Co-operative Banks Development Agency
Annual Report

For the year ended 31 March 2012

CO-OPERATIVE
BANKS DEVELOPMENT AGENCY

Co-operative Banks Development Agency

Annual Report

For the year ended 31 March 2012

VISION, MISSION AND VALUES

Vision

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

Mission

The mission of the Co-operative Banks Development Agency (CBDA) focuses on the development of the co-operative banking sector in the context of protecting those who participate in it through:

- appropriate regulation and supervision;
- innovative capacity development and support;
- promoting co-operative values and principles;
- promoting a savings culture and financial literacy; and
- protecting depositors.

Values

The CBDA values:

- 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 co-operation: to be committed to teamwork, which includes being supportive, having a common purpose, sharing information and taking responsibility;
- excellence: to be value-adding, diligent, professional, punctual and competent. It includes paying attention to detail and being committed to knowledge and learning; and
- confidentiality: to maintain privacy in dealings with all stakeholders.

MINISTER'S STATEMENT

The co-operative movement, broadly, and the financial co-operative sector in South Africa (SA) specifically are at the threshold of significant developments which .will enable them to make a bigger impact in SA.

The past year has seen a hive of activity in the co-operative financial service sector with the very successful launch of the first Financial Co-operatives Indaba, under the theme *"Enhancing financial inclusion through a vibrant co-operative banking sector in South Africa",* held in Cape Town in October 2011.

The indaba allowed the sector to discuss issues of common concern and strategies to create sustainable and compliant co-operative financial institutions (CFIs), and a self-sustaining movement in SA. The indaba realised two very important milestones, the first being the agreement by CFIs to establish a National Association as a representative organisation for the sector; and the second being National Treasury's launch of a new investment product, namely the Financial Co-operatives Retail Savings Bond. The Bond is aimed at providing a secure, affordable saving vehicle for CFIs.

This year the world celebrates the International Year of Co-operatives (IYC), which is intended to raise public awareness of the invaluable contributions of co-operative enterprises, including financial co-operatives, to poverty reduction, employment generation and social integration. The year will also highlight the strengths of the co-operative business model as an alternative means of doing business and furthering socio-economic development. The Co-operative Banks Development Agency (CBDA) is playing an important role in local initiatives in the IYC by participating in the dti's IYC task team and co-ordinating committee, as well as hosting its second annual indaba in KwaZulu-Natal under the theme *"Financial Co-operatives building better communities".*

As we consider the challenges ahead for the CBDA, the experience and knowledge of its board, management and staff, as well as collaboration between the CBDA and other key role players, such as local and provincial government, provide reasons to be positive about the future of the co-operative banking sector. Let us harness the commitment and energy within the sector to bring financial co-operatives in South Africa to the same mature stage of development we see in movements internationally.

Pravin Gordhan

Pravin J. Gordhan
Minister of Finance

SUBMISSION OF THE ANNUAL REPORT TO THE EXECUTIVE AUTHORITY

To the Minister of Finance, Mr Pravin Gordhan:

I have the honour of submitting to you, in accordance with the Public Finance Management Act (1999), the annual report of the Co-operative Banks Development Agency for the period 1 April 2011 to 31 March 2012.

Sifiso Ndwandwe
Chairman and Accounting Authority
Co-operative Banks Development Agency

ADMINISTRATIVE INFORMATION

Acting Managing Director
Ms Ingrid Goodspeed

Director: Capacity Building and Information
Mr Robert Mbeza

Supervisor Co-operative Banks
Mr David de Jong

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Bankers
First National Bank Limited

External Auditors
Auditor General SA

ACRONYMS USED IN THIS REPORT

CBDA	Co- operative Banks Development Agency
ACCOSCA	African Confederation of Co-operative Credit and Savings Association
BANKSETA	Banking Sector Education and Training Authority
ATM	Automated Teller Machines
CFI	Co-operative Financial Institution
CFF	Central Finance Facility Savings and Credit Co-operative
CIPC	Companies and Intellectual Property Commission
dti	Department of Trade and Industry
FSC	Financial Services Co-operative
GP	Gauteng
GRAP	Generally Recognised Accounting Practice
HR	Human Resources
IT	Information Technology
IYC	International Year of Co-operatives
KZN	KwaZulu-Natal
Lim	Limpopo
MOU	Memorandum of Understanding
MP	Mpumalanga
MTEF	Medium Term Expenditure Framework
NEHAWU	National Education, Health and Allied Workers' Union of SA
NQF	National Qualification Framework
NT	National Treasury
NW	North West
OSK	Oranjekas Spaar en Krediet
PAA	Public Audit Act of South Africa
PEARLS	Protection, Effective Financial Structure, Asset Quality, Rates of Return Liquidity, Signs of Growth
PFMA	Public Finance Management Act
ROAC	Regulatory and Oversight Advisory Committee
SA	South Africa
SACCA	Savings and Credit Co-operative Association Africa
SACCO	Savings and Credit Co-operative
SACCOL	Savings and Credit Co-operative League of South Africa
SAICA	South African Institute of Chartered Accountants
samaf	South African Micro-finance Apex Fund
SAMWU	South African Municipal Workers Union
SARB	South African Reserve Bank
SCM	Supply Chain Management
SME	Small and Medium Enterprise
SMME	Small Micro and Medium Enterprise
SRO	Self-regulatory Organisation
WC	Western Cape
WOCCU	World Council of Credit Unions

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1. REPORT OF THE ACCOUNTING AUTHORITY

1. REPORT OF THE ACCOUNTING AUTHORITY

The Co-operative Banks Development Agency has been in existence for just under four years. During this period, the focus has been on establishing the institutional structure, getting the right people into the right positions, getting eligible financial co-operatives to apply for registration as co-operative banks, understanding the financial co-operatives sector and doing the groundwork for tackling the challenges that lie ahead. What has been abundantly clear during this period is that financial co-operatives in the country are still developing. As a result, the developmental mandate of the Agency becomes imperative, buttressed by a fit and appropriate regulatory framework.

The Agency has gone about ensuring it meets its mandate by regular and consistent dialogue with various role players in the sector, notably the financial co-operatives themselves, self-regulatory bodies and relevant local government departments. The intended outcome is a more co-ordinated and systematic approach to addressing the needs of co-operative financial institutions.

During the course of the financial year, Mr Nkosana Mashiya, a secondment from National Treasury, was the Managing Director of the CBDA on a short-term contract, as the board worked on a long-term solution. Before the board could finalise its recruitment process, Mr Mashiya was appointed as the Deputy Registrar of Banks at the South African Reserve Bank. National Treasury provided a second secondment, Ms Ingrid Goodspeed, to steer the organisation for the remainder of the financial year until the appointment of Ms Olaotse Matshane as Managing Director in May 2012. Despite these significant changes at strategic level, the Agency has remained focused on attaining its vision of *"creating a strong and vibrant co-operative banking sector that broadens access to and participation in diversified financial services to achieve economic and social wellbeing."*

Sifiso Ndwandwe
Chairman and Accounting Authority
Co-operative Banks Development Agency

2. REPORT OF THE MANAGING DIRECTOR

2. REPORT OF THE MANAGING DIRECTOR

The essence and importance of co-operative banking

The 2007/08 financial crisis and ensuing economic crisis had a negative impact on most enterprises across the world. However, co-operative financial institutions (CFIs), including co-operative banks, savings and credit co-operatives and financial services co-operatives, all over the world are reporting not only that they are still financially sound, but that customers are flocking to bank with them because they are highly trusted. The essence of co-operative banking is simple: members, who have a common bond, are owners and can be both savers and borrowers; they use the co-operative financial institution to intermediate money from those members who have it to those members who need it, without anybody external to the CFI taking a profit and with interest rates set so that the model works in every member's interest. Importantly, each CFI is democratically governed by its members, with every member having an equal voice regardless of the amount of savings or loans they have with the CFI.

In addition, CFIs are particularly good at reaching the poor and vulnerable, particularly in rural areas. They are able to provide a range of affordable financial services to members while keeping costs low. Thus they deliver quality products and services to communities while still being profitable. Furthermore, the co-operative banking model has the potential to be good news for employment creation, as CFIs are ideal vehicles for enabling small, micro and medium enterprises to expand. In Europe, for instance, 29% of co-operative bank lending is to small and medium enterprises.

It is in this context that the Co-operative Banks Act provides space for communities to participate in their own co-operative banks that can be geared towards their financial services needs, in the process allowing for empowerment and self-determination.

Fulfilling CBDA's mandate

If the potential of CFIs to improve access to financial services is to be realised, the development of the co-operative banking sector becomes critical. The CBDA's mandate, as provided in section 2 of the Co-operative Banks Act of 2007, is to promote the development of sustainable and responsible co-operative banks. This will be achieved by putting in place robust, achievable and measurable action plans, deliverables and targets to advance CFIs that are eligible to be co-operative banks, to the required level of soundness, sustainability and governance to register as co-operative banks.

The year under review

On 14 June 2011 one co-operative bank, OSK Co-operative Bank, with 379 members and R42.1 million in deposits, was registered by the Supervisor at the South African Reserve Bank, bringing the total number of co-operative banks to two. During the year under review, the number of CFIs eligible for registration as co-operative banks was 19.

None of the CFIs eligible to be registered as co-operative banks that were assessed during the 2011/12 financial year managed to address the weaknesses pointed out by the Supervisors sufficiently and hence none was registered as a co-operative bank. The most prominent areas of weakness were inadequate capital levels, weak governance structures, insufficient operational capacity and poor management information systems. These shortcomings were brought to the attention of the Capacity Building Unit to enable it, as part of its developmental objectives, to implement appropriate strategies to support such CFIs in addressing these deficiencies.

2. REPORT OF THE MANAGING DIRECTOR

During the year under review, the Capacity Building Unit continued to focus on initiatives supporting and promoting fledging CFIs and accelerating CFI performance towards registration as safe and reliable co-operative banks. These initiatives centred on (i) improving data collection, management and dissemination in the CFI sector; (ii) establishing a national association with provincial structures to bring together all CFIs in the provinces and a national structure with representatives from all nine provinces; (iii) facilitating the development of learning programmes and implementing training arrangements through universities and colleges; and (iv) improving CFI compliance rates with the rules, regulations and standards.

The year ahead

In the year ahead, the legislative environment in which CFIs operate is to change. The Co-operative Banks Act is expected to be amended to move the supervisory function of the CBDA to the South African Reserve Bank (SARB). Also, a new Banks Act exemption notice is to be put in place to assign the regulation and supervision of all CFIs, that is, potential co-operative banks, to the CBDA.

The CBDA looks forward to the challenges posed by these changes. It is envisaged that they will foster the development mandate of the CBDA and allow both the supervision and capacity building functions to put in place programmes to ensure a healthy pipeline of viable and sustainable CFIs that will eventually be registered as co-operative banks.

Next year, the CBDA will seek to ensure a CFI sector that is institutionally sound by registering, regulating and supervising CFIs and thereby improving their safety and soundness and the financial stability of the sector as a whole. Furthermore, the CBDA will strive for a vibrant and growing CFI sector that broadens access and mobilises savings at community level. The CBDA will achieve this through: (i) establishing and implementing training programmes to address the low levels of skills and competencies in the management and leadership of CFIs; (ii) putting in place a national banking platform with administrative capabilities and access to the national payment system to allow CFIs to keep appropriate records, produce management information and to issue debit cards with full access to automated teller machines, points of sale at merchants and mobile banking services; and (iii) strengthening the national association of CFIs as a representative and support organisation for the sector

Organisational authority and financial management

The CBDA is a statutory body registered as a public entity in terms of section 3 (a) of the Public Finance Management Act. The CBDA is funded by transfer payments through National Treasury. The CBDA maintained adequate accounting records and an effective system of internal controls and risk management and complied, in all material respects, with applicable laws and regulations.

Acknowledgements

During the year under review, Mr Nkosana Mashiya, the CBDA's acting Managing Director, left the CBDA to join the SARB. The CBDA is grateful for the strategic guidance and direction provided by Mr Mashiya, who reinforced implementation of the mandate of the CBDA to promote and develop the sector, inclusive of both co-operative banks and prospective co-operative banks.

2. REPORT OF THE MANAGING DIRECTOR

We are grateful for the wisdom, support and guidance of our chairman Mr Sifiso Ndwandwe, and the rest of the board. By maintaining focus on providing strategic direction, the board has ensured that the CBDA has put in place initiatives that will not only produce CFIs that are sufficiently viable and sustainable to be registered as co-operative banks, but will secure the future of the CFI sector as a whole.

In addition, I wish to thank the staff of the CBDA for their enormous dedication and hard work in a difficult and at times volatile environment. It is through their efforts that the CBDA has made the progress it has.

Ingrid Goodspeed

Acting Managing Director

3. HUMAN RESOURCES

3. HUMAN RESOURCES

The CBDA's staff complement is 10 (2011 – 8). The increase in the staff complement is to cater for assigning the regulatory and supervisory function in terms of the Banks Act exemption notice to the CBDA. Future staff increases will be in line with the development of other programmes.

The current organisational chart of the CBDA is outlined in Figure 1:
The CBDA's managing director is supported by a Corporate Services Unit, Supervision Unit and Capacity Building Unit,

Corporate Services Unit

The corporate services unit comprises:

- the financial function, which is outsourced to Rossal No 98 (Pty) Ltd;
- the human resources function, which is outsourced to National Treasury;
- the programme administrator, Mr Percy Molokoane; and
- the policy and research officer. This position is vacant.

Supervision Unit

The Supervision Unit is headed by the Supervisor, Mr David de Jong, and is supported by one senior examiner, Mr M Kuhlengisa, and one inspector, Mr Mfundo Zama. Administrative assistance is provided by Ms Mokgadi Mafojane.

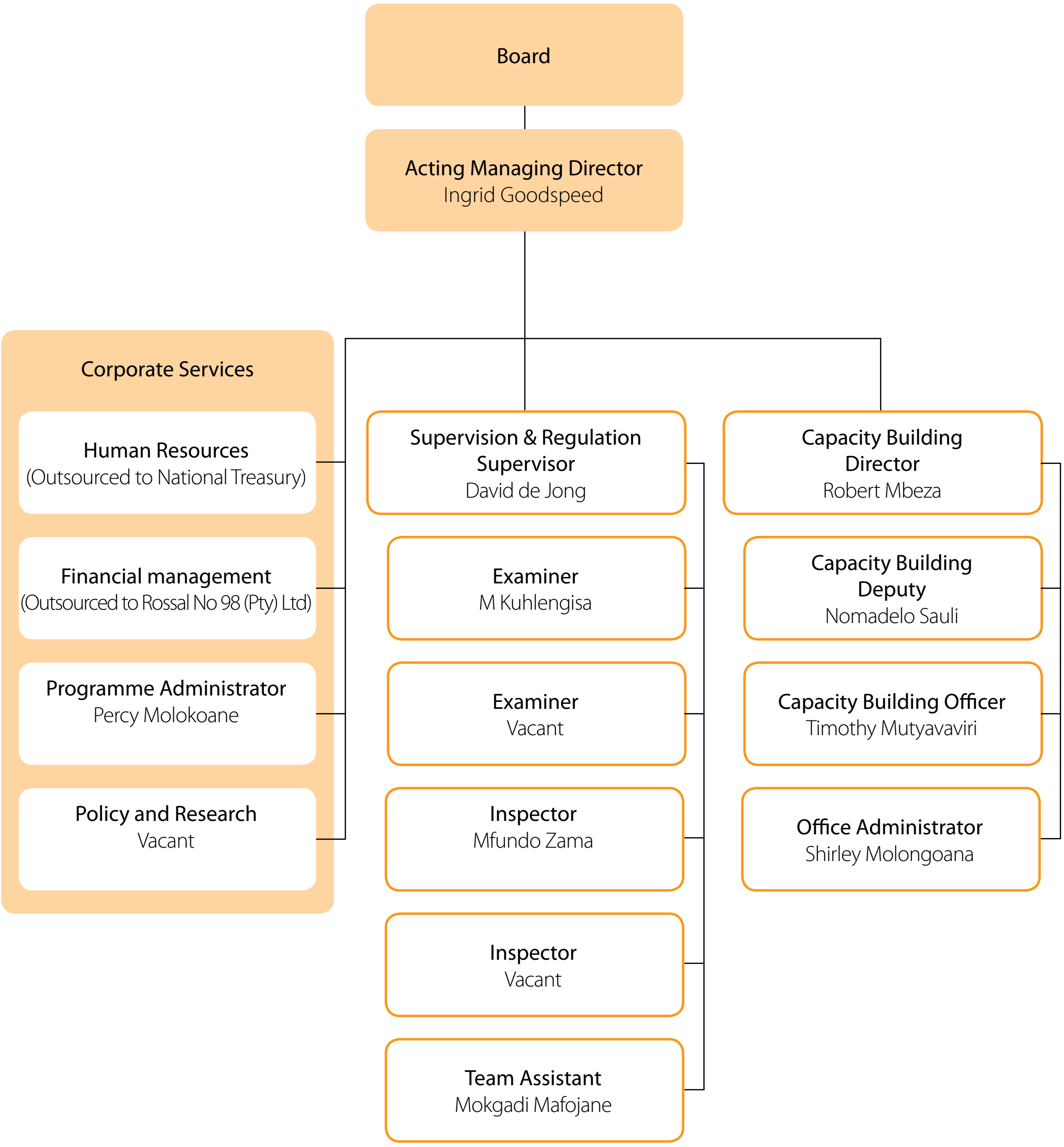
Two additional posts (an examiner and an inspector) have been created in the unit for the next financial year in anticipation of the CBDA's assumption of additional regulatory responsibilities for all CFIs not registered as co-operative banks.

Capacity Building Unit

The Capacity Building Unit is headed by Mr Robert Mbeza, who is supported by his deputy, Ms Nomadelo Sauli, and an officer, Mr Timothy Mutyavaviri. Administrative support was provided, at various times of the year, by Mr Percy Molokoane, Ms Mokgadi Mafojane and Ms Shirley Molongoana. The administrative assistant position will be filled in 2012.

3. HUMAN RESOURCES

Figure 1: Structure of the CBDA



4. CORPORATE GOVERNANCE

4. CORPORATE GOVERNANCE

The CBDA is a public entity established in terms of the Co-operative Banks Act of 2007 (the Act). It is a public entity under Schedule 3a of the Public Finance Management Act 1999, as amended (PFMA). As such, Treasury regulations impose certain statutory and regulatory requirements on the CBDA.

Board of Directors

The Board of Directors of the CBDA is appointed by the Minister of Finance (the Minister) in terms of section 58 of the Co-operative Banks Act of 2007. The Board is the accounting authority of the CBDA and must fulfil certain duties and responsibilities provided for in the PFMA. In addition, the Act requires the Board to:

- provide effective, transparent, accountable and coherent corporate governance and conduct effective oversight of the affairs of the CBDA;
- comply with all applicable legislation and agreements;
- communicate openly and promptly with the Minister and any ministerial representatives;
- deal with the Minister and any ministerial representatives in good faith; and
- at all times act in accordance with the code of conduct for members of the CBDA as may be prescribed by the Minister.

Membership of the CBDA Board of directors as at 31 March 2012:

Mr S Ndwandwe (Chairperson)
Adv. EJZ Kuzwayo (Deputy Chairperson)
Mr V Satgar
Mr K Mahuma (resigned on 30 March 2012)
Mr J Theron
Ms D Hamilton
Mr P Koch
Ms O Matshane (appointed as Managing Director from 14 May 2012)

Acting Managing Directors during the financial year:

Mr N Mashiya (appointed as Acting Managing Director from 14 April 2011 to 31 October 2011)
Ms I Goodspeed (appointed as Acting Managing Director from 8 November 2011 to 13 May 2012)

CBDA Board committees as at 31 March 2012

Table 1 indicates the CBDA's committees and membership of those committees.

Table 1: CBDA committees

HR & Remuneration Committee	Audit Committee (combined with that of National Treasury) in terms of section 77(c) of PFMA	Risk Committee (combined with that of National Treasury) in terms of section 77(c) of PFMA	Regulatory Overview & Advisory Committee (ROAC)
Adv EJZ Kuzwayo	Ms O Matshane	Ms I Goodspeed	Adv EJZ Kuzwayo
Mr J Theron	Mr P Koch (alternate)		
Mr S Ndwandwe			

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

4. CORPORATE GOVERNANCE

Board and Board committee meeting attendance

Board and committee meetings are scheduled annually in advance. Board members' attendance of Board and Board committee meetings is outlined in Table 2.

Table 2: Board and committees attendance

Board and committee meeting attendance	Board	HR and Remuneration Committee	Audit Committee	ROAC
Mr Sifiso Ndwandwe	5/5	3/3		
Adv. Jabu Kuzwayo	5/5	3/3		1/1
Ms Daphne Hamilton	5/5			
Mr KeaObaka Mahuma	0/5			
Mr Jan Theron	5/5	3/3		
Ms Olaotse Matshane	3/5		1/3	
Mr Peter Koch	4/5			
Mr Vishwas Satgar	4/5			

Remuneration of Board members

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

The remuneration of Board members is summarised in note 25.2 in the annual financial statements.

5. PERFORMANCE AGAINST STRATEGIC TARGETS

5. PERFORMANCE AGAINST STRATEGIC TARGETS

Table 3: MD and Corporate Services

Objective	Indicators	Actual performance against target			Reasons for variance and other comments
		Target	Actual	Variance	
1. Establish the Deposit Insurance Scheme for the CFI sector	A fund with 1.25% coverage of insurable deposits by 31 March 2012	Secure financing to set up 20% complete by 31 March 2012	None	No approved fund and secured funding	The National Treasury will establish a single insurance fund within the SARB to protect depositors of all banks, including co-operative banks.
2. Strengthen strategic relationships with stakeholders	Number of stakeholder meetings/ consultations held and MOU signed by 31 March 2012	12 stakeholder consultations 1 MOU signed	12 stakeholder consultations 1 MOU signed	0	One MOU signed with BANKSETA
	Number of stakeholder indabas held by 31 March 2012	1 stakeholder Indaba	1 stakeholder Indaba	0	
3. Develop a strategic leadership, financial management, administrative support to ensure that the CBDA meets it statutory mandate by March 2012	Secured budget allocation in line with requested bids	9.3 million	9.3 million	0	
	Number of new positions filled	2	1	-1	This position was reprioritised for the 2012/13 financial year.

5. PERFORMANCE AGAINST STRATEGIC TARGETS

Table 3: MD and Corporate Services - continued

Objective	Indicators	Actual performance against target			Reasons for variance and other comments
		Target	Actual	Variance	
4. Establish sound governance structures; internal controls and financial management that adhere to laws and regulations (PFMA); Treasury Regulations by March 2012 .	HR Plan established	50% complete	0% complete	-50%	The HR Plan is in part addressed by the HR section of the 2012/2015 strategic plan. Other components of the HR Plan will be developed in consultation with National Treasury HR and the CBDA HR Committee.
	Retention Strategy established	50% complete	0%	-50%	The Retention Plan is still to be developed after consultation with National Treasury HR and the CBDA HR Committee.
	Fraud Prevention Plan established and implemented	100%	0%	-100%	The draft plan was tabled to the board. It will be reviewed by the audit committee before it is implemented.
	Compliance with SCM policies	100% compliance	100% compliance.	0%	Final confirmation subject to audit findings
	Updated polices on:				
	Insurance on computer assets	100%	0%	-100%	After a cost-benefit analysis, CBDA decided to adopt the National Treasury's policy of replacing computer assets instead of insuring them.
	Intangible assets - amend current financial policies	100%	100%	0%	
	Journal policies	100%	100%	0%	

5. PERFORMANCE AGAINST STRATEGIC TARGETS

Table 3: MD and Corporate Services - continued

Objective	Indicators	Actual performance against target			Reasons for variance and other comments
		Target	Actual	Variance	
5. Develop and implement effective, efficient and transparent systems of internal controls on performance management by March 2012	Policies and procedures for quarterly performance reporting	100%	0%	-100%	The CBDA adopted the National Treasury position of using the National Treasury Framework for Performance Information, which was developed in 2012 as a guiding document
	Quarterly reports submitted to the entities unit	100%	100%	0%	
	Annual performance plan that links to the quarterly performance report	100%	50%	-50%	The quarterly performance report template that was used presented some of the targets at a consolidated level which made some of the quarterly report targets not to align to the targets as documented in the annual performance plan.

Note: The introduction of a deposit insurance scheme for co-operative banks is no longer included in the strategic objectives of the CBDA as a separate deposit insurance scheme for co-operative banks may not be necessary. In its policy document "A safer financial sector to serve South Africa better", the National Treasury recognised that apart from protecting bank depositors, the introduction of deposit insurance is important for encouraging new entrants to the banking sector. Such new entrants could be co-operative, mutual and dedicated banks. However instead of a deposit insurance scheme for each type of bank the National Treasury is considering a single deposit insurance scheme that protects all bank depositors, including depositors of co-operative banks.

5. PERFORMANCE AGAINST STRATEGIC TARGETS

Table 4: Co-operative Banks Supervision Unit

Objective	**Indicators**	**Actual performance against target**			**Reasons for variance and other comments**
		Target	Actual	Variance	
1. Register and supervise 15 co-operative banks by 2016	Applications are responded to within two weeks of receipt	2 weeks	2 weeks	0	
	No supervised co-operative bank falls below a CAMEL rating of 3	3 rating	3 rating	0	
	Co-operative bank off-site returns are analysed and reported within three months to Minister and Board	4 reports	4 reports	0	
2. Handle troubled co-operative banks	Letters issued within three months	letters issued to troubled co-operative banks	0 letter issued	0	There was no troubled co-operative bank
3. Compliance with and review of regulatory framework	90% compliance with Basel Principles for deposit-taking microfinance institutions	70% compliant March 2012	85% compliant March 2012	15%	The Supervision unit was compliant with 21 out of the 25 Basel Principles
	Accountability and submitting statutory reports on time	4 reports to Minister	4 reports to Minister	0	
	Ensure self-regulatory organisation sector returns within three months after end of the quarter	0	0	0	Exemption management programme becomes effective June 2012

5. PERFORMANCE AGAINST STRATEGIC TARGETS

Table 5: Capacity Building Information Unit

Objective	Indicators	Actual performance against target			Reasons for variance and other comments
		Target	Actual	Variance	
1. Improve data collection, management and dissemination in the CFI sector	Registered CFIs reporting on financial status by March 2012	15	31	16	Target exceeded - 16 CFIs were assisted to produce the reports by a service provider
2. Assist secondary intermediary co-operatives and other CFI representative bodies to improve their leadership, management and operational capability	Securing funding to set up a banking platform by March 2012	R 1.84 M	R 2 M	R 0.16 M	Budget approved in the 2012-2013 operational plan
	Training programmes and direct technical assistance conducted by the League by March 2012	3	1	-2	Budget moved to the development of curriculum and training of managers but solicited funding from BANKSETA for one training programme conducted by a service provider since the League was not functioning
	CFI performance monitoring conducted by SACCOL by 2012	4	16	12	Performance assessments conducted by CBDA staff, since the League was facing operational challenges and staff used every opportunity they had with the CFIs to assess their performance
	Strengthening the financial co-operative movement through establishment of a project to revitalise SACCOL or establish one national representative body by December 2011	1	1	0	Achieved. CFIs resolved to form one unified national association that brings together Savings and Credit Co-operatives (SACCOs), Financial Services Co-operatives (FSCs) and co-operative banks
	Study tour for the establishment of study circles	1	0	-1	The study circle programme has been put on hold
3. Facilitate the development of learning programmes and implement training arrangements through existing universities, colleges and support organisations	Financial co-operative sector curriculum/ qualifications developed and training to CFI managers provided by March 2012	One curriculum developed and 20 managers trained	One curriculum developed and 20 managers trained	0	Achieved
4. Improve rates of compliance with existing rules, regulations and standards	CFIs registered as co-operative banks by March 2012	1	0	-1	More than 70 % of the eligible CFIs have a low to negative capital adequacy ratio, making it impossible to register them as co-operative banks; however, one CFI's application is being processed but not yet registered.

6. CO-OPERATIVE BANKS SUPERVISION REPORT

6. CO-OPERATIVE BANKS SUPERVISION REPORT

Introduction

The Supervisors of co-operative banks, appointed by the CBDA and the SARB, follow a coordinated approach to ensure the consistent application of the Co-operative Banks Act, 2007 (Act No. 40 of 2007 – the Act), and to circumvent regulatory arbitrage. The Supervisors' objective is to gain proper understanding of the operation of co-operative banks and to apply and where necessary adapt international regulatory and supervisory standards to cater for the unique needs of the domestic co-operative banking sector. The Supervisors operate through a relationship of mutual trust and co-operation with all role players in an effort to promote and enhance the accessibility of sound financial services to all South Africans.

The Supervision Unit within the CBDA is responsible for the regulation and supervision of CFIs that meet the requirements for registration as co-operative banks having mobilised between R1 million and R20 million in deposits with a minimum threshold of 200 members.

Performance of eligible CFIs during the year under review

Consistent with Section 41 (2) of the Co-operative Banks Act, supervisory activities were limited to CFIs that meet the minimum requirements for registration as co-operative banks, that is, more than R1 million in member deposits and at least 200 members. Details of these CFIs are reflected in Table 6.

Table 6: Statistics for Co-Operative Banks and Eligible CFIs as at 29 February 2012

CFI	Type	Prov	Member	Deposits	Loans	Total assets
OSK	Co-op Bank	NC	593	R 48,986,108	R 36,382,615	R 54,021,899
Ditsobotla	Co-op Bank	NW	980	R 6,523,744	R 5,515,084	R 7,569,026
Total co-op banks			**1,573**	**R 55,509,852**	**R 41,897,699**	**R 61,590,925**
Oranjekas	SACCO	GP	732	R 38,684,394	R 27,301,589	R 41,179,597
Kleinfontein	SACCO	GP	356	R 36,673,229	R 32,778,407	R 37,443,039
Kathorus	SACCO	GP	1,911	R 10,458,640	R 6,174,568	R 9,889,423
Motswedi	FSC	NW	3,632	R 7,121,614	R 202,000	R 8,284,101
NEHAWU	SACCO	NAT	4,536	R 7,106,412	R 4,623,715	R 6,473,097
Sibanye	SACCO	WC	3,002	R 5,389,434	R 5,033,546	R 6,358,548
SAMWU	SACCO	SA	2,267	R 5,066,731	R 1,866,609	R 5,317,959
Flash	SACCO	WC	4,845	R 1,832,277	R 316,483	R 4,634,780
Ziphakamise	SACCO	KZN	480	R 3,071,787	R 1,556,944	R 4,059,632
CFF	**SACCO**	**NAT**	**34**	**R 2,898,007**	**R 2,404,422**	**R 3,442,571**
Lotlhakane FSC	FSC	NW	1,251	R 1,538,638	R 72,030	R 2,275,161
Mathabatha	FSC	Lim	2,191	R 1,682,638	R 957,972	R 1,954,670
Kraaipan	FSC	NW	1,392	R 3,551,207	R 212,500	R 1,907,663
Mayibuye	SACCO	EC	223	R 1,315,290	R 1,054,126	R 1,475,283
Boikago	SACCO	NW	671	R 1,182,365	R 935,440	R 1,460,830
K.Ladies Empower	FSC	KZN	528	R 1,003,474	R 383,125	R 1,407,841
Disaneng	FSC	NW	495	R 1,451,752	R 191,775	R 1,034,577
Beehive	SACCO	MP	1,056	R 1,235,261	R 561,075	R 824,631
Lehurutshe	FSC	NW	306	R 1,176,242	R 209,797	R 808,744
Total SACCOs+FSCs			**29,908**	**R132,439,392**	**R 86,836,123**	**R140,232,147**
TOTALS			**31,481**	**R187,949,244**	**R 128,733,822**	**R 201,823,072**

Note1: Statistics collated from compliance reports submitted to self-regulatory bodies SACCOL and samaf and the CBDA capacity building section

Note 2: NAT = National footprint

Note 3: Statistics as at 29 February, as it is the financial year end for the CFIs

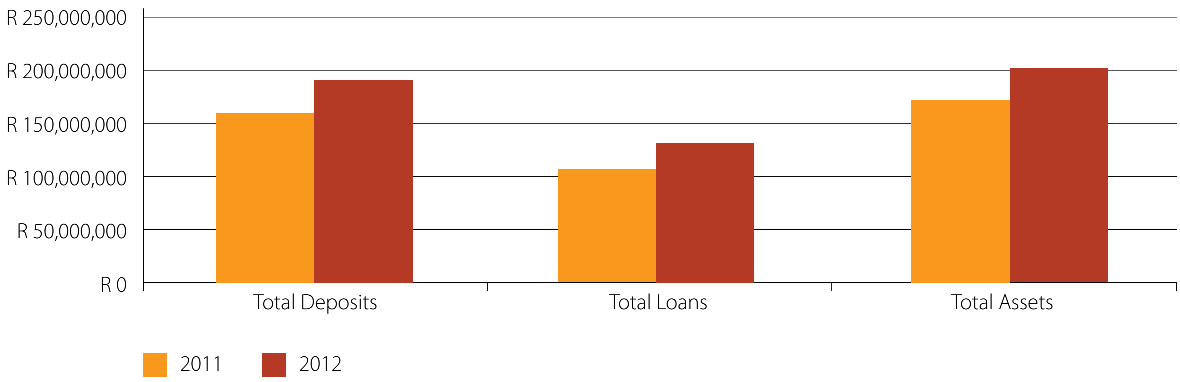
6. CO-OPERATIVE BANKS SUPERVISION REPORT

During the year, three additional eligible CFIs were identified. One eligible CFI became a co-operative bank (OSK), bringing the number of co-operative banks to two and the number of eligible CFIs to 19. The three additional CFIs are still to apply for registration as co-operative banks according to section 3 (1) of the Act.

Membership of co-operative banks and eligible CFIs increased by 12.5 per cent, from 28,034 members to 31,481 members year on year. The increase was driven by significant growth in membership numbers at three CFIs, namely Nehawu, Sibanye and Flash, as well as the increase in eligible CFIs.

Deposits of the two co-operative banks and 19 eligible CFIs increased by 17 per cent to R187.9 million during the year under review, from R161 million in the previous year. This is due to the larger institutions showing strong deposit growth.

Figure 2: Consolidated Statistics for Eligible CFIs



Total net loan levels increased by 20 per cent year on year and totalled R129 million at the end of February 2012.

Assessment of eligible CFIs

None of the eligible CFIs assessed during the 2011/12 financial year managed to address the weaknesses pointed out by the Supervisors sufficiently and hence they were not registered as co-operative banks.

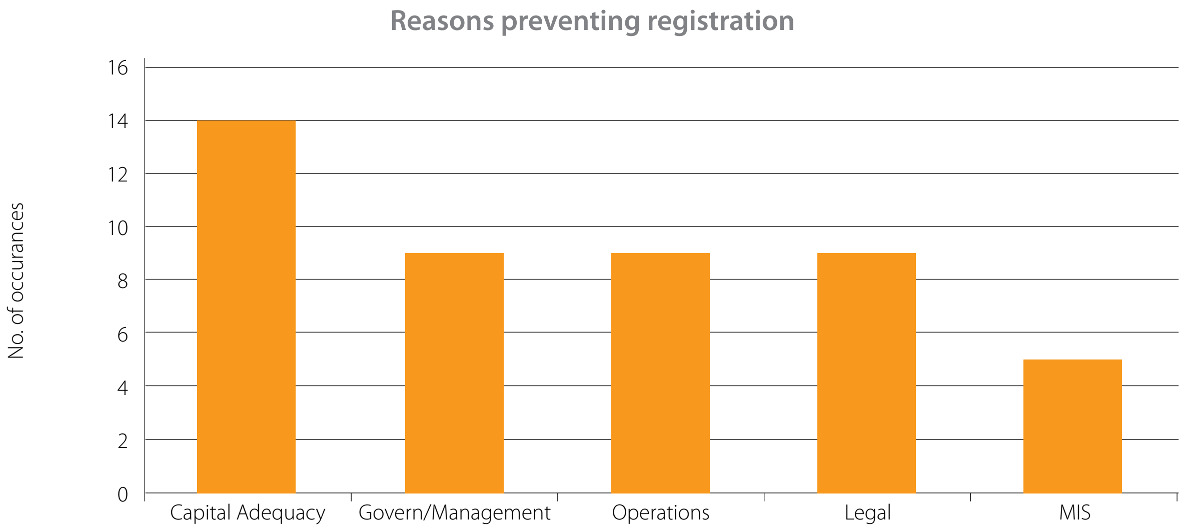
Institutional assessments[1] were jointly conducted by the Capacity Building and Supervisory Units in respect of three newly identified eligible CFIs that had not applied for registration, but met the minimum registration criteria (of R1 million in deposits and 200 members). The Capacity Building Unit is now providing these three CFIs with developmental support to assist them in qualifying for registration as co-operative banks.

The weaknesses preventing eligible applicant CFIs from registering as co-operative banks were highlighted in the Supervisors' 2010/11 *Combined Annual Report*. As was the case during the previous financial year, the primary challenges faced by applicant CFIs were inadequate capital, poor governance and weak management information systems. The most prominent weaknesses identified during the assessments of eligible CFIs are reflected in Figure 3.

1 Institutional assessments are conducted at CFIs to determine, inter alia, the reasons for non-compliance with section 3 of the Act, that is, to submit an application to the Supervisor for registration as co-operative bank. Pre-registration assessments are conducted on CFIs that have submitted all the documents required for registration.

6. CO-OPERATIVE BANKS SUPERVISION REPORT

Figure 3: Most prevalent weaknesses of CFIs



The Capacity Building Unit is currently working with all eligible applicant CFIs to address identified weaknesses.

Launch of the Ditsobotla Co-operative Bank

The Ditsobotla Primary Savings and Credit Co-operative Bank Ltd, the first co-operative bank to be registered in South Africa, celebrated its official launch on 5 November 2011. The MEC of Economic Development and Tourism, the Honourable Tebogo Modise, officiated at the ceremony, which was attended by co-operators from around the country as well as from Swaziland and Botswana, the mayor of the area and invited guests from the CBDA, the SARB and the South African Micro-finance Apex Fund **(samaf)**.

The Ditsobotla Co-operative Bank, with about 913 members at that time, registered as a co-operative bank with the CDBA Supervisor in February 2011. The Ditsobotla Co-operative Bank originated when the union encouraged employees of the then Blue Circle Cement Factory to begin an educational fund to assist employees. As the fund grew, they sought alternative investment opportunities and opted to form the Itireleng SACCO. Soon after that, municipal employees in the area formed their own Ikageng SACCO, whilst the Anglo Alpha cement factory employees formed the Aganang SACCO.

6. CO-OPERATIVE BANKS SUPERVISION REPORT

The three SACCOs realised that if they were to make a meaningful contribution to servicing all people in the Lichtenburg area, even those outside the municipality or cement factories, things would have to be done differently and they began merger discussions, which brought about the Ditsobotla SACCO, which services the Ditsobotla district.

The launch was a real celebration of the achievement of these financial co-operative pioneers in South Africa. Dancing and entertainment at the launch epitomised the joy of their collective achievements to date.

Performance against targets

Strategic Goal 1: Register and supervise co-operative banks

Sub-goal 1: Applications are responded to within two weeks of receipt.

The unit has in place a comprehensive system for monitoring all eligible CFIs for registration as co-operative banks. All applications are responded to within two weeks of receipt. Further, regular reporting on performance standards to the Capacity Building Unit allows the CBDA to keep track of CFIs that are getting close to meeting the minimum registration requirements for co-operative banks, i.e. R1 million in deposits and 200 members. However, the onus remains on eligible CFIs to submit their applications for registration in terms of section 3 of the Co-operative Banks Act within two months of meeting the minimum criteria.

During the year, applications for registration as co-operative banks were received directly from two CFIs that met the requirements of section 3 (a) of the Act. Following pre-registration assessment, it was noted that the two CFIs experienced significant operational and legal difficulties that demanded attention before a co-operative banking license could be granted. The Supervisor still awaits the successful resolution of the supervisory concerns raised during the assessments.

Five institutional assessments were conducted during the year for CFIs that were eligible but had not applied for registration in terms of Section 3 of the Act. These assessments were held jointly with the Capacity Building Unit, the supervisory intent being to establish the reason why the CFIs failed to comply with the regulatory requirement. In all instances, the CFIs had a weak capital position. In the interim, these CFIs remain operational in terms of exemption notices while the Capacity Building Unit is working with them to address the weaknesses.

In addition to the five mentioned above, two other CFIs received formal letters from the Supervisor to apply for registration. Simultaneously, the Capacity Building Unit initiated financial audits of the two CFIs to verify their figures. The audit and subsequent assessment revealed that one of the CFIs was below the minimum deposit threshold, while the other was operating an opaque investment structure masquerading as a CFI. The Capacity Building Unit is working with the CFI concerned to regularise its operations.

Sub-Goal 2: No supervised co-operative bank falls below a CAMEL rating of 3

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

6. CO-OPERATIVE BANKS SUPERVISION REPORT

Table 7: Rating and frequency of on-site examinations

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

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

According to the standard process, the examiners discuss their finding with the management of the co-operative bank directly after conducting the examination. A separate meeting is then conducted between the Board of the co-operative bank and the Supervisor. After the meeting the co-operative bank provides written response as to how it intends to attend to the identified shortcoming.

During the year under review, Ditsobotla Co-operative Bank was the only co-operative bank registered by the CBDA. In line with its previous CAMEL rating, one full-scope and two targeted examinations were conducted.

No supervised co-operative bank fell below a CAMEL rating of 3 during the period under review.

Sub-Goal 3: Co-operative banks' off-site returns are analysed and reported within three months to the Minister and Board.

The Supervision Unit, in conjunction with the SARB, is piloting an electronic return submission system for registered co-operative banks. The intention is that all financial information relating to co-operative banks will be captured on a single platform, thereby alleviating the potential problems associated with the future migration of co-operative banks between Supervisors and to enable macro prudential analysis of the co-operative banking sector.

The Supervisor has a statutory obligation to report to the Minister on the performance of the co-operative banking sector on a quarterly and an annual basis. The unit duly contributed to the 2010/11 *Combined Annual Report,* which was submitted to the Minister on 31 May 2011, while quarterly feedback reports on the performance and operations of co-operative banks were provided for the periods ending 31 May 2011, 31 August 2011, 30 November 2011 and 29 February 2012 (to be submitted by 30 April 2012). All reports were circulated to the board for noting.

Strategic Goal 2: Handling troubled co-operative banks.

Sub-Goal 1: Troubled CFIs dealt with within three months of identification of problem.

The Supervisors, during this period, adopted a "problem banks resolution framework" to co-operate in a crisis in order to establish and facilitate the actions and the timely decision-making process of the authorities responsible for the management and resolution of the crisis. The framework will be finalised once the CBDA Deposit Insurance Fund has been established.

The CBDA has attempted to be pro-active with regard to a number of failing CFIs. Three CFIs were found to be insolvent following joint investigations conducted by samaf and the CBDA Supervisor. The CBDA Supervisor recommended that these CFIs be liquidated; however, the provincial Departments of Economic Development elected to rehabilitate them. The CBDA Supervisor will liquidate these CFIs, should the identified interventions not take place in a timely manner. This will be done to protect the depositors and maintain confidence in the sector. SACCOL has reported two failing SACCOs to the Supervisor and they are currently receiving attention.

6. CO-OPERATIVE BANKS SUPERVISION REPORT

Strategic Goal 3: Compliance with review of regulatory frameworks.

Sub-Goal 1: Ninety per cent compliance with Basel Principles for deposit-taking microfinance institutions

During the year, the joint Supervisors conducted an internal self-assessment on compliance to the Basel Core Principles for Effective Banking Supervision of Deposit-taking Microfinance Activities. The definition of microfinance activities includes deposit-taking financial co-operatives. The core principles have assisted the Supervisors in developing a coherent approach to regulating and supervising financial co-operatives according to four main themes:

i) efficient allocation of supervisory resources;
ii) development of specialised knowledge within the supervisory team to evaluate the risks of microfinance activities effectively,
iii) recognise proven control and managerial practices that may differ from conventional retail banking but may suit the microfinance business both in small and large institutions, specialised or not, in microfinance; and
iv) achieve clarity in the regulations with regard to microfinance activities, particularly the definition of micro-credit, and specify which activities are permitted to different institutional types, while retaining some level of flexibility to deal with individual cases.

It was found that although the Supervisors were fully compliant with most of these principles, there were still some core principles with which they were only regarded as largely compliant. In this regard, attention will be paid to addressing the shortcomings identified during the self-assessment. In line with the Basel Committee's recommendations, the main focus will be on issuing additional rules that will provide legal backing to compel co-operative banks to follow prescribed procedures and to set minimum policy standards relating to the risks to which they are exposed.

The self-assessment indicated that the Supervisors were only non-compliant with one of the core principles owing to the fact that co-operative banks are not defined as 'accountable institutions' in terms of Schedule 1 of the Financial Intelligence Centre Act, South Africa's anti-money-laundering legislation. The decision not to include co-operative banks as accountable institutions can be ascribed to the reduced risk of member-based institutions, given their nature, size and complexity compared to commercial banks. Notwithstanding any legal obligation, the know-your-client principle is enforced by Supervisors and co-operative banks have been instructed to report suspicious transactions with the assistance of the Supervisor, if required. However, no suspicious transactions have been reported to date.

Sub-Goal 2: Accountability and submitting statutory reports on time

As reported in strategic objective 1, Sub-goal 3 above, reports have been submitted to the Minister of Finance. Furthermore the Supervisory Unit held one ROAC meeting in October 2011. ROAC, primarily meant to review and develop policy and legislation applicable to CFIs and co-operative banks, is a joint committee of the SARB Supervisor, the CBDA Supervisor, the Managing Director of the CBDA, the Registrar of Co-operatives and representatives of the CBDA Board and National Treasury.

To ensure a consistent approach by both Supervisors, ROAC adopted a policy framework that sets out the broad framework for the Supervisors in applying the minimum prudential requirements for registration purposes, given the nature and size of the applicants. The policy document also sets out the action to be taken by the Supervisors with regard to non-compliance with registration requirements.

Up-to-date regulatory framework

The CBDA and SARB are cognisant of the proposed legislative reviews currently taking place. These include amendments to the Co-operative Banks Act of 2007, the Co-operative Act of 2005 and the Financial Services Laws General Amendment Bill, 2012 (Omnibus Bill).

A detailed review of the Co-operative Banks Act was undertaken in order to determine those areas that require refinement or amendment and the findings were published in the Combined Annual Report of the Supervisors of the Co-operative Banks Development Agency and the South African Reserve Bank 2011/12.

6. CO-OPERATIVE BANKS SUPERVISION REPORT

Annual co-operation and co-ordination plan[2]

In terms of section 52 of the Act, the Supervisors reported on the implementation of the Co-operation and Co-ordination Plan referred to in section 42 of the Act.

There has been good co-operation and co-ordination between the Supervisory Units of the CBDA and the SARB. Some of the joint activities included:

- weekly co-ordination meetings;
- meetings with stakeholders, interested parties and regulatory authorities;
- comments on relevant financial regulation Bills;
- issuance of statutory reports and guidance notes;
- review of compliance with international standards;
- assessment and evaluation of applications; and
- co-ordination of manuals and administrative systems.

Sub-goal 3: Ensure self-regulatory organisations submit sector returns within three months

During the year the two self-regulatory organisations,–SACCOL and samaf, agreed to relinquish their role of regulating and supervising the activities of FSCs and SACCOs in the new financial year.

In order to ensure that CFIs remain regulated and supervised, the National Treasury proposed that the CBDA be designated as the regulatory and supervisory agency for all CFIs that do not meet the minimum requirements to register as co-operative banks. The Minister of Finance will repeal the exemption notices relating to FSCs, SACCOs and stokvels and replace them with a proposed exemption notice that will designate the CBDA as the regulatory agency for CFIs. Stokvels will remain in the domain of the National Stokvels Association of South Africa (NASASA). This exemption will assist the CBDA to perform its function of developing financial co-operatives as prescribed by section 55 of the Co-operative Banks Act.

In anticipation of this move, it was agreed that the registration and monitoring of CFIs will fall under the Supervisory Unit within the CBDA. An Exemption Notice Policy framework has been tabled and approved by the CBDA Board to give effect to this new mandate. The Supervisory Unit has prepared draft rules on its anticipated registration and compliance requirements for discussion with all stakeholders.

Participation in national and international regulatory or supervisory forums

The Supervisors are expected to participate in the activities of international bodies and authorities whose main purpose is to develop, advance and promote the sustainability of co-operative banks and to co-operate with international bodies and authorities in respect of matters relating to co-operative banks.

The CBDA Supervisory Unit participated in the following:

- WOCCU International Credit Union Regulators' Network (ICURN) held in Washington D.C., United States, from 8 to 10 June 2011.
- Financial Co-operatives Indaba held in Cape Town, from 19 to 21 October 2011.
- SACCA congress held in Accra, Ghana, from 2 to 5 October 2011.
- ACCOSCA Third SACCO Leadership Forum, held in Gaborone, Botswana, from 21 to 23 March 2012.

2 For a detailed report on the joint activities of the SARB and CBDA capacity building units, refer to the Combined Annual Report of the Supervisors of the Co-operatives Banks Development Agency and the South African Reserve Bank 2011/12place.

6. CO-OPERATIVE BANKS SUPERVISION REPORT

The Co-operative Financial Institutions Indaba 19 – 20 October 2011

The CBDA organised and hosted an indaba for CFIs in Cape Town from 19 to 21 October 2011.The theme of the indaba was, "Creating a strong and vibrant co-operative banking sector that broadens access to and participation in diversified financial services towards economic and social well-being". The conference was attended by more than 150 representatives from CFIs in South Africa as well as other key stakeholders in the sector, notably representatives from the Department of Economic Development, local universities and samaf. Also in attendance were international guest speakers from the USA, Kenya and Malawi.

The Honourable Minister of Finance, Mr Pravin Gordhan, delivered the welcoming address via video. He confirmed the government's commitment to ensuring that every South African has access to affordable financial products and services. The Honourable Deputy Minister of Finance, Mr Nhlanhla Nene, delivered the keynote address and challenged all those involved with the financial co-operative sector to change their mind-set in order to make meaningful contributions to communities. He implored members to build a more unified, inclusive, vibrant and self-sustainable movement.

The indaba provided a great opportunity for the CBDA to launch an Annual Incentive Programme for best performing CFIs based on their performance against the standards set for the sector. Six CFIs, which included the two registered co-operative banks, were awarded trophies for outstanding performance. The categories in which prizes were awarded were as follows:

a) Best Performing CFI based on Prudential Requirements and Ratio Analysis
b) Highest Active Membership Growth
c) Highest Savings Growth.

One of the key outcomes of the conference was the decision by SACCOL, the only surviving representative body for SACCOs, to dissolve and to allow the formation of a new inclusive representative body. The new body intends to establish itself as the movements' representative and support organisation of all CFIs including SACCOs, FSCs and co-operative banks. The indaba will now be an annual event to be held in October to coincide with International Credit Union Day on the third Thursday of October every year.

6. CO-OPERATIVE BANKS SUPERVISION REPORT

Launch of the Financial Co-operatives Retail Bond

The National Treasury, through its Asset and Liability Management division, created a new investment product, namely the Financial Co-operatives Retail Savings Bond. This product was launched during the Co-operative Financial Institutions Indaba, held in Cape Town from 19 to 21 October 2011. The main objective is to provide a secure, affordable savings vehicle for FSCs, SACCOs and co-operative banks. It will also serve to diversify savings instruments available to CFIs.

The bonds offer competitive interest rates and will provide CFIs with a safe instrument in which to invest, with no charges. Additional features take into account the uniqueness of the financial co-operative model, through top-ups and early withdrawals.

7. CAPACITY BUILDING AND INFORMATION REPORT

7. CAPACITY BUILDING AND INFORMATION REPORT

Introduction

Capacity building programmes during the year 2011/12 continued establishing initiatives that support, promote and develop CFIs into becoming safe and reliable co-operative banks; accelerating performance towards co-operative bank registration and promoting and supporting fledgling CFIs. To achieve these key strategic thrusts, the Capacity Building and Information Unit set four strategic objectives for the reporting year, viz to:

1. improve data collection, management and dissemination in the CFI sector;
2. assist secondary intermediary co-operatives and other CFI representative bodies to improve their leadership, management and operational capability;
3. facilitate the development of learning programmes and implement training arrangements through existing universities, colleges and support organisations; and
4. improve compliance rates with the existing rules, regulations and standards.

In addition to these objectives, the unit was also involved with leveraging partnerships to achieve synergy and performance. The unit collaborated closely with the two self-regulatory bodies of the financial co-operative sector, SACCOL and samaf, as well as the Departments of Economic Development in all the provinces, Department of Transport in KwaZulu-Natal, Department of Agriculture, Forestry and Fisheries and the BANKSETA.

2011/12 objectives, indicators and performance against targets

Objective 1: Improve data collection, management and dissemination in the CFI sector

According to the CIPC database there are 163 registered CFIs (112 FSCs and 51 SACCOs). Some of these CFIs are not functional and not affiliated to or working with either SACCOL or samaf.

The majority of those that are functional are not producing conventional financial statements, which is a compliance requirement.

Research conducted by Deloitte and Touché in 2003 and 2006 and confirmed by the CBDA in 2010 noted that many CFIs are not reporting on their financial performance through the production of financial statements. The research established that:

1. FSCs do not produce conventional balance sheets and income statements but tend to report for grant-funding purposes;
2. SACCOs are not consistent in reporting to SACCOL;
3. there is a dearth of experience and qualifications in basic accounting skills; and
4. where there are audited financial reports, the auditors do not understand the financial co-operative model.

In 2010/11, the Capacity Building and Information Units developed a manual accounting system, which included an Excel version for those CFIs that have computers to assist CFIs to start producing financial statements. However, most CFIs were behind in updating their financial transactions and this, coupled with lack of accounting knowledge, made it difficult for the majority of CFIs to produce financial reports. The unit therefore assisted 16 CFIs to bring their books of accounts up to date and produce financial statements. In addition, the unit conducted in-service training so that the CFIs can produce financial reports in future. The unit collected financial statements from another 15 CFIs that produced the reports on their own, making a total of 31 accurate financial reports.

After collecting the financial reports, the unit conducted ratio analysis using a financial performance monitoring tool called PEARLS. All 31 financial reports were analysed and reports with recommendations were issued to 19 CFIs that are eligible for registration as co-operative banks and three that are just below the threshold for registration.

7. CAPACITY BUILDING AND INFORMATION REPORT

The unit also compiled financial information collected from the self-regulatory organisations – SACCOL and samaf - and together with the financial statements collected from the CFIs, produced four quarterly financial growth trend analyses for the sector.

Samaf and SACCOL informed the CBDA that 15 CFIs had been closed because of non-performance, reducing the reported number of CFIs from 121 in 2010/11 to 106 in 2011/12. The table below shows the growth trend for the sector.

Table 8: The growth and financial performance of CFIs (including co-operative banks)

	2010/11	2011/12	GROWTH PERCENTAGE
No. of CFIs	121	106	-12.4 %
Membership	59,394	53,240	-10.4 %
Savings	R 175,265,000	R 196,230,000	12.0 %
Loans	R 116,577,000	R 132,227,000	13.4 %
Assets	R 195,213,000	R 217,506,000	11.4 %

Sector classification by assets			
CFIs	Assets	No. of CFIs	Total Sector Assets (%)
Very large	> R20 million	3	61.0 %
Large	R1 million – R20 million	18	32%
Small	R150,000 – R1 million	13	5%
Very small	< R150,000	72	2.0 %
		106	**100%**

Table 9: Status of co-operative banks and CFIs eligible for registration as co-operative banks

	2010/11	2011/12	Growth %
No. of CFIs	18	21 (Note 1)	16.7 %
Membership	28,034	31,481	12.3 %
Savings	R 160,996,000	R 187,949,000	16.7 %
Loans	R 107, 261,160	R 128,733,822	20%
Assets	R 175,897,017	R 201,823,000	14.7 %

Note 1: A detailed breakdown per CFI is provided in Table 6 above

Responding to the inadequacies of financial statements from the CFIs during the year, the unit developed a financial reporting tool, which will provide guidance to accounting officers and auditors of the CFIs. The unit is collaborating with SAICA, which is reviewing the tool to ensure compliance with all accounting standards.

The unit also developed a framework for audit preparation to assist CFI managers and managing directors of co-operative banks to prepare for audits. The objectives of the framework are to:

a) serve as a handbook for guiding CFIs in preparing for audit;
b) equip CFIs with skills necessary to get a clean (unqualified) audit; and
c) serve as a reference book to those preparing the audit files of the CFIs.

7. CAPACITY BUILDING AND INFORMATION REPORT

Objective 2: Assist secondary intermediary co-operatives and other CFI representative bodies to improve their leadership, management and operational capability

The only surviving self-regulatory body, SACCOL, continued to face operational and financial challenges. However, the CBDA assisted SACCOL in its attempt to establish a national association that will represent all CFIs.

The national association will have representatives and provincial structures for CFIs in all nine provinces. The CBDA supports the initiative and encourages provincial government departments that are promoting the development of CFIs to support the initiative too. The resolution to establish the National Association was made during the CFI Indaba in October 2011.

Through the benchmarking workshops conducted in 2010/11, the unit developed performance standards for the sector and a performance assessment tool for monitoring the performance of CFIs against these performance standards. The unit used this tool to conduct performance assessment of 18 CFIs. The purpose of the assessments was to establish:

- a comprehensive picture of how CFIs are moving towards achieving their performance goals;
- a mechanism for responding to issues that may require remedial action;
- the potential of the CFIs to improve their performance against the standards; and
- the performance of the CFIs in six key strategic areas of growth, i.e. management, financial management, policies and procedures, governance, marketing and products and co-operative principles.

Regular evaluation of the performance of the CFIs is expected to promote growth and sustainability. The CFIs are likely to improve compliance by producing timely management reports. In terms of registration, all qualifying CFIs will strive to improve performance against the standards in order to satisfy the requirements to be registered as co-operative banks. The assessments also help to identify non-performing CFIs and enable the CBDA to put in place solutions to stop members losing their deposits.

Objective 3: Facilitate the development of learning programmes and implement training arrangements through existing universities, colleges and support organisations

Research conducted by the CBDA on management practices among CFIs showed that most CFI staff have insufficient knowledge about the legislative framework that governs CFIs, lack understanding of prudential requirements, human resource management, risk management, accounting and financial management, as well as delinquency management. The managers of most CFIs are unable to direct and control their CFIs towards operational and financial sustainability. The CBDA therefore facilitated the development of a financial co-operatives sector curriculum by the University of Pretoria in an attempt to address the skills gaps in the sector.

The certificate course in CFI Management is directed at CFI managers, especially those managing CFIs eligible to register as co-operatives banks. After attending the course, the managers are expected to be able to manage lending practices; identify, avert and/or mitigate risks; produce the required monthly financial reports and comply with the minimum prudential standards, thus directing the CFIs to operational and financial sustainability and registration as co-operative banks. The BANKSETA provided funding for the tuition of the 20 participants.

Furthermore, the unit obtained additional funding from the BANKSETA for a training programme on governance, which was attended by 24 participants.

7. CAPACITY BUILDING AND INFORMATION REPORT

Certificate course in Co-operative Financial Institution Management

The CBDA launched a certificate course in Co-operative Financial Institution Management at the University of Pretoria. The university developed the materials with the aim of providing managers of CFIs with thorough knowledge and understanding of effective management techniques for financial co-operatives and of the legislative and compliance requirements for registration as co-operative banks.

The course includes the following learning outcomes:

- Understanding the legislative framework governing financial co-operatives and co-operative banks;
- Understanding prudential requirements;
- Developing skills in effective management of human resources;
- Developing skills in the compilation of financial and management accounts;
- Understanding how to measure and manage loan delinquency and manage lending practices efficiently;
- Understanding how to manage the overall risks facing a co-operative financial institution; and
- Knowing how to guide a co-operative financial institution towards institutional and financial sustainability.

The inaugural course was run with twenty participants. Seventeen participants passed. Sixty per cent of the participants were allocated the highest mark possible for satisfying the requirements of the programme. The main criticism of the course was the shortage of time to cover the range of topics.

Objective 4: Improve compliance rates with the existing rules, regulations and standards

One of the key focus areas of the unit has been support for nineteen CFIs eligible to register as co-operative banks. Twelve experience capital adequacy constraints, while the others face a variety of challenges, including inability to provide audited financial statements and lack of strategic plans. The unit assisted seven of them to produce financial statements and seven to draw up strategic plans.

The unit also assisted some CFIs to develop policies, including loans and savings policies and procedures.

8. STATEMENT OF RESPONSIBILITY

8. STATEMENT OF RESPONSIBILITY

The CBDA Board is responsible for preparing and presenting financial statements that are a fair representation of the financial position, performance and cash flows for the period. The CBDA Board would like to draw attention to the following with regard to the annual financial statements:

The CBDA had a surplus of R1 095 000 for the financial year 2011/12. After taking into consideration accruals and provisions, the net surplus is R197,000. The Board has approved the request for excess funds to be rolled over in the 2012/13 financial year to be used to fund a stabilisation fund for the sector. Final approval from National Treasury is pending.

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

The annual financial statements, presented from pages 38 to 69, are prepared using the standards of Generally Recognised Accounting Principles (GRAP), in the manner prescribed by the PFMA. Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, have been used consistently.

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

The external auditor of the CBDA for the year under review was the Auditor General SA. The Auditor General is responsible for reporting on whether the financial statements are fairly presented. The report of the Auditor General is presented on page 39.

The annual financial statements for the year ended 31 March 2012 were approved by the Board of Directors on 31 May 2012 by round robin and were signed on its behalf by:

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

9. REPORT OF THE AUDIT COMMITTEE

9. REPORT OF THE AUDIT COMMITTEE

Audit Committee Members and attendance:

The Audit Committee consists of the members listed hereunder and has met as reflects below, in line with its approved terms of reference.

Table 10: Audit Committee Meetings 2011/12

Name of member	Number of meetings attended
Mr Vuyo Jack	4 of 4
Ms Mamoroke Lehobye	3 of 4
Ms Lesibana Fosu	1 of 4
Mr Joe Lesejane	1 of 4
Mr Zach Le Roux	4 of 4
Ms Berenice Francis	4 of 4

The Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1)(ii) of the PFMA and Treasury Regulation 3.1. The Audit Committee also reports that it has adopted appropriate formal terms of reference as incorporated in its audit committee charter. The Audit Committee has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal controls

The Audit Committee is of the opinion, based on the information and explanations given by management, the internal auditors, and discussions with the independent external auditors (Auditor-General) on the results of its audits, that the internal accounting controls are operating to ensure that the financial records may be relied upon for preparing the annual financial statements, and that accountability for assets and liabilities has been maintained. From the various reports of the Internal Auditors, the Audit Report on the Annual Financial Statements and the management letter of the Auditor-General, it was noted that no significant or material non-compliance with prescribed policies and procedures have been reported. We can report that the system of internal control for the period under review was effective. However, attention is drawn to the following areas of concern:

- As disclosed in note 53 to the financial statements, the Co-operative Banks Development Agency incurred irregular expenditure of R596 000.
- In terms of the section 25 of the Co-operative Banks Act of South Africa 2007, the agency must establish and manage a fund to be known as the Co-operative Banks Deposit Insurance Fund. The Co-operative Banks Development Agency did not have a Deposit insurance fund as required by the Co-operative Banks Act.
- The Audit Committee notes the lack of measurable targets in the performance against predetermined objectives report as reported by the Auditor-General. We see this as a weakness in controlling performance and ensuring accountability and discipline.
- Internal Audit did not evaluate compliance with laws and regulations, as required by Treasury Regulation 27.2.10(e).

Other than these matters, nothing significant has come to the attention of the Audit Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

9. REPORT OF THE AUDIT COMMITTEE

The effectiveness of Internal Audit

The Audit Committee reviewed the effectiveness of internal audit. Notwithstanding this, the Audit Committee received a wide range of internal audit reports and feels comfortable that the areas covered provided us with good insight into the internal controls of the agency. Areas that are weak and needs improvement have been discussed with management and actions plans have been agreed. The Audit Committee will continue to oversee and monitor the disposition of these findings.

The risk areas of the institution's operations

Risk management is still relatively new within the Co-operative Banks Development Agency. However there is a Risk Management Committee that meets on a regular basis and shares its reports with the Audit Committee. A risk register is kept and updated continuously to ensure that all the major risks facing the agency are recorded.

Accounting and auditing concerns identified as a result of internal and external audits

From the various reports of the Internal Auditors, the Audit Report on the Annual Financial Statements and the management letter of the Auditor-General, it was noted that no significant or material accounting or auditing concerns were identified.

The institution's compliance with legal and regulatory provisions

From the Audit Report on the Annual Financial Statements and the management letter of the Auditor-General, it was noted that no significant or material non-compliance with legal and regulatory provisions have been reported other than reported in the Auditor-General's report below.

Evaluation of annual financial statements

The Audit Committee has evaluated the annual financial statements of the Co-operative Banks Development Agency for the year ended 31 March 2012 and, based on the information provided to the Audit Committee, concurs and accepts the Auditor-General's conclusions on the annual financial statements, and would recommend to the board that the audited annual financial statements be accepted and read together with the report of the Auditor-General.

Vuyo Jack
Chairperson of the Audit Committee
06 August 2012

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

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

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Co-operative Banks Development Agency set out on pages 45 to 69 , which comprise the statement of financial position as at 31 March 2012, and the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

2. The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standard 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 the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and 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 2012, and its financial performance and cash flows for the year then ended in accordance with South African Standards of GRAP and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) PFMA.

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

Emphasis of matters

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

Irregular expenditure

8. As disclosed in note 26.3 to the financial statements, the Co-operative Banks Development Agency incurred irregular expenditure of R596 000.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

9. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

10. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance plan as set out on pages 13 to 17 of the annual report.

11. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

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

12. The material findings are as follows: concerning the usefulness of the information.

Usefulness of information Consistency

13. Treasury Regulation 30.1.3(g) requires that the strategic plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 45% of the reported targets are not consistent with the targets as per the approved annual performance plan. This is due to the lack of a policy on reporting of predetermined objectives and the lack of a review processes in the Co-operative Banks Development Agency.

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

Measurability

14. The National Treasury Framework for managing programme performance information (FMPPI) requires that performance targets be specific in clearly identifying the nature and required level of performance.

    A total of 49% of the targets relevant to Corporate Services, Supervision and Capacity building programmes were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was not aware of the requirements of the FMPPI.

15. The National Treasury Framework for managing programme performance information (FMPPI) requires that the time period or deadline for delivery be specified. A total of 50% of the targets relevant to Corporate Services, Supervision and Capacity building programmes were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was not aware of the requirements of the FMPPI.

Additional matter

16. I draw attention to the following matter below.

Achievement of planned targets

17. Of the total number of planned targets, only 29 were achieved during the year under review. This represents 21% of total planned targets that were not achieved during the year under review. This was as a result of the institution not considering relevant systems and evidential requirements during the annual strategic planning process.

Compliance with laws and regulations

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

Procurement and contract management

19. The preference point system was not applied in the procurement of one competitive bid as the expenditure incurred was in contravention of Treasury Regulation 16A.6.3 (b) relating to supply chain management. The expenditure incurred was in contravention of the PPPF Act section 2(a).The accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations and internal control.

    A recommendation to the accounting authority and the final award of a contract was not made by an adjudication committee constituted in accordance with the SCM policy. The managing director did not develop an SCM system that provided for the approval of bid evaluation and adjudication committee recommendations in procurement processes.

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

Internal Audit

20. Internal audit did not evaluate compliance with laws and regulations, as required by Treasury Regulation 27.2.10(e).

21. Internal audit did not evaluate the reliability and usefulness of the operational information as required by Treasury Regulation 3.2.11(b).

Strategic planning and performance management

22. In terms of section 30.1.1 Treasury Regulations states that: "The accounting authority for a public entity listed in Schedule 3A or 3C must annually submit a proposed strategic plan for approval by the relevant executive authority. Co-operative Banks Development Agency's Strategic Plan for 2011/12 was not approved by the Minister of Finance.

Annual financial statements

23. The financial statements submitted for audit did not comply with section 55(1) (b) of the PFMA and material misstatements were identified during the audit. Material misstatements of income and expenditure and disclosure items identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified opinion.

Co-operative Banks Act of South Africa, 2007

24. In terms of the section 25 of the Co-operative Banks Act the agency must establish and manage a fund to be known as the Co-operative Banks Deposit Insurance Fund. Co-operative Banks Development Agency did not have a Deposit Insurance Fund as required by the Co-operative Banks Act.

Internal control

25. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion on the annual performance report. However there were no significant deficiencies in internal controls that resulted in a qualification of the auditor's opinion on the financial statements and the findings on compliance with laws and regulations included in this report.

Leadership

Oversight responsibility regarding reporting and compliance

26. The accounting authority did not exercise adequate oversight over the financial statements, reporting on predetermined objectives and compliance with laws and regulations. This has resulted in material adjustments to the financial statements, findings on the predetermined objectives and non-compliance with laws and regulations.

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

Financial and performance management

Regular, accurate and complete financial and performance reports

27. Management did not follow policies and procedures to complete the reporting performance report as a result a numerous instances of non-compliance with Treasury Regulations were identified.

Review and monitor compliance with laws and regulations

28. Management did not follow policies and procedures to review internal controls of the Agency regarding compliance with laws and regulations and as a result a number of recurring non-compliances were identified.

Auditor General

Pretoria

31 July 2012

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Statement of Financial Position

	Notes	2012 R'000	2011 R'000
Assets			
Non-current assets			
Property, plant and equipment	2	70	100
Intangible assets	3	3	6
		73	**106**
Current assets			
Cash and cash equivalents	4	1,870	31
Trade and other receivables	5	44	19
		1,914	**50**
TOTAL ASSETS		**1,987**	**156**
Liabilities		-	-
Non-current liabilities		-	-
Current liabilities			
Trade and other payables	6	822	804
Provisions	7	557	133
Deferred Income	8	294	-
		1,673	937
TOTAL LIABILITIES		1,673	937
Net assets			
Accumulated surplus/(deficit)		314	(781)
		314	(781)
TOTAL NET ASSETS		314	(781)
TOTAL NET ASSETS AND LIABILITIES		**1,987**	**156**

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Statement of Financial Performance

	Notes	2012 R'000	2011 R'000
Revenue			
Non-exchange revenue		**9,516**	**8,200**
Transfers and subsidies	9	9,310	8,200
Grant Income	8	206	-
Exchange revenue		162	78
Sale of goods and rendering of services	10	9	35
Interest, dividends and rent on land	11	153	43
		9,678	8,278
Expenditure			
Goods and services	12	(4,272)	(4,677)
Compensation of employees	13	(4,042)	(3,947)
Depreciation/amortisation and impairment		(63)	(52)
Grant Expenditure	8	(206)	-
		(8,583)	(8,676)
SURPLUS/DEFICIT FOR THE YEAR		**1,095**	**(398)**

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Statement of Changes in Net Assets

	Notes	Accumulated surplus/deficit R'000	Total R'000
Balance at 1 April 2010 as originally stated		(383)	(383)
As restated		(383)	(383)
Surplus/(deficit) for the year		(398)	(398)
Balance at 1 April 2011 as originally stated		(781)	(781)
As restated		(781)	(781)
Surplus/(deficit) for the year		1,095	1,095
Balance on 31 March 2012		314	314

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Cash Flow Statement

	Notes	2012 R'000	2011 R'000
Cash flow from operating activities			
Cash receipts		9,973	8,278
Transfers and subsidies		9,310	8,200
Sale of goods and rendering of services		9	-
Interest, dividends and rent on land		103	43
Grant Revenue		500	-
Other operating revenue		51	35
Cash payments		(8,104)	(8,219)
Compensation of employees		(3,474)	(3,814)
Goods and services		(4,630)	(4,405)
Net cash generated from operating activities	15	1,869	59
Cash flow from investing activities			
Purchase of assets		(30)	(28)
Net cash used in investing activities		(30)	(28)
Net (decrease)/increase in cash, cash equivalents and bank overdrafts		1,839	31
Cash, cash equivalents and bank overdrafts at beginning of the year		31	-
Cash, cash equivalents and bank overdrafts at end of the year		1,870	31

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements

1. Accounting Policies

1.1 Basis of preparation

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

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

The annual financial statements have been prepared in accordance with the effective standards of GRAP, including any interpretations and directives issued by the Accounting Standards Board.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Assets; liabilities; revenues and expenses have not been offset except when offsetting is required or permitted by a standard of GRAP.

1.2 Changes in accounting policy and comparability

The CBDA is preparing the second set of financial statements since its inception. The accounting policies have been applied consistently. The CBDA prepared the financial statements in accordance with GRAP.

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.

1.3 Going concern assumption

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

1.4 Revenue recognition

Revenue from exchange transactions

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

a. Revenue from sale of goods

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

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

b. Interest income

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

c. Revenue arising from application of tariff

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

d. Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the entity received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

1.5 Taxes

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

1.6 Property, plant and equipment

Initial recognition

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, rental to others or for administrative purposes, and are expected to be used more than one year. Items of property, plant and equipment are initially recognised as assets on the date of acquisition and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the entity. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

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

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

Subsequent measurement

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

Where the entity replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

Depreciation and impairment

Depreciation is calculated on the depreciable amount, using the straight line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

The annual depreciation rates are based on the estimated average asset lives stated below.

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

Equipment, furniture and fittings

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

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

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits or service potential is expected from the use of the asset. The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the statement of financial performance.

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

1.7 Intangible assets

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

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

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

- IT software 3 years

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

1.8 Impairment of non-financial - assets

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

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

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

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

The CBDA assesses at each reporting date whether there is any indication that an impairment loss recognised in 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.

1.9 Leases

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

a. Operating leases - lessee

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

b. Finance leases - lessee

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

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

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

1.10 Employee benefits

a. Short-term employee benefits

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

1.11 Foreign currency transactions

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

1.12 Provisions and contingencies

Provisions are recognised when:

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

Provisions are not recognised for future operating losses.

If the CBDA has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision.
Contingent assets and contingent liabilities are not recognised.

1.13 Financial instruments

Initial recognition

Financial instruments are initially recognised at fair value.

Subsequent measurement

Financial assets are categorised according to their nature as either financial assets 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. The subsequent measurement of financial assets and liabilities depends on this categorisation, in the absence of an approved GRAP

a. Trade and other receivables

Trade receivables are categorised as financial assets: loans and receivables are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

receivable is impaired. The allowance recognised is measured for all debtors 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.

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

b. Trade and other payables

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

c. Cash and cash equivalents

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

These are initially and subsequently recorded at fair value.

1.14 Unauthorised expenditure

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

1.15 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Public Finance Management Act (Act 1 of 1999 as amended) or is in contravention of the CBDA's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the statement of financial performance and where it is recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 Related parties

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

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

Key management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. All individuals from the level of Managing Director to the board members of the CBDA are regarded as key management according to the definition of the financial reporting standard.

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

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

	2012		
	Office Equipment	Computer Equipment	Total
	R' 000	R' 000	R' 000

2. Property, plant and equipment

Reconciliation of carrying value

	Office Equipment R' 000	Computer Equipment R' 000	Total R' 000
Opening net carrying amount	-	100	100
Gross carrying amount	-	167	167
Accumulated depreciation	-	(67)	(67)
Additions & revaluations	22	8	30
Transfer from National Treasury	-	-	-
Additions	22	8	30
Disposals & adjustments	-	-	-
Depreciation	(2)	(58)	(60)
Closing net carrying amount	20	50	70
Gross carrying amount	22	175	197
Accumulated depreciation	(2)	(125)	(127)

Reconciliation of the carrying values of property and equipment

	2012			
	Carrying value beginning of the year	Additions	Depreciation	Carrying value end of the year
Computer equipment	100	8	(58)	50
Office equipment	-	22	(2)	20
	100	30	(60)	70

Reconciliation of the carrying values of property and equipment

	2011			
	Carrying value beginning of the year	Additions	Depreciation	Carrying value end of the year
Computer equipment	-	148	(48)	100
Office equipment	-	-	-	-
	-	148	(48)	100

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

	2012 Computer software R' 000

3. Intangible assets

	2012 Computer software R' 000
Reconciliation of carrying value	
Opening net carrying amount	**6**
Gross carrying amount	10
Accumulated amortisation	(4)
Additions & revaluations	
Transfer from National Treasury	-
Amortisation	(3)
Closing net carrying amount	**3**
Gross carrying amount	10
Accumulated amortisation	(7)

Reconciliation of the carrying values of property and equipment

2012	Carrying value beginning of the year	Additions	Amortisation	Carrying value end of the year
Computer software	6	-	(3)	3
	6	-	(3)	3

Reconciliation of the carrying values of property and equipment

2011	Carrying value beginning of the year	Additions	Amortisation	Carrying value end of the year
Computer software	-	10	(4)	6
	-	10	(4)	6

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

	Notes	2012 R'000	2011 R'000

4. Cash and cash equivalents

		2012 R'000	2011 R'000
Cash at bank		1,870	31
Total		**1,870**	**31**

5. Trade and other receivables from exchange transactions

		2012 R'000	2011 R'000
Trade receivables		-	2
Prepayments		4	-
Staff loans		40	17
		44	**19**

5.1 Trade receivables: Ageing

		2012 R'000	2011 R'000
Current (0 – 30 days)		-	-
31 - 60 days		-	-
61 - 90 days		-	-
91 - 120 days		-	-
121 - 365 days		-	2
+ 365 days		-	-
		-	**2**

Trade receivables which are less than 3 months past due are not considered to be impaired. As at 31 March 2011, R2 400 were past due but not impaired.

5.2 Trade receivables impaired

Receivable are not considered to be impaired.

The ageing of these receivables is as follows:

		2012 R'000	2011 R'000
3 to 6 months		-	2
		-	**2**

The fair value of trade receivables approximates their carrying amounts.

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

	Notes	2012 R'000	2011 R'000

6. Trade and other payables from exchange transactions

Trade creditors		590	803
Accruals		232	1
		822	**804**

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

7. Current provisions

Provision for leave		198	133
Provision for bonuses		359	-
		557	**133**

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 yet been paid.

Provision

1 April 2011		133	-
Contributions to provision		557	360
Unused amounts reversed		(113)	-
Expenditure incurred		(20)	(227)
31 March 2012		**557**	**133**

8. Grant income

Grant revenue		500	-
Accrued Grant Expenditure		(206)	-
Deferred Income		**294**	-

The revenue is a BANKSETA grant received for funding Governance Training and Accommodation for CFI Manager attending the Certificate Course in Management of Co-operative Financial Institution.

At year end, training expenditure and accommodation costs to the amount of R206, 000 were realised as income.

9. Transfers and subsidies

Transfer from National Treasury		9,310	8,200
		9,310	**8,200**

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

	Notes	2012 R'000	2011 R'000

10. Sale of goods and rendering of services

Application fee to register as a co-operative bank		-	12
Workshop registration fee		9	23
		9	**35**

11. Interest, dividends and rent on land

Interest received		103	43
Donation received		50	-
		153	**43**

12. Goods and services

Administrative fees		39	80
Advertising		90	70
Assets less than capitalisation threshold		11	-
Audit fees		539	-
Bursaries (employees)		80	37
Net foreign exchange gains/(loss)		-	1
Communication		-	12
Computer services		19	-
Consultants, contractors and agency/ outsourced services		1,449	1,781
Maintenance, repairs and running costs		41	11
Operating lease		41	38
Travel and subsistence		584	480
Training and staff development		43	93
Venues and facilities		119	-
Other operating expenditure		1,217	2,074
		4,272	**4,677**

13. Compensation of employees

Employee costs		3,372	2,842
Executive Director's emoluments		93	972
Provisions		577	133
		4,042	**3,947**

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

	Notes	2012 R'000	2011 R'000

14. Deficit/(surplus) for the previous year

Assets transferred from National Treasury at cost less accumulated depreciation in terms of GRAP Standard 17 recognition criteria		-	130
Invoices accrued in terms of GRAP Standard 1		-	(513)
Opening deficit as at 1 April 2011		-	(383)

15. Net cash flows from operating activities

Surplus/(deficit) for the year		1,095	(398)
Adjustment for:-			
Depreciation and amortisation		63	52
Increase in provisions		424	133
Operating surplus before working capital changes:		1,582	(213)
(Increase)/decrease in trade receivables		(25)	(19)
Increase/(decrease) in trade payables		312	291
Cash generated by/(utilised in) operations		1,869	59

16. Operating lease arrangements as the lessee:-

16.1 Future minimum lease payments

Up to 12 months			
Photocopier/printer equipment		41	41
		41	41
1 year to 5 years			
Photocopier/printer equipment		4	45
Minolta operating lease			
		4	45

The rental agreement is for a period of 36 months ending 30 April 2013 with fixed rental payments. In the event of a 24-month extension period, the rental will be reduced by 75%.

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

17. Capital commitment

No capital commitments were made in the current or previous financial year.

18. Contingent liabilities

Pending claims

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

19. Events after the reporting date

The managing director was appointed on 14 May 2012.

20. Taxation

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

21. Going concern assumption

2012

The CBDA has a surplus of R1 097 000 and its total assets exceed its total liabilities by R314 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 the future MTEF periods.

The annual financial statements have been prepared on a going concern basis.

2011

The CBDA has a deficit of R398 000 and its total liabilities exceed its total assets by R781 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 the future MTEF periods.

The annual financial statements have been prepared on a going concern basis.

22. Standards approved and effective

The following standards of GRAP are effective for financial years commencing on or after 1 April 2012.

The CBDA has elected to continue applying the previous accounting policies.

GRAP 21 - Impairment of Non-cash Generating Assets
GRAP 23 - Revenue from Non-exchange Transaction (Taxes and Transfer)
GRAP 24 - Presentation of Budget Information in Financial Statements
GRAP 26 - Impairment of Cash - Generating Assets
GRAP 103 - Heritage Assets
GRAP 104 - Financial Instruments

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

	Notes	2012 R'000	2011 R'000

22.1 Standards issued but not yet effective

At the date of authorisation of these financial statements, the following accounting standards of GRAP were in issue, but not yet effective:
GRAP 18 - Segment Reporting
GRAP 25 - Employee Benefits

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

23. Significant accounting judgements, estimates and assumptions

The preparation of CBDA 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

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

Estimates and assumptions

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

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

		2012 R'000	2011 R'000
Net surplus/deficit per the statement of financial performance		1,095	(398)
Adjustment for:			
Increase in current provisions		65	133
Net foreign exchange (gain) or loss		-	1
Depreciation		63	52
Interest received		(103)	(43)
Other income		(59)	(35)
Net surplus/deficit per approved budget		1,061	(290)

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

25. Related parties

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

25.1 Transactions with related parties

BANKSETA	Services rendered R'000		Services received R'000	
		2012		2012
	Transactions	Balance	Transactions	Balance
	-	-	500	294
	-	**-**	**500**	**294**

SAMAF	Services rendered R'000		Services received R'000	
		2011		2011
	Transactions	Balance	Transactions	Balance
	69	-	65	-
	69	**-**	**65**	**-**

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

25.2 Fees paid to the board members and Executive Management salaries

	2012		
	Allowance R'000	Travel R'000	Total R'000
Mr. SM Ndwandwe	76	19	95
Mrs. J Kuzwayo	35	1	36
Mr. P Koch	17	30	47
Mr. K Mahuma	-	-	-
Mr. V Satgar	5	-	5
Mrs. D Hamilton	13	1	14
Mr. J Theron	22	45	67
Ms O Matshane	7	1	8
Mr N Mashiya (Acting Managing Director)	56	-	56
Ms I Goodspeed(Acting Managing Director)	37	-	37
Executive Directors	1,596	-	1,596
	1,864	**97**	**1,961**

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

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

26. Statement of unauthorised, irregular and fruitless and wasteful expenditure

26.1 Unauthorised expenditure

	31 March 2012 R'000	31 March 2011 R'000
Reconciliation of unauthorised expenditure		
Opening balance	781	-
Unauthorised expenditure – current year	-	781
Unauthorised expenditure approved by Parliament/legislature	-	-
Transfer to receivables for recovery (not approved)	-	-
Unauthorised expenditure awaiting authorisation	(781)	-
	-	781

Incident	Disciplinary steps taken/criminal proceedings
2012	
The CBDA is not aware of any unauthorised expenditure that occurred during the financial period.	N/A
2011	
Unauthorised expenditure occurred as a result of spending in excess of the allocated funds.	None

Comments

2012
No unauthorised expenditure occurred during the financial year.
2011
A subordination letter was written and submitted to the Public Entities Support unit in National Treasury.

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

26.2 Fruitless and wasteful expenditure

	31 March 2012 R'000	31 March 2011 R'000
Reconciliation of unauthorised expenditure		
Opening balance	55	-
Fruitless and wasteful expenditure – current year	18	55
Fruitless and wasteful expenditure condoned	-	-
Transfer to receivables for recovery	-	-
Fruitless and wasteful expenditure awaiting condonation	-	-
	73	55

Analysis of current fruitless and wasteful expenditure

Incident	Disciplinary steps taken/criminal proceedings
2012	
Due to the late payment of salaries in October 2011 one of the CBDA employees was charged R650 bank charges as a result of his debit orders not being paid on time, for which CBDA had to refund him.	None
The CBDA payment to SARS for November 2011 was delayed due to the fact that the computer equipment for the Manager who does payments was not functioning. The manager received a new laptop which did not have the FNB Online system. The online system was set up after the payment due date.	None
CBDA incurred an expense for Board member travel and board fee due the CBDA Board Selection Committee meeting that was cancelled. The Selection Committee was notified about the cancellation on their arrival at the meeting.	None
2011	
An employee's travel ticket to a conference in the USA was booked. The ticket was cancelled because the employee's VISA application was declined. The CBDA was not refunded since all travel agents had a ruling that flights cancelled during the World Cup period (June) would not be refunded.	None

Comments

2012
No unauthorised expenditure occurred during the financial year.
2011
A subordination letter was written and submitted to the Public Entities Support unit in National Treasury.

11. FINANCIAL STATEMENTS

For the year ended 31 March 2012

Notes to the annual financial Statements - continued

26.3 Irregular expenditure

	31 March 2012 R'000	31 March 2011 R'000
Reconciliation of unauthorised expenditure		
Opening balance	404	-
Irregular expenditure – current year	596	404
Irregular expenditure condoned	-	-
Transfer to receivables for recovery	-	-
Irregular expenditure awaiting condonation	-	-
	1 000	404

Incident	Disciplinary steps taken/criminal proceedings
2012	
The Agency incurred irregular expenditure of R596, 000. The preference point system was not applied in the procurement of one competitive bid as the expenditure was in contravention of Treasury Regulation 16A. 6.3(b) relating to supply chain management	None
2011	
A service provider who is 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 without a tax clearance certificate.	None

Comments

2012

No irregular expenditure occurred during the current financial year.

2011

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

27. Comparative figures

When the presentation or classification of items in the annual financial statements is amended, previous period comparative amounts are restated, unless a standard of GRAP does not require the restatement of comparative information. The nature of 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 previous year's 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 previous year's comparatives are restated accordingly.

11. FINANCIAL STATEMENTS
For the year ended 31 March 2012

Notes to the annual financial Statements - continued

28. Financial instruments

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 to monitor and control these risks. The risk management process relating to each of these risks is discussed under the headings below.

Credit risk

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

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

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

Liquidity risk

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

Market risk

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

Fair values

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

Cash and cash equivalents

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

Other receivables from exchange transactions

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

NOTES

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