



**THE SACCO SOCIETIES REGULATORY  
AUTHORITY  
(SASRA)**

**The Scope of Board Accountability in  
Financial Co-operatives**

**2<sup>nd</sup> Annual Financial Co-operatives Indaba**

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**By Carilus Ademba  
CEO, SASRA, Kenya**



## Presentation structure

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# 1. Introduction

- ❑ Corporate Governance can be defined as the system by which an institution is directed, controlled and held to account. It is the manner in which power is exercised in the stewardship of its assets and resources to increase and sustain shareholder value and to satisfy the needs and interests of all stakeholders.
- ❑ The Sacco governance structure comprises of the Annual General Meeting, Board members, Supervisory Committee, Audit Committee, other board committees, managers and other staff.
- ❑ Good corporate governance goes beyond simple compliance with legal requirements and provides a framework for establishing a culture of business integrity, accountability and responsive business practices.



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- It is central to the success and sustainability of co-operatives, in this regard, improving board performance and accountability remains a central issue together with improving engagement with the wider membership.



## PILLARS OF GOOD CORPORATE GOVERNANCE

- ❑ Accountability - whether an organization and its directors are answerable for the consequences of their actions, that is leadership that is ready to account,
- ❑ Efficiency and effectiveness- leadership for results
- ❑ Integrity and fairness- leadership that is honest, faithful and diligent,
- ❑ transparency – which involves transparent and open leadership that makes accurate and timely disclosures of all information relating to the organisation,
- ❑ Responsibility- Leadership that is capable, responsible, representative and conscious of its obligations.



## SCOPE OF BOARD ACCOUNTABILITY

- ❑ The Boards are generally accountable to the shareholders whom they have to engage and report to the activities of the cooperative on a regular basis.
- ❑ The Board should always thrive to serve the legitimate interests of all members and account to them fully. They must comply with their fiduciary duty to shareholders and objectively take decisions in the interest of the Cooperative.
- ❑ The members too should ensure that they clearly understand the objects for which the Sacco was formed to be able to effectively hold the directors they elect to account.
- ❑ The Board is further accountable to employees who expect their welfare to be adequately considered in the decision making process.



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- ❑ The Board accounts to the government who provides the legal framework and enabling environment for cooperatives to operate.
- ❑ The society which grants the license to operate expects the entity will be responsible, responsive and accountable to the society within which it operates.
- ❑ Regulators expect the cooperative to comply with set standards and expects high level of accountability. Examples of requirement under Sacco Societies Act, 2008 include:
  - Monthly returns(capital adequacy, liquidity, and deposits)
  - Quarterly returns (risk classification of assets and loan loss provisioning, investment returns, financial performance) and;
  - Annual returns (audited financial statements.....)



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- Have their financial statements audited three months after the end of each financial year.
- Appoint external auditors through the general meeting from a list approved by SASRA and are to be changed or rotated after three years using a competitive bidding process.
- Hold their annual general meeting within four months after the end of financial year.
- Employ internal auditors to work with Audit Committee.
- Report on any lending to insiders and credit advances exceeding limits of its core capital.
- Make disclosures on individual shareholding exceeding 25% of core capital





## ACCOUNTABILITY

To enhance accountability the board should:

- Present a balanced and understandable assessment of the Cooperative's position and prospect in the financial statements which should comply with international standards on disclosure.
- Establish effective structures for communicating with the members.
- The Board should meet regularly. The number of Board and Board Committee meetings held in a year, as well as attendance of every Board member at the meetings should be disclosed in the annual report.
- Information to members should be sent early enough to allow time for deeper understanding to be able to have effective meetings and engagement with members.



## DUTIES AND RESPONSIBILITIES OF THE BOARD

- ❑ Strategy formulation and policy making, supervision of executive management, and accountability to shareholders and other stakeholders.
- ❑ The management runs the business and the board ensures that the business is being run well and in the right direction.
- ❑ Exercise of leadership, enterprise, integrity and sound judgment in directing the cooperative so as to achieve continuing prosperity.
- ❑ Ensure effective accountability to the regulatory authorities for proper management of the affairs of the state co-operative society.
- ❑ Ensure that effective systems of control are in place to manage major risks faced by the co-operative society and to safeguard the assets of the co-operative society.



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- ❑ Regularly assess its own performance and effectiveness as a whole and that of individual directors, including the CEO.
- ❑ Ensure that the shareholders and stakeholders are effectively informed of the performance of the state of co-operative society.
- ❑ Take due regard of, be responsive to, and deal fairly with other stakeholder interests, demands and expectations, including those of employees, suppliers, regulators/government and the general community.
- ❑ Ensure that the co-operative society complies with all statutory and legal requirements



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- ❑ Ensure communication both to and from members and relevant stakeholders are effective;
- ❑ Cause the audited accounts to be displayed in a conspicuous place at its registered office and branches at least two weeks before presentation of accounts to its members at the general meeting;
- ❑ Develop a continuous training of board and committee members on SACCO governance and how it links with daily SACCO operations.
- ❑ Appoint such number of board committees as maybe necessary to effectively discharge its functions. The terms of reference of the Committees should be clearly spelt out.
- ❑ Ensure that the Sacco maintains a positive image.



## BOARD COMMITTEES

- ❑ Help increase efficiency and allow deeper focus in specific areas.
- ❑ Each committee should have a charter or other instrument that sets out its mandate, scope and working procedures.
- ❑ In the interest of greater transparency and accountability, a board should disclose the committees it has established, their mandates, and their composition.
- ❑ Some of the key Committees include Audit and Risk Committee, Finance and Administration, Credit Committee and Education Committee among others.



# Audit Committee

The Duties include:

- ensuring that internal controls are established and effectively maintained to achieve a Sacco Society's financial reporting objectives;
- reviewing internal controls including the scope of the internal audit program, the internal audit findings, and recommend action to be taken by management;
- ensuring that accounting records and financial reports are promptly prepared to accurately reflect operations and results;
- reviewing co-ordination between the internal and external audit functions as well as monitor the external auditor's independence and objectivity taking into consideration relevant professional and regulatory requirements.



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- ❑ reviewing management reports and reports from the internal and external auditors concerning deviations and weaknesses in accounting and operational controls;
- ❑ reviewing the Sacco Society's internal audit plan, with specific reference to the procedures for identifying regulatory risks and controlling their impacts on the Sacco Society;
- ❑ monitoring the ethical conduct of the Sacco Society and considering the development of ethical standards and requirements, including effectiveness of procedures for handling and reporting complaints;
- ❑ ensuring that policies and control procedures are sufficient to safeguard against error, carelessness, conflict of interest, self-dealing and fraud;
- ❑ reviewing any related party transactions that may arise within the Sacco Society;



# Finance and Administration Committee

The duties include:

- Review and make recommendations to the board on the financial plans of the Sacco society ensuring its adequacy and soundness in providing for the Sacco Society current operations and long term stability.
- Review periodic financial statements of the Sacco society before submission to the board.
- Consider and advice the board on investments and borrowings.
- Make recommendations to the board on capital expenditure projects.
- Ensure all expenditure of the Sacco society are within the approved budgets





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- ❑ Monitor the management's adherence to the procurement plans approved by the board
- ❑ Ensure the Sacco society has liquidity management policies as prescribed in the Regulations.
- ❑ Review loan interest rates and other levies proposed by the management and make recommendations to the board for approval.
- ❑ Review and make recommendations on appropriate Human Resource Policies,
- ❑ Review the organizational structure of the Sacco Society and ensure its manned by staff with relevant skills and experience.
- ❑ Ensure the management adheres to the approved human resource and related policies



# CREDIT COMMITTEE

The credit committee duties may include:-

- Ensure establishment and review of appropriate credit policy consistent with the relevant provisions of the Regulations and these by laws.
- Ensure that the problem loan accounts are adequately identified and classified as prescribed in the Regulations.
- Ensure adequate provisions for potential loss is maintained.
- Review periodic credit and loan portfolio reports of the Sacco society before submission to the board.



# Education Committee

Its duties include:

- Review and recommend education programmes for members, board members, and the general public for approval by the board.
- Monitor implementation of educational programs formulated to ensure that the members and the board are well trained and prepared for the tasks they are entrusted with.



# LIABILITIES OF DIRECTORS

- Accountability requires that the Board of directors must;
- Act honestly and ensure that they do not improperly use inside information or their position.
- Exercise the degree of care and diligence in the discharge of their duties and perform their tasks with requisite degree of skill.
- Be held solely liable for all acts arising from the performance of their duties as directors.



# COLLAPSED INSTITUTIONS

The reasons for collapse in cooperatives include but not limited to poor leadership and governance, unqualified managers, nepotism, corruption, financial indiscipline and political interference.

- Internationally, Enrons case has been cited in many studies of corporate governance.
- In Kenya we had the Trust Bank which collapsed in 1999 due to insider lending to directors and shareholders.
- Delphis bank went under due to losses occasioned by huge loan loss provisioning a scenario that can happen in financial cooperative without good credit management policy.
- Tena Sacco in Nairobi which was a teacher based cooperative, and Ulinzi are under liquidation due to bad governance and self-interest taking center stage as opposed to the interest of the members.



# THE CHALLENGES THAT WERE FACED BY THE SACCO MOVEMENT;

- ❑ Lack of documented clear guidelines on governance with no clear distinction between executive functions and non-executive, weak internal control systems-
- ❑ Elected members are usually volunteers who are non -professional but expected to assume technical responsibilities.
- ❑ Conflict of interest among officials and leadership wrangles
- ❑ Lack of Disclosure requirement standards
- ❑ Low adoption of Information and computer technologies
- ❑ Corruption and open ended term of office for directors
- ❑ Poor Human Resource Management leading to poor quality of staff high staff turnover.



## IMPORTANCE OF ACCOUNTABILITY

- ❑ Prevents breach of trust by the Board either by intentional acts, omission of key facts from reports, neglect or incompetence.
- ❑ It is key to economic prosperity and profitability for the cooperative.
- ❑ Accountability is also a key to performance measurement. The more accountable the Board is, the more likely it is that results of performance measurement processes are going to be a true and fair representative of the performance being measured.
- ❑ Effective corporate governance practices are essential to achieving and maintaining public trust and confidence in the financial cooperatives are critical to their proper functioning and that of the economy as a whole.
- ❑ It attracts investors.



# CONCLUSION

- ❑ For good corporate governance reform to be realized within the cooperative sector there is need for greater member awareness that will lead to greater demands for accountability and transparency from the membership.
- ❑ Have code of best practice to avoid conflict of interest. Cooperatives have thrived on the values of honesty, transparency, accountability and mutual benefits for one another, however the recent years has witnessed increase in corruption, crisis and many corporate collapse. Leaders have chosen the path of self –aggrandisement, using leadership as basis for power and path to personal gain failing on the fiduciary duty placed upon them by the members.





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- ❑ A governing body needs a carder of competent leadership hence professionalism, with continuous personal development and learning is fundamental in the achievement of good corporate governance.



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- ❑ Quote *“Governance and leadership are the yin and the yang of successful organisations. If you have leadership without governance you risk tyranny, fraud and personal fiefdoms. If you have governance without leadership you risk atrophy, bureaucracy and indifference.”* – Mark Goyder (Director of Tomorrow's Company)
- ❑ *“I have always believed that a well managed SACCO with leaders who view themselves as stewards and guardians of the collective interests of the people will become a powerful force for good in the community, and a highly effective means to bring poor members out of poverty and into economic prosperity,”* says Richardson.



**Many thanks**