, the CBDA implements various action plans to improve its policies, systems and procedures, and to ensure compliance with the relevant laws and regulations. During the financial year, management developed a Policy Register for identifying CBDA policies and procedures to be reviewed and updated annually.

Decisive action is being taken on all audit findings, and systems and processes have been put in place to ensure compliance with statutory requirements.

5.4 FRAUD AND CORRUPTION

The CBDA, with the assistance of the National Treasury, has developed a fraud prevention plan. CBDA employees attend events and workshops held by the National Treasury to communicate the plan and to emphasise the importance of reporting fraud and corruption.

The CBDA makes use of the national Anticorruption Hotline for whistleblowers to report fraud and corruption. The agency exercises a zero tolerance policy against fraud, and appropriate action will be taken in line with the policy.

The CBDA staff attended Anticorruption Day commemorated by the National Treasury on 9 December 2015. Two distinguished guest speakers spoke about corruption being a scourge in South Africa.

5.5 MINIMISING CONFLICT OF INTEREST

Guidelines on minimising conflict of interest are contained in the CBDA's Code of Business Conduct. At every meeting, board members are required to indicate in writing whether they have a conflict of interest in relation to any item on the agenda, and to sign a Declaration of Interest form.

6. OTHER MEASURES

6.1 HEALTH, SAFETY AND ENVIRONMENTAL ISSUES

As the CBDA is located on the National Treasury's premises, it uses this entity's policies and procedures for health, safety and environmental issues.

6.2 SOCIAL RESPONSIBILITY

The CBDA is financed by transfer payments from the National Treasury. These funds are not mandated to be used for social responsibility; however, CBDA staff members established a Charity Club Fund effective from 1 July 2014 into which they make contributions towards charitable institutions and activities.

6.3 CODE OF CONDUCT

The board has approved a Code of Business Conduct for the CBDA, which all employees are required to sign.

PART C:
PERFORMANCE INFORMATION

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1. STATEMENT OF RESPONSIBILITY FOR PERFORMANCE INFORMATION

Herewith the Statement of responsibility for performance information for the year ended 31 March 2016.

The MD is responsible for overseeing the preparation of the CBDA's performance information and for judgements made on this information.

The MD is also responsible for establishing and implementing a system of internal controls that will provide reasonable assurance about the integrity and reliability of the performance information.

In the MD's opinion, the performance information fairly reflects actual achievements against planned objectives and targets in line with the strategic and annual performance plans of the CBDA for the financial year ended 31 March 2016.

The CBDA's performance information for the year ended 31 March 2016 has been examined by the Auditor-General, whose report is presented on pages 57 to 59.

The CBDA's performance information set out on pages 21 to 51 was approved by the board.

Olaotse Matshane
Managing Director

2. OVERVIEW OF THE CBDA'S PERFORMANCE

2.1 STRATEGIC OUTCOME-ORIENTED GOALS

In terms of its strategic outcome-oriented goals, the CBDA's achievements for the period under review were as follows:

- Onsite inspections and assessments of offsite reports were continued.
- The online application and return submission portal was put into operation.
- The mentoring and coaching programme is underway at selected CFIs.
- A Diploma in CFI Management was commissioned with the University of Fort Hare.
- The annual impact assessment was conducted to evaluate the effectiveness of capacity-building programmes.
- Three quarterly reviews and two issues of *The Connection* newsletter were published.
- Numerous presentations were made to stakeholders to promote the CFI model and the CBDA.
- Three CFIs went live on the banking platform.
- Eight interns were absorbed into the CBDA structure in the 2016/17 financial year.
- There was continued engagement with key stakeholders having a similar mandate to the CBDA, in order to source additional funding.

2.2 SERVICE DELIVERY ENVIRONMENT

With 29 CFIs registered with the CBDA, the sector continues to grow. One of the CBDA's goals is to explore and understand the challenges CFIs face in servicing their members. In the new financial year, the CBDA will implement a series of changes to its rules and capacity-building programmes, as well as disseminate communication pieces to clarify some of the current rules. The agency's overall aim is to be an enabler and to assist CFIs in changing the lives of their members.

2.3 ORGANISATIONAL ENVIRONMENT

The CBDA has four units: Corporate Services; Supervision; Capacity Building; and Central Support Services.

Central Support Services is a new unit that will implement and oversee the running of the banking platform system. The CBDA continues to raise stakeholder funding for financing this unit's activities, including filling critical positions. During the financial year, the head of the unit was appointed, with five interns funded by the Bankseta on a one-year programme. The CBDA plans to absorb some of the interns as call centre agents and trainers in the new financial year.

Three of the interns who completed a two-year internship programme funded by the Bankseta will be employed in the Supervision and Capacity Building units in the new financial year.

The CBDA continues to depend on the National Treasury for office accommodation, information and communication technology (ICT), as well as legal, supply chain management, risk management and internal audit services.

2.4 KEY POLICY DEVELOPMENTS AND LEGISLATIVE CHANGES

In the past financial year, there were no changes to either the Co-operative Banks Act or the Banks Act Exemption Notice No. 620. The CBDA is awaiting the finalisation of the Financial Sector Regulation Bill to note any implications for the agency.

2.5 SUMMARY OF REVENUE COLLECTION

Table 4: Revenue collection, 2015/16 and 2014/15

	2015/16			2014/15		
SOURCES OF REVENUE	ESTIMATED AMOUNT (R'000)	ACTUAL AMOUNT COLLECTED (R'000)	(OVER)/ UNDER-COLLECTION (R'000)	ESTIMATED AMOUNT (R'000)	ACTUAL AMOUNT COLLECTED (R'000)	(OVER)/ UNDER-COLLECTION (R'000)
Transfer from the National Treasury	17 341	17 341	–	16 838	16 838	-
Sale of goods and rendering of services	12	10	2	4	4	-
Income from interest	976	1 090	(114)	159	434	(275)
Sponsorship/ donation	-	-	-	-	-	-
Grant-funded expenditure	700	8 809	(8 109)	2 526	4 730	(2 204)
Total	19 029	27 250	8 221	19 527	22 006	(2 479)

2.6 SUMMARY OF PAYMENTS BY PROGRAMME

Table 5: Payments by programme, 2015/16 and 2014/15

	2015/16			2014/15		
PROGRAMME NAME (R'000)	BUDGET (R'000)	ACTUAL EXPENDITURE (R'000)	(OVER)/ UNDER-EXPENDITURE (R'000)	BUDGET (R'000)	ACTUAL EXPENDITURE (R'000)	(OVER)/ UNDER-EXPENDITURE (R'000)
MD and Corporate Services unit	5 879	6 212	(333)	5 892	6 169	(277)
Supervision unit	5 033	4 956[1]	77	4 555	4 261	294
Capacity Building unit	6 802	7 767[1]	(965)	6 426	7 565	(1 139)[1]
Grants-funded expenditure	700	8 565	(7 865)	2 526	4 730	(2 204)
Total, exclusive of capital expenditure and interest capitalised	**18 414**	**27 500**	**(9 086)**	**19 399**	**22 725**	**(3 326)**
Capital expenditure	448	948	(500)	70	33	37
Interest capitalised	167	98	69	58	78	(20)
Total, inclusive of capital expenditure and interest capitalised	**19 029**	**28 546**	**(9 517)[2]**	**19 527**	**22 836**	**(3 309)**

[1] The National Treasury approved the retention of 2014/15 rollover funds, which were utilised for the banking platform project and the online application and return submission portal. See the AFS on pages 61 to 91.

[2] Overexpenditure is funded by additional funds from stakeholders and the 2014/15 rollover funds.

3. SECTOR PERFORMANCE INFORMATION

3.1 TOTAL SECTOR PERFORMANCE AS AT 28 FEBRUARY 2016

The table below reflects the performance of the total regulated co-operative financial sector. There are currently two registered co-operative banks, which are regulated by the South African Reserve Bank (SARB) and contribute 38 percent of the sector's total assets. Of the institutions regulated by the CBDA, 14 are eligible for registration as co-operative banks once they meet all prudential requirements. These institutions represent a further 58 percent of the total assets of the sector. The CBDA also supervises and regulates 14 "other" CFIs that do not qualify to apply as co-operative banks and represent 3 percent of the sector.

Table 6: Performance of the regulated co-operative financial sector as at 28 February 2015

INSTITUTION	NUMBER	MEMBERS	DEPOSITS	LOANS	ASSETS
Co-operative banks	2	2 258	R94 456 000	R71 300 000	R107 440 000
Eligible CFIs[1]	14	21 978	R136 289 605	R104 946 420	R162 578 370
Other[2]	14	5 516	R3 017 684	R3 092 106	R9 605 630
Total	30	29 752	R233 763 289	R179 338 526	R279 624 000

[1] *These CFIs meet the minimum requirement for registration, i.e. 200 members.*
[2] *These CFIs have R1 million in deposits, but fall short of operational requirements.*

3.2 HISTORICAL CONSOLIDATED SECTOR PERFORMANCE (INCLUDING CO-OPERATIVE BANKS)

The table below depicts an unconfirmed history of the present co-operative banking sector. The information was collated through various sources prior to 2013, when the CBDA began regulating the sector, and includes unconfirmed sector estimates based on figures provided by the Savings and Credit Co-operative League of South Africa (Saccol), the South African Microfinance Apex Fund (Samaf), and the Companies and Intellectual Property Commission (CIPC) registry from 2013.

The information for 2012/13 is based on applications to register as a CFI. A detailed analysis of the total sector, however, is not possible, as the data is representative of the two regulatory agencies (SARB and CBDA).

The sector grew favourably from 13 to 17 percent from February 2015 to February 2016.

Table 7: Unconfirmed historical data of the sector, 2010/11 to 2015/16

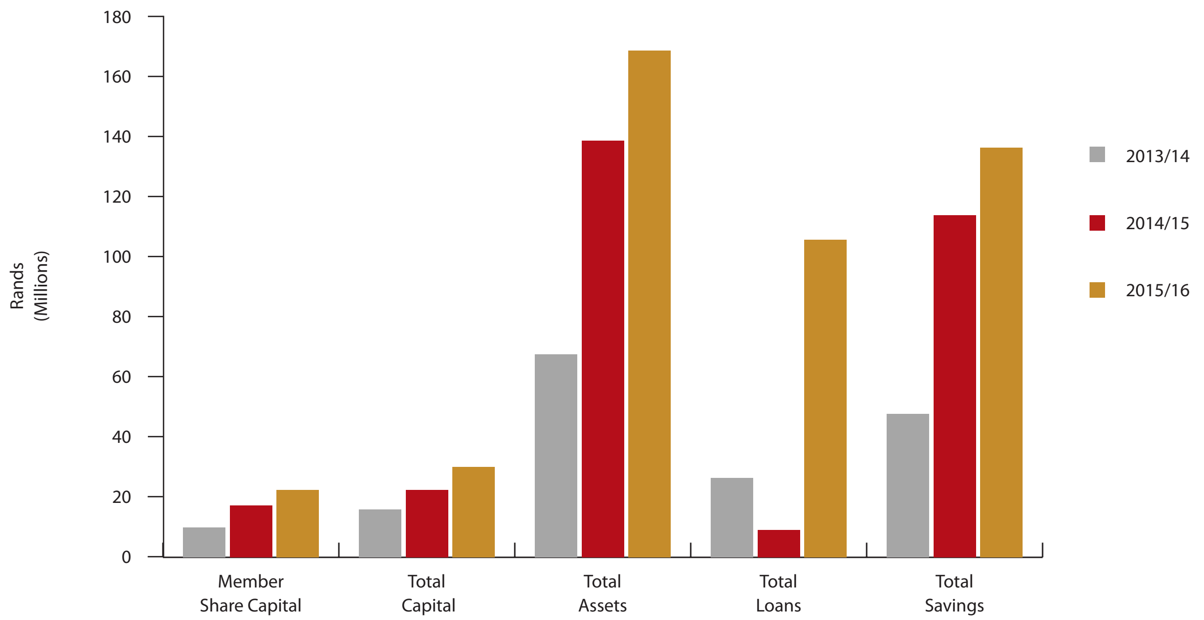
	2010/11[1]	2011/12[1]	2012/13[1]	2013/14[1]	2014/15[2]	2015/16	PERCENTAGE
No. of entities	121	106	35	26	26	30	13.33%
Membership	59 394	53 240	38 084	33 391	24 722	29 752	16.91%
Savings	R175 265 000	R196 230 000	R200 841 000	R198 624 948	R201 101 552	R233 763 289	13.97%
Loans	R116 577 000	R132 227 000	R142 310 000	R140 463 755	R152 143 102	R179 338 526	15.16%
Assets	R195 213 000	R217 506 000	R220 800 000	R231 367 670	R236 533 481	R279 624 000	15.41%

[1] *Unaudited data taken from information obtained from Saccol, Samaf, etc.*
[2] *Figures on co-operative bank returns submitted to the SARB, and on CFI returns submitted to the CBDA.*

3.3 FINANCIAL PERFORMANCE OF THE CFI SECTOR AS AT 28 FEBRUARY 2016

The analysis below relates to 28 CFIs registered and regulated by the CBDA in terms of the Banks Act Exemption Notice No. 620 for the periods February 2014, 2015 and 2016. It should be read in conjunction with the supervisory report section on the number of days taken to register CFIs and renew applications.

Figure 1: Abridged balance sheet, 2013/14 to 2015/16



3.3.1 Capital adequacy

At the end of February 2016, total capital for all registered CFIs amounted to R30 703 695, up from R22 471 411 in February 2015. This was mainly due to a 36.6 percent increase in mandatory member shares, in part attributable to new CFIs being registered.

The sector remained adequately capitalised, with the capital adequacy ratio of 13 percent at the end of February 2016 down by 3.2 percent from the previous year, mainly due to growth of 16 percent in the asset base. The ratio remained above the minimum regulatory requirement of 6 percent.

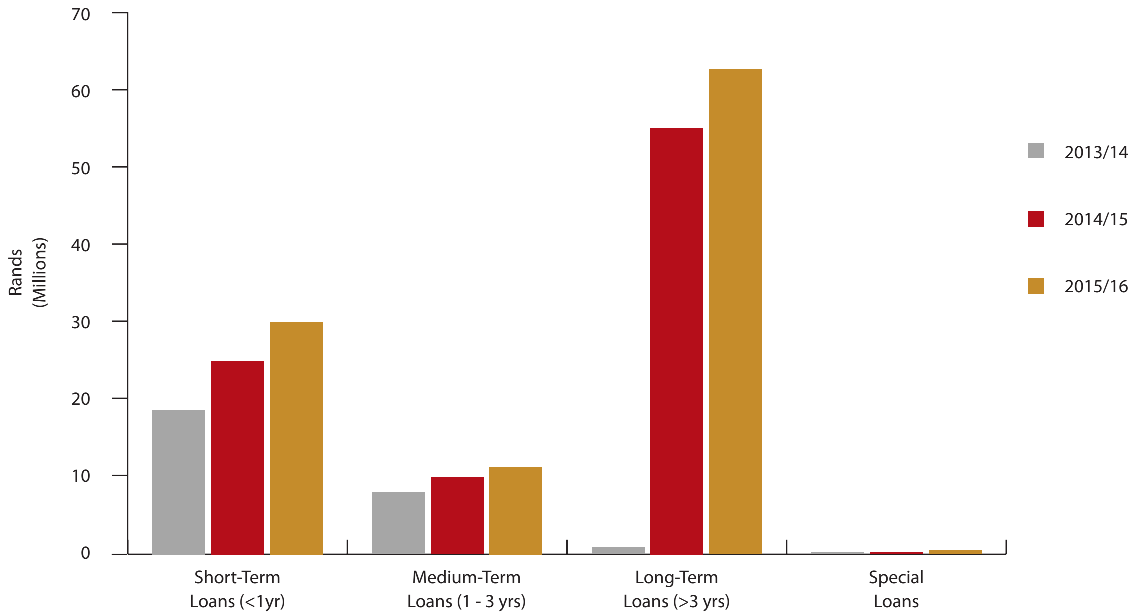
Sector solvency remained strong at 123.7 percent for the year under review, notwithstanding the growth year on year in deposits.

3.3.2 Asset quality

Net loans amounted to R108 038 526 at the end of February 2016, up from R94 107 056 year on year, caused mainly by an increase in short-term loans to members, as well as additional CFIs being registered during the year. The delinquency ratio strengthened by 7.8 percent from 13.2 percent in February 2015 to 5.4 percent in February 2016, as delinquency loans within the timespan of 3–6 months had decreased from R10 381 591 in February 2015 to R2 633 366 in February 2016.

As reflected in the next chart, the bulk of sector loans were long term (more than three years) and mostly housing loans in the larger CFIs.

Figure 2: Loan distribution, 2013/14 to 2015/16



The ratio of net loans to total assets remained relatively flat year on year at around 62.6 percent, and remained within the regulatory requirement of a maximum of 80 percent.

The ratio of savings to total assets was just under 80.8 percent in February 2016, down from 83.3 percent in February 2015. The ratio remained above the regulatory requirement of a maximum of 80 percent.

The ratio of external credit to total assets remained low at 0.4 percent in February 2016. This reflected the continued shift from grant financing in line with regulations encouraging greater independence, autonomy and self-sustainability in CFIs.

The ratio of non-earning assets to total assets slowed to 9.4 percent by February 2016 as the sector continues to search for yields on its investments. However, the ratio remains above the regulatory requirement of a maximum of 5 percent.

3.3.3 Earnings (surplus)

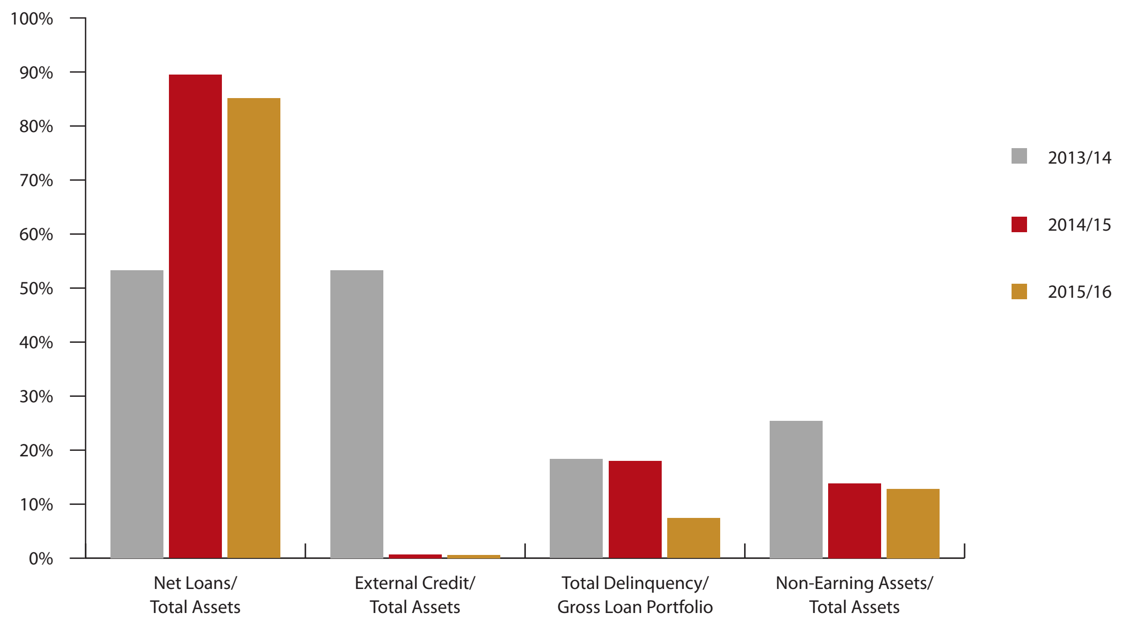
The CFI sector reported surpluses of R4 317 584 (including R1 451 285 in grant income) in February 2016, up by 51.3 percent from R2 853 152 in February 2015. This is attributable to an increase of 139 percent in interest income from loans and a 40.9 percent growth in fees and commissions.

The sector remains reliant on the core intermediary function of lending, although income from grants (external financing) increased by 145.6 percent to R1 451 285 in February 2016.

Operating expenses increased by 19.9 percent to R13 885 817 in February 2016, due to growth in personnel and administration expenses of 26.6 and 14 percent, respectively.

Profitability ratios displayed an upward trend, in particular with a return on assets (ROA) of 2.7 percent at the end of February 2016. The ratio of operating expenses to total assets remained flat at around 8.7 percent, strengthening cost-to-income ratios as a result.

Figure 3: Profitability indicators, 2013/14 to 2015/16



3.3.4 Liquidity

Total liquid assets amounted to R33 083 580 at the end of February 2016, up from R20 033 867 the previous year. Liquid assets consisted primarily of commercial bank deposits and the RSA Financial Co-operatives Retail Savings Bonds.

As a consequence, the ratio of liquid assets (less short-term payables) to total deposits decreased by 28.7 percent during the year under review. The ratio remained above the regulatory requirement of a minimum of 10 percent.

4. PERFORMANCE INFORMATION BY PROGRAMME

4.1 PROGRAMME 1: MANAGING DIRECTOR AND CORPORATE SERVICES UNIT

The Corporate Services unit is responsible for the governance, financial management and human resources (HR) of the CBDA, and for ensuring effective and efficient coordination of all the agency's activities. The unit is also responsible for managing stakeholders and the Stabilisation Fund.

4.1.1 Governance and financial management

In pursuance of its objective to communicate the CFI value proposition widely, the CBDA has published three editions of the CFI Quarterly Review and two issues of the *The Connection* newsletter.

Work on the Stabilisation Fund is forging ahead. During the year under review, the CBDA released a discussion paper soliciting comments from CFIs on the fund. In-depth communication with the CFIs in this regard will continue in the new financial year.

Activities within the CBDA's outreach programme included the following:

- Attendance of the annual workshop of the Rural Housing Loan Fund (RHLF), which is now a key stakeholder of the CBDA as it has identified CFIs and intermediaries to advance housing loans
- A presentation at the KwaZulu-Natal (KZN) Co-operatives Summit hosted by the KZN Department of Economic Development (DED)
- A presentation on value chain development in organic farming at the workshop hosted by the Small Enterprise Development Agency (Seda)
- A presentation at the Co-operatives Development Seminar, hosted by the Department of Small Business Development (DSBD) and the Netherlands Embassy
- Attendance of the Motswedi Annual General Meeting (AGM) for the official opening of the banking hall
- Attendance of the Webber Wentzel AGM – AGMs such as these enable the CBDA to learn about the interactions between CFIs and their members, which contributes to understanding members' needs and expectations
- Continued engagements and liaison with key stakeholders such as the SARB, the Department of Rural Development and Land Reform (DRDLR), Land Bank, the Small Enterprise Finance Agency (Sefa), the Department of Public Service and Administration (DPSA), and the provincial Departments of Economic Development (DED) in KZN, Gauteng, North West and the Eastern Cape.

A highlight of the year under review was the engagement with the Gordon Institute of Business Science (GIBS) business school. The CBDA first hosted a stakeholder engagement workshop to discuss and investigate reasons for the slow growth of the CFI sector. This was followed by an in-depth seven-day programme attended by CBDA employees and selected CFIs and stakeholders to explore innovative ways of making the CFI model more attractive by enhancing the CFI value proposition.

The CBDA will release a paper in the new financial year on some of the changes and enhancements to its programmes that will be implemented in this regard.

Table 8: Key performance indicators, their targets and actual results, MD and Corporate Services unit

Strategic objective: The CBDA is adequately capacitated to meet its statutory mandate and accomplish its vision and mission						
PERFORMANCE INDICATOR	ACTUAL ACHIEVEMENT, 2014/15	PLANNED TARGET, 2015/16	ACTUAL ACHIEVEMENT, 2015/16	DEVIATION FROM PLANNED TARGET FOR 2015/16	VARIANCE FROM 2014/15 TO 2015/16	COMMENT ON VARIANCES
Unqualified audit report	Unqualified audit report, 2013/14	Unqualified audit report, 2014/15	Unqualified audit report	–	–	Achieved The audit was finalised in the second quarter.
Number of MOUs/ service level agreements (SLAs) with stakeholders (new, revised and existing)	10	7	9	+2	-1	1) Financial Services Consumer Education Foundation (FSB): Financial education for CFI members 2) CIPC: Streamlined the registration process 3) Bankseta 4) National Treasury 5) Sefa 6) DRDLR 7) Eastern Cape Department of Roads and Public Works 8) Gauteng DED 9) KZN DED

Strategic objective: Members' deposits in CFIs are protected						
PERFORMANCE INDICATOR	ACTUAL ACHIEVEMENT, 2014/15	PLANNED TARGET, 2015/16	ACTUAL ACHIEVEMENT, 2015/16	DEVIATION FROM PLANNED TARGET FOR 2015/16	VARIANCE FROM 2014/15 TO 2015/16	COMMENT ON VARIANCES
Stabilisation Fund operational	Funded and partly operational	Operational	Operationalisation of the fund is still in progress	–	–	Not achieved 1) The Stabilisation Fund is still insufficiently funded. 2) Capacity challenges exist – there is no sector representative on the Stabilisation Fund Committee. 3) A discussion paper on operationalisation of the fund was circulated in the sector for comments, which have been consolidated.

Strategic objective: The CBDA brand and CFI model are widely known and recognised.						
PERFORMANCE INDICATOR	ACTUAL ACHIEVEMENT, 2014/15	PLANNED TARGET, 2015/16	ACTUAL ACHIEVEMENT, 2015/16	DEVIATION FROM PLANNED TARGET FOR 2015/16	VARIANCE FROM 2014/15 TO 2015/16	COMMENT ON VARIANCES
Number of publications and activities (e.g. magazines, newsletters, booklets, roadshows, exhibition stands, workshops)	5	4	6	+2	+1	Overachieved The CBDA published: 1) The annual report 2) Two "*The Connection* newsletters" 3) Three CFI quarterly reviews.

4.1.2 2015 CFI INDABA

The 2015 CFI Indaba was hosted by the Free State Province in Bloemfontein on 15–16 October 2015. The guest speaker, Ms Nthabiseng Mokotjo, represented the Office of the Executive Mayor. She spoke about the CFI model being a way in which communities in South Africa could benefit themselves and bring about economic transformation. Other speakers at the Indaba included:

- Mr E Biyela from the National Association of Co-operative Financial Institutions in South Africa (Nacfisa), who presented the topic of "CFIs and the future of South Africa"
- Mr J Nkambule from the African Confederation of Co-operative Savings and Credit Associations (Accosca), who spoke on the relevance of the CFI model in the modern African economy
- Mr D de Jong from the CBDA, who presented regulatory information for best practice viability and sustainability.

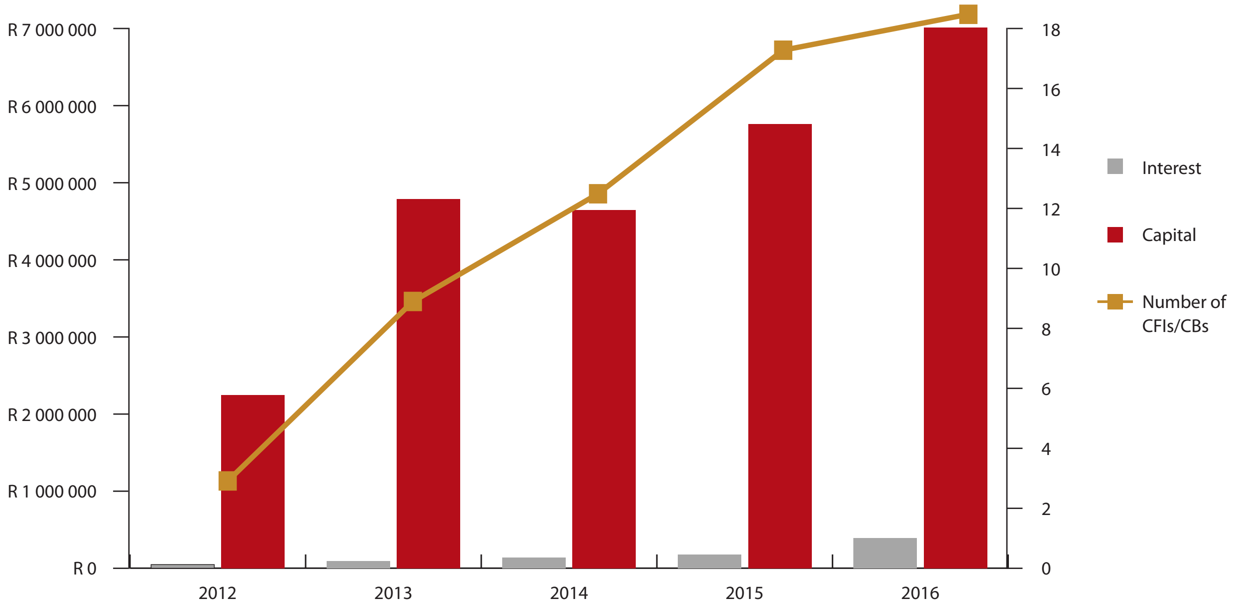
During the indaba three commissions were established to discuss the following topics:
- The role of support and representative organisations in government and stakeholder engagements
- Programmes that are required to support growth of the CFI sector
- Regulations that are required to build viable, competitive and sustainable CFIs.

More information on the outcomes of the commissions can be found in Issue 10 of *The Connection*, March 2016, published on the CBDA website.

Each year an award of financial co-operative retail bonds is presented to the three best-performing CFIs to encourage the sector to work proficiently and effectively towards growth and sustainability. The winning CFIs were KwaZulu Ladies Empowerment, Boikago, and Nehawu Sacco.

RSA FINANCIAL CO-OPERATIVE RETAIL BONDS UPDATE

Figure 4: Growth in CFI retail bond investment, 2012 - 2016



The National Treasury launched the Financial Co-operative Retail Bond in October 2011 to provide a secure savings instrument that CFIs and co-operative banks can invest in. The bond offers competitive interest rates, calculated bi-annually. Additional features take into account the uniqueness of the CFI model. Through top-ups, it allows for early withdrawals and preservation of capital with no fees and charges levied and is risk free.

There has been huge growth in the CFI retail bond investment, mainly due to an increase in the number of CFIs that invested in the bond. In 2012 only three CFIs had invested in the bonds. In 2016 the number increased exponentially to 16 CFIs (including the two co-operative banks).

There was a growth of 212 percent in the capital invested, from R1.8 million in 2012 to over R6.5 million in 2016 and total interest earned of R217 202. The CBDA encourages more CFIs to see value and invest in this investment vehicle which is risk free and provides guaranteed financial growth.

Prevailing Interest Rates - August 2016
One-Year - Co-operative Retail Bond - 7.85 per cent
Two-year - Co-operative Retail Bond - 8.00 per cent
Three-year - Co-operative Retail Bond - 8.50 per cent

HUMAN RESOURCE MANAGEMENT

The HR report summarises the employment-related activities of the CBDA from 1 April 2015 to March 2016. HR responsibilities generally include the following:

- Recruitment and selection
- Remuneration
- Skills development
- Performance management (performance agreements, reviews and evaluations).

a) HR priorities and achievements

The HR-related policies that were reviewed and approved by the CBDA Board relate to the bursary scheme; cellular phone wireless access solution; disciplinary code and grievance procedure; human resources plan; internship; leave benefits; performance management; recruitment and selection; recruitment and retention; relocation; salary advance and working hours policy.

In the period under review, the positions of five interns were filled on the banking platform: an analyst intern; the head of the Central Support Services unit; a senior analyst; a senior technical analyst; and a personal assistant.

There were four resignations and one end-of-term contract, relating to two senior analysts from the Supervision unit; a technical analyst intern from the Capacity Building unit, and two personal assistants in the Corporate Services unit.

b) Skills development and training

An MOU between the Bankseta and the CBDA that had been approved in the previous period was extended, enabling two employees to continue with their studies (an MPhil in Development Finance and a Postgraduate Diploma in Banking, respectively) in the period under review. Through personal development plans, the CBDA funded four employees with regard to training in CaseWare working papers, HR management and practices, and risk management; an MA in Business Administration; and Sage Pastel payroll and HR training.

In-house group training was given on the following topics: basic project management; basic records management; effective business writing; managing for results; managing managers for results; the PFMA; Train the Trainer; the Financial Intelligence Centre Act (2001) (FICA), and the National Credit Regulator (NCR).

c) Employee performance management framework

The Normalisation Committee finalised the 2014/15 performance assessments at its meeting in June 2015. The HR&R Committee recommended performance bonuses, which the board approved.

d) Employee wellness programmes

Employee wellness is an integral part of the HR function, as it not only promotes healthy living but also enables CBDA staff members to access guidance on work-life balance, debt counselling and substance abuse. Two employees were referred for counselling through Siyaphila, the National Treasury's wellness programme.

e) Social events

The CBDA celebrated a range of social events that were organised by the CBDA Social Events Committee and self-funded by employees. These included a year-end function, Spring Day and Valentine's Day. To celebrate Mandela Day, staff raised funds and provided food, painted and cleaned at Lerato House, a home for neglected women and children.

f) Future plans and goals

To ensure continuous achievement of the CBDA's objectives, HR will focus on priorities identified in the reviewed HR plan. These include job evaluation of new and existing positions; access to a security and qualifications verification system, a Memorandum of Agreement (MOA) with the Bankseta regarding the funding of formal studies in the 2016/17 financial year; introduction of employee benefits; and appointment of five CFI helpdesk agents who were previously in a banking platform internship – an accountant and a business analyst in the Central Support Services unit; an audit specialist in the Capacity Building unit; and two interns in the Supervision and Capacity Building units, respectively.

During the review period, the CBDA successfully made use of Mzantsi Leadership Development to facilitate the leadership development and coaching programme for its senior management. The CBDA endeavours to continue with this intervention in the new financial year.

g) Oversight statistics

Table 9: Personnel cost by programme

PROGRAMME	TOTAL EXPENDITURE (R'000)	PERSONNEL EXPENDITURE (R'000)	PERSONNEL EXPENDITURE AS A % OF TOTAL EXPENDITURE (R'000)	NO. OF EMPLOYEES	AVERAGE PERSONNEL COST PER EMPLOYEE (R'000)
Corporate Services	6 212	3 151	11%	8	394
Supervision	4 805	3 771	14%	7	539
Capacity Building	7 564	3 712	14%	6	619
Interns[1]	1 212	1 212	4%	9	135
Subtotal	**19 793**	**11 846**	**43%**	**30**	**395**
Central Support Services	7 707	483	2%	1	483
Total	**27 500**	**12 329**	**45%**	**31**	**398**

[1] The CBDA subsidised funds towards the intern's stipend from the unfilled vacant post.
[2] The Head of Central Support Services is funded from grant funding for the banking platform project.

Table 10: Personnel cost by salary band

LEVEL	PERSONNEL EXPENDITURE (R'000)	PERCENTAGE OF PERSONNEL EXPENDITURE TO TOTAL PERSONNEL COST (R'000)	NO. OF EMPLOYEES	AVERAGE PERSONNEL COST PER EMPLOYEE (R'000)
Top management	1 206	10%	1	1 206
Senior management[1]	2 534	20%	3	841
Professional qualified staff	4 972	40%	7	710
Skilled staff	2 405	20%	11	219
Interns	1 212	10%	9	71
Total	12 329	100%	31	398

[1] The Head of Central Support Services is funded from grant funding for the banking platform project.

h) Performance rewards 2015/16

Performance evaluations were conducted between management and staff – a performance bonus had been provided for this purpose. The Normalisation Committee will be convened in June/July 2016 to finalise the scoring process. It will prepare a submission for consideration by the HR&R Committee, and for consideration and approval by the CBDA Board.

i) Training costs

As a public entity, the CBDA prides itself in developing and increasing the skills of its staff. During the period under review, the agency continued to demonstrate commitment to the development of job-specific skills based on performance assessment, personal development plans, industry-related training, and a leadership and coaching programme.

Three senior managers and a middle manager attended leadership and coaching sessions, and six employees attended the CBDA Business Model at GIBS. CBDA staff also attended seven study conferences:

- "Core elements of prudential supervision" by the Africa Training Institute of the International Monetary Fund (IMF), held in Mauritius
- 5th Annual Africa Sacco Regulatory Framework Roundtable in Accra, Ghana
- Savings and Credit Co-operative Association Africa (Sacca) conference in Kenya
- Performance management workshop in Kenya
- Co-operative bank pilot project workshop and training
- International Summit of Co-operatives
- 2015 conference of the Association for Savings and Investment South Africa (Asisa).

The CBDA also funded the formal studies, short courses and training of four employees.

Table 11: Training costs, 2015/16

DIRECTORATE/ BUSINESS UNIT	PERSONNEL EXPENDITURE (R'000)	TRAINING EXPENDITURE (R'000)	TRAINING EXPENDITURE AS A % OF PERSONNEL COST	NO. OF EMPLOYEES TRAINED	AVERAGE TRAINING COST PER EMPLOYEE
Corporate Services	3 151	241	2%	4	60
Supervision	3 771	48	0.4%	5	10
Capacity Building	3 712	84	0.7%	3	28
Interns	1 212	-	-	3	-
Central Support Services	483	-	-	-	-
Total	12 329	373	3%	15	25

j) Employment and vacancies

Table 12: Employment and vacancies per unit, 2014/15 to 2015/16

PROGRAMME	NO. OF EMPLOYEES, 2014/15	APPROVED POSTS, 2015/16	NO. OF EMPLOYEES, 2015/16	VACANCIES, 2015/16	% OF VACANCIES
Supervision	6	6	6	0	-
Capacity Building	5	6	6	0	-
MD and Corporate Services	5	5	5	0	-
Central Support Services	0	0	1	0	-
Total	16	17	18	0	0

Table 13: Employment and vacancies per skills level, 2014/15 to 2015/16

PROGRAMME	NO. OF EMPLOYEES, 2014/15	APPROVED POSTS, 2015/16	NO. OF EMPLOYEES, 2015/16	VACANCIES, 2015/16	% OF VACANCIES
Top management	1	1	1	0	-
Senior management	2	3	3	0	-
Professional qualified staff	7	7	7	0	-
Skilled staff	6	7	7	0	-
Total	16	18	18	0	0

k) Employment changes

During the period under review, the CBDA made seven new appointments to fill the positions of the Head of Central Support Services; senior technical analyst (Capacity Building); senior analyst (Supervision); temporary HR assistant (Corporate Services); three personal assistants (Corporate Services). Two appointments were made on short-term contracts.

Table 14: Appointments and terminations, as at the end of 2015/16

SALARY BAND	EMPLOYMENT AS AT 31 MARCH 2015	APPOINTMENTS	TERMINATIONS	EMPLOYMENT AT END OF THE PERIOD 2015/16
Top management	1	-	-	1
Senior management	2	1	-	3
Professional qualified	7	1	-	7
Skilled	6	5	5	7
Total	16	7	5	18

l) Labour relations: formal grievances

No formal grievances were received during the period under review.

m) Equity target and employment equity status

The CBDA recognises its responsibility as a public entity to equalise opportunities for socio-economically and educationally disadvantaged people, defined as Black (African, Indian and Coloured persons), women and the disabled.

As an organisation with a staff complement of fewer than 50, the CBDA is not required to meet the regulated quotas. As the agency expands, however, it will endeavour to ensure that the African-Indian-Coloured ratios are maintained as regulated. In so doing, the CBDA will help to develop and increase the skills of members of the formerly disadvantaged population.

Table 15: The CBDA's current employment equity status

LEVEL	MALE A	MALE C	MALE I	MALE W	FEMALE A	FEMALE C	FEMALE I	FEMALE W	TOTAL
Top management					1				1
Senior management				2	1				3
Professional qualified	3				3		1		7
Skilled	2				9				11
Total	5			2	14		1		22

Note: A = African, C = Coloured, I = Indian, W = White.

n) Disabled staff

The CBDA had no disabled staff members during the period under review.

4.2 PROGRAMME 2: SUPERVISION UNIT

The Supervision unit derives its mandate to supervise and regulate CFIs through the Banks Act Exemption Notice No. 620 (Designation of an activity not falling within the meaning of the "business of a bank"), on condition that the CFI subjects itself to the supervision and regulation of the CBDA.

The CBDA currently supervises CFIs that fall into these categories:

1. Any CFI that chooses to identify itself by use of the name financial co-operative; financial services co-operative (FSC); credit union; or savings and credit co-operative (Sacco); and the members of which have an identifiable common bond
2. CFIs that are approved to hold contributions from members to an amount not exceeding R40 million
3. CFIs with up to 200 members and a members' share capital of more than R100 000
4. CFIs with more than 200 members and deposits of more than R1 million, which do not meet the requirements for registering with the SARB as a co-operative bank with deposits up to R30 million.

The CBDA function also includes registering and regulating representative bodies, as well as accrediting and regulating support organisations.

Highlights for the Supervision unit during the year under review were as follows:

- Of the 10 applications for registration that were received, eight were processed.
- Some 16 onsite analyses were conducted, of which 11 were risk based.
- A total of 74 offsite analyses of CFIs were conducted.
- Self-assessment of compliance with the Basel Core Principles (BCPs) was completed.
- A centralised workshop on the online application and return submission portal was held with 47 delegates from 27 CFIs. The CFIs were able to register on the portal and upload returns for the third quarter.

Table 16: Key performance indicators and their targets and actual results, Supervision unit

Strategic objectives: A CFI sector that is institutionally safe and sound

PERFORMANCE INDICATOR	ACTUAL ACHIEVEMENT, 2014/15	PLANNED TARGET, 2015/16	ACTUAL ACHIEVEMENT, 2015/16	DEVIATION FROM PLANNED TARGET FOR 2015/16	VARIANCE FROM 2014/15 TO 2015/16	COMMENT ON VARIANCES
Timeframe for registration to be responded to	-	10 days	10 days	-	-	Achieved
Percentage of registration decisions made within three months of receipt	-	75%	88%	+13%	-	Achieved Seven out of eight application registration decisions were taken within three months. Two applications were carried over to the new financial year.
Number of onsite inspections conducted at CFIs	19	16	16	-	-3	Achieved
Number of offsite reports of CFIs analysed	68	60	75	15	+7	Achieved Returns compliance was better than projected.
Time frme to recommend remedial actions to CFIs	-	Within three months of identification	-	-	-	There were no troubled CFIs needing resolution.
Percentage compliance with BCPs for effective supervision of deposit-taking microfinance institutions	82%	85%	84%	-1%	+2%	Not achieved Compliant to only 21 out of 25 BCPs.

Strategic objectives: A CFI sector that is institutionally safe and sound						
PERFORMANCE INDICATOR	ACTUAL ACHIEVEMENT, 2014/15	PLANNED TARGET, 2015/16	ACTUAL ACHIEVEMENT, 2015/16	DEVIATION FROM PLANNED TARGET FOR 2015/16	VARIANCE FROM 2014/15 TO 2015/16	COMMENT ON VARIANCES
Number of CFI applications and returns processed online through a return submission portal	-	10 CFIs utilising the portal	27	+17	-	Overachieved A total of 27 CFIs attended the portal workshop and registered their applications on the portal.
Number of performance-based examinations conducted through an automated onsite examination process	-	Electronic onsite examinations conducted on five CFIs	0	-	-	Not achieved The onsite examination portal has been designed, but is unable to be hosted on the National Treasury network.

4.2.1 CFI applications

a) Timeframe for responses to registration applications

The Supervision unit aims at responding to applications within 10 days of receipt, and to make registration decisions for at least 75 percent of applications within three months of receipt.

During the year under review, eight new applications for registration as CFIs were received and all were acknowledged within 10 days of receipt. Two of those had been submitted late in 2015/16 and will be reviewed in the new financial year.

b) Percentage of registration decisions made within three months of receipt

Eight application decisions were made, seven of which were within the targeted three-month period. The decision regarding the CFI that fell outside this target was delayed due to the CFI having applied for extension to submit outstanding documentation.

Six applications were successfully registered as CFIs, as shown in the table below.

Table 17: Six financial services entities registered as CFIs

CFI	PROVINCE	REGISTRATION DATE	COMMON BOND
Greater Tzaneen	Mpumalanga	8 April 2015	People living and working in the Greater Tzaneen Municipality
Samwu Sacco	Western Cape	20 July 2015	Members or employees of Samwu
Young Women in Business Network (YWBN)	National	18 November 2015	Members of the YWBN
SA Primary Medical Financial Co-operative	Western Cape	14 November 2015	Medical practitioners who are members of any of the following associations: 1. Health Professions Council of South Africa 2. South African Nursing Council 3. Pharmaceutical Society of South Africa 4. South African medical, homeopathic, physiotherapy or psychological associations and societies 5. Board of Healthcare Funders of Southern Africa 6. Council for Medical Schemes 7. South African Institute of Health Care Managers 8. South African hospital, day hospital or renal care associations 9. South African Veterinary Association 10. Any other group approved by the supervisor of CFIs
Imvelo Agricultural Co-op	Eastern Cape	11 January 2016	Agricultural co-operatives in the Eastern Cape, including individual members within a co-operative
Sekhukhune	Limpopo	22 January 2016	People residing in the Sekhukhune district

c) Rejections

During the period under review, two applications were rejected, primarily because they either failed to submit all the required supporting information within the prescribed time period after the preliminary assessment, or applied to be a co-operative bank (as opposed to being a CFI), or a combination of these reasons.

Table 18: Reasons for rejected applications

INSUFFICIENT MEMBERSHIP	INSUFFICIENT SHARES	INCOMPLETE APPLICATION	APPLIED TO BE A CO-OPERATIVE BANK
0	0	2	1

4.2.2 Deregistration

One CFI was deregistered during the period under review, as detailed below.

Table 19: Deregistration of the NIC Sacco

CFI	PROVINCE	LOCATION	DATE DEREGISTERED	REASON FOR DEREGISTRATION
National Industrial Chamber (NIC) Sacco	Gauteng	Pretoria	26 October 2015	Five consecutive infringements, as well as non-availability for examinations

4.2.3 Non-renewals

Mpumalanga Farmers FSC did not apply for renewal of registration and is currently not registered with the CBDA. However, this FSC is on the CBDA's priority list for support in 2016/17. The supplier technical assistants (STAs) plan to work with the Chris Hani Co-operative Development Centre to learn lessons on how they implemented the value chain financing model for Imvelo Agricultural CFI, which they are supporting. From there the STAs will rope in relevant stakeholders to assist Mpumalanga Farmers FSC in improving not only its CFI performance, but also its core business, which is farming. This decision was tabled at the multistakeholder meeting held at Sefa on 9 May 2016.

As at 28 February 2016, there were 28 registered CFIs, of which 14 are considered large CFIs (i.e. they have more than R1 million in members' deposits). The consolidated statistics for the registered CFIs are reflected in the table below.

Table 20: Consolidated registered CFI statistics, 29 February 2016[1]

	PROVINCE	CFIS	MEMBERS	ASSETS (R)	NET LOANS (R)	DEPOSITS (R)
1	Eastern Cape	Imvelo Agricultural CFI	228	168 000	0	0
2	Free State	Nnathele FSC Ltd	312	132 076	3 900	34 041
3	Gauteng	GI Group FC	360	3 557 472	1 403 865	1 620 141
4		Kleinfontein Sacco	449	37 451 419	26 854 583	35 691 724
5		MmetlaKhola Stokvel FSC	352	1 980 759	1 746 431	1 926 761
6		Nagrik FSC	303	2 363 600	1 781 067	896 302
7		Nehawu Sacco	9 369	20 907 939	18 660 422	13 746 347
8		Oranjekas Sacco	950	48 265 608	39 736 117	43 830 308
9		Thari E Ntsho FS[1]	210	194 238	7 448	73 630
10		Webbers Sacco	855	7 241 814	3 135 765	1 243 614
11		YWBN FSC	251	2 680 868	0	20 941

	PROVINCE	CFIS	MEMBERS	ASSETS (R)	NET LOANS (R)	DEPOSITS (R)
12	KZN	Cebisa FSC	405	1 401 747	888 108	1 405 183
13		Kings Grange Stokvel FSC	239	703 147	535 065	206 047
14		KwaMachi FSC	735	815 468	293 963	687 480
15		KwaZulu Ladies Empowerment FSC	1 580	3 748 869	2 680 118	3 173 604
16		Ubambiswano FSC	296	1 144	-14 196	15 305
17		Ziphakamise Sacco	547	5 255 461	3 208 217	3 962 122
18	Limpopo	Bakenberg FSC	1 457	1 295 663	354 080	772 442
19		Greater Tzaneen FSC	273	111 221	0	3 460
20		Kuvhanganyani FSC	417	1 892 548	584 965	1 275 778
21		Mathabatha FSC	1 862	2 748 058	1 496 504	2 559 148
22		Mutapa FSC	341	288 534	130 779	136 245
23		Sekhukhune CFI	253	130 201	0	0
24	North West	Boikago Sacco	964	4 876 907	3 176 014	2 852 494
25		Motswedi FSC[2]	2 074	15 926 748	27 417	15 469 175
26	Western Cape	Medi Co-op CFI	261	320 424	0	0
27		Samwu Sacco	1 794	7 323 021	1 347 894	7 533 206
28		Worcester Community Sacco	357	401 046	0	171 791
	Total		27 494	172 184 000	108 038 526	139 307 289

[1] *All data is based on CFI returns and not audited figures.*

[2] *Included as November 2015 returns, as the February 2016 returns are outstanding.*

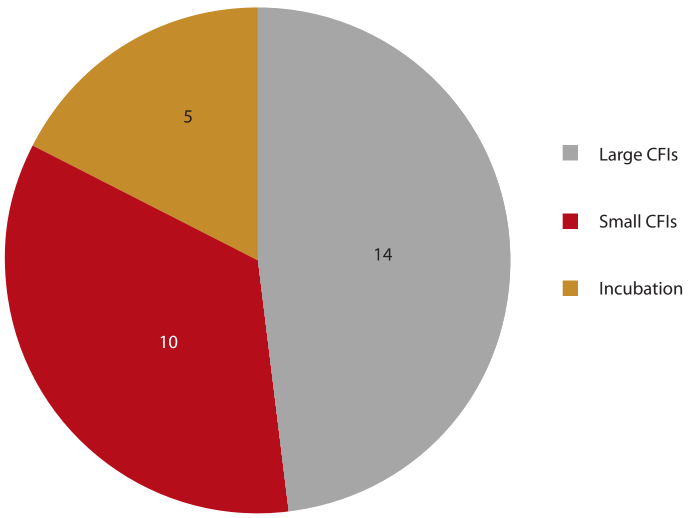
4.2.4 Onsite examinations conducted at CFIs

The CBDA's supervision examination framework consists of detailed risk-based onsite examinations for the larger CFIs with more than R1 million in deposits, and a compliance-based checklist for the smaller CFIs with less than R1 million in deposits. Risk-based onsite examinations can either be full scope, focusing on the total operations of the CFI, or targeted, focusing on specific risk areas as per the previous full scope examinations or offsite analyses. Two different rating scales are assigned: a Camels rating and an overall risk rating. The framework is designed to take into account the nature and size of CFIs in order to minimise the regulatory burden.

During the year under review, the CBDA regulated a total of 29 CFIs. The Supervision unit classifies CFIs into three groups: large CFIs (with more than R1 million in deposits), small CFIs (with less than R1 million in deposits), and CFIs under incubation, which typically are start-up CFIs or those struggling with compliance and operational requirements.

There were five CFIs under incubation by the Capacity Building unit: Mpumalanga Farmers FSC, Thari E Ntsho FS, Ubambiswano FSC, Nnathele FSC Limited, and Worcester Community Sacco. While they remain solvent, as start-ups they require assistance before the Supervision unit can conduct any meaningful examinations. The breakdown is highlighted in the figure on the next page.

Figure 5: CFI classification by size



a) Onsite examinations

As at 28 February 2016, 15 registered CFIs were considered large CFIs and were eligible for risk-based onsite examinations, whether targeted or full scope. During the period under review, 11 risk-based examinations were conducted on 11 CFIs, of which two were targeted examinations. The overall Camels rating of the examined institutions is shown in the table below.

Table 21: Camels rating for 11 large CFIs

CAMELS RATING	NUMBER OF CFIS	RATING DESCRIPTION
1 (Strong)	0	The CFIs are basically sound in every respect. Any adverse findings or comments are of a minor nature and can be handled in a routine manner. As a result, such CFIs give no cause for supervisory concern.
2 (Satisfactory)	1	CFIs in this group are fundamentally sound, but may reflect modest weaknesses that can be corrected in the normal course of business. The nature and severity of deficiencies are not considered material. While areas of weakness could develop into conditions of greater concern, the supervisory response is limited to the extent that minor adjustments are resolved in the normal course of business and operations continue satisfactorily.
3 (Fair)	5	CFIs in this category exhibit financial, operational or compliance weaknesses that range from moderately severe to unsatisfactory. When weaknesses relate to financial condition, these could easily deteriorate if concerted action is not effective in correcting the areas of weakness. They give cause for supervisory concern and require more than normal supervision to address deficiencies. Overall strength and financial capacity, however, are still such as to make failure only a remote possibility.
4 (Weak)	3	CFIs in this group have an immoderate volume of serious financial weaknesses or a combination of other conditions that are unsatisfactory. Major and serious problems or unsafe and unsound conditions may exist, which are not being addressed or resolved satisfactorily. Unless effective action is taken to correct these conditions, they could reasonably develop into a situation that could impair future viability and/or constitute a threat to the interests of depositors. A higher potential for failure is present, but is not yet imminent or pronounced. Co-operative banks in this category require close supervisory attention and a definitive plan for corrective action.

CAMELS RATING	NUMBER OF CFIS	RATING DESCRIPTION
5 (Poor/Critical)	2	CFIs in this group have an extremely high immediate or near-term probability of failure. The volume and severity of weaknesses or unsafe and unsound conditions are so critical as to require urgent aid. In the absence of urgent and decisive corrective measures, these situations will likely result in failure and/or some form of emergency assistance required.

As seen above, most of the registered CFIs exhibit financial, operational or compliance weaknesses that could easily deteriorate if concerted action does not succeed in correcting the areas of weakness. The attendant Camel components are also mirrored below in the overall composite risk matrix for the nine CFIs that underwent a full-scope risk assessment.

Table 22: Overall composite risk matrix for nine CFIs, 2016

TYPE OF RISK	CFI 1	CFI 2	CFI 3	CFI 4	CFI 5	CFI 6	CFI 7	CFI 8	CFI 9
Credit risk									
Interest rate risk									
Liquidity risk									
Operational risk									
Compliance risk									
Strategic risk									
Reputation risk									

Consistent with the prior year, credit, liquidity, operational and strategic risks are the main supervisory concerns for the sector, although there has been an improvement year on year with regard to compliance risk. Although most of the CFIs have policies for the different risk categories, in most cases limited correlation exists between the policies and the actual processes in place. In some instances where these issues have been raised with management and the board during the examination process, there are limited skills and capacity within the CFIs to address the identified challenges.

Three CFIs were not examined during the period under review – one CFI had changed premises and did not have a fully operational structure; the second CFI needed to translate documents; whereas the third CFI had not applied for renewal. Three other CFIs were registered in the last quarter and will be examined in the forthcoming financial year.

b) Compliance assessments

A total of 14 registered CFIs had less than R1 million in deposits and hence were eligible for onsite compliance assessment during the period under review. Of these CFIs, five were under incubation by the Capacity Building unit and the onsite compliance assessment checklist was waived, with the exception of one CFI. This CFI underwent a joint onsite assessment involving both the Capacity Building and Supervision units and was consequently placed under incubation.

Five compliance onsite assessments were conducted during the year under review. Four additional CFIs were registered but were not subjected to compliance assessments as they had a negligible deposit base and still had to assume full operations. Such CFIs are referred to the Capacity Building unit for technical assistance and are monitored through quarterly reporting offsite.

Compliance assessment is geared towards assisting CFIs to adhere fully to basic internal controls, and to ensure compliance with the Exemption Notice and the CBDA rules issued in terms of the notice. The checklist questionnaires require only "yes" or "no" responses, and comments if applicable. CFIs are rated on 20 compliance categories and supervisory requirements, and suggested actions aimed at identified gaps relating to internal policies and procedures are stated at the end of the report.

Typical deficiencies noted during compliance assessments are as follows:

- Non-adherence to own policies with regard to loan issuance and approval
- Low balance sheet growth

- Boards not meeting or improperly constituted
- Premises not considered conducive for banking operations
- Inadequate internal controls over cash management.

Achieved: The Supervision unit achieved its target of conducting 16 onsite examinations during the year under review. As explained above, three CFIs were not examined.

4.2.5 Offsite reports of assessed CFIs

Offsite reporting enhances the development of an effective risk-based approach by enabling the Supervision team to monitor the financial performance of registered CFIs constantly. It also serves as an early warning system, allowing the CBDA Supervisor to take proactive measures for ensuring the safety and soundness of the CFI sector.

The main source of information is the financial and prudential returns received quarterly from the CFIs, along with other periodic data, such as audited AFS. Fully fledged reviews, analyses and assessments of the CFIs' financial statements are carried out, including a Pearls financial ratio analysis. The table below shows the number of CFIs that submitted returns over the period under review.

Table 23: Quarterly returns submissions of CFIs, 2015/16

	Q1	Q2	Q3	Q4
Number of registered CFIs	25	25	25	29
Number of returns received	20	24	20	21
Number of returns assessed	19	19	19	18

Six CFIs were registered during the year under review. CFIs that fail to submit their returns on time, or whose financial performance has significantly deteriorated (relating mostly to solvency and capital) are issued with infringement notices and are required to address the infringement. On numerous occasions the CBDA received quarterly returns after infringement notices had been sent to non-compliant CFIs.

Achieved: The Supervision unit exceeded its target in this regard, which reflects the increased number of registered CFIs and the improvement in the level of compliance with quarterly reporting.

4.2.6 Time taken to implement the resolution of CFIs

During the year, the Supervision Unit reviewed its internal guidelines for intervention in problem CFIs. The guidelines promote awareness and transparency of the intervention process which the CBDA Supervisor uses to oversee CFIs. They outline the kind of involvement a CFI can expect from the supervisor and summarise the circumstances under which certain supervisory actions may take place. The adoption of the reviewed rules has also been taken into account.

The guidelines also emphasise the need to ensure that interventions in CFIs are timely and consistent. Moreover, troubled CFIs that can be saved from failure should be assisted, and those that cannot be saved should be allowed to exit as early as possible.

While no CFIs were identified as being problematic, the Supervision and Capacity Building units initiated a joint initiative for a CFI that is currently under incubation. Joint examinations were conducted and a programme was developed to assist the CFI to apply for renewal and to outline a problem resolution framework for helping the CFI to "grow out" of trouble.

Achieved: No registered CFIs required activation of the resolution framework for problem CFIs.

4.2.7 Percentage compliance with Basel Core Principles for effective supervision of deposit-taking microfinance institutions

The Basel Committee on Banking Supervision provides a forum for regular cooperation on banking supervisory matters. Its objective is to enhance understanding of key supervisory issues, and to improve the quality of banking supervision worldwide. The CBDA's Supervision unit uses the Basel Committee's Microfinance Activities and the Core Principles for Effective Banking Supervision as supervisory guidance in applying the BCPs for effective banking supervision to microfinance activities, as well as the range of practices for regulating and supervising microfinance activities.

The Supervision unit conducts annual self-assessments to benchmark its own practices, rules, regulations and procedures against the BCPs reflected in the table below.

Table 24: The CBDA's Supervision unit measured against the Basel Core Principles

CORE PRINCIPLE	COMPLIANCE
Principle 1: Objectives, independence, powers, transparency and cooperation	Compliant
1.1 Responsibilities and objectives	Compliant
1.2 Independence, accountability and transparency	Compliant
1.3 Legal framework	Compliant
1.4 Legal powers	Compliant
1.5 Legal protection	Compliant
1.6 Cooperation	Compliant
Principle 2: Permissible activities	Compliant
Principle 3: Licencing criteria	Compliant
Principle 4: Transfer of significant ownership	n/a
Principle 5: Major acquisitions	n/a
Principle 6: Capital adequacy	Compliant
Principle 7: Risk management process	Non-compliant
Principle 8: Credit risk	Compliant
Principle 9: Problem assets, provisions and reserves	Non-compliant
Principle 10: Large exposure limits	Compliant
Principle 11: Exposures to related parties	Compliant
Principle 12: Country and transfer risk	n/a
Principle 13: Market risks	Compliant
Principle 14: Liquidity risks	Compliant
Principle 15: Operational risk	Compliant
Principle 16: Interest rate risk in the banking book	Non-compliant
Principle 17: Internal control and audit	Compliant
Principle 18: Abuse of financial services	n/a
Principle 19: Supervisory approach	Compliant
Principle 20: Supervisory techniques	Non-compliant
Principle 21: Supervisory reporting	Compliant
Principle 22: Accounting and disclosure	Compliant
Principle 23: Corrective and remedial powers of supervisors	Compliant
Principle 24: Consolidated supervision	n/a
Principle 25: Home-host relationships	n/a

The principles highlighted in orange reflect areas in which the Supervision unit is mostly compliant. The unit continually strives to develop guidelines and policy papers and to adapt CBDA rules to adhere to these principles and to deal with those it does not comply with.

Following extensive consultation with the sector and other interested parties, the unit also published the amended CBDA rules on 1 July 2015, to address gaps in the legislative framework of CFIs.

In its endeavours to ensure adequate compliance with the BCPs, the Supervisory unit has proposed that the International Credit Union Regulators' Network (ICURN) be requested to conduct an external review of the CBDA's regulation and supervision of the South African CFI sector.

Formed in 2007, ICURN is an independent international network of statutory credit union regulators. It promotes the guidance given by the leaders of the Group of 20 (G-20) nations for greater international coordination among financial services regulators.

Not achieved: The unit achieved self-assessed compliance to 21 of the 25 identified core principles. This gives an overall compliance rating of 84 percent for the year under review.

4.2.8 Online application and return submission portal

This performance indicator entails the design and implementation of an online application and return submission portal and back office system for the Supervision unit. The project aims to streamline the process whereby CFIs submit applications and returns, in order to provide innovative and efficient supervisory tools and techniques for the sector.

Most of the work during the year under review centred around designing and testing the portal in conjunction with an external consultant. The portal uses a web interface that is easily accessible to all CFIs. In March 2016, a user testing workshop was conducted, where CFIs were able to dry-run the system and identify potential glitches and areas for further improvement. The feedback was generally positive, with 46 CFI delegates attending the workshop. A total of 27 applications, albeit of existing CFIs, were logged onto the system and 27 returns were submitted.

Achieved: The glitches and other necessary enhancements picked up during the user testing will be resolved and deployed in the new financial year.

4.2.9 Onsite development of a compliance application

Following discussions with the National Treasury's information technology (IT) department, it was found that the CBDA and the Supervision unit would not need to seek a tender for the development of the mobile application (app). The unit then requested the IT department to design the app.

Meetings were held with the IT team to discuss the specifications required for the app. Details of the process flow of the unit's current processes pertaining to onsite compliance assessment were discussed.

The screenshot and table that follow on the next two pages reflect what the IT team designed and developed, and which could be accessed on the team's test webpage (https://perf100.sharepoint.com/sites/cfi/_layouts/15/start.aspx#/CFI/Forms/AllItems.aspx).

Figure 6: Landing screen for entering the name of the CFI to be assessed, the date and the name of the person conducting the assessment

CO-OPERATIVE
BANKS DEVELOPMENT AGENCY

27th floor, 240 Vermeulen Street | Private Bag X115 Pretoria 0001 | Tel: 012 315 5367 | Fax: 012 315 5905 | email: CBDA@treasury.gov.za

COMPLIANCE CHECKLIST FOR
A CFI INSPECTION

CFI NAME: ____________________

DATE OF INSPECTION: ____________________

INSPECTORS: ____________________

- [ ] Preface and introduction
- [ ] Duties and responsibilities of an Inspector
- [ ] On the use of this Checklist
- [ ] Reporting the Results of an inspection

BEGIN

Table 25: Question index for management

PHYSICAL INFRASTRUCTURE					
					Management
	Yes	No	n/a	Comments	1. Physical infrastructure
1. Are the premises easy to locate?					2. Fixed assets 3. Office supplies 4. Appearances 5. Staffing
					Financial Management
2. Is the building secured against crime? (Does it have permanent, solid walls, ceilings and floors, and is it located in a low-crime area)?					1. Dash records 2. Administration 3. Loan disbursements
3. Is the gate locked overnight, with adequate security personnel onsite?					4. Loans collection 5. Accrued interest and member loan records
4. Are all doors and windows well secured to prohibit forced entry?					6. Expenses
5. Are at least two different keys required to unlock the building's doors?					7. Policies and procedures 8. Governance
6. Are at least two different keys required to unlock the strongroom (safe room) door?					
7. Is the strongroom secured to prohibit forced entry?					
8. Is the safe fixed to a wall or floor to prevent its removal?					
9. Are the safe keys held separately at all times by a senior staff member?					
Resume Later	Return to Beginning			Next	Exit & Clear Inspection

The assessment is broken down in different areas on the app and, once selected, the area expands into the specific questions outlined.

Not achieved: Although the Supervision unit was ready to test the app, the IT team was concerned that the app could not be deployed onto the National Treasury's server due to maintenance being done. Upon further enquiry, the IT team advised the unit that the app can be deployed once agreement has been reached on the online application and return submission system that the unit is also developing.

4.3 PROGRAMME 3: CAPACITY BUILDING UNIT

The Capacity Building unit is responsible for supporting, promoting and developing CFIs, and encouraging the establishment of representative bodies and support organisations.

In carrying out this responsibility, the unit determines the sector's training needs and develops appropriate programmes for enhancing capacity in conjunction with stakeholders, such as representative bodies, the Bankseta, other development agencies and universities. It also focuses on ensuring the design and accreditation of CFI-specific courses, as well as developing and/or adopting appropriate training material for such curricula.

During the year under review, the unit's activities were guided by a single strategic objective and five performance indicators.

Some of the unit's highlights for the 2015/16 financial year include the following:

- Preregistration support was provided to organised groups, resulting in three being registered as CFIs.
- The Diploma in Co-operative Banking commenced at the University of Fort Hare, with 25 students for the first intake.
- Three CFIs went live on the banking platform.
- A R10 million SLA over three years was signed with the DRDLR, in order to assist the co-operatives supported by this department to register as CFIs and, ultimately, as co-operative banks.
- Impact assessments of the capacity-building programmes were concluded, and their recommendations have informed the review of the unit's programmes for the 2016/17 financial year.
- Financial reporting by the CFIs has improved.

Table 26: Key performance indicators, their targets and actual results, Capacity Building unit

Strategic objective: An adequately capacitated CFI sector						
PERFORMANCE INDICATOR	ACTUAL ACHIEVEMENT, 2014/15	PLANNED TARGET, 2015/16	ACTUAL ACHIEVEMENT, 2015/16	DEVIATION FROM PLANNED TARGET FOR 2015/16	VARIANCE FROM 2014/15 TO 2015/16	COMMENT ON VARIANCES
Number of organised groups – public sector state-owned entities (SOEs), unions, etc. – assisted in establishing CFIs	–	2	3	+1	+3	Overachieved The unit had a focused programme for organised groups in the 2015/16 financial year and the sector appeared to be gaining momentum, as more requests for assistance were received compared with previous years. Three entities registered: YWBN (Gauteng), Imvelo Agricultural Co-op (Eastern Cape) and Sekhukhune (Limpopo).
Number of CFIs provided with direct technical assistance	1	15	25	+10	+24	Overachieved Through the combined efforts of all team members, more CFIs received direct technical assistance.
Number of CFIs using the banking platform	–	10	3	–7	+3	Not achieved The banking platform had some teething problems, as expected from ICT projects of such magnitude. Three CFIs went live on the banking platform: MmetlaKhola FSC, KwaZulu Ladies Empowerment FSC and Kings Grange Stokvel FSC.

Strategic objective: An adequately capacitated CFI sector						
PERFORMANCE INDICATOR	ACTUAL ACHIEVEMENT, 2014/15	PLANNED TARGET, 2015/16	ACTUAL ACHIEVEMENT, 2015/16	DEVIATION FROM PLANNED TARGET FOR 2015/16	VARIANCE FROM 2014/15 TO 2015/16	COMMENT ON VARIANCES
Number of board members, committee members, managers and staff trained	300	100	419	+319	+119	Overachieved
The funding from the Bankseta and the Gauteng and KZN DEDs made it possible for the unit to exceed its annual targets. More board members, staff, managers and committee members were trained, including support personnel from the respective stakeholders.	1	1	1	–	–	

4.3.1 Organised groups (public sector SOEs, unions, etc.) assisted with the establishment of CFIs

After initial contact with the CBDA, four groups with the potential to register as CFIs were given preregistration support. Their elected leaders received training in the legislative framework, CFI start-up guide, constitution, business plan, CFI sustainability model and policies. The four groups were also left with the study circles material, so that the leaders could continue transferring knowledge to their constituencies. The groups were as follows:

- The women of the YWBN
- A group of art and crafts co-operatives operating in four provinces – Mpumalanga, Eastern Cape, Limpopo and KZN. This group is assisted by the DRDLR.
- A group of agricultural farmers from the Eastern Cape, supported by the Eastern Cape Development Corporation and the Chris Hani Co-operative Development Centre.
- Members from the Sekhukhune district in Limpopo.

The art and crafts group is at an advanced stage in terms of meeting the requirements to register as a CFI. The CBDA continues to work with the group with the prospect of registration in 2016/17.

Achieved: Three groups submitted their applications and were registered as CFIs: Imvelo FSC, YWBN FSC and Sekhukhune FSC.

4.3.2 Committee members, managers, staff and board members successfully trained

Thanks to funding from the Bankseta and the KZN DED, the unit was able to exceed its training target. A total of 418 committee members, managers, staff and board members were trained successfully.

Achieved: The annual target was exceeded due to additional funding from the Bankseta and the KZN DED.

4.3.3 CFIs provided with direct technical assistance

The Capacity Building unit provided a range of direct technical support services to all registered CFIs in the form of mentorship, coaching, performance assessments, action plan monitoring and on-the-job training. Purposeful efforts were made to address red flags raised by the Supervision unit and to improve performance and compliance.

Most CFIs experienced challenges, high levels of loan delinquency, inaccurate reporting and high cost-to-income ratios. In responding to these challenges, the unit conducted a solvency management workshop, developed action plans to deal with runaway delinquency, and held policy review workshops. It is envisioned that the banking platform system will reduce some of the inaccuracies in financial reporting.

Achieved: Altogether 25 CFIs were provided with direct technical assistance. The target of 15 CFIs was exceeded due to the combined efforts of the Capacity Building team in rendering direct technical assistance services. Only one CFI submitted an application to register as a co-operative bank with the SARB.

4.3.4 CFIs using the banking platform

Three CFIs went live on the banking platform system: MmetlaKhola FSC, KwaZulu Ladies Empowerment FSC and Kings Grange Stokvel FSC.

Not achieved: The target of 10 CFIs could not be reached mainly due to the complexity and technical nature of the project with regard to system dependencies and data migration.

4.3.5 Impact assessment of capacity-building initiatives conducted and reports submitted per year

The CBDA commissioned TechnoMobile Consulting to conduct an impact assessment of programmes and interventions the Capacity Building unit had implemented in the CFI sector. The assessment focused on the unit's interventions in six key areas of CFI development: management capabilities, governance, financial management, policies and procedures, marketing and products, and co-operative principles.

A further focus of the assessment was to ascertain the ability of direct technical assistance to solve problems in the CFIs.

The impact assessment found that performance in the CFIs had improved over time as a result of capacity-building interventions. The majority of CFIs noted that the direct technical assistance they received was relevant and of a high quality, and had resulted in positive changes in efficiency, as well as a sizable knowledge and skills transfer.

The unit is currently reviewing its service offerings in order to incorporate the recommendations of the impact assessment study, with more emphasis being given to monitoring and supporting newly registered CFIs.

Achieved: The impact assessment report has been produced.

PART D:

FINANCIAL INFORMATION

ANNUAL REPORT

2016

2015/16

CO-OPERATIVE
BANKS DEVELOPMENT AGENCY

We are pleased to present our report for the financial year ended 31 March 2016.

REPORT OF THE AUDIT AND RISK COMMITTEE

- The Audit Committee (the Committee) is established as a statutory committee in terms of section 51 (1) (a) of the Public Finance Management Act and Treasury Regulation 27.1.
- The Committee has adopted a formal terms of reference as its audit committee charter and has fulfilled its responsibilities for the year, in compliance with its terms of reference.

MEMBERSHIP AND ATTENDANCE

- The Committee consists solely of independent members who are financially literate and also have appropriate experience.
- The Committee met six times during the year.
- The following is a list of its members, qualifications and a record of their attendance:

NAME OF MEMBER	QUALIFICATIONS	APPOINTMENT DATE	*NUMBER OF MEETINGS ATTENDED
Mr Joe Lesejane (Chairperson)	Chartered Accountant (SA), Fellow Chartered Management Accountant (UK), B.Com, B.Compt (Hons) and Certificate in Control Self-Assessment (CCSA), Chartered Director (SA)	1 February 2013	5 of 5
Ms Octavia Matloa*	Chartered Accountant (SA), B.Com (Hons) and CTA	1 March 2016	6 of 6
Mr Ameen Amod	Master in Business Administration, Bachelor of Commerce, Certificate in Internal Audit (CIA), Certified Government Auditing Professional Auditor and Certification in Risk Management Assurance, Chartered Director (SA)	1 July 2015	6 of 6
Mr Luyanda Mangquku	Chartered Accountant (SA), Masters in Business Leadership, Honours Bachelor of Accounting and Honours Bachelor of Commerce, Advanced Company Law I & II	1 July 2015	5 of 6
Ms Anna Badimo	B.Sc Computer Science B.Sc Hons Computer Science MBA, MSC, CISM, CGEIT, M. InstD, Cobol Programming Diploma, Project Management Diploma	1 July 2015	4 of 6
Ms Berenice Francis	Certification in Control Self-Assessment (CCSA), Certified Internal Auditor (CIA), B.Compt (Hons) and B.Com Accounting	1 August 2013	4 of 6

**Ms Octavia Matloa was the Acting Chairperson from 1 February 2016 to 31 March 2016. Mr Joe Lesejane's term of office expired on 31 January 2016; and Ms Berenice Francis' term ended on 31 July 2016.*

THE AUDIT COMMITTEE'S RESPONSIBILITIES

The purpose of the Committee, which operates in conjunction with the Risk Management Committee, is to:

- Assist the Accounting Authority in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control and reporting processes, and the preparation of accurate reporting and financial statements in compliance with the applicable legal requirements and accounting standards
- Oversee the activities of, and ensure coordination between, the activities of internal and external audits
- Provide a forum for discussing financial, enterprise-wide, regulatory and other risks and control issues; and to monitor controls designed to minimise these risks

- Review the entity's quarterly financial and performance information, annual report, including annual performance information and annual financial statements, and any other public reports or announcements containing financial and non-financial information
- Receive and deal with any complaints concerning the accounting practices, internal and external audit, or the content and audit of its financial statements and performance reports, or related matters
- Annually review the Committee's work and charter to make recommendations to the Accounting Authority to ensure its effectiveness.

RISK MANAGEMENT

- Management is responsible for the establishment and maintenance of an effective system of governance, risk management, the prevention and detection of fraud and internal controls.
- Internal audit was guided by the consolidated risk profile provided by the Enterprise Risk Management unit, critical audit areas and management's inputs in the formulation of its three year strategic and annual plans.
- Due to a number of internal challenges which are in the process of being addressed the Risk Management Committee met three times during the year under review.
- A risk register is updated annually to ensure that all the major risks, including emerging risks facing the entity, are effectively managed.

INTERNAL AUDIT

The Committee approved a risk-based three-year rolling Strategic Plan and an Annual Internal Audit Coverage Plan for the periods 1 April 2015 to 31 March 2018 covering the following key audit activities for the 2015/16 financial year:

TYPE	TOTAL PLANNED AUDITS	TOTAL % COMPLETED
Regularity Audit	2	100%
Compliance Audit	0	n/a
Performance Audit	1	100%
Information Technology Audit	0	n/a
Ad hoc Audits	0	n/a
Total	3	

The Committee reviewed all the internal audit reports and is satisfied:

- With the activities of the internal audit function, including its annual work programme, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations.
- That internal audit is conducted in accordance with the standards set by the Institute of Internal Auditors.
- With the implementation of improvement actions that were recommended during the external quality assurance review that the internal audit function underwent in the 2014/15 financial year, which gave them the general conformance rating in terms of their operations in compliance with the definition of Internal Auditing, International Standards for the Professional Practice of Internal Audit (ISPPIA) and the Code of Ethics.

ACCOUNTING AND AUDITING CONCERNS IDENTIFIED BY INTERNAL AUDIT

There are no accounting and auditing concerns that have been noted and brought to our attention.

OTHER IDENTIFIED CONCERNS

The Committee:

- Has concerns about the implementation of the prescribed framework for managing programme performance information as also reflected in the audit report; however, the Committee notes that the CBDA management has reported that for the last three years the CBDA has been refining its indicators to comply with the framework, but there have been inconsistencies in the interpretation of this framework and management continues to engage with the respective stakeholders (i.e. National Treasury Internal Audit, National Treasury Public Entities Oversight unit and Budget Office) and the Committee is confident that the matter will finally be resolved
- Has identified financial constraints that limits the entity's ability to deliver on its mandate
- Takes note of the uncertainty regarding the future of the entity due to a change in legislation where some of its functions might be allocated to National Treasury and the South African Reserve Bank.

Other than these matters, nothing significant has come to our attention to indicate any material breakdown in the functioning of controls, procedures and systems. The Committee is therefore of the opinion that Internal Audit is independent, given objective assurance and consulting activities that were designed to add value and improve the entity's operations.

THE ADEQUACY, RELIABILITY AND ACCURACY OF THE FINANCIAL AND PERFORMANCE INFORMATION

The Committee is of the opinion, based on the information and explanations provided by management as well as the results of audits performed by the internal auditors and the Auditor-General, that the financial and performance information provided by management to users of such information is adequate, reliable and accurate.

EXTERNAL AUDIT

- The Committee has reviewed the independence and objectivity of the external auditors.
- The external auditors attended six meetings of the Committee and the Committee is still concerned about the high audit fees for an entity of this size and will continue to engage the Auditor-General on this matter. Except for the above we are satisfied that there are no other unresolved issues of concern.
- The Committee reviewed and approved the external audit report and no accounting and auditing concerns were noted.

THE EFFECTIVENESS OF INTERNAL CONTROLS

- The Committee considered all the reports issued by the various assurance providers (Internal and External auditors,
- The Committee noted management's actions in addressing identified control weaknesses and is satisfied with the following achievements reported during the year:

ASSURANCE PROVIDER	TOTAL FINDINGS	RESOLVED FINDINGS	UNRESOLVED FINDINGS
Internal Audit	42	39	2
External Audit	11	7	4

we also noted findings raised by both internal and external auditors in the area of performance information, which management has addressed and will be effected in the new strategic plans.
In light of the above we report that the system of internal control for the period under review is considered to have been adequate.

COMPLIANCE WITH LEGAL AND REGULATORY PROVISIONS

- The Committee has reviewed the in-year management and quarterly reports submitted in terms of the Public Finance and Management Act and the Division of Revenue Act and is satisfied that no material deviations were noted.
- The Committee also noted management's policies and procedures to ensure compliance with applicable laws and regulations.

EVALUATION OF FINANCIAL STATEMENTS AND ANNUAL REPORT

The Committee has evaluated the annual financial statements and performance information for the year ended 31 March 2016 and duly recommended these for the Accounting Authority's approval prior to being submitted to the Auditor-General for audit.

The Committee reviewed the Auditors' Management and Audit reports; and concurs with their conclusions. The Committee therefore accepts the audit opinion and conclusion expressed by the external auditors on the annual financial statements, annual performance report and annual report.

We would like to express our appreciation to the Board for its leadership and support; and the Managing Director, internal audit and management for their commitment and achievement of an unqualified audit opinion.

Octavia M. Matloa
Chairperson
Date: July 2016

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON CO-OPERATIVE BANKS DEVELOPMENT AGENCY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Co-operative Banks Development Agency set out on pages 61 to 91, which comprise the statement of financial position as at 31 March 2016, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

2. The board of directors, which constitutes the accounting authority. is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standard of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Public Finance Management Act of South Africa,1999 (Act No.1 of 1999) (PFMA), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Co-operative Banks Development Agency as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the PFMA.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

7. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected programmes presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

8. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected programmes presented in the annual performance report of the public entity for the year ended 31 March 2016:
   - Programme 2: Supervision on page 35
   - Programme 3: Capacity Building on page 48

9. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned programmes. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for Managing Programme Performance Information (FMPPI).

10. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

11. The material findings in respect of the selected programmes are as follows:

PROGRAMME 2: SUPERVISION

Usefulness of reported performance information

1. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. A total of 38 per cent of indicators were not well defined.
2. The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance and be measurable. A total of 38 per cent of targets were not specific and measurable.

Reliability of reported performance information

3. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. Targets were not reliable when compared to the source information or evidence provided. This was due to the fact that proper indicator definitions were not used to predetermine the evidence and method of calculation for actual achievements.

PROGRAMME 3: CAPACITY BUILDING

Usefulness of reported performance information

4. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. A total of 40 per cent of indicators were not well defined.
5. The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance and be measurable. A total of 40 per cent of targets were not specific and measurable.

Reliability of reported performance information

6. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for the reported achievements against planned targets of 40 per cent of indicators.

Additional matters

7. I draw attention to the following matters:

Achievement of planned targets

Refer to the annual performance report on pages 26 to 27, 36 to 37 and 49 to 50 for information on the achievement of the planned targets for the year.

Adjustment of material misstatements

I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the Supervision and Capacity Building programmes. As management subsequently corrected only some of the misstatements, I identified material findings on the usefulness and reliability of the reported performance information.

Unaudited supplementary information

The supplementary information set out on pages 18 to 25, 28 to 35, 38 to 48 and 51 does not form part of the annual performance report and is presented as additional information. I have not audtited this information and, accordingly, I do not report on them.

Compliance with legislation

I performed procedures to obtain evidence that the public entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the Public Audit Act (PAA), are as follows:

Annual financial statements, performance and annual reports

8. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 55(1)(b) of the PFMA. The auditors identified material misstatements in the submitted financial statements in respect of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items, which management subsequently corrected resulting in the financial statements receiving an unqualified audit opinion.

Co-operative Banks Act of South Africa, 2007 (Act No. 40 of 2007)

9. The entity did not establish and manage a Co-operative Banks Deposit Insurance Fund in accordance with the requirements of section 25 of the Co-operative Banks Act. In this regard the promulgation of the Financial Services Laws General Amendment Act, 2014 affected the move of the regulatory function for co-operative banks from the CBDA to the South African Reserve Bank (SARB). As a result of this amendment, the establishment of the Deposit Insurance Fund is no longer a deliverable for the CBDA. The CBDA is working with the National Treasury to further amend the Co-operative Banks Act to remove the clause that requires the CBDA to establish the Deposit Insurance Fund. Going forward the National Treasury plans to establish a single deposit insurance fund within the SARB, which will also cover co-operative banks.

Internal control

10. I considered internal control relevant to my audit of the financial statements, performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

11. The executive authority did not take the requisite steps to fully align the entity's mandate with that of its enabling legislation.
    - The accounting authority did not take the requisite steps to adequately review the annual financial statements and annual performance report before submitting them for auditing.
    - The accounting authority did not take adequate steps to sustain the implementation of the action plan to address the control deficiencies identified.

Financial and performance management

Management did not prepare financial and performance information that was free from material misstatement due to the staff not fully understating the requirements of the relevant frameworks.

Auditor-General

Pretoria

31 July 2016

AUDITOR-GENERAL
SOUTH AFRICA

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2016

STATEMENT OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENT

The Board is required by the Public Finance Management Act (Act No. 1 of 1999), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Board to ensure that the annual financial statements fairly present the state of affairs of the CBDA as at the end of the financial year and the results of its operations and cash flows for the period that ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

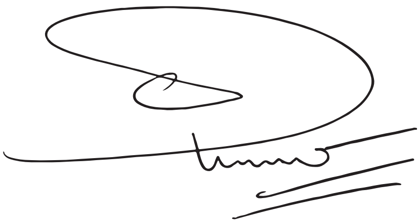
The Board acknowledges that they are ultimately responsible for the system of internal financial controls established by the CBDA and places considerable importance on maintaining a strong control environment. To enable the Board to meet these responsibilities, the Board sets standards for internal controls aimed at reducing the risk of error or misstatements in a cost-effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the CBDA and all employees are required to maintain the highest ethical standards in ensuring the CBDA's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the CBDA is on identifying, assessing, managing and monitoring all known forms of risk across the CBDA's environment. While operating risk cannot be fully eliminated, the CBDA endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The Board has reviewed the CBDA's cash flow forecast for the year to 31 March 2017 and, in the light of this review and the current financial position, it is satisfied that the CBDA has access to adequate resources to continue in operational existence for the foreseeable future.

Although the Board is primarily responsible for the financial affairs of the CBDA, it is supported by the CBDA's external auditors.

The external auditors are responsible for independently reviewing and reporting on the CBDA's annual financial statements. The annual financial statements have been audited by the CBDA's external auditors and their report is presented on pages 57 to 59.



Mr Desmond Golding
Acting Chairperson of the Board

Statement of Financial Position
as at 31 March 2016

	Note(s)	2016 R '000	2015 R '000
Assets			
Current Assets			
Receivables from exchange transactions	6	82	5
Receivables from non-exchange transactions	7	1,273	544
Cash and cash equivalents	8	17,646	14,138
		19,001	14,687
Non-Current Assets			
Property, plant and equipment	3	208	156
Intangible assets	4	766	12
		974	168
Total Assets		19,975	14,855
Liabilities			
Current Liabilities			
Payables from exchange transactions	9	7,287	4,391
Unspent conditional grants and receipts	10	8,019	7,536
Provisions	11	607	742
Total Liabilities		15,913	12,669
NET ASSETS AND LIABILITIES		4,062	2,186
Stabilisation Fund	12	1,588	1,490
Accumulated surplus		2,474	696
TOTAL NET ASSETS		4,062	2,186

Statement of Financial Performance
for the year ended 31 March 2016

	Note(s)	2016 R '000	2015 R '000
Revenue			
Revenue from exchange transactions			
Sale of goods and rendering of services	14	10	4
Interest income	15	1,090	434
		1,100	**438**
Revenue from non-exchange transactions			
Transfer revenue			
Transfers and subsidies	16	17,341	16,838
Grant income	10	8,809	4,730
		26,150	**21,568**
TOTAL REVENUE		**27,250**	**22,006**
Expenditure			
Compensation of employees	17	(12,329)	(10,276)
Depreciation/amortisation and impairment		(142)	(115)
Grant expenditure	10	(7,367)	(4,408)
Goods and services	18	(7,662)	(7,926)
TOTAL EXPENDITURE		**(27,500)**	**(22,725)**
SURPLUS/ (DEFICIT) FOR THE YEAR		**(250)**	**(719)**

Statement of Changes in Net Assets
for the year ended 31 March 2016

	Stabilisation R '000	Accumulated Surplus R '000	Total R '000
Balance at 1 April 2014	**1,212**	**586**	**1,798**
Changes in net assets			
Surplus/ (Deficit) for the year	-	(719)	(719)
Transfer to reserves	278	(278)	-
Rollover funds retained from the prior year	-	3,233	3,233
Surplus funds to be surrendered for 2015	-	(2,126)	(2,126)
Total changes	278	110	388
Balance at 1 April 2015	**1,490**	**696**	**2,186**
Changes in net assets			
Surplus/ (Deficit) for the year	-	(250)	(250)
Transfer to reserves	98	(98)	-
Rollover funds retained from the prior year	-	2,126	2,126
Total changes	98	1,778	1,876
Balance at 31 March 2016	**1,588**	**2,474**	**4,062**

Cash flow Statement

for the year ended 31 March 2016

	Note(s)	2016 R '000	2015 R '000
Cash flows from operating activities			
Receipts			
Sale of goods and services		10	4
Grants revenue		8,486	11,418
Interest income		1,090	434
Transfers and subsidies		17,341	16,838
		26,927	**28,694**
Payments			
Compensation of employees		(12,463)	(10,123)
Goods and services		(10,008)	(12,255)
		(22,471)	(22,378)
Net cash flows from operating activities	19	**4,456**	**6,316**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(161)	(24)
Purchase of other intangible assets	4	(787)	(9)
Net cash flows from investing activities		**(948)**	**(33)**
Net increase/(decrease) in cash and cash equivalents		**3,508**	**6,283**
Cash and cash equivalents at the beginning of the year		14,138	7,855
Cash and cash equivalents at the end of the year	8	**17,646**	**14,138**

Accounting policies
for the year ended 31 March 2016

1. BASIS OF PRESENTATION

The annual financial statements have been prepared in accordance with the effective standards of GRAP, including any interpretations and directives issued by the Accounting Standards Board. They are prepared in South African Rand (R).

The 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 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.

1.1 Going concern assumption

These annual financial statements have been prepared based on the assumption that the CBDA will continue to operate as a going concern.

1.2 Property, plant and equipment

Property, plant and equipment are tangible assets that are held for use in the rendering of services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the entity;
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured 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 management. 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.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

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

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

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses. The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Useful life
Office Equipment	Straight line	5 years
Computer Equipment	Straight line	3-5 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Accounting policies
for the year ended 31 March 2016

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of, or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.3 Intangible assets

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity
- the cost or fair value of the asset can be measured reliably.

The entity assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale
- there is an intention to complete and use or sell it
- there is an ability to use or sell it
- it will generate probable future economic benefits or service potential
- there are available technical, financial and other resources to complete the development and to use or sell the asset
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date. Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Useful life
Annual License Agreement	1 year
Computer Software	3 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from their use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

When annual licence fees comply with the recognition criteria of intangible assets, they are capitalised.

Accounting policies
for the year ended 31 March 2016

1.4 Tax

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

1.5 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 leases is determined using GRAP 13- Leases.

Operating leases

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.

1.6 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 loss of a revalue 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 previous 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.

1.7 Employee benefits

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, bonuses, and non-monetary benefits such as medical care) is recognised in the period in which the service is rendered and is not discounted.

1.8 Provisions and contingencies

Provisions are recognised when:

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

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the CBDA has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Accounting policies
for the year ended 31 March 2016

Contingent assets and contingent liabilities are not recognised, but disclosed.

1.9 Revenue recognition

1.9.1 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 the 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.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

a) Interest income

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

b) Revenue arising from application of tariffs

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

1.9.2 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the entity received revenue from another entity or organisation 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.

1.10 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. When an investigation determines, a receivable will be recorded against an employee who has been found to have incurred the fruitless and wasteful expenditure. In instances where a receivable is not raised against an employee or the amount is irrecoverable, the Accounting Authority may write off the debt. Fruitless and wasteful expenditure identified is disclosed in the notes to the financial statements.

1.11 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or

(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or

(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury Practice Note No. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial year and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is required, with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required, with the exception of updating the note to the financial statements.

Accounting policies
for the year ended 31 March 2016

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.12 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.

Management are those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

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

1.13 Changes in accounting policy

The accounting policies have been applied consistently. The entity will change an accounting policy 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.

1.14 Financial instruments

Cash and cash equivalent

Cash includes cash on hand (including petty cash) and cash equivalents in the statement of financial position, comprising cash at banks and on hand, including investments and deposits held on call. 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.

In the course of the CBDA's 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.

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.

Trade and other receivables

Trade receivables are categorised as financial assets: they 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 receivables with indications of impairment. Impairments are determined based on the risk profile of each debtor. Amounts that are receivable within 12 months from the reporting date are classified as current.

Accounting policies
for the year ended 31 March 2016

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.

Trade and other payables

Financial liabilities consist of trade payables. 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.

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.

Notes to the annual financial statements
for the year ended 31 March 2016

2. NEW STANDARDS AND INTERPRETATIONS

Standards and interpretations issued, but not yet effective

- GRAP 32- Service concession arrangements: Grantor
- GRAP 108- Statutory receivables
- GRAP 109- Principals and agents
- GRAP 20- Related party disclosure

The above standards of GRAP that have been issued, but are not yet effective, are likely to affect the annual financial statement when they are adopted as these standards have been used to formulate and inform the current accounting policies and disclosure.

3. PROPERTY, PLANT AND EQUIPMENT

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Office Equipment	43	(35)	8	43	(26)	17
Computer Equipment	460	(260)	200	409	(270)	139
Total	**503**	**(295)**	**208**	**452**	**(296)**	**156**

Notes to the annual financial statements
for the year ended 31 March 2016

Reconciliation of property, plant and equipment – 2016

	Opening balance	Additions	Depreciation	Total
Office Equipment	17	-	(9)	8
Computer Equipment	139	161	(100)	200
	156	**161**	**(109)**	**208**

Computer equipment to the value of R110, 000 was fully depreciated and removed from the fixed assets register. Some of the disposed assets were donated to the CFIs.

Reconciliation of property, plant and equipment – 2015

Office Equipment	26	-	(9)	17
Computer Equipment	207	24	(92)	139
	233	**24**	**(101)**	**156**

Notes to the annual financial statements
for the year ended 31 March 2016

4. INTANGIBLE ASSETS

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
License and franchise	29	(21)	7	17	(11)	6
Computer Software	806	(47)	759	29	(23)	6
Total	**834**	**(68)**	**766**	**46**	**(34)**	**12**

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Depreciation	Total
Annual license agreement	6	11	(10)	7
Computer Software	6	776	(23)	759
	12	**787**	**(33)**	**766**

Reconciliation of intangible assets – 2015

	Opening balance	Additions	Depreciation	Total
Annual license agreement	5	9	(8)	6
Computer Software	12	-	(6)	6
	17	**9**	**(14)**	**12**

In the 2015 financial year, the note for intangible assets was classified into annual license agreements (depreciated over 12 months) and computer software (depreciated over 36 months).

Notes to the annual financial statements
for the year ended 31 March 2016

	2016 R'000	2015 R'000

5. CHANGE IN ACCOUNTING ESTIMATES

During the current financial period, management has decided to revise the estimate of six laptops and two desktops that would be fully depreciated. The above-mentioned depreciable assets' original useful life of three years has been changed to five years in the beginning of the current period.

The effect on the current and future period will be a decrease in the depreciation charge of R9,326.98 in the current period and an equal increase in the depreciation charge of R9,327.00 for the next financial period.

6. RECEIVABLES FROM EXCHANGE TRANSACTIONS

	2016 R'000	2015 R'000
Trade receivables	82	-
Other receivables	-	5
	82	5

The fair value of trade and other receivables approximates their carrying value.

7. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

	2016 R'000	2015 R'000
Receivables	959	290
Other receivables	314	254
	1,273	544

Notes to the annual financial statements
for the year ended 31 March 2016

	2016 R'000	2015 R'000

8. CASH AND CASH EQUIVALENTS

FNB - Current account	390	12,648
CPD - Investment account	1,588	1,490
CPD - Investment account	15,666	-
Petty cash - Current account	2	-
Total	**17,646**	**14,138**

Cash and cash equivalent consists of four bank accounts, namely; two in FNB (Current account and Petty cash account) and two in Corporation for Public Deposit (Stabilisation and Banking Platform funds).

9. PAYABLES FROM EXCHANGE TRANSACTIONS

Trade payables	3,233	1,187
Unused funds to be surrendered to the National Treasury	-	2,126
National Treasury	2,930	501
Accruals	1,124	577
	7,287	**4,391**

Trade payables include an amount of R590,000 contributed by CFIs towards the banking platform project.

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

Notes to the annual financial statements
for the year ended 31 March 2016

10. GRANT

	2016 R'000	2015 R'000
Grant income		
Opening balance	-	-
Grant revenue	8,809	4,730
Grant capital assets	(104)	-
Grant compensation of employees	(1,338)	-
Grant expenditure	(7,367)	(4,730)
	-	-
Balance at the beginning of the period	7,536	636
Funds received in the current year	8,341	11,491
Funds receivable in the current year	951	290
Revenue recognised in the current year	(8,809)	(4,730)
Surplus funds refunded	-	(131)
Expenditure incurred not yet recognised	-	(20)
	8,019	**7,536**

BANKSETA

	2016 R'000	2015 R'000
Balance at the beginning of the period	36	55
Funds received in the current year	3,231	3,756
Funds receivable in the current year	360	290
Revenue recognised in the current year	(3,104)	(4,045)
Expenditure incurred not yet recognised	-	(20)
	523	36

Notes to the annual financial statements
for the year ended 31 March 2016

	2016 R'000	2015 R'000

2016

The grant received from the Bankseta is towards bursaries, the second-phase internship programme for technical analysts and the internship programme for the banking platform, training of CFI board and staff members (FICA and NCA), development of diplomas in credit management, and mentorship and coaching. The expenditure of R3,104,000 was realised as income.

2015

The grant received from the Bankseta is towards bursaries, the internship programme, the banking platform project, training of CFI board and staff members and the development of customised curriculum and training materials. The expenditure of R4,064,000 was realised as income.

North West Department of Economic Development, Environment, Conservation and Tourism (DEDECT-NW)

	2016 R'000	2015 R'000
Balance at the beginning of the period	-	581
Revenue recognised in the current year	-	(450)
Surplus funds refunded	-	(131)
	-	-

2015

The grant received from DEDECT-NW was for the development of turnaround strategies, and coaching and mentoring of CFIs. The remaining funds paid for salaries, travel, and subsistence for seconded staff from Accosca from 9 December 2013 to 8 December 2014.

Gauteng Department of Economic Development (DED-GP)

	2016 R'000	2015 R'000
Balance at the beginning of the period	2,500	-
Funding received in the current year	-	2,500
Revenue recognised in the current year	(258)	-
	2,242	**2,500**

2016

The DED-GP funds of R2,500,000 are for preparing CFIs in the province for the implementation of the banking platform system.

Notes to the annual financial statements
for the year ended 31 March 2016

	2016 R'000	2015 R'000
KZN Department of Economic Development, Tourism, and Environment Affairs (DEDTEA-KZN)		
Balance at the beginning of the period	5,000	-
Funding received in the current year	-	5,000
Revenue recognised in the current year	(2,333)	-
	2,667	**5,000**

2016

The DEDTEA-KZN funds of R5,000,000 are for the capacity building programme and the implementation of the banking platform project in the province.

	2016 R'000	2015 R'000
Department of Rural Development and Land Reform (DRDLR)		
Balance at the beginning of the period		
Funding receivable in the current year	591	-
Revenue recognised in the current year	(591)	-
	-	-

2016

The DRDLR will fund the CBDA with R2,500,000 to capacitate the CFIs by providing them with mentorship, training, technical and business development skills, and audit preparation support, and connecting the CFIs to the IT banking platform system to ensure a sustainable CFI sector.

	2016 R'000	2015 R'000
Small Enterprise Finance Agency (Sefa)		
Balance at the beginning of the period		
Funding receivable in current years	5,110	-
Revenue recognised in the current year	(2,523)	-
	2,587	-

Notes to the annual financial statements
for the year ended 31 March 2016

2016

Sefa funded the CBDA with R5,110,000 in the current year for the implementation of the banking platform IT system.

11. PROVISIONS

Reconciliation of employee benefit provisions - 2016

	Opening Balance	Additions	Utilised during the year	Unused amounts reversed	Total
Leave provision	259	207	(33)	(226)	207
Bonus provision	483	400	(469)	(14)	400
	742	607	(502)	(240)	607

Reconciliation of employee benefit provisions - 2015

	Opening Balance	Additions	Utilised during the year	Unused amounts reversed	Total
Leave provision	176	259	-	(176)	259
Bonus provision	413	483	(413)	-	483
	589	742	(413)	(176)	742

The 'Provisions' balance includes leave pay which relates to the CBDA's estimated liabilities arising as a result of services rendered by employees, and bonuses which have not been paid.

Notes to the annual financial statements
for the year ended 31 March 2016

	2016 R'000	2015 R'000

12. STABILISATION FUND RESERVE

Opening Balance	1,490	1,212
Contributed Capital	-	200
Interest on Capital	98	78
	1,588	**1,490**

13. UNUSED FUNDS TO BE SURRENDERED TO THE NATIONAL TREASURY

Approved funds to be surrendered	2,126	3,233
Retained/(Utilised) funds	(2,126)	(1,107)
	-	**2,126**

In accordance with section 53(3) of the PFMA of 1999, as amended, the unused funds transfer cannot be retained without prior written approval from the National Treasury.

The approved rollover funds were used for the online portal (R670,000) and the banking platform project (R1,456,000).

14. SALE OF GOODS AND RENDERING OF SERVICES

Application fee to register as a co-op bank		1
Annual fees for co-op bank	7	-
Application fee to register as a CFI	3	3
	10	**4**

Notes to the annual financial statements
for the year ended 31 March 2016

	2016 R'000	2015 R'000

15. INTEREST INCOME

FNB - Current account	326	355
CPD - Investment account	98	79
CPD - Investment account	666	-
	1,090	**434**

An additional CPD account was opened to capitalise on the interest offered by the Reserve Bank to be used for the CBDA's operations.

Current interest rate as at 31 March 2016 for FNB is 5.5 per cent and CPD is 7.14 per cent.

16. REVENUE FROM NON EXCHANGE TRANSACTION

Transfer from controlling entity	17,341	16,838

The CBDA received a transfer of R16,176,000 for the 2015/16 budget. In the fourth quarter an additional transfer of R1,165,000 was granted to the CBDA to assist with the operational budget in order to achieve the entity's set annual targets.

17. COMPENSATION OF EMPLOYEES

Basic	11,935	9,681
Bonus	386	484
UIF	30	28
Leave pay provision charge	(16)	83
Unpaid leave	(6)	-
	12,329	**10,276**

Notes to the annual financial statements

for the year ended 31 March 2016

18. GOODS AND SERVICES

	2016 R'000	2015 R'000
Administrative fees	25	6
Advertising	162	77
Assets less than capitalisation threshold	35	5
Audit fees	1,040	851
Bursaries (employees)	-	10
Communication	50	43
Computer services	3	3
Consultants, contractors and agency/outsourced services	1,262	1,984
Relocation cost	20	-
Operating lease	46	46
Printing and stationery	1	-
Promotional items	27	-
Training and staff development	946	298
Travel and subsistence	1,778	3,095
Venues and facilities	1,781	865
Other operating expenditure	486	643
	7,662	**7,926**

Notes to the annual financial statements
for the year ended 31 March 2016

	2016 R'000	2015 R'000

19. CASH GENERATED FROM OPERATIONS

	2016 R'000	2015 R'000
Surplus/ (Deficit)	(250)	(719)
Adjustments for:		
Depreciation and amortisation	142	115
Movements in provisions	(135)	153
Changes in working capital:		
Receivables from exchange transactions	(77)	259
Other receivables from non-exchange transactions	(729)	(471)
Payables from exchange transactions	5,022	79
Unspent conditional grants and receipts	483	6,900
	4,456	**6,316**

20. OPERATING LEASE ARRANGEMENTS AS THE LESSEE

	2016 R'000	2015 R'000
Up to 12 months	12	46
1 year to 5 years	-	12

The rental agreement was renewed and commenced on 1 July 2013. The rental agreement is for a period of 36 months ending 30 June 2016 with fixed rental payments. In the event of a 24 month extension period, the rental will be reduced by 75 per cent.

Notes to the annual financial statements
for the year ended 31 March 2016

21. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL

	Actual	Budget	Variance
	R'000	R'000	R'000
Revenue	17,341	17,341	-
Other income	1,100	988	(112)
Grant income	8,809	700	(8,109)
	27,250	**19,029**	**8,221**
Less: Operating expenses			
Administrative fees	25	57	32
Advertising	162	175	13
Assets less than capitalisation threshold	35	5	(30)
Audit fees	1,040	928	(112)
Communication	50	52	2
Computer services	3	-	(3)
Compensation of employees	12,329	11,236	(1,093)
Consultants, contractors and agency/outsourced services	1,262	711	(551)
Grant expenses	7,367	700	(6,667)
Operating lease	46	50	4
Travel and subsistence	1,778	2,669	891
Training and staff development	946	500	(446)
Venues and facilities	1,780	888	(892)
Other operating expenditure	535	560	25
	27,358	**18,531**	**(8,827)**
Surplus/(Deficit) for the year before depreciation and impairment	(108)	498	17,048
Less: Depreciation and impairment	142	50	(92)
Capital Payment	948	448	(500)
Interest Capitalised	98	-	(98)
Surplus/ (Deficit) for the year	**(1,296)**	**-**	**17,738**

Notes to the annual financial statements
for the year ended 31 March 2016

22. CONTINGENT LIABILITIES PENDING CLAIMS

Management is only aware of one case pertaining to an employee taking the CBDA to the CCMA for unfair dismissal. The employee was appointed on a three-month contract; due to non-performance, the contract was terminated early.

23. EVENTS AFTER THE REPORTING DATE

Management is not aware of any significant post-balance sheet events.

24. GOING CONCERN ASSUMPTION

The CBDA has a deficit of R250,000 for the period (2015: Deficit R719,000). Its total assets exceeded its liabilities by R4,062,000. (2015: R2,186,000)

The CBDA was established in terms of the Co-operative Banks Act of 2007. It is the intention of the government to continue funding the entity in future periods. The annual financial statements have been prepared on a going concern basis.

25. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the CBDA's financial statements requires management to make judgements, 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.

Judgements

Management's judgement was applied when revising the estimated useful life of six laptops and two desktops to five years.

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.

Management has made assumptions regarding the useful life of assets and going concern consideration of the CBDA's operations.

26. RELATED PARTIES

The CBDA is a schedule 3A National Public Entity in terms of the Public Finance Management Act (Act No. 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.

Notes to the annual financial statements
for the year ended 31 March 2016

Transaction with related parties	Service rendered 2016		Service received 2016	
	Transactions	Balances	Transactions	Balances
BANKSETA	-	-	3,560	360
Small Enterprise Finance Agency	-	-	5,110	(2,587)
Department of Rural Development and Land Reform	-	-	591	591
	-	-	9,261	(1,636)

Funds outstanding from the Bankseta is for the second-phase internship programme and bursary.

The National Treasury provides in kind services of office space and other facilities with an estimated cost of R2,089,740.

	Service rendered 2015		Service received 2015	
	Transactions	Balances	Transactions	Balances
Bankseta*	-	-	3,774	(36)
Bankseta	-	-	290	290
National Treasury	235	-	-	-
	235	-	4,064	254

An amount of R143,000 relating to the 2014 financial year allocated for project management services as per the signed MOA with the Bankseta was written off as bad debts. According to Bankseta policy, funding cannot be utilised for compensation of personnel. The CBDA engaged the contracted HR Manager to perform this service. Due to misunderstanding of the Bankseta's policy, the expenditure had to be written off.

Parties related to the CBDA

In the current financial year, senior management remuneration is inclusive of an amount of R473,000 for salary paid to the Head of Central Support Services funded by the grant from stakeholders for the banking platform project.

Notes to the annual financial statements
for the year ended 31 March 2016

Remuneration of Key Management

Fees paid to Board Members and Executive Management - 2016	Allowance	Travel	Total
Mr P Koch	42	-	42
Adv. LT Nevondwe	38	14	52
Mr T Shenxane	54	-	54
Mr D Ginsburg	43	-	43
Executive management salaries			
Managing Director	1,176	-	1,176
Senior Management	2,464	-	2,464
	3,817	**14**	**3,831**

Fees paid to Board Members and Executive Management - 2015	Allowance	Travel	Total
Mr P Koch	51	4	55
Ms V Klein	20	2	22
Adv. LT Nevondwe	34	22	56
Mr T Shenxane	55	-	55
Mr D Ginsburg	41	-	41
Executive management salaries			
Managing Director	1,098	-	1,098
Senior Management	1,862	-	1,862
	3,161	28	3,189

Notes to the annual financial statements
for the year ended 31 March 2016

	2016 R'000	2015 R'000

27. FRUITLESS AND WASTEFUL EXPENDITURE

Reconciliation of fruitless and wasteful expenditure

	2016 R'000	2015 R'000
Opening Balance	81	78
Fruitless and wasteful expenditure current year	7	6
Transferred to receivables for recovery	(1)	(3)
	87	**81**

Analysis of current fruitless and wasteful expenditure

2016 Incidents	Disciplinary steps taken/criminal proceedings
• An employee changed a restricted flight ticket three times due to a meeting commencing late and another meeting scheduled for the next day.	None - funds recovered.
• The CBDA was requested by the stakeholder to submit a valid tax clearance certificate since the previous certificate had expired in February 2016. Upon submission of the tax clearance application, SARS informed the CBDA that an outstanding amount was due for the period April 2014 and in the tax period 2010/11. Due to the urgency of the tax clearance certificate, payment was made.	Matter pending with SARS
• A stakeholder member could not attend a workshop due to ill health and thereafter passed away.	None - Unforeseen event and beyond CBDA control. Funds not recoverable.
• An employee using a hired car did not comply with the traffic laws, which resulted in payment of traffic fines.	Matter pending- Amount to be recovered from employee
2015 Incidents	**Disciplinary steps taken/criminal proceedings**
• An employee paid for a VISA application to travel to the UK and Poland for the Banking Platform Knowledge Exchange Programme. The agreement for funding the trip was not signed, therefore approval to travel overseas was cancelled.	None - Funds recovered

Notes to the annual financial statements
for the year ended 31 March 2016

	2016 R'000	2015 R'000

• The CFI confirmed the available date for the training of board and staff members. Two members travelled to the CFI, only to be informed on the day that the training had been cancelled. The CFI did not timeously communicate the cancellation, resulting in travel costs incurred.	None - Funds recovered
• Employees using a hired car did not comply with the traffic laws, which resulted in payment of traffic fines.	None - Funds recovered
• The shuttle to transport an interview candidate to the airport was involved in an accident, resulting in her missing the flight. A new flight ticket had to be purchased.	None - Unforeseen event and beyond the CBDA's control, funds not recoverable

28. IRREGULAR EXPENDITURE

	2016	2015
Opening balance	1,000	1,000

Analysis of current irregular expenditure

2016

The agency is not aware of any irregular expenditure.

2015

The agency is not aware of any irregular expenditure.

In the 2011/12 financial year the CBDA incurred irregular expenditure of R596,000. The preference point system was not applied in the procurement of one competitive bid relating to supply chain management

In the 2010/11 financial year the only supplier that could provide services of the nature required by the CBDA on the benchmarking of co-operative banks in the country was appointed. At the payment stage it was determined their tax clearance certificate had expired and there were outstanding amounts owing to SARS. An amount of R404,000 has not been paid since the supplier is currently insolvent.

Notes to the annual financial statements
for the year ended 31 March 2016

	2016 R'000	2015 R'000

29. COMMITMENTS

Approved and signed contracts		
Alan Pugh-Jones	805	1,196
Write Connection CC	50	116
Business Connection (Pty) Ltd	-	819
EOH Mthombo (Pty) Ltd	15,404	-
Clear Cut Solution	290	-
Institute of Capacity Development	291	-
Mzantsi Leadership Development	110	-
University of Fort Hare	1,470	-
	18,420	**2,131**

Commitments are signed binding agreements between the CBDA and service providers. Commitments are not recognised in the statement of financial position as a liability or as expenditure in the statement of financial performance until services are rendered or received.

30. COMPARATIVE FIGURES

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification are disclosed. Where material accounting errors have been identified in the current financial year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current financial year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

The following amounts have been restated for the year ended 31 March 2015:

Statement of financial performance	Reported	Restated
Compensation of employees	9,953	10,276
Grant expenditure	4,730	4,408
	14,683	**14,684**

Notes to the annual financial statements
for the year ended 31 March 2016

31. FINANCIAL RISK MANAGEMENT

Financial instruments are initially recognised at fair value.

Financial assets are categorised according to their nature as either financial assets held at fair value through profit or loss 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. In the absence of an approved GRAP standard, the subsequent measurement of financial assets and liabilities depends on this categorisation.

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.

The CBDA manages/limits its treasury counter-party exposure by only dealing with well-established financial institutions approved by the 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, such as sudden increases in events, 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.

PART E:
EVENTS AND ACTIVITIES

ANNUAL REPORT

2016

2015/16

CO-OPERATIVE BANKS DEVELOPMENT AGENCY

Mandela Day | *Lerato House in Pretoria CBD*

Mandela Day | *67 minutes*

CBDA reps | *Diepsloot Shoe Company owners*

Zing | Rented bike in Diepsloot

Mathabata | *Site visits*

PART E: EVENTS AND ACTIVITIES

CBDA Unit | *Management*

CBDA Unit | *Capacity Building*

CBDA Unit | *Corporate Services*

CBDA Unit | *Central Support Services*

CBDA Unit | *Supervision*

NOTES

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2016

CO-OPERATIVE
BANKS DEVELOPMENT AGENCY