



MOMBO

Sacco

Endless possibilities

**THE ANNUAL REPORT OF THE SUPERVISORY
/ AUDIT COMMITTEE FOR THE YEAR 2018.**

PREAMBLE

The Supervisory Committee is grateful to the members of Mombo Sacco for the privilege you have accorded us to serve as your watchdog in the year 2018 following the Society's inaugural Elections on 21st April 2018.

We also wish to commend you for the continued commitment to the mission and vision of the Sacco since the Society began its operations in 2015. The Supervisory Committee also commends the Board for their commitment in directing the business of the Sacco during the year 2018.

There has been positive interactions between the Board and Supervisory Committees of the Society guided by the objective of upholding the mission of the SACCO and ultimately the interests of the members. The Supervisory Committee continues to support the Board in delivering the vision and mission of Mombo Sacco.

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EXECUTIVE SUMMARY

Mombo Savings and Credit Society Limited is registered under the Cooperative Societies Act. The Sacco was registered in the year 2008 but began operations in February 2015.

Mombo Sacco has grown in leaps and bounds in terms of its membership, leadership structure and products offered to its members.

This report begins with an introduction which captures the Supervisory Committees mandate under its By-Laws and its legal operating environment. The report is divided into various sections covering different aspects including the methodology used to carry out the audit, the analysis of the performance of the Sacco under the three distinct areas as identified by the Committee namely Governance, Legal Compliance and the Financial Performance of the Sacco. The Supervisory Committee has also made recommendations based on the three areas.



THE MANDATE OF THE SUPERVISORY / AUDIT COMMITTEE.

The Role of the Supervisory Committee as envisioned by the Co-operatives Society Act Rule 28 (3) is to verify all the transactions of the Society, write periodic reports of its findings to be tabled at Board meetings, Submit its reports to the Commissioner and present its report to the general meeting of the Society. The goal is to ensure that the Board serves the interest of the members and safeguards the resources entrusted to them.

In this Report we give informative emphasis to key audit issues and make recommendations for the mutual benefits of all stakeholders. Our main objective as we carry out our functions is to help the Board limit risks and ensure that their focus remains central on the interest of members.



METHODOLOGY

The Committee held lengthy deliberations on its mandate and resolved that the audit will be characterized by a three-pronged approach focusing on the following areas:

- A. Legal compliance
- B. Corporate Governance
- C. Financial performance

The following procedures formed the basis of our audit;

a.) Key Informant Interviews – The Committee held consultations with the Chairperson of the Sacco in order to identify and evaluate current practices, the controls that are in place, and the difficulties that are being encountered.

b.) Documentary review – the Committee examined various documents provided by the Board and conducted an analysis of the same.

Towards this end, the following list of documents were called for by the Supervisory Committee for consultation during the audit;

A. Legal compliance.

1. The register of members of the SACCO;
2. The audited accounts and or report of the auditor with respect to the Sacco from inception to date;
3. Minute's books for proceedings at the general meeting;
4. Minute books for proceedings at the committee;
5. Approved budget for each year and minutes / resolutions approving the budget;
6. The asset register;
7. The register of charges;
8. The register of loans to members;
9. The conflict register;
10. The Registration Certificate;
11. Copy of by – laws and
12. Policies of the SACCO.

B. Soundness of Corporate Governance Practices.

1. Board Constitution;
2. Qualifications of the board;
3. Information system being used;
4. The Board structure;
5. Complaints raised by members;



C. Financial performance.

1. Bank statements;
2. Receipts and payments;
3. Petty cash;
4. Last audited accounts;
5. Loans granted and payments;
6. Members' deposits;
7. Surplus and
8. Interests on members' deposits



THE REPORT OF THE SUPERVISORY COMMITTEE FOR THE YEAR 2018.

Below are the highlights that the Supervisory Committee wishes to share with members in our annual report for the year 2018.

I. LEGAL COMPLIANCE

Overview of the Legal Framework of the Mombo Sacco.

The law governing Cooperative Societies in Kenya is contained in the Cooperatives Society Act of 1997 as amended by several legal notices culminating with legal Notice No. 117 of 2004 (hereinafter “the Act”). The Act provides for matters relating to the constitution, registration and regulation of societies. That Act operates alongside the Cooperative Society rules published as Legal Notice No. 103 of 2004 (hereinafter “the Rules”).

Legal Compliance of any organization is fundamental to the achievement of its goals and objectives. The Supervisory committee wishes to recognize efforts by the board /Board to conduct the business of the Sacco within the rules and regulations of the Co-operative act and the Sacco by-laws.

In the area of Legal Compliance, the following observations were made by the Supervisory Committee;

a.) Regulation of the Society.

During the year under review it was observed that the Board spearheaded a review of its By-Laws and developed policies to guide the operations of the Sacco. It is observed that the Largely, the revision of the By-Laws were geared towards aligning the Sacco to the business environment bringing the Sacco to par with changes to the Sacco industry, the digitalization of the Sacco geared towards improving the efficiency of the operations of the Board.

Further, the Board developed the Credit Policy, the Savings policy and the Boards Elections Policy.

b.) Member Representation and Participation

One of the principles of Cooperative Societies outlined in both the Act and the By-laws is democratic member control. Since the Board responsibilities of a Sacco are vested upon the members, effective Member representation and participation is core in enhancing the principle of member democratic control of the Sacco.

The Amended Bylaws of the Sacco were adopted by the members on 9th March 2019, guaranteeing each member the right to participate and vote at an Annual General Meeting and be eligible for election to the Board.



Further, during the audit, it was noted that the Board has since developed a policy on Board elections which provides the mechanism through which the candidates who would be successful following the elections would be vetted against the criteria provided both in the Bylaws and the Policy.

The Supervisory Committee lauds these efforts as this shall go a great way to ensure a transparent nomination process that produces credible candidates for elective positions.

c.) Management of the Board

With a Board elected, it is imperative to note that the law places a very high obligation on the Committee to ensure that Sacco affairs are managed in accordance with the law. In particular, the Section 36(6) of the Act states; It is required that every co-operative Society must have a Board whose membership must be a minimum of 5 and maximum of 9. The Board is defined as the governing body of the co-operative society which has the power to direct the operations of the society. The duties and responsibilities of Mombo Sacco Board are further set out under Sacco's By Laws. It is also noted that the current membership of the Board stands at the recommended number of 7.

d.) Books of the Sacco

Rule 13 of the Cooperative Societies Rules 2004 requires that every Society keeps the following books;

- (a) A register of members showing in respect of each member;
 - The name, age, date of application for membership, Postal address and occupation;
 - The date he was admitted to membership;
 - The date on which he ceased to be a member;
 - The appointment, if any of his nominees in accordance with rule 32 of these Rules;
- (b) A minute book giving details of the proceedings at general meetings;
- (c) A minute book giving details of the proceedings at Committee meetings;
- (d) A cash book showing details of all moneys received and expended or paid out in any way by the society;
- (e) A ledger containing such accounts as are necessary to properly record the transactions of the business;



- (f) An assets register;
- (g) A register of loans to members showing in respect of each loan the name of the borrower, the amount borrowed, the purpose of the loan, the due date of repayment, and the date the repayment is made;
- (h) A ledger showing deposits and withdrawals by members;

Section 21 of the Act grants every members of a cooperative society the right to have all legitimate information relating to the society, including: internal regulations, registers, Minutes of general meetings, supervisory committees, reports, annual accounts, inventories and investigation reports, at the society's head office.

The Supervisory Committee observes that the board is in compliance with the above stated provisions of the law and encourages the Board to maintain the standards so far adopted.

e.) The Audited Accounts of the Sacco & Approved budgets;

The Supervisory Committee observes with pleasure that from the year the year 2015 when the Sacco began official operations through to 2018, it has consistently had their accounts audited and a copy of the same deposited with the Ministry of Co-operatives. The Supervisory Committee of the Sacco encourages that this trend is sustained by the Board as it gives comfort on the transparency of its operations.

The Supervisory Committee notes further that the Board has for the last two years presented its budget in the AGM for the approval of members and that the Boards spending continues to be strictly guided by the budgets approved by the membership.

The Sacco should also allocate adequate resources to train its members on the current laws and Rules governing the operations of the Sacco's and upon enact, conduct further training on the Sacco's Policies and Procedures.

II. GOVERNANCE COMPLIANCE.

Soundness of Corporate Governance Practices;

a.) Board Constitution and qualifications of board members

Sacco has in place a sound Board Election policy. Having examined the members of the board, it can be reported that the Board has capable qualified persons that will harness the resourcefulness of its members to the members' best interests.



b.) Information system

We are happy to report that during our audits and regular interaction with the Board, we noted that the Sacco system is running quite well. The Sacco operates Mombo CORE which is 3 tier with a front, middle and back end user. The systems operates one way salted hashed credentials meaning that member's PINs & Secret words cannot be breached or accessed by even the Board itself! The system is also very user-friendly interface and secures the privacy of member records and other details.

c.) The Board structure

In a bid to save costs, Mombo Sacco professionals are co-opted from Mombo Group to professionally manage members' funds. As Supervisory committee we are satisfied with the level of professionalism as well as expertise on matters co-operative movement.

d.) Complaints raised by members

In the year under review, the Sacco received complaints on the issues of how much one can access as loans vis-à-vis their savings. The Board noted that besides one's savings several factors are put into consideration before funds are disbursed for example one's credit history, frequency and amounts of savings contributed by members.

III. FINANCIAL PERFORMANCE

a.) Financial Statements

The financial statements for the year under review showed that the Sacco continues to perform exquisitely in relation to industry standards. The accounts have been prepared accurately and have been fairly presented within the acceptable accounting standards. International Financial Reporting Standards. (IFRS)

In 2018, Net Surplus before tax increased by 53% compared to the previous year. Current ratio for 2018 is 1.9:1. This indicates that the Sacco is able to pay current debts using only current assets. We encourage the management to maintain a healthy current ratio which range from 1.5:1 to 2:1.

We encourage members to honour the credit policies of the Sacco towards this. Generally, the Sacco during the year under review, between January 2018 to December 2018 showed growth in most of the financial indicators.



b.) Loans

The committee was satisfied with the policies, processes and procedures. The revenue of **3,978,910/=** (collected from interest, loan penalties, service charge and entrance fee) was well captured and documented. Delinquencies during the year under review were managed better as compared with previous years and the committee has recommended to Board puts measures in place to ensure that they are reduced to minimum.

c.) Savings & Shares

The Supervisory committee reviewed the Savings and shares schedules of the Sacco at the end of the accounting period 31st December 2018. In addition, we also reviewed the savings and shares of random selected members and we were satisfied with the set accounting standards. The New **5,010,955/=** savings and **394,465/=** shares generated in the year 2018 was well captured and recorded as per IFRS. Indeed, the Supervisory committee affirms the resilient state of the Sacco.

RECOMMENDATIONS.

- 1. Membership;** It is noted that in the year 2018, the Board managed to reach 50% of its targeted membership growth. The Board is encouraged to put effort in drumming up numbers while at the same time supporting vibrant engagement of the current members of the Sacco.
- 2. Member Education;** The Board should consider allocating adequate resources to train its membership on the current laws and Rules governing the operations of the Sacco's and conduct training on the Sacco's Policies and Procedures.
3. The efforts of the Board towards formulation of policies, are noted and the Supervisory Committee encourages the Board to continue with the Development of the same as well as circulars and memorandum consistent to the law and the By-Laws for the efficient running of the Society as envisioned under Rule 24 of the By- Laws .

In conclusion, the success of Mombo Sacco is dependent on upholding transparency and accountability through constant engagement between the members and the Board. The Supervisory Committee remains committed to its mandate and available to both the Board and the membership for any support that may be required.

REPORT COMPILED BY.

Nyawira Kinyua
Chairperson

Carolyne Cherop
Secretary

Patrick Mutua
Member



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