



SUPERVISORY COMMITTEE

ANNUAL REPORT FOR THE YEAR ENDING 31ST DECEMBER 2023

ENGAGEMENT OBJECTIVES

The supervisory objective is to ensure that adequate checks and balance are put in place and that the principles of transparency and accountability are observed for the good of the society and its members. The committee also has a mandate to investigate in all aspects the affairs of the society including a review of its books as required by the Co-Operatives act. Furthermore, the committee is also required to generally assist in the interpretation of loan policies, the Act, the Rules, AGM resolutions and the other policies with a view to creating understanding and a harmonious working relationship between the members, the Board and any other society sub-committee and finally to present a yearly report to the AGM with a view to highlighting key issues of concern to the members.

1. SCOPE

The scope of the supervisory committee engagement covered all operations, governance, risk management and assessment of internal control procedures of our KCS Sacco for the period January to December 2023. We carried out the following tests among others:-

- Reviewed the Sacco operations to ensure that proper and accurate books of accounts and records are maintained.
- Reviewed loan issuance procedures to ensure that they are prudent and comply with the by-laws and laid down policies and procedures of the society;

- Followed up on general issues affecting the Sacco's operations to ensure that they were effectively resolved.
- Reviewed the performance of the Sacco and noted all inherent weakness controls and issues of concern to the board of management for action.

SUMMARY OBSERVATIONS AND RECOMMENDATIONS

STATUORY COMPLIANCE

We continue to monitor our compliance to regulatory requirements. Over the year 2023 KCS Sacco has complied with the co-operative regulations and submitted their Audited report on time.

A. LOAN RISK CLASSIFICATION

Clause 41 of the Sacco act further sets out the classification of loans based on the repayment frequency and timelines. The longer a loan takes before it is serviced the higher the risks as reflected by the levels of the loan provisions.

RECOMMENDATION

- We commend management for ensuring and working towards that KCS Sacco is fully compliant with SASRA regulations for year 2024 and beyond.
- The Sacco can explore the option of redundancy covers as utilized by banks as additional cover towards loan recovery cover due to the nature of industry which forms bulk of the Sacco members.

RECOMMENDATION

- a. We continue to encourage members not only to take up quality loans but to pay as well as this boosts the performance of the society. Stringent measures should be put in place for the defaulters since the loan loss reserve is negatively impacting the performance of society.

- b. Management needs to ensure that the loan provision reserve is higher or equal to the expected reserve so as to be fully compliant with IFRS 9 and other regulatory requirements.

EMERGING RISKS

2.1 Credit Risk: Credit risk remains a high risk for KCS Sacco with some loans remaining in the bad debts and non performing categories. *With changes in the macro-economic factors inflation, increased taxes there is high likelihood that this risk will continue to rise.*

2.2 Transition Risk: There is need to manage transitions for vacancies within the KCS Sacco effectively and efficiently to ensure there are no gaps or redundancies in operations of the Sacco. We take note that the Sacco structures are strong and effective, and the board & CEO have seized the matter to ensure smooth operations and transition.

2.3 System Upgrade: The current system has various challenges that need to be managed as the system upgrade is well thought. Management is on track in ensuring that this is scheduled for implementation in future.

B. TRAINING AND MEMBER EDUCATION

The success of co-operative movement depends on co-operative education and training of members as well as the application of the principles, practice and methods of cooperation as a way of conducting, business. Board & Members education on the Sacco practices and processes help make them aware of the co-operative principles and advantages. There is need for sensitization to members & the board to prioritize as well as participate more actively in the election process and also apply for vacant board positions.

RECOMMENDATION

- a. There is a need for sensitization to members to participate in the scheduled trainings and participate more actively in the election process and apply for vacant board positions.*
- b. Embark on physical member forums on our products and services to be done by business development and credit committees and increase the frequency of engaging with the members on educational programs.*

C. BOARD RESOLUTIONS

During the last AGM, the following resolutions were passed as follows:

| | Resolution | Recommendation |
|-----|--|---|
| i | Borrowing powers at 15m | <i>Maintain borrowing power as per resolution or rather minimal borrowing if possible. For KCS Sacco we never utilized those powers our Sacco activities managed to fund all our needs. Let us congratulate and applaud our staff team led by CEO and supported by the board members.</i> |
| ii | Pay eligible members interest on deposits at the rate of 7% and Dividends on Share Capital at 10% | <i>The resolution passed to be fully implemented.</i> |
| iii | Retain Society bankers as Co-op Bank; SBM and opening of Equity Bank account. | <i>The resolution passed was fully implemented & Equity account opened successfully</i> |

FOCUS AREA

We wish to specifically point out the following issues that need immediate attention by the Board:

- *Members training.*
- *Regulatory Compliance i.e. SASRA*

- *Membership drive & Increased Media (especially TV & Radio) Marketing to support current social media marketing.*
- *System Upgrade if possible*

D. CONCLUSION

Based on our review of the operations of the SACCO for the year ending 31 December 2023, we are of the opinion that the Sacco's internal control environment was adequate in preventing the occurrence of fraud and errors. There is reasonable assurance that the books are complete and reliable.

Despite the emerging risks and unpredictable macro-economic factors, the state of the KCS SACCO finances is sound and solid. A lot of effort has been put in place to achieve our strategic goals as a society and the accolades go to the Board and the staff for their tremendous determination.

We take this opportunity to thank all members for having entrusted us with the oversight of the operations of our great Sacco.

We remain steadfast and devoted to serving you and shall do our best to ensure that KCS SACCO continues in the right trajectory and retain **Best Performing & Most Improved Sacco countrywide** tag for the foreseeable future.

Signed for **SUPERVISORY COMMITTEE** YR 2023:

Chairman

Joseph Wangoto

Secretary

Claire Angonye

Member

Evan Ngechu
