



UKULIMA SACCO SOCIETY LIMITED

SUPERVISORY COMMITTEE'S REPORT TO THE 46TH ANNUAL DELEGATES' MEETING OF UKULIMA SACCO SOCIETY LIMITED HELD ON FRIDAY 15TH MARCH 2024 AT SERENA HOTEL ALONG KENYATTA AVENUE, NAIROBI

The Chief Guest, Principal Secretary

State Department for Co-operatives; Patrick Kiburi Kilemi, CBS;

Commissioner for Co-operative Development, Mr. David Obonyo;

The County Director, Ms. Dolphin Aremo;

The Sub County Co-operative Officer, Starehe Mrs. Rosaline Mwithiga;

The National Chairman, Board of Directors - Ukulima SACCO;

Distinguished Delegates;

Ladies and Gentlemen;

Good morning,

It is with great honour and delight that I take this opportunity to welcome you all to this 46th Annual Delegates Meeting. I am humbled to present to you our Supervisory Committee Oversight Report for the year ended 31st December, 2023 in accordance to our term of office and in line with the spirit of the Co-operatives Societies Act Cap 490, SACCO Act 2008 and the Sacco Societies (Deposit Taking) Regulations 2010, SACCO by-laws and all the relevant applicable laws. Dear leaders, this report is a reflection of independent opinion of the Committee, Board responses and remedial actions for the issues raised.

To our Guest of Honour and other invited guests, we recognize and sincerely thank you for honouring us by sparing your time from the busy schedules of your official commitments

to come to this great occasion. This is an indication of good relations and in particular your support to our SACCO. You are most welcome and thank you.

Ladies and gentlemen, allow me now to proceed to our report;

Membership

Dear delegates, our Society total membership was 61,085 as at 31st December 2023 compared to 51,864 in the previous year. This is representing an increase of 17.8%. Active members increased from 49,373 in the year 2022 to 59,260 in the year under review. Dormant members reduced from 2,491 in the year 2022 to 1,825 in the year 2023.

Dear fellow leaders, let all of us step up the recruitment drive to increase and retain membership for the growth of the SACCO. It's noted with concern that, as efforts are made to recruit more members, others exit the society with huge amounts of money in terms of refunded Sacco deposits. For instance, for the year ended 2023, the society collected Ksh. 1,504,494,297 and refunded Ksh.1,068,088,681. It is imperative to note that in this scenario the amount left for the SACCO is Ksh. 436,405,616 as net increase in Sacco deposits. For the society to increase and retain membership, the Committee recommends the following;

- (i) The Board to take advantage of the rebranding exercise that will be launched today to attract more potential members but also work on enhancing the retention of members.
- (ii) The Board to come up with attractive products for the retirees and youth as a motivation strategy to retain and enroll more.
- (iii) Continuous follow ups on all members particularly the newly recruited ones to ensure that they consistently make contributions to the Society.
- (iv) The society to utilize modern technology to ease recruitment of members both locally and in the diaspora.

Members' deposits

In the year under review, member's deposits amounted to Ksh.10,777,996,704 compared to Ksh.10,247,007,878 in the previous year. This represents a growth of 5.2%. All of us today as delegates let us increase our deposit contributions and also encourage our members to do the same for the growth of the Society.

Loan Disbursements, Remittances and Delinquent Loan Management

Loan Disbursements

The Committee observed that the Society disbursed BOSA loans worth Ksh. 3,871,743,025 as per 31st December 2023 compared to Ksh. 4,293,350,190 for the year 2022. This represents a drop of 10%. Front office loans disbursed amounted to Ksh.2,673,166,942 as at 31st December 2023 compared to Ksh.2,788,315,773 in the previous year which represents a drop of 4%.

Micro Credit disbursed loans amounted to Ksh.116,030,000 compared to Ksh. 72,682,000 in year 2022 representing a growth of 60%. Mortgage loan disbursed Ksh. 81,210,000 for year ended 31st December 2023 compared to Ksh. 79,270,000 for the year 2022 recording a slight growth of 2%. Total loans disbursed were 6,742,149,967/- for year ended 31st December 2023 compared to Ksh 7,233,617,963/- for the year 2022 hence a drop of 7%.

The Committee urges the Board to strategize and encourage more uptake of all loans in particular BOSA and FOSA loans.

Remittances

Dear delegates, there are challenges on remittances. The unremitted money to the society has increased from Ksh.481,520,530 to Ksh. 650,970,539.35 as at 31st December, 2023. This is an increase of 35.2% which is a worrying trend. WARMA has remained the highest for many years with non-remittances of Ksh.47,300,052.92 dating back to 2016. Much of

this money now belongs to members after having cleared their loans through top ups and other means.

It is imperative to note that some members are defaulting as a result of recent taxes thus affecting the ability for additional credit facilities for the guarantors who have been assigned defaulted loans. Consequently, defaulted loans result to underperforming and hence threat to the society.

The Board responded on this matter that, already a legal officer has been employed to pursue on Small Claim Courts and consider writing off loans. Dear leaders, it is our duty, care and a cardinal responsibility to assist the management in following up on remittances from respective employers.

Delinquent Loan Management

As per the regulator guidelines SASRA under regulation 41 and 44 of the 2010 regulations, the society loan loss provision increased from Ksh.413,176,652 in the year 2022 to Ksh.488,097,846 in the year under review. This indicates that the additional loan loss provision for the year 2023 was Ksh.74,921,194 thus reducing surplus to be distributed to members in form of dividends. Portfolio at risk (PAR) increased from 5.11% in 2022 to 5.88% in 2023.

The Committee recommends the Board to device more strategies for reducing the non performing loans to have reduced PAR.

FOSA/Banking Services

Fellow leaders, in the year 2023, there was a slight drop on Fosa interest on loans from Ksh. 647,575,761 in 2022 compared to Ksh. 639,354,717 recorded in the year under review. This was due to hard economic times in the country coupled with enhanced Government taxes on employee's payslips thus eroding on loans uptake. We encourage all

us today to patronize Fosa products and services by channeling salary and business proceeds through Fosa so as to grow this cake in the name of Fosa income.

Risks and Controls

Dear delegates, the Committee inspected all the FOSA branches to establish risk and controls in place. It was noted that there was a notable improvement, though it was observed that there existed some high risk areas, that could result to loss of society's funds. The highest risk observed by the Committee was high PAR recorded by some branches, like; Embu branch with (9.0%), Nairobi branch with (6.68%), and Nakuru branch with (5.16%).

The Committee observed that in Embu, some members were given FOSA loans and they were not channeling their salary through Fosa as required by the Credit Policy. It was further observed also that employees of some private companies were paid salaries by Fosa and the same has not been remitted to date which is against Credit Policy. This has increased the Society's Loan Provisioning and PAR.

The Board responded that there was violation of Credit Policy and Fosa Standard Operating Procedures (SOPs), and disciplinary process has since been instituted.

Fosa Savings Dormant Accounts

Fellow leaders, it is imperative to take all the necessary precautions that can result to fraudulent activities against us. Our Society policy on dormant accounts requires that any account that has not transacted for more than three months should be flagged.

However, the Committee observed that all branches had dormant accounts which had not transacted for more than three months but they were still marked as active in the system while others were deceased members.

The Committee observed that most saving accounts for members are used solely for dividends and loan proceeds hence become inactive for the rest period of the year.

The Committee recommends to the Board that any account that falls within the dormant category should immediately be flagged so as to avoid fraud risk and also monitoring of the dormant accounts regularly enforced to ensure they are not used to perpetuate fraud.

The Board is encouraged to create awareness among members that there is need for members to have their accounts active.

The Board should also roll out incentives for members who channel their salary or business proceeds through Fosa as it was recommended during the 45th ADM resolutions of March 2023.

The Committee also recommends that dormancy of the accounts in Fosa savings accounts and dormancy in Bosa accounts be described differently to avoid challenges from Unclaimed Financial Assets Authority (UFAA).

Dear delegates, on the matter concerning variance/ unreconciled accounts on members' deposits as reported by this committee in the last four successive years, the Committee observed that a total amount of Ksh.55,837,739 was unreconciled due to online fraudulent activities that took place in the year 2018, 2019 and 2020. Of this amount, Ksh. 2 million was paid by insurance and Ksh. 25 million was provided to cover for the loss in the 2022, audited books of accounts and the difference will be adjusted in the respective fraudulent accounts by the society, hence the variance issue will be concluded.

The Committee recommends the Board to fast tract the reconciliation of the said fraudulent accounts and settle the matter once and for all.

Capital Adequacy Ratios

Dear leaders, our SACCO is not performing well on capital adequacy ratios. This has caused the regulator SASRA to reduce dividends due to non-compliance of capital adequacy ratio.

Institutional capital to total assets ratio is required to be a minimum of 8% but our Society registered 7.6% which is below the minimum.

My fellow delegates, the consequences of non-compliance are dire and it includes stop in granting loans, cease in declaring interests in deposits, dividends on shares and the very worst is close of business.

We encourage the Board, the management and all of us here today as leaders to take drastic measures to reverse the trend.

Receivables and Prepayments

Fellow leaders, it is of the spirit to note that financial organization must bring to a minimal its receivables for it to remain financially stable.

The Committee noted with much concern that these amounts owed by other organizations have continued to shoot up hence compromising the liquidity status of our Society. This amount increased from Ksh.1,177,701,115 in 2022 compared to Ksh.1,417,077,196 at the close of the year 2023.

This money is in form of receivables and prepaid services. Some of the notable organizations that we expect to pay us or remit money to our society included:

- (i) Ministries and Parastatals - employers (Ksh.650,970,539.35),
- (ii) CIC Benevolent money to be refunded to the SACCO has increased from Ksh. 3,951,562 in 2022 to Ksh.9,689,475.30 in 2023.

(iii) Coretec company debt due to cyber fraud has remained the same for three years at Ksh.504,905.

(iv) Ukulima Housing Co-operative debt has increased from Ksh. 538,661,124 in 2022 to Ksh. 550,796,641.69 for the year under review.

The Board further informed the Committee that they have developed strategies including sale of some excess plots that were reserved that can be sold to increase the income.

The Committee is of the opinion that the issue of Ukulima Housing Co-operative be addressed as a priority to stop this increasing amount that is now becoming unbearable. Also, Coretec Company that was responsible for the cyber fraud against our society must be compelled to refund promptly by legal means.

The Committee discourages the position as presented by Coretec that they pay from the proceeds of business given by the society.

v) Ukulima House tenants Rent arrears decreased from Ksh.48,089,439 in the year 2022 to Ksh. 47,736,701.28 in the year under review.

The Committee recommends the Board to fast track and employ a Property Manager to manage the house matters including rent collection internally.

Society Revenue/Expenditures for the year 2023

The Society posted a slight improvement on the efficiency operational ratio/percentage at 43.97% for the year under review compared to 44.42% in the year 2022. This is commendable and the Board is encouraged to improve further to the required 35% as is in society strategic plan 2022 - 2026. The Society total revenue increased from Ksh. 1,905,813,208 in the year 2022 to Ksh. 2,019,825,575 in the year under review representing a growth of 6.0%. The expenditure grew by 4.8% from Ksh. 846,642,407 in the year 2022 to Ksh. 888,027,750 in the year under review.

The Committee encourages the Board to grow more revenues and minimize further on the expenditures so as the members to enjoy higher returns on investments.

Ukulima Co-operative House

The Committee observed that rent collection had reduced from Ksh. 59,890,104 in the year 2022 to Ksh.56,671,974 in the year under review. This is because one tenant Mereka Co. and Advocates had vacated due to unforeseen circumstances. Currently the house is fully occupied.

Noted with concern is that Ukulima house maintenance expenses consumed Ksh. 37,450,941 out of which, Ksh.10,697,229 was a depreciation of the building. The society was left with Ksh. 19,221,033 as surplus. The rent arrears have remained high at Ksh.47,736,701.28 as at close of the business 2023.

The Committee observed that Electricity costs accounted to a major expense. The Board responded that it is in the process of undertaking major overhaul of the electrical wiring system and change from current lights that consumes a lot of power to LED lights which saves power as the same has been provided for in the 2024 budget.

Benevolent Fund

Members Claims

The Committee observed that unsettled claims from CIC had gone up and there was untimely refunds.

The Committee encourages the Board to enhance follow ups with the insurance to prevent inconveniences of members and their next of kin. It's also a humble request to all of us here as delegates that we handle claim cases timely with utter caution that delayed submissions or without required documentations as this may lead to rejection or delays in settlement of the claims by the Insurance Company.

BF Collection

The Committee established that the society had paid Ksh.140,541,667 prorated for the period of January to December 2023 as premiums to Insurance company for Loan Guards and Last Expense for the period August 2023 to July 2024.

As at 31st December 2023, the Society had collected insurance fees from Fosa loans, Ksh.13,620,220, Bosa loans Ksh.22,264,930 and Ksh. 100,936,250 from BF collection. This amounted to Ksh. **136,821,400**.

The Committee observed that as at 31st December 2023, the total number of active Benevolent members were 25,509 and expected collection of cumulative Ksh.601,632,760 from the year 2001 to date but the actual amount collected was Ksh. 521,868,928 from 25,509 active members contributing Benevolent.

The Committee recommends to the Board to put in place strategies that will see all active members contribute to the scheme to ensure the kitty is sufficient.

The Board responded that it has put in place a taskforce to audit and establish who is not contributing to the kitty and address it.

Bank Reconciliations

In the routine inspection by Committee, we observed 15 various unidentified items /uncounted for credits. Unidentified items amounted to Ksh.1,194,551.55 as at 31st December 2023.

Dear delegates, this is a large amount of money could have been utilized for loans repayments and deposits contribution. This affects members negatively since some members' accounts may have been marked as defaulters when probably, they are not. Unidentified items date back to the year 2019 and likely to be exposed to risk of being demanded for by the Unclaimed Financial Asset Authority (UFAA).

The Committee recommends to the Board to continue pursuing this issue with our banker to have it sorted out.

The committee also recommends to all of us here today that we educate our members to ensure that they provide adequate information particularly their names and ID numbers when depositing money to society bank account.

Society Rebranding

Fellow leaders, it has been a long journey that we have walked together and this is the day the star will be sighted in cloud later this evening. It is significant to note that as we cross this red sea today, it is not a change of name, a change of colour or a mere change of logo but it will be a paradigm shift in the corporate culture and what we offer as products and services. When this is realized the society will achieve milestones in terms of membership, deposits, loan portfolio among other parameters. However, this will only be achieved if all of us become good ambassadors of the new brand in the post-launch era.

In conclusion,

Dear delegates, on behalf of the Committee, this is the time to thank God who has made it possible for us to be here. I wish to thank you so much for the support and co-operation you have offered. We need to remind ourselves of the responsibilities the members have bestowed on us.

I also wish to thank the Board of Directors, the Management and all Ukulima staff for the support accorded to the Committee in our oversight roles.

Dear delegates, our unreserved effort is needed always towards the business we do daily of taking loans, saving regularly, increasing share capital and deposits.

Last but not least my fellow leaders, I wish to assure you that our oversight committee remains very strong and focused in its work. As you go back to your branches encourage members to patronize SACCO products to realize impressive results.

Long live Ukulima SACCO, long live Co-operative movement.

God bless you all and stay safe!

CONSOLATA N. MAISIBA

CHAIRPERSON SUPERVISORY COMMITTEE