

# Tanzania SACCO Inspection Manual, September, 2019

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## **Introduction**

A SACCO is a financial co-operative and is subject to the relevant Acts, regulations and directives of the appropriate authorities in Tanzania.

The government of Tanzania has enacted the Cooperative Societies Act 2013, the Microfinance Act 2018 and regulations 2019 which legislates for the formation, regulation and supervision of co-operatives in the country.

This law, along with its regulations gives the Tanzania Cooperative Development Commission (TCDC) the responsibility to supervise all Saccos in Tanzania for the better management and oversight of the societies.

This manual has been developed for saving and credit cooperatives (Saccos) and incorporates most of the aspects required to conduct supervision of Saccos. It may not be as comprehensive and detailed as may be required by the regulator. **Before its use, it should be subjected to a further review by the Registrar of Cooperatives.**

Its purpose is to assist in standardising the inspection and supervision approach to assessing the risks and weaknesses in a Sacco.

**It is of vital importance that the practices and standards advised herein are reviewed on a regular basis and amended in the light of experience to ensure that they are not too onerous but adequate to meet changing challenges.**

### Using the Manual

This document is built around a basic checklist to assist an examining inspector. It is broken into segments and each one is dedicated to a specific aspect of a SACCO's operations.

Each section begins with a brief description of the rationale behind the activity undertaken in the inspection.

- In cases where the inspection is in response to a complaint or a concern in the offsite report, additional work or an enhanced examination in the area of concern will usually be undertaken.

Each section contains a checklist relating to the specific matter being reviewed.

Each question should be ticked (x) in the relevant box.

- Where a question yields a negative result the checklist must be supported by a note on the inspector's findings in a separate (and cross referenced) file which will include a note of any actions recommended to address the issue. Where necessary, copies of original documents that support the inspector's conclusions should be maintained in hard copy form. In a few cases a positive reply demands the same response.
- At the conclusion of the work, the preliminary findings should be discussed with the Sacco management and board of directors.

- Where shortfalls or weaknesses are observed in the structure or management of a SACCO these should be highlighted in the report back to the inspector's immediate line officer at TCDC.

**However where grave shortcomings are observed the matter should first be discussed with the inspector's superior and his/her advice sought as to the course of action to be taken. After this the findings should be shared with the SACCO management, giving them the opportunity to respond to the findings before the final report is issued.**

- Action should be taken by TCDC in line with the gravity of the findings and in line with the Act and regulations. This can range from issuing instructions to the Sacco to correct the weakness to more serious actions.
- Severe sanctions, in accordance with the law and good procedures, may be imposed in extreme circumstances.
- In the vast majority of cases the inspector will simply advise on improvements in the SACCO'S management practices.
- The final report should be filed along with a copy of the manual and supporting papers for future reference.

Where recommendations for change are made, a follow up visit should take place to ensure they have been implemented. A memorandum of understanding may be necessary to ensure full compliance.

- Before commencing the examination the inspector should make the necessary appointments with the Sacco management, make him/herself familiar with the Sacco, its by-laws and other aspects of the operation.
- In addition the last audit report should be obtained and the recommendations of the auditor noted. If any major changes were advised, then these should be followed up to ensure that they have been implemented by the Sacco.

Where a previous inspection has been carried out, this too should be consulted for the same purpose.

## THE INSPECTOR'S BASIC CHECKLIST

### Meeting the Management and Profiling the SACCO

When the inspector visits the SACCO under review he/she should first meet with its chairperson or the Sacco manager.

Immediately upon meeting the group, the inspector should present his/her letter of authorisation and proof of identity to them.

He/she should then explain the objectives of his mission and also answer any queries that they might have regarding the process.

- Having completed the introductions the inspector should then begin the examination assisted by the manager or his appointed officer.

To open the proceedings a profile of the SACCO should be completed in the following form;

<b>General Information</b>	
SACCO Name	
Registered Number	
Date of Registration	
Address	
Branch Offices (if any)	
SACCO Union (if any)	
SACCO Union membership	
Date of Joining	
<b>Membership</b>	
# Male Members	
# Female Members	
# Child Members	
# Corporate Members	
Other Groups	

Total Membership	
<b>Contact Details</b>	
Phone number	
Email address	

## 1. SACCO's Mandate to Act

*To exist as a legal entity and be properly registered to carry out its declared functions a SACCO must fulfil many conditions.*

*These are laid out in the Cooperative Societies Act of 2013, Microfinance Act and its regulations.*

*When the 'appropriate authority' is satisfied that the requirements laid down in law have been fulfilled it issues a certificate of registration and license certificate.*

**2.1 Is the SACCO in possession of an up to date valid license?** Yes  No

If not, the matter must be noted in the supporting documentation and the situation corrected as a matter of urgent importance.

**2.2 Is the license properly displayed in the SACCO'S offices?** Yes  No

If not, arrangements must be made to do so and if not corrected the matter should be noted for further action.

**2.3 If the license has been lost has the SACCO applied for a replacement?** Yes  No

If not, the procedure must be undertaken at once. The matter should be noted for report and follow up to ensure action taken to replace certificate.



## 2. Governance Matters

*Every SACCO'S basic management structure is legislated for in the Acts and regulations.*

*Under the laws' provisions the membership acting in general meeting is the supreme organ of the society. It is given the power to approve and amend its by-laws, elect and dismiss members of the board and management and determine policy in accordance with legislation and its by-laws.*

*Its basic duties and responsibilities are laid out in the Acts and regulations.*

*The board of directors is the core body responsible for carrying out the Annual General Meeting's wishes. Its powers and duties are laid out in the Act and regulations.*

### 3.1 Annual General Meeting

3.1.1 **Are Annual General Meetings properly called and held in a timely fashion?** Yes  No

If not, note fact and find out why. Respond appropriately to the situation. This is a most serious matter.

3.1.2 **Has an agenda been prepared which includes all the standard issues that must be discussed?** Yes  No

If not, note and report back. (A typical format could be supplied for future use.)

3.1.3 **Are proper minutes of the meeting available?** Yes  No

If not, this is a serious matter and must be treated as such in the report back.

3.1.4 **Were audited accounts presented to the meeting for discussion and decision where required?** Yes  No

If not, find note fact and out why. Respond appropriately to the situation. This is a most serious matter. Report to senior office.

- 3.1.5 **Has the external auditor given his/her report to the meeting?** Yes  No   
If not, query reason. Note on file.
- 3.1.6 **Were elections to the board of directors and the committees carried out properly?** Yes  No   
If not, note and report to superior officer for advice.
- 3.1.7 **Have all the significant standard motions been put up for decision? e.g. Allocation to statutory reserve, allocation of contribution to reserve fund, declaration of dividend (if any), treatment of remaining surplus, etc.** Yes  No   
Any oversight should be noted and advised to board of directors and to the appropriate authority where significant. Note any extraordinary matters that were debated.
- 3.1.8 **Has the membership considered the provisions, if any, relating to women members?** Yes  No   
If not, their attention should be drawn to it and its directions followed. It should be noted for the inspector's report.

## 3.2 Board of Directors

- 3.2.1 **Is there a functioning board of directors in existence?** Yes  No   
This is a key requirement. If the board is not in existence or dormant the SACCO cannot function and the appropriate authority should be informed and immediate action taken to repair the situation.
- 3.2.2 **Does it meet regularly?** Yes  No   
If not, list it in notes and report back.
- 3.2.3 **Are all members properly elected and still serving** Yes  No



**within their designated term of office?**

If not, report to board of directors and to the appropriate authority to ensure that action is taken to correct the situation.

3.2.4 **Does the board have at least two members with business and accounts knowledge?** Yes  No

Note also any other levels of skills within the board for the report.

3.2.5 **Have the members received training in their functions?** Yes  No

If a need for such is required, note and report to the promotion office as well as the SACCO.

3.2.6 **Has the board of directors reviewed the internal controls from time to time?** Yes  No

If not, then the inspector should note the matter on file and report back.

3.2.7 **Is the SACCOs strategic or business plan up to date and on track to meet its targets?** Yes  No

If not, it should be noted for the report back.

3.2.8 **Has the board of directors considered the risks facing the Sacco and decided how to deal with them?** Yes  No

If not, note and report back

### 3.3 Board of Directors' Meetings

3.3.1 **Are meetings of the board held on a regular basis? (For example, monthly or quarterly)** Yes  No

If not, note and advise changes in report.

3.3.2 **Do the meetings have a structured agenda dealing with business as well as following up on work in progress?** Yes  No

if not, note and advise board in report back

**3.3.3 Does the agenda contain as standard such issues as loan performance and periodic accounts?** Yes  No

If not, then the matter should be noted and reported back.

**3.3.4 Are the meetings properly minuted?** Yes  No

If not, a specimen format should be given to the board or training should be requested for the board.

**3.3.5 Is there evidence that issues have been discussed, i.e. is there an indication that an individual or group dominates the meetings?** Yes  No

**3.3.6 Are decisions followed up from meeting to meeting?** Yes  No

If not, note and report back. (Test for an example.)

### 3.4 The Supervision Committee

*The supervision committee is elected directly by the membership.*

*The committee is elected by the members to ensure that the board of directors is carrying out its duties within the powers given to it in law. In doing this the supervision committee will have to observe and review the work carried out by the board and management.*

*Ideally the work of the management including accounting and control will be checked by it.*

*Where weaknesses are identified in internal controls or accounting they should bring them to the attention of the board of directors.*

*However their main duty is to report to the membership on the stewardship of the board and management team.*

**3.4.1 Is there a functioning supervision committee?** Yes  No

If not, then a very serious situation exists. The

inspector should immediately refer the matter to his/her superior for advice and after that the matter should be dealt with in accordance with the law.

- 3.4.2 **Where one is functioning is it properly elected and serving within its legal term of office?** Yes  No

If not, the matter should be noted and brought to the attention of the management committee and the inspector's senior officer.

- 3.4.3 **Is the committee familiar with its duties and responsibilities?** Yes  No

If not, note the fact and report back. Training should be requested. If not undertaken the matter should be taken further.

- 3.4.4 **Are the members of the committee literate and numerate?** Yes  No

If not, then a serious problem of control and management exists. The matter should be discussed with the inspector's superior and the issue dealt with as a priority.

- 3.4.5 **Do the members have a knowledge of accounts?** Yes  No

If not, then their work will be deficient. Training should be undertaken. And a simple working programme compiled for them by the relevant authority.

- 3.4.6 **Did they report to the membership at the last General Assembly?** Yes  No

If not, then they must be appraised of their responsibility in this regard. The matter should be noted for future action if not corrected.

### 3.5 Credit Committee and Credit Control Matters

*The credit committee duties and responsibilities is set up in the regulations. Its operations are at the heart of the society's main objective, the lending business.*

*Good lending practices are essential to the welfare of every SACCO.*

*Consequently the inspector should check as to whether the committee makes its decisions in an impartial way and follows the procedures decided upon by the SACCO.*

*The task of following up on loan disbursement and loan performance should be observed.*

- 3.5.1 **Is there a properly appointed credit committee in office?** Yes  No   
If another method is used note its methodology and report back on its suitability.
- 3.5.2 **Are its members literate and numerate?** Yes  No   
This is very important and should be reported to the inspector's superior officer.
- 3.5.3 **Does it meet regularly?** Yes  No   
If not, note and report back.
- 3.5.4 **Does it keep minutes of its meetings?** Yes  No   
If not, note the fact and report back
- 3.5.5 **Is there a loan policy in existence?** Yes  No   
If not, note and advise committee on issue
- 3.5.6 **Has the committee received training in lending practices?** Yes  No   
If not, note and report back.
- 3.5.7 **Does the committee report regularly to the board of directors on the loans at risk or in serious arrears position?** Yes  No

If not, then this is a serious matter and should be noted and reported back.

- 3.5.8 **Does the management follow up on all loans in arrears and produce reports for management on the up to date situation?** Yes  No

This is a key function and Management should be kept up to date on the situation preferably in the form of an aged analysis report. The inspector should note the facts for his/her report back particularly observing whether all parties in arrears are treated the same.

- 3.5.9 **Has an examination of board of director's or employee's loan indicate unsafe or unusual practices?** Yes  No

Where a board of director's loans are in excess of the legally nominated limits or are out of line with the loan policy it should be noted and reported back to the inspector's supervisor as well the board of directors.

- 3.5.10 **Has the SACCO's loan guarantee policy been adhered to?** Yes  No

If not it should be reported back.

- 3.5.11 **Are all members' data on file and available?** *(This includes their personal identification records, details of guarantors, where applicable, guarantees given, as well as instructions as to the treatment of their accounts in the event of death etc.)* Yes  No

If not, this is a very serious omission. Note and report back and to line officer for action.

- 3.5.12 **Are the records kept safely?** Yes  No

If not, note and report back.

## 4. Accounting Matters

### 4.1. Staffing Issues

*Because of its size a SACCO may not have paid staff, but it is essential that it has the services, paid or voluntary, of a competent bookkeeper and a cashier at its disposal.*

*In many cases the task of keeping the basic books of account is the responsibility of the treasurer. Ideally every SACCO should have a number of people who are capable of understanding accounts and bookkeeping and of maintaining the basic records needed to manage its funds.*

***If such people are not available it is difficult to see how a SACCO can function properly.***

*The following checklists separate the function of (i) recording the information from the task of overseeing the process and (ii) noting the personnel's ability for reporting the financial status of the SACCO to its board of directors.*

#### The Bookkeeper

4.1.1 **Is the bookkeeper suitably qualified/experienced?** Yes  No

If not, it is a serious matter and should be noted and reported back to the board of directors and the inspector's line manager.

4.1.2 **Do the books appear to be well maintained?** Yes  No

Just note the general organisation and presentation of the data

4.1.3 **Are all member savings and control accounts reconciled?** Yes  No

If not, note the fact and report the matter to committee.

4.1.4 **Are all dormant (inactive) accounts checked and verified?**

If not note and report back.

4.1.6

**Are unusual or exceptionally large lodgements checked to ensure that they have come from a legitimate source?**

*(This is to help guard against 'laundering' illegal funds.)*

**Note and report back if the issue is not on the SACCO's agenda.**

4.1.7 **Are bank and cash accounts reconciled and balanced?** Yes  No

If not, the fact should be noted and reported to committee and line manager.

4.1.8 **Can the bookkeeper bring the accounts to trial balance stage?** Yes  No

If not, then note and report to committee and line manager.

4.1.9 **Are all nominal ledger accounts closed on a regular basis?** Yes  No

If not, note and report back

4.1.10 **Are accounts presented to management and board at regular intervals?** Yes  No

If not, note and report back to board of directors and own line manager.

### The Cashier

*Every SACCO has to have a person who takes in the cash and acknowledges its receipt by issuing a receipt and/or filling out the member's passbook where such exists.*

*The bookkeeper, of course, writes up the primary journals using the documentation produced by the cashier in the case of receipts. In a properly*

*managed computerised system the cashier's entry will automatically be entered in the personal records simultaneously.*

*In either case the member should have independent documentation of his or her account. Pre-numbered receipts should be available for the cashier's use.*

*Most importantly the cashier's operations must be kept strictly separated from that of the bookkeeper's.*

- 4.1.11 **Has the cashier been appointed in accordance with the by-laws and best practice?** Yes  No
- 4.1.12 **Is the cashier a proper person in the context of acting in such a fiduciary role?** Yes  No
- 4.1.13 **Is she/he properly qualified for the role (through education or from experience)?** Yes  No
- 4.1.14 **Are the records up to date?** Yes  No
- 4.1.15 **Are monies received receipted and banked promptly?** Yes  No

If the answer is no in any case the fact should be noted and reported back.

### The Manager

*When a SACCO grows beyond the level that can be managed by volunteer or part time staff then it is usual to appoint a professional to manage the operations of the society.*

*The manager reports to the board of directors and his/her authority derives from the board.*

*The manager's terms of employment are set by the board of directors. However, the minimum qualifications of the managers are set in the regulations and must be observed.*



*The conditions relating to the recruitment of workers are set out in the human resource policy or bylaw of the Sacco.*

4.1.16 **Has the manager been appointed in accordance with the by-laws and proper employment practices?** Yes  No   
 If not note, and report back to superior officer.

4.1.17 **Has the manager filed his/her personal details for vetting as required by the regulations** Yes  No   
 If not, note and report back

4.1.18 **Does the manager possess the necessary qualifications and experience to fulfil the role?** Yes  No   
 If not, note and report back

4.1.19 **Is the manager a fit and proper person to hold the position?** Yes  No   
 If not, note and report back to superior officer and the management committee.

4.1.20 **Is he/she familiar with accounting for SACCOs?** Yes  No   
 If not, note and report back urging training

4.1.21 **Is he/she familiar with the internal controls that are necessary to protect a financial institution?** Yes  No   
 If not note and report back advising training.

If not, has the SACCO got the services of an accountant? Note the situation for the files.

4.1.23 **Does the treasurer present periodic account statements to the management committee in a timely fashion?** Yes  No   
 If not, note the matter and include in report to line manager.

4.1.24 **Has he/she got experience in the area of accounts production and reporting?** Yes  No

If not, note for report back.

## 4.2 Accounting Output Review

*The maintenance of a reliable accounting system is of the utmost importance in all kinds of business. It is the responsibility of the board of directors to maintain proper books of accounts of a Sacco.*

*Accounting for Sacco activities is at the core of its operations. SACCOS deal with the management of members' money. This includes the member savings, loans and their recoveries when due and other assets.*

*Consequently this part of the inspection is devoted to reviewing the existence of SACCO accounting procedures and records and the measurement of its performance as a financial organisation.*

4.2.1 **Can the SACCO present audited accounts for the previous year?** Yes  No

If not why? Note and discuss with management.

4.2.2 **Has the SACCO produced periodic accounts?** Yes  No

If not why? Note and discuss with management.

4.2.3 **Are the main controls balanced? These include:** Yes  No

- Bank and other similar external accounts.
- Member loan control accounts agreed with schedule of personal loans outstanding.
- Member share control accounts agreed with member shares schedule.
- Member deposits and other types of saving accounts.

Note differences here and report back.

- 4.2.4 **Are the basic books closed off at month end or other regular basis?** Yes  No

If not, note and report back.

- 4.2.5 **Are the primary books posted to the Nominal (or General) Ledger monthly or other regular basis?** Yes  No

If not, note and report back.

- 4.2.6 **Is a trial balance made out on a regular basis?** Yes  No

If not, note and report back.

- 4.2.7 **Does the SACCO prepare operating budgets? (For both cash and operating income and expenditure measurement)** Yes  No

*Planning a strategy for the future policy and practice of a SACCO is a vital function of management.*

*Just as important is tracking the effects of those plans on a constant basis to ensure that they are working out reasonably well. If they are not it will be important that they are reviewed and amended if necessary. It is not sufficient just to prepare the plans and cost them. The results should be examined on a regular basis to ensure that they are working out well from a financial point of view.*

*One part of the planning process is the preparation of financial forecasts and budgets estimating the expected outcomes of these plans.*

*Another is the tracking of the results by producing regular statements showing the actual outcomes against the budgets. These should indicate whether the outcomes are satisfactory or whether correcting adjustments need to be made to improve the outcomes.*

If not, note and report back.

- 4.2.8 **Does it produce a report showing actual results against the budgeted figures?** Yes  No

If not, note and report back.

- 4.2.9 **Are they presented to the board of directors?** Yes  No   
If not, note and report back

### 4.3 Other Accounting Issues

#### Interest Rates

- 4.3.1 **Does the management set its loan interest rates in the context of the need to make a surplus and in the knowledge of its costs?** Yes  No   
If not, note and report back

- 4.3.2 **Is the management aware of the interest rates charged for loans by other financial institutions or competitors in the area?** Yes  No   
If not, note and report back.

- 4.3.3 **Does management set its member deposit or savings interest rates in the knowledge of competitor rates?** Yes  No   
If not, note and report back.

- 4.3.4 **Are interest rate calculations on loans or member deposits accurate?** Yes  No   
*The inspector should test a random sample to check.*  
**If a problem is noticed the matter should be noted for the Report back.**

## Surplus Distribution

4.3.5 **Is the board of directors aware of the importance of setting aside reserves?** Yes  No

If not, note and report on its significance in report back

*(SACCOS, as a rule, do not start out by being capitalised like other corporate forms. Their permanent capital is confined to their statutory reserves, grants etc. Capital adequacy which is so important is mainly built up through reserves)*

### 4.4 Asset Quality and Recording

*The importance of showing accurate asset values in the books cannot be overstated. This means that depreciation rates should be realistic. The revaluation upwards of buildings and other property should be considered where relevant. The process should be undertaken with caution however. It serves little purpose if values are constantly fluctuating up and down regularly.*

***Normally the member loans are the biggest and most productive in terms of service and revenues. These should be kept under continuous surveillance by the management to ensure that losses are kept at the lowest possible level.***

*The responsibility for good loan performance falls on a number of the credit committee of the SACCO.*

*When granting loans the credit committee or designated officer has the responsibility of ensuring that the borrower has the ability and intention to repay it.*

*Once it is out on loan it is the task of a credit control committee and the management to ensure that all conditions, including timely repayment, are respected by the borrower. If the promised repayments fall behind the, management should follow up the matter promptly.*

*Finally, if the debt is dishonoured by the borrower the management should activate the appropriate channels for its recovery.*

#### (a) Member Loans

- 4.4.1 **Does the SACCO has a clear loan policy? It should also set limits that comply with the law and regulations. In addition it should set loan maximum levels that the SACCO can afford while sharing the funds available in a fair and practical way amongst the members.** Yes  No   
If not, note and report back.
- 4.4.2 **Are suitable loan application forms in use?** Yes  No   
If not, note and report back
- 4.4.3 **Are they properly completed?** Yes  No   
If not, note and report back. (Test a small sample)
- 4.4.4 **Are proper loan agreement forms used?** Yes  No   
These are vital and should be kept safely. If not, note and report back.
- 4.4.5 **Is there an up to date loan aged analysis available?** Yes  No   
If not, note and report back.
- 4.4.6 **Is this report presented to the board of directors?** Yes  No   
If not, it should be noted and reported back.
- 4.4.7 **Is an adequate provision made for delinquent loans as per the regulations?** Yes  No   
Very important, if not then note and report back.
- 4.4.8 **Are debts that are unlikely to be repaid written off in the accounts? (Although they should continue to be pursued as far as possible or practicable)** Yes  No   
If not, note and report back.

## (b) Other Assets

### General

- 4.4.9 **Does the SACCO have an up to date asset register?** Yes  No   
If not, note and report back.
- 4.4.10 **Are all assets appropriately depreciated in the accounts?** Yes  No   
If not, note and report back.

## (c) Buildings

- 4.4.11 **Does the SACCO have legal title documents?** Yes  No   
If not, then the position is uncertain and the matter should be rectified. Note and report back.
- 4.4.12 **Are they kept in a secure place?** Yes  No   
If not, note and report back.
- 4.4.13 **Are buildings appropriately valued in the books of account?** Yes  No   
If not they are not truly representative then the facts should be noted and referred to in the report back.

## (d) Office Equipment, Furniture and Fittings

- 4.4.14 **Are all assets properly stamped and recorded as belonging to the SACCO?** Yes  No   
If not, note and report back.
- 4.4.15 **Are they recorded in the asset register?** Yes  No   
If not, note and report back.
- 4.4.16 **Are they written down to their current value in the books of account?** Yes  No

If not, note and report back.

#### (e) Investments

- 4.4.17 **Are the investments entered in individual accounts?** Yes  No
- 4.4.18 **Have they been properly approved in line with the society's by-laws?** Yes  No
- 4.4.19 **Are they invested in legally approved entities?** Yes  No
- 4.4.20 **Are they entered at cost (or at a lower value if this is appropriate)?** Yes  No
- 4.4.21 **Are the supporting documents kept in a secure place?** Yes  No

Where any of these questions are answered in the negative they should be noted and reported back.

## 5. Review of the SACCO risks

**Every SACCO is subject to risk. It is unavoidable.**

*Nearly all forms of human activity have some kind of risk attached to them. However some have more serious consequences than others and have to be guarded against.*



***One of the most important tasks facing the management in a SACCO is identifying the main risks/threats facing the society's successful operation. Even more important, perhaps, is the way in which it decides to deal with them.***

*The board of directors and management of the SACCO should set time aside to identify the risks facing it and decide on how to respond to them.*

*Risks change with the changing business environment in which SACCOS exist. Consequently it is advisable that the issue should come up for consideration on a yearly basis.*

*Where the matter is beyond the capacity of the board and management to deal with, advice should be sought from experts in the subject.*

*The inspector's job is to determine whether the board of directors has attempted to identify the risks facing their SACCO. He/she should also note what they have done to counteract or minimise the damage done by such events if they happen.*

- 5.1 **Has the SACCO board considered and listed the main risks within the past 12 months?** Yes  No   
If not, list and report back.
- 5.2 **Has it recorded the decisions made to deal with them?** Yes  No   
If not, list and report back.
- 5.3 **Is a risk review carried out on a regular basis?** Yes  No   
If not, note and report back.
- 5.4 **Have the identified risks been acted upon?** Yes  No   
If not, note and report back

#### **NOTE**

*Although it is not the inspector's job to carry out an analysis of the risks facing any one SACCO, a number of standard risks are listed hereunder as examples. These, in particular, should be considered and provided for. **The inspector should note where decisions have been taken to accept a known risk or***

**alternatively what measures have been taken to minimise the SACCO'S exposure to loss if the event occurs.**

- 5.5 **The credit risk.** *(In other words the likelihood that loans, or some of them, will remain unpaid)* Yes  No   
If yes, has the board put an appropriate lending policy in place as well as a credit control system, for example.  
If not, note and report back.
- 5.6 **The risk of fraud.** Yes  No   
If yes, have they put appropriate internal controls in place in order to combat dishonest practices?  
If not, note and report back.
- 5.7 **The risk of harm to property.** Yes  No   
If yes, note the steps taken to minimise losses. (Insurance, premises guards, etc.)  
If not, report back.
- 5.8 **Interest rate risk.** *(Is the interest rate charged sufficient to pay the running costs and leave a surplus for reserves, development and member dividends?)* Yes  No   
If not, Note and report back
- 5.9 **Do the rates charged take account of the rates charged by competing financial institutions?** Yes  No   
If not, note and report back.
- 5.10 **External borrowings.** *(While the ability to borrow from banks and other sources to supplement member needs is to be welcomed it must not be used to the extremes. Excessive borrowing can shift the balance of control from the members to the lender.)* Yes  No   
**Has the level of borrowings been kept at manageable levels and as per the regulatory limits?**  
If not, note and report back.
- 5.11 **Capital adequacy / overdependence on outside** Yes  No

**assistance for permanent capital.** *(In the normal course of events, it takes a SACCO quite a long time to build up adequate capital and reserves against unforeseen setbacks. Grants are helpful but cannot to be relied on in the long term)*

**Does the Sacco capital meet the thresholds set in the regulation?**

If not, report back and discuss the advantages.

5.12 **If no, is the Sacco board of directors aware of this position?** Yes  No

If not, note and report back. **Also note what the board is doing about it.**

5.13 **Macro-economic risks** *(These can spring from events such as national policies, political instability or events like devaluation, interest rate changes and legal or tax changes.)* Yes  No

**Have these been discussed and evaluated?**

If not, note.

5.14 **Have risks like natural disasters, flood, drought etc. been considered?** Yes  No

*Many of the risks cannot be eliminated or even mitigated.*

*However they should be considered and the decision to 'run with' any of them noted.*

If not note and report back.

## **NOTE**

*It is the responsibility of the SACCO board to identify and decide on how to deal with the risks facing their society. The inspector can merely note if the issue is on its agenda. It will, however, be of great value if he/she brings the issue to the attention of the responsible people in the report back. The SACCO'S appetite for risk is its decision alone.*

*Please note that the list above is only an example of some of the more common risks that SACCOS face. The board should review its risk profile, making a list of*

*those identified and the steps taken, if any, to mitigate possible losses in each case.*

## 6. PEARLS ratios as a Qualitative Measure of SACCO performance.

*PEARLS is an acronym for the extremely useful system of ratios devised by WOCCU (The World Council of Credit Unions) to measure the strength and efficiency of SACCOS and credit cooperatives. The ratios are an objective qualitative measure of a SACCO'S wellbeing.*

*The ratios cover how robust the **Protection of member savings** is as well as how **Effective** its financial structure is in maintaining its growth and profitability.*

*It measures the quality of the SACCO'S **Asset** portfolio.*

*It concerns itself with noting its **Rates of return** and costs and assessing their performance as against comparable institutions. The SACCO'S **Liquidity** is vital in maintaining confidence in its ability to meet loan demands and it is also measured against acceptable norms.*

*Growth rates are an important indicator of a SACCO'S health. So **Signs of growth** are included as a measure of its progress.*

***The inspector can use the PEARLS ratios to measure the performance of the SACCO and compare it with accepted standards. They can also be used to highlight the areas where significant weaknesses exist.***

*There are many other uses to which the ratios can be put. However in this case they are only used to highlight performances against standards. Using them will help the inspector to identify shortfalls and to make recommendations for improvement.*

*There are about forty ratios available in the full suite of ratios. In this workbook only a few key indicators are discussed.*

***The PEARLS ratios can only be used where reliable accounts are available. If accounts cannot be supplied this fact of itself sends a clear message that a great deal of improvement is called for in the financial stewardship of the SACCO.***

The 'key', or headline, ratios are:

- 1) Loan loss reserves as a percentage of loans in arrears.***
- 2) Net Loans as a percentage of Total Assets.***
- 3) Net Capital (institutional Capital) as a percentage of Total Assets.***
- 4) Net Income as a percentage of Total Assets.***
- 5) Liquid resources (cash etc.) as a percentage of Total Savings.***
- 6) Growth in loans: Current loan portfolio as a percentage of last year's portfolio.***

***Another three ratios that are important are***

- a) The growth in membership year on year,***
- b) Operating Expenses as a percentage of Total Assets and***
- c) Growth in total Assets.***

6.1 Is the total amount of loans in arrears for more than 12 months greater than the reserve for bad loans? Yes  No

*If the answer is yes then the asset figure in the balance sheet is overstated. It is equally important that the provision for loans over three and six months in arrears should be made. If the balance sheet does not reflect the true worth of its assets then the SACCO could be in danger and not even be*

*aware of it. Such matters must be noted and reported back.*

6.2 **Are total loans more than 70% of total assets?** Yes  No

If they are less, the fact should be noted and reported back.

*Investing in member loans is the business of the SACCO. It should be noted that the bulk of returns from the SACCO are from loans to members.*

6.3 **Is the Institutional Capital Over 8% of Total Assets?** Yes  No

If not, note and report back.

*The Institutional Capital is the capital attributable to the SACCO itself. It includes Legal Reserve, Retained earnings, Current surplus, Social fund etc. This is the SACCO's defence against insolvency in the event of large losses.*

6.4 **Are loan delinquencies calculated and provided for as per the schedule in the SACCO regulation?** Yes  No

If they are note the fact and report back.

If they are, then an additional provision for doubtful debts might be appropriate.

6.5 **Is the surplus as a percentage of Total Assets adequate?** Yes  No

If it is low then note and report back.

*It should at least be comparable with its peer SACCOs. Examine whether it can be increased given other factors such as competitor organisations rates etc. Is it covering its outgoings?*

6.6 **Are cash and liquid assets 15% of Total Deposits and as per the regulations?** Yes  No

If not, note and report back.

*By liquid investments is meant money available at short notice to meet unexpected demands. In many young SACCOs this will be almost impossible to achieve for practical reasons.*

6.7 **Are the Operating Expenses/Total Assets at or below 5%?** Yes  No

If not note and report back.

*When a SACCO is at the beginning of its existence, or expanding, 5% this may be exceeded for a while because the new level of operation may depend on an increased cost factor (such as a key staff appointment) to fund the expansion. It should always be watched however.*

## 7. Issues of Crucial Importance

*After ensuring that the SACCO under review is operating as legal entity and within its powers, the Inspector should report back to the board of directors and his/her line officer on the findings.*

*Every issue listed in the worksheet is important but there are a number of crucial tests that must be passed if a SACCO is to thrive and serve its members.*

*Consequently these must be prioritised in any examination of a SACCO's performance.*

*Some core factors that must be verified by the inspectors and which are essential to the continuing sustainability of SACCOs follow.*

**7.1 The managerial capacity** of the board, and other committees, is vital to the continuing success of a SACCO.

In the first place the board of directors should be literate and numerate and they should be familiar with the principles of cooperative business. It is extremely important that they have a basic understanding of accounting and financial concepts.

They can be supported in their work by professional managers. However if they cannot read, write or understand financial statements it will be extremely difficult for them to fulfil their mandate as directors of the business.

The SACCO must have capable people in the cashier, bookkeeping and accountancy roles. If they don't then the members' investments will be at risk. Proper record keeping is essential if the board are to be able to make decisions on the deployment of resources.

It is questionable whether a SACCO can survive in the long term if the bulk of the board of directors' team cannot read and lack basic numeracy skills.

**7.2 Competent credit management** is at the heart of a SACCO's operations. A SACCO exists to provide its members with a place to save and borrow. It is obvious then that servicing the needs of all members requires robust borrower evaluation and loan management. In normal circumstances the member loans are the largest and most productive of a SACCO's assets. Consequently the effective management of lending practices requires a special focus by management. This should be evaluated by the inspector.

This area of a SACCO's operations is one that should receive close attention during the inspection.

Any weakness here can have fatal consequences for the SACCO. As a result the inspector should ensure that the loan policy and credit control practices are robust.

Where there is any doubt as to the likelihood of a loan's repayment contact should be established with the member. In addition an appropriate reserve against the borrower's default should be made to ensure that the true figure is shown in the balance sheet.

Particular attention should be given to refinanced loans and how they are treated in the accounts.

**7.3 Membership growth** is another factor that plays a large part in the measurement of the vibrancy of a SACCO. The inspector should record the efforts of the SACCO to expand its outreach. Its performance should be compared with its plans. If it is not making any progress then the long term viability of the SACCO might need to be assessed, particularly if it has not reached a decent penetration level in the community that it serves.

**7.4 Savings Growth** is a vital component in creating the pool from which loans can be made. At a minimum, it should match or surpass inflation to keep its lending power at stable level. Ideally it should exceed this where the demand for loans is strong.

**7.5 Building a strong capital base** is the way in which a SACCO guards against unexpected crises. Saving as much as possible from annual surpluses is the simplest way of doing this. If permanent capital can be gained in the form of



grants (for buildings etc.) then this is of real assistance. However in the long term it is by putting money aside from earnings that is the most reliable way.

**7.6 Accounting capacity** is essential if the SACCO is to manage its affairs well. The ability to budget and control, the capacity to keep good bookkeeping records, to manage members' accounts and to produce financial statements are vital elements in managing the growth of a SACCO. This aspect of a societies operations must receive close attention from an inspector.

**7.7 Prudential ratios** will highlight where a SACCO is weak and the inspector should go behind each ratio that exposes potential weaknesses and identify the specific cause. It will be the job of the SACCO board to address the problem to ensure a good outcome.

**7.8 Observing the effectiveness of internal control systems** will be an important part of the inspector's job. He/she should always report back on this topic at the close of an examination. *The internal control procedures needed to protect a SACCO become more sophisticated as it develops. The approaches will change also as the systems change. The risks involved where information technology is used differ to a degree from those that apply to the standard manual systems. As a result the inspector should equip him/herself with a knowledge of the accounting systems used before visiting the society under review. This will influence the nature of the approach required and the programme for the inspection will need to be supplemented to cater for the difference.*

A small example of the matters that should be reviewed in the cash management area is;

- 7.8.1 Do the working arrangements ensure that staff handling and recording cash take annual leave or have another person substitute for them for short periods?
- 7.8.2 Are duties arranged so that no one person has control of the system from beginning to end? For example the bookkeeper should not act as a cashier or handle any cash receipts.
- 7.8.3 The cashier should issue receipts for every lodgement (whether as signed entries in a passbook or as a computer printout).

- 7.8.4 The person writing up the personal ledgers in a manual system should use a daily summary sheet prepared by the cashier. The cashier should not have access to this function.
- 7.8.5 Member passbooks should not be retained in the SACCO offices, but should be under the control of the member at all times.
- 7.8.6 Cash (except agreed cash floats) should be lodged on a daily basis if possible.
- 7.8.7 Payments out of cash should only be made under the signature of an authorised officer.
- 7.8.8 Bank accounts should be reconciled by a senior person on a regular basis.
- 7.8.9 Unannounced cash counts should take place from time to time and be certified by two people.  
The inspector might carry out such tests as part of the assignment anyway.

He/she should also check a sample of member accounts in the books of the SACCO to test if the member's own records agree with them, whether in a passbook or computer printout.

If the SACCO keeps copies of member queries or complaints these too should be examined to establish whether there is cause for concern.

As mentioned above the nature of the controls needed to protect a SACCO are many and are continually changing with the changing services given and the technology used.

When a SACCO experiences major changes it needs to review its internal control systems in the light of the effects it causes.

## 8. Other Matters

- 8.1 **Some SACCOS are providing a form of insurance called 'loan-life' insurance. Is this in operation?** Yes  No
- 8.2 **Is the risk contracted out to a life insurance company?** Yes  No
- 8.3 **Is the company a reputable secure and well respected one?** Yes  No

- 8.4 **Is the SACCO covering its own liability rather than contracting it out?** Yes  No
- 8.5 **If so, are the funds collected held separately in a reputable banking institution in liquid form to meet potential liabilities as they fall due?** Yes  No
- 8.6 **Is the SACCO indemnified against liability for losses on the 'loan life' project?** Yes  No
- 8.7 **Has the concept been explained to and been adopted by resolution by a General Meeting resolution?** Yes  No
- 8.8 **Has each contract for loan life protection been explained to and signed by the relevant borrower?** Yes  No
- 8.9 **Are the funds accounted for outside the records of the SACCO?** Yes  No
- 8.10 **Has suitable actuarial advice been received by the SACCO when fixing the member contribution rate?** Yes  No
- 8.11 **Child accounts are promoted in many SACCOs. Are these set up under parental guidance?** Yes  No
- 8.11.1 **Do any special protections or conditions apply to these accounts in law?** Yes  No
- 8.11.2 **If so are they catered for in the SACCO procedures?** Yes  No
- 8.12 **The security of records is vital. Does the SACCO have suitable storage facilities for its records?** Yes  No   
If not, note and report back.

## 9. Preparation for onsite inspection and Closure activities

**Proper preparation for an inspection can help to facilitate a smooth on site visit.**

**Before going to carry out the examination the inspector should at least;**

1. Check the records at the local, regional or state office to establish if the SACCO is properly registered.
2. Check the most recently filed audited accounts and note the auditor's recommendations.
3. Calculate the prudential ratios as far as possible to identify obvious areas of concern for the visit.
4. Read the outcome of previous inspections and note recommendations for later testing whether the SACCO's response was adequate.
5. Contact the SACCO to inform them of the inspector's requirements for the visit.
6. Prepare working papers as well as ensuring that copies of Act, Regulations and the society's by-laws are in hand for reference.

**When the on-site inspection is completed the inspector should:**

1. Complete a fresh prudential ratios analysis where possible.
2. Complete a draft report concentrating on the serious shortcomings noted in the format in the annex attached hereto.
3. Meet the line manager to agree on the approach on difficult issues.
4. Meet the Sacco board of directors for the report-back and recommendations for action based on the inspection's findings.
5. Extend the right of reply to the SACCO board and management including clarification on facts.
6. Ensure the SACCO receives back all the official documents that were in your possession during the inspection.
7. Revisit the findings where appropriate, and finalise the inspection report on SACCO.

8. Sign any memorandum of understanding with the SACCO board to agree on the implementation schedule.

9. Follow up later to establish the SACCO's actions in response to the recommendations.

***If the report reveals that a serious state of affairs exists at the SACCO it will be the appropriate authority's duty to apply the appropriate sanctions.***

## Annexes to the inspection manual

### Formatted Working Papers for critical report back issues

#### INTRODUCTION

Regular independent inspection is an essential part of the SACCO regulatory process.

It acts as an incentive for the board of directors to maintain good standards in the running of its society. It also forms an additional layer of reassurance for the members that their SACCO is in good order.

If properly exercised, inspection keeps the board and management informed of current good practices in SACCO management. In addition, the very fact that inspections are liable to happen adds an extra layer of security to the systems already in place.

However, inspection is only one part of the regulatory process. Where weaknesses in SACCO practices are identified, they must be followed up if the process is to be effective.

*This document has been produced as an aide to inspectors and as an example of the type of record that should be created when serious issues are detected and are referred to the inspector's line officer or liaison person.*

*Where matters of very serious concern are recorded in the 'NO' column of the manual they should be noted in the format that follows and acknowledged by the inspector's senior or assigned liaison officer.*

Of course **ALL** shortcomings that are noted should be reported back and discussed with the SACCO's board of directors at the closing meeting of the inspection.

This meeting should be minuted properly by the SACCO and a copy forwarded for the inspector's attention within a month.

However, all **URGENT or GRAVE** matters must be reported to the inspector's senior officer as quickly as possible. In addition at the end of each inspection a brief summary of each such matter should be reported in the manner shown in the workbook that follows in this document.

Each reported issue should be acknowledged by the senior or liaison person where indicated on each page.

Where follow up action is advised it should be noted where indicated on the report form. The SACCO must then be notified in a timely manner of the remedial actions that are prescribed.

These can vary from ordering additional training to advising for the liquidation of the SACCO.

*From this point onwards the appropriate remedial processes and practices should be followed. These will vary with the nature of the affected SACCO's shortcomings and include the imposition of sanctions in accordance with the law and regulations.*

## **SUMMARY OF THE INSPECTION PROCESS**

**Every inspector who is assigned to carry out a regulatory inspection should have a person to whom he/she will report. This should be an experienced senior officer.**

**Even where the inspection is being carried out by a well experienced person there should be another senior assigned with whom a report back and discussion can be held. Having a peer review of one's work is important. It strengthens the validity of the exercise.**

Such oversight is especially important in the case of a new or relatively inexperienced person being assigned to inspection duties.

**The first thing an inspector should do when preparing for a standard visit to a SACCO is to examine the contents of the previous inspection and audit report.** Any issues that arose will form the opening phase of the work.

The reaction of the SACCO to the recommendations made will be a clear indication of its commitment to its mandate to serve its members interests in a professional way.

If the SACCO has not attempted to correct any weaknesses that the previous inspector identified a serious view should be taken of its fitness to operate.

No matter what the reason is for such failure to act, the matter must be referred back to the assigned senior officer for consideration as to the course of action to be adopted.

**Next, having informed the SACCO of his/her pending examination the inspector will proceed to carry out the inspection.**

**At the closure of the review the inspector should prepare a report for his or her senior on matters of serious concern in a form similar to this document.**

**As part of the report back he/she should make a recommendation for appropriate remedial action in the case of serious failures.** This will be reviewed by the senior and a decision to carry out the recommended action, or to refuse it, will be taken. A note of the course to be followed will then be recorded on the form.

**Follow up matters:** A number of follow up initiatives may be advised and taken. These may include;

(i) An order to change bad practices or to implement some that are lacking. Where an order to change procedures is approved the SACCO must be informed and given time to appeal or to implement the relevant procedure.

(ii) Training for staff might be advised. In this case the senior should send a request to the promotion office to provide the training facility. The SACCO will be advised of the request when it is issued.

(iii) A decision to impose some form of penalty may be taken. In this case the SACCO must be informed and given time to appeal the matter if it wishes.

When the penalty is accepted, or imposed after appeal, the senior liaison officer should ensure that it is implemented.

(iv) A merger with another SACCO might be advised in a number of cases. In such instances the senior inspector should advise the relevant promotion office. He/she should monitor the success or failure of the process.

(v) Where liquidation is warranted the senior should request the promotion offices to set the legal procedures in motion acting in accordance with precedent and practice where such exists.

**In all cases the proper legal procedures must be followed in line with the Act and Regulations. Whatever action is taken, must be done in the best interest of the SACCO and its members.**

**SACCO INSPECTOR’S REPORT TO SENIOR LIAISON OFFICER ON MATTERS OF GRAVE IMPORTANCE.**

<b>SACCO NAME</b> .....
<b>Registration reference</b> .....
<b>Address</b> .....
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..... <b>Date of inspection</b> .....

**PREFACE**

As already stated the report form that follows is a record of any critical issues that are noted in an inspection. It also serves as an acknowledgement by the senior liaison officer of the matters that have been brought to his/her attention as well as the action that has been proposed to deal with them.



***Please remember that only the very serious issues that fall into the 'NO' column of the inspector's manual should appear here.***

This document is prepared as an illustration of the issues that must be considered as crucial to the good management of a SACCO. It can also act as an operating report form for the convenience of inspectors in preparing their report for the line manager or senior officer at the closing stages of an inspection where no other exists.

It will also serve as the starting point for any subsequent inspection.

*Obviously it cannot form a totally comprehensive list of all serious matters of concern because every inspection is unique and as such each one may raise its own fresh, specific, and serious issues.*

Consequently any new matters of concern which arise but are not in the list should have a new page added to the report.

Finally any of the issues that are included but which are in good order should be clearly marked '**satisfactory**' on the relative form.

**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Annual General Meeting not called (or not called properly)**  
3.1.1

WORKBOOK REFERENCE

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**RECOMMENDATION APPROVED/DENIED**.....

**ALTERNATIVE ACTION AGREED (if recommendation denied)**.....

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**SIGNATURE SENIOR OFFICER**.....

**DATE**.....

**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Proper minutes of last Annual General Meeting available**  
3.1.3

WORKBOOK REFERENCE

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**RECOMMENDATION APPROVED/DENIED.....**

**ALTERNATIVE ACTION AGREED (if recommendation denied).....**

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**SIGNATURE SENIOR OFFICER.....**

**DATE.....**

**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Audited accounts not presented to Annual General Meeting**  
3.1.5

WORKBOOK REFERENCE

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**ALTERNATIVE ACTION AGREED (if recommendation denied).....**

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**SIGNATURE SENIOR OFFICER.....**

**DATE.....**

**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Elections not properly carried out at A.G.M**

WORKBOOK REFERENCE 3.1.6

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**SIGNATURE SENIOR OFFICER.....**

**DATE.....**

**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Is there a functioning board of directors?**

WORKBOOK REFERENCE 3.2.1

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**ALTERNATIVE ACTION AGREED (if recommendation denied)**.....

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**SIGNATURE SENIOR OFFICER**.....

**DATE**.....

**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Are all board of directors validly elected and within term?**

WORKBOOK REFERENCE 3.2.3

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**SIGNATURE SENIOR OFFICER.....**

**DATE.....**

**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Is there a functioning supervision committee?**

WORKBOOK REFERENCE

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**RECOMMENDATION APPROVED/DENIED.....**

**ALTERNATIVE ACTION AGREED (if recommendation denied).....**

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**SIGNATURE SENIOR OFFICER.....**

**DATE.....**



**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Do supervision committee members hold office validly?**

WORKBOOK REFERENCE

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**ALTERNATIVE ACTION AGREED (if recommendation denied).....**

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**SIGNATURE SENIOR OFFICER.....**

**DATE.....**

**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**What is literacy/numeracy situation of the board and management? (give precise facts)**

WORKBOOK REFERENCE 3.4.4 & 3.5.2

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**RECOMMENDATION APPROVED/DENIED.....**

**ALTERNATIVE ACTION AGREED (if recommendation denied).....**

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**SIGNATURE SENIOR OFFICER.....**

**DATE.....**



**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Committee's accounting & control knowledge?**

WORKBOOK REFERENCE 3.4.5

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**ALTERNATIVE ACTION AGREED (if recommendation denied)**.....

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**SIGNATURE SENIOR OFFICER**.....

**DATE**.....

**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Are regular loans at risk reports produced?**

WORKBOOK REFERENCE 3.5.7 & 3.5.8

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**SIGNATURE SENIOR OFFICER**.....

**DATE**.....

**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Loans granted in contravention of policy?**

WORKBOOK REFERENCE 3.5.9

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**ALTERNATIVE ACTION AGREED (if recommendation denied).....**

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**SIGNATURE SENIOR OFFICER.....**

**DATE.....**

**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Is all member data secure and available?**

WORKBOOK REFERENCE 3.5.11

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**RECOMMENDATION APPROVED/DENIED.....**

**ALTERNATIVE ACTION AGREED (if recommendation denied).....**

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**SIGNATURE SENIOR OFFICER.....**

**DATE.....**

**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Describe the competence level of the bookkeeper/s**

WORKBOOK REFERENCE 4.1.1

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**SACCO INSPECTOR'S REPORT FORM**

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**Are regular trial balances, account reconciliations & period accounts produced?** WORKBOOK  
REFERENCE 4.1.8 AND 4.1.10 AND 4.2.3

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**RECOMMENDATION APPROVED/DENIED**.....

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**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Manager's appointment...validity**  
REFERENCE

WORKBOOK

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Manager as a fit and proper person**

WORKBOOK REFERENCE 4.1.19

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Operating budgets and variances**

WORKBOOK REFERENCE 4.2.7

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Interest Rate Matters**

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Regarding the SACCO's loan policy**

WORKBOOK REFERENCE 4.4.1

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**RECOMMENDATION APPROVED/DENIED.....**

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**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Regarding provision for delinquent debts**

WORKBOOK REFERENCE 4.4.7

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Regarding legal title to premises**

WORKBOOK REFERENCE 4.4.11

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Regarding the credit risk**

WORKBOOK REFERENCE 5.5

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**DATE.....**

**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Regarding external borrowings**

WORKBOOK REFERENCE 5.10

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

Regarding free shares and savings risk

WORKBOOK REFERENCE 7.10.11

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Loan life Insurance cover**

**WORKBOOK REFERENCE 8.1 TO 8.10**

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Minors (child) Accounts**

WORKBOOK REFERENCE 8.11 TO 8.11.2

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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**SACCO INSPECTOR'S REPORT FORM**

**ISSUE REPORTED TO LINE OFFICER**

**Security of member documentation**

WORKBOOK REFERENCE 8.12

**INSPECTOR'S COMMENT**

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**INSPECTOR'S RECOMMENDATION**

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## ANNEX TWO

### DELINQUENT DEBTS PROVISION

**It is critically important that when loans fall into arrears a provision is made for the likelihood that they may not be repaid.**

**This is shown as a charge in the income and expenditure account and is shown as a deduction from the member loan total in the balance sheet.**

If this is not done then, among other things, the SACCO's surplus will be overstated. As a result it might even pay dividends out of surpluses that have not really been made. Such an event could quickly deplete the society's reserves. If it is done often enough (or if the amount involved is large enough) it could force its liquidation.

In addition failure to set the sum off against the loan figure in the balance sheet will give a false value to its balance sheet.

**Member loans should be reviewed on a regular basis and followed up with the borrower if they have fallen into arrears.**

**However, being optimistic, and assuming that they will be paid even though the evidence points to a different outcome, is unwise.**

Best practice directs that a prudent approach be taken in such circumstances and some provision is made to give a realistic picture of a SACCO's circumstances.

A typical approach to this situation is shown in the table that follows.

#### SPECIMEN PROVISION FOR DELINQUENT DEBTS

<b>31-90 days overdue.....</b>	<b>5% provision</b>
<b>91-180 days overdue.....</b>	<b>25% provision</b>
<b>181-365 days overdue.....</b>	<b>50% provision</b>
<b>Over 365 days overdue.....</b>	<b>100% provision</b>

**END OF THE MANNUAL**