



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

**GUIDELINES
ON
GOOD GOVERNANCE
PRACTICES
FOR
DEPOSIT-TAKING SACCO
SOCIETIES**

June, 2015

Table of Contents

FORWARD	4
1. INTRODUCTION	6
2.0 COOPERATIVE PRINCIPLES AND SOUND CORPORATE GOVERNANCE	8
3.0 GUIDING PRINCIPLES (GP) OF GOOD CORPORATE GOVERNANCE	11
PART 1-MEMBER REPRESENTATION AND PARTICIPATION	11
Principle No. 1: Member Representation and Participation	11
PART 11: BOARD STRUCTURE, POWERS AND FUNCTIONS	13
Principle No. 2: Directors should ensure that the Board is properly Structured	13
Principle No 3: Powers and Functions of the Board	14
Principle No 4: Separation of Powers in the Sacco Society	15
Principle No 5: Directors Terms of Appointment	17
Principle No.6: Board Induction and Continuous Skills Development	18
Principle No. 7: Directors Compensation	19
Principle No. 8: Committees of the Board	19
PART III: MAINTAIN AN APPROPRIATE TONE AT THE TOP	20
Principle No 9: Organizational Values and Code of Conduct	20
PART IV: INTERNAL CONTROLS AND RISK MANAGEMENT	22
Principle No 10: Internal Controls	22
Principle No 11: Risk Management	22
11.1 Compliance with Laws and Regulations	23
11.2 Governance Audit	24
11.3 Internal communications	24
PART IV: BOARD PRACTICES AND PROCESSES	25

Principle No: 12: Board Meetings	25
PART V: BOARD AND MANAGEMENT RELATIONSHIP	26
Principle No 13: Board-Management Relationship	26
PART VI: PLANNING FOR THE FUTURE	27
Principle No 14: Planning for the Future	27
Principle No 15: Governance of Information Technology Resources	28
PART VII: TRANSPARENCY, ACCOUNTABILITY AND DISCLOSURE	29
Principle No 16: Transparency and Disclosure	29
Principle No 17: Accountability to Members and Responsibility to Stakeholders	30
Principle No 18: Corporate Governance Reporting	31
Principle No 19: Corporate Social Responsibility	31
PART VIII: REGULATION AND SUPERVISION OF SACCOS	32
Principle No 20: Regulation and Supervision of Sacco societies	32
APPENDIX A: RECOMMENDED TERMS OF REFERENCE FOR BOARD COMMITTEES	33
3. Audit and Risk Committee	34
Audit Tasks	34
Risk Management Tasks	35
4.0 FINANCE STAFF AND ADMINISTRATION COMMITTEE	37
Finance Matters	37
Investment Matters	37
5.0 EDUCATION AND GOVERNANCE COMMITTEE	39

FORWARD

To
All deposit-taking Sacco Societies

RE: GUIDELINES ON GOVERNANCE FOR DEPOSIT-TAKING SACCO SOCIETIES

Governance in a Sacco Society context can be defined as generally involving a set of relationships between the Sacco Society on the one hand, and its management, board of directors, members and other stakeholders on the other hand. Corporate governance in a Sacco Society therefore means the structure through which the objectives of the Sacco Society are set out and the means of attaining those objectives and monitoring performance are determined.

In this regard, the provisions of the *Sacco Societies Act (Cap 490B)* and the Regulations made thereunder, as read with the *Cooperative Societies Act (Cap 490)* and the Rules made thereunder provide an elaborate governance structure for a deposit-taking Sacco Society, together with the interplay between the various statutory governance institutions. From the supremacy of the members through the general meeting as limited by the law, the delegation of governance through an elected board of directors, the constitution and composition of various board committees, to the separation of the oversight roles of the board of directors and management, the important role that good corporate governance ought to play in the stability of a deposit-taking Sacco Society cannot be over-emphasized.

Like with any other legislation, these provisions of the law on governance are not all encompassing and are thus often supplemented with best international practices on good corporate governance. Appreciating the unique structure of a Sacco Society as a cooperative and building upon the seven core universal principles of cooperatives, the Authority through a process of extensive stakeholder and professional consultation developed this ***Guideline on Good Governance Practices*** with the main objective of ensuring that the members of Sacco Societies, the Board of Directors, individual directors, management and other stakeholders clearly understand their various roles, duties and obligations within the confines of the law and good practices.

This is in line with the Authority's principal mandate of ensuring the safety of members' deposits in Sacco Societies, including the issuance of directions, guidelines, and advisory to Sacco Societies generally for purposes of ensuring a stable and efficient Sacco industry and financial system as provided in Section 50 of the Sacco Societies Act. It is thus expected that the observance of this ***Guideline*** will greatly enhance the level of accountability and

transparency, operational efficiency, internal control measures and regulatory compliance by Sacco Societies in their deposit-taking businesses. These will subsequently ensure the overall stability of the Sacco Society thereby substantially reducing incidence of the need for regulatory interventions in the conduct of the deposit-taking business.

However, whereas utmost care and diligence has been taken to ensure that this **Guideline** and the principles of governance contained therein are as comprehensive as possible, Sacco Societies should note that they are only advisory in nature, and are thus not exhaustive. In applying them therefore, each Sacco Society should firstly take in to account the prevailing legal requirements, and secondly be informed by prudence of good business, because the ultimate responsibility of ensuring the existence of good corporate governance within the Sacco Society rests with the Sacco Society through its board of directors.

Kindly be guided but contact the Authority in case of any other or further queries.



John Mwaka
AG: CHIEF EXECUTIVE OFFICER

1. INTRODUCTION

The purpose of this Guideline is to facilitate and enable Sacco boards, individual directors, chief executive officers, management and staff to implement and promote proper standards of conduct and sound governance practices. It further seeks to guide them ensure that they exercise their duties and responsibilities effectively and diligently.

This Guideline should not restrict or replace the proper judgment of the management and employees in conducting day-to-day business.

1.1 Authority

This Guideline is issued under Section 50 of the Sacco Societies Act, 2008 which empowers Authority to exercise such incidental powers as may be necessary to enable it to effectively carry out its functions under this Act of ensuring a stable and efficient Deposit Taking Sacco subsector

1.2 Application and Scope

This Guideline applies to all deposit-taking Sacco Societies. Specifically, this Guideline applies to the duties, responsibilities and expected behavior from the members, Board, individual directors, chief executive officers, management and staff in the conduct of the business of a Sacco society.

1.3 Responsibility

The Board of Directors of each Sacco society shall be responsible for formulating policies and procedures for their business.

The basic objectives of this Guideline are to;

- a) Provide a framework that will facilitate Saccos in Kenya implement and maintain minimum standards for best practice in governance of their Sacco,
- b) Enable and equip the Boards of Saccos to better perform their roles in directing their respective Sacco's, and;
- c) Provide a governance criterion for evaluating the performance of Sacco boards.

1.4 Compliance with the Guidelines

The Board is responsible for ensuring compliance with these guidelines and this includes disclosing through the Board's annual report to the membership a report on Corporate Governance Disclosure in which it will confirm whether it has complied with all the provisions of these guidelines. In the event it may not have complied with any of the guidelines it will spell out the reasons why it was unable to do so and outline the measures it is taking to ensure compliance in the future.

The Guidelines provide the minimum standards of conduct and sound governance practices expected of deposit taking Sacco societies. Thus the Board may enrich its Governance policies and practices over and above these guidelines provided the same is in the best interest of the members and the Sacco or as may be required by law or by developments regarding best practice in corporate governance for Sacco societies.

1.5 Limitations

The Guidelines issued herein by the Authority are strictly subject to the provisions of the Sacco Societies Act, 2008 and the Regulations and/or other existing legislations made thereunder, and in case of conflict legislations take precedence.

2.0 COOPERATIVE PRINCIPLES AND SOUND CORPORATE GOVERNANCE

These guidelines on good corporate governance have been developed to align with the cooperative principles that were developed at the dawn of the Cooperative movement to promote cooperation among the poor and downtrodden on the basis of cooperation and mutual support. The Principles were raised from five to seven by the XXX1 International Cooperative Alliance (ICA) Manchester 1995. The Congress adopted the set of Principals which include:

- i. Voluntary and open membership
- ii. Democratic member control
- iii. Members economic participation
- iv. Autonomy and independence
- v. Education, Training and information
- vi. Cooperation among cooperatives
- vii. Concern for community

The Guidelines to the greatest extent possible observe and reinforce the Cooperative Principles as detailed in section 2.1 below.

2.1 Best Practice International Sacco Operating Principles.

These Sacco Operating Principles are founded in the philosophy of cooperation and its central values of equality, equity, and mutual self-help recognizing the varied practices in the implementation of Sacco philosophy around the world.

At the heart of these principles is the concept of human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and their community.

2.1.1 Open and Voluntary Membership

Membership in a Sacco is voluntary and open to all within the accepted common bond of association that can make use of its services and are willing to accept the corresponding responsibilities.

2.1.2 Democratic Control

Sacco members enjoy equal rights to vote (one member, one vote) and participate in decision affecting the Sacco, without regard to the amount of savings or deposits or the volume of business. Voting in Sacco support organizations or associations may be proportional or representational, in keeping with democratic principles. The Sacco is autonomous, within the framework of law and regulation, recognizing the Sacco as a cooperative enterprise serving and controlled by its members. Elected officers in Saccos offer voluntary services and incumbents should not receive a salary. However, Saccos may reimburse legitimate expenses incurred by the elected officials.

2.1.3 Non-discrimination

Saccos are non-discriminatory in relation to race, nationality, gender, religion, and politics.

2.1.4 Service to Members

Sacco services are directed to improve the economic and social well-being of all members.

2.1.5 Distribution to Members

To encourage thrift through savings and thus to provide loans and other services, a fair rate of interest is paid on savings and deposits, within the capability of the Sacco. The surplus arising out of the operations of the Sacco, after ensuring appropriate reserve levels and after payment of limited dividends on member share capital, belongs to and benefits all members with no member or Sacco benefiting to the detriment of others. This surplus may be distributed among members in proportions to their transactions with the Sacco as interest or patronage refunds, or directed to improved or additional services required by the members.

2.1.6 Building Financial Stability

A prime concern of the Sacco is to build the financial strength, including adequate reserves and internal controls and risk management policies that will ensure the safety of deposits and savings and continued service to the membership.

Social Goals

Saccos actively promote the education of their members, officers, and employees, along with the public in general, in the economic, social, democratic, and mutual self-help principles of Cooperatives. The promotion of thrift and the prudent use of credit, as well as education on the rights and responsibilities of members are essential to the dual social and economic character of Saccos in serving member needs.

Cooperation among Cooperatives

In keeping with their philosophy and the pooling practices of cooperatives, Saccos within their capability actively cooperate with other Saccos, Cooperatives and their Unions or Associations at local, national, and international levels in order to best serve the interests of their members and their communities.

2.1.9 Social Responsibility

Continuing the ideals and beliefs of the cooperative pioneers, Saccos seek to bring about human and social development. Their vision of social justice extends both to the individual members and to the larger community in which they work and reside. The Sacco Society's ultimate mission is to extend service to all who need and can use it. Every person is either a member or a potential member and appropriately part of the Sacco sphere of interest and concern. Decisions should be taken with full regard for the interest of the broader community within which the Sacco and its members reside.

In order to ensure that the Cooperative Principles are incorporated into governance policies and practices of deposit taking Sacco Societies, the following section defines fundamental principles on sound governance practices.

3.0 GUIDING PRINCIPLES (GP) OF GOOD CORPORATE GOVERNANCE

The Guideline lays down several principles intended to stipulate the standards for the proper governance of Saccos as unique member owned financial institutions that must both protect the interests of members and depositors through sound and prudent management of their funds as well as avoiding risky practices that could place the overall financial system at risk.

PART 1-MEMBER REPRESENTATION AND PARTICIPATION

Principle No. 1: Member Representation and Participation

The board should ensure effective member representation and participation in the democratic control of the Sacco.

Effective Member representation and participation are core to the principle of member democratic control of the Sacco.

1.1 Member Representation

The involvement of members in the governance of the Sacco is founded on the rule of one member one vote regardless of level of shares/deposits or product patronage. The AGM is the supreme organ of the Sacco as stipulated in regulation 59 (1) of the Sacco Societies (Deposit-Taking Businesses) Regulations 2010.

Members are under a duty to elect credible persons as directors of their Saccos as envisaged in the Regulations. Members offering themselves as candidates for elected positions should therefore be required to meet minimal conditions for their candidacy such as:

- a) Leadership and integrity
- b) Adequate technical ability
- c) Knowledge of the Sacco financial system and associated risks,
- d) Knowledge of cooperative matters
- e) Experience in the business of banking and investment

- f) Skills in general management
- g) A good reputation in the cooperative industry, and
- h) Political neutrality

To ensure a transparent nomination process that produces credible candidates for elected positions, Saccos should establish, with the approval of the Annual General Meeting, a Nomination Committee tasked with stipulating the minimum thresholds for one to qualify to contest for an elected position as well as a matrix of skills and competencies to guide the succession process at board level.

1.2 Member Participation

The AGM being the supreme organ of the Sacco members should be facilitated by the board to fully participate in the AGM and other meetings of the Sacco including timely receipt of notice and documentation of the meeting including annual financial statements.

Prior to the AGM members should be encouraged to enhance their contributions to deliberations at the AGM through vigorous engagement at Zonal meetings as well as Delegates pre-AGM briefings and conferences to ensure alignment of views and positions.

At the AGM members should be given ample opportunity to raise any concerns they may have regarding the performance of the Sacco, as well as its governance, and to receive satisfactory answers to their enquiries. Voting at the AGM should be conducted in accordance with by-laws and the minutes of the AGM should be circulated to members as soon thereafter as possible.

Members should also be facilitated by management with easy access to information relating to the society including internal regulations, registers, minutes of the general meetings, supervisory committee meetings, investigation reports and all regulations in force.

Other rights of participation by members include:

- (a) A right to share in the surplus of the society by way of dividend or bonus
- (b) Enjoyment of all the services provided by the Sacco including savings and credit facilities
- (c) The right to submit projects or initiatives on improvement of the Sacco services for consideration by the Board.
- (d) The opportunity to appoint nominees

PART 11: BOARD STRUCTURE, POWERS AND FUNCTIONS

Principle No. 2: Directors should ensure that the Board is properly Structured

It is incumbent upon the Board to ensure that the Board is properly and appropriately constituted to enable it discharge its role and responsibility to its membership and stakeholders. Accordingly the composition of the Board should take the following considerations into account.

The size of the board should be between 5 and 9 directors depending on size of the Sacco, in order to facilitate maximum efficiency and effectiveness. The CEO shall be an additional director without voting rights (i.e. ex-official director). Like all boards, Sacco boards require a broad mix of skills and competencies tailored to meet the skills and competencies required to drive forward the goals and strategy of the Sacco.

Accordingly the board should ensure that:

The composition of the Board takes into account gender balance, geographical distribution, ethnicity, age, occupation, experience and education of the directors.

Persons elected to the Board should possess the following attributes and characteristics:

- a) Innovativeness and entrepreneurial skills
- b) Willingness to learn
- c) High ethical standards, both in business and socially

- d) Commitment and devotion to duty
- e) Wide perspective of the Sacco business

- f) Knowledge of the principles of the co-operative movement

- g) Common sense

- h) Business acumen

To support the Board in complying with requirement for ensuring suitably qualified persons being proposed to members for election to the Board a “**Nominating Committee**” should be constituted with responsibility for all aspects of the appointment of Sacco’s directors.

Principle No 3: Powers and Functions of the Board

The Board of Directors shall exercise all the powers of Sacco other than those reserved to members in a general meeting by the law and by-laws (i.e. approval of the audited accounts, approval of dividend, election of directors, appointment of auditors etc.) and subject to any limitations contained in any other law, in particular the Cooperatives Societies Act of 2004 and the Sacco Societies Act of 2008..

Accordingly, the Board in fulfilling the above mandate should ensure that:

- a) It exercises leadership, enterprise, integrity and sound judgment in directing the Sacco so as to achieve continuous prosperity. In so doing, directors shall act in the best interest of the Sacco and the members while respecting the principles of transparency and accountability.
- b) It promotes good corporate governance in the Sacco
- c) It determines the purpose of the Sacco, its values and the strategy to achieve its purpose and to implement its values, including the review of appropriate technologies and skills.
- d) It approves and reviews overall business strategies, significant policies and the structure of the Sacco.
- e) It takes full responsibility for the performance of the Sacco in meeting its stated

objectives and obligations. It provides effective accountability to the regulatory authorities for proper management of the affairs of the Sacco

- f) It ensures that once the directors have been appointed, they go through a well-designed induction process, which provides them with an opportunity to clearly understand their role and responsibilities. .
- g) It assesses managerial performance by determining and evaluating the key performance indicators and monitoring the effectiveness of the internal control and risk management systems.
- h) It deals fairly with other stakeholder interests, demands and expectations, including those of employees, suppliers, creditors and the general community.
- i) The Sacco complies with all statutory and legal requirements, including this code of best practice and codes of ethics for the directors, management and staff.
- j) The Sacco has sufficient and appropriate resources to achieve its strategic goals.
- k) That on an annual basis that the Sacco will survive, thrive and continue as a viable going concern.
- l) It conducts an annual review of the quality and level of information it receives as a governing body in order that it can ensure informed decision making and sufficient levels of control of the business of the Sacco.
- m) It accepts corporate and individual responsibilities for the conduct of the affairs of the Board.

Principle No 4: Separation of Powers in the Sacco Society

The Board should ensure clarity and appropriate separation in the key leadership role of the chairperson and the CEO. Accordingly it should stipulate a clear separation on these roles in the following terms.

The Chairman is responsible for running the board of the Sacco while the Chief Executive officer has been delegated by the board with responsibility for running the day-to-day business of the Sacco.

Accordingly the Board should ensure that:

- a) There is a clear division of these roles to ensure that a balance of power and authority is maintained, and that no one individual has unfettered powers of decision.
- b) The Chairman is elected by the Board at the first meeting following each AGM and his/her responsibilities are clearly defined and advised to the chairman and that they include:
 - c) To provide overall leadership to the Board.
 - d) To actively participate in defining the skills and competencies required of directors,
 - e) To ensure that there is a formal succession plan for the Board and management.
 - f) To play a key role in the setting of agenda for the Board meetings.
 - g) To ensure efficient and expeditious conduct of business at meetings of the Board.
 - h) To ensure that new directors are properly inducted and that there are adequate training programmes for directors to keep them abreast of developments in corporate governance.
 - i) To ensure that there are constant strategies for monitoring and evaluating the effectiveness of the Board, individual directors, senior management and the Sacco.
 - j) To ensure that the membership of the Board is properly balanced in terms of skill, experience, expertise, and age.
 - k) To act as the spokesperson of the Sacco on policy matters,

The Chairman should possess the following basic qualities:

- a) Integrity and ethics
- b) Effective leadership and governance skills
- c) Business acumen
- d) Prudent judgment and effective decision making
- e) Ability to develop a coherent and effective team among the directors
- f) Effective communication skills
- g) Ability to mentor the directors
- h) Sociable, dependable and reliable and non-partisan.

One of the most important duties of Board is to recruit, select and appoint the CEO of the Sacco and to participate in the selection and development of the senior management team. Accordingly the Board should ensure that:

- a) The appointment of the CEO is made through a competitive selection process and in accordance with the objectives of the Sacco.
- b) It prepares a detailed job description for the CEO including the CEO's key result areas and key performance indicators.

The duties of the CEO should include;

- a) Providing leadership to the employees.
- b) Interpreting and implementing the decisions of the Board
- c) Ensuring effective management of the Sacco business in the best interest of the Sacco and other stakeholders.
- d) Ensuring the development and implementation of business plans.
- e) Developing operational plans and budgets for approval by the Board.
- f) Ensuring compliance with the laws of the country.
- g) Developing and recommending the human resource policies and plans for the Board's approval.
- h) Developing management succession plans for the Board's approval.
- i) Ensuring that there is effective communication between the management and the Board
- j) Submitting monthly reports to the Board in the form of board papers stipulated in Regulation 64 (2) of the Sacco Societies (Deposit -Taking Businesses) Regulations 2010 and
- k) Acting as the principal spokesperson of the Sacco on operational matters

Principle No 5: Directors Terms of Appointment

Directors once elected, and should be given their letters of appointment which should spell out all the terms of their engagement as well as the expectations of members and should include:

- a) The duration of appointment. This should be for a period of three years renewable

by members at the AGM subject to satisfactory performance.

- b) The designation of the appointment;
- c) Terms of reference of the Board
- d) The directors' roles and responsibilities;
- e) The role of the Chairman in coordinating the evaluation of the performance of the Board and that of individual director's;
- f) The powers of the members in dismissing non-performing directors;
- g) The requirement that they adhere to the provisions of the Code of Conduct and are subject to sanctions for violating the Code including dismissal from the Board
- h) The expenses reimbursement policy for board directors as approved by the members at the AGM.

Principle No.6: Board Induction and Continuous Skills Development

The Board will provide new Board members with an effective induction programme in order to familiarize them with their responsibilities as directors under the law, general principles of corporate governance and Board practices. The induction programme will also provide the Board member with an orientation of the organization, strategic plans, financial status and policies, risk management, compliance programmes and Code of Conduct and Ethics.

The Board should ensure that a competence needs assessment is carried out periodically and an annual development plan prepared to address identified gaps. In this regard, Board members will be provided with access to, or notice of, continuing development programs that are designed to keep members abreast of the latest developments in the sector, best practice, corporate governance and critical issues relating to the operation of public sector boards.

The Board will satisfy itself that its members are up to date with continuous professional development in their respective professional bodies and certified by an accredited body within twelve months of their appointment.

Principle No. 7: Directors Compensation

Directors are not entitled to receive remuneration in form of salary for the services they provide to the Sacco. Nonetheless they may be reimbursed for reasonable expenses incurred in the course of their rendering services to the Sacco:

Accordingly the Board should ensure that:

- a) There is an approved policy of allowances to directors
- b) All proposals for such reimbursement or increase thereto (whether by way of sitting allowance, travel allowance or honoraria) are formally approved by members at the AGM through the budget approval process and is recorded in a formal resolution.
- c) The Sacco's annual report contains a statement of the remuneration policy and details of the remuneration and benefits of directors and senior management.

Principle No. 8: Committees of the Board

Committees of the Board facilitate the work of the board by enabling the board to tackle key areas of the business of the Sacco more effectively. While the number and mandate of the committees should depend on the needs of the Sacco, the Board should establish appropriate committees to enable it to deliver its mandate.

The number of committees should not exceed four (4) in number to avoid duplication and excessive workload on directors. The only Committee prescribed for Saccos under the Sacco Societies (Deposit-Taking Businesses Regulations) 2010 is one for Audit (which could also include risk oversight). There should in addition be two to three other Committees with responsibilities for *Education and Governance; Finance and Human Resources* as well as for *Business Development and Technology*. **Appendix A** provides the recommended terms of reference for these Board Committees.

PART III: MAINTAIN AN APPROPRIATE TONE AT THE TOP

"**Tone** at the top" is a term used to describe an organization's general ethical climate, as established by its board of directors, and senior management.

Principle No 9: Organizational Values and Code of Conduct

The board should lead in establishing the 'tone at the top' and in setting professional and ethical standards and corporate values that promote integrity for itself, senior management and other employees. Schedule 2 to the Regulations provides a code of conduct for compliance by all licensed Sacco societies. The organizational values should be communicated through a code of conduct that articulates acceptable and unacceptable behaviors including the following:

- (a) To conduct the business of the Sacco in full compliance with both the letter and the spirit of the law.
- (b) Not to misuse Sacco confidential information for personal gain.
- (c) To recognize and avoid conflicts of interest and to deal at arm's-length in any transaction that relates to the Sacco. A Board member who identifies an area of conflict shall be required to disclose any actual or potential conflict of interest to the Board. A record of all such declarations shall be maintained by the Secretary to the Board.
- (d) To protect Sacco property, including information, products, services, and assets.
- (e) To properly manage one's personal finances and avoid pecuniary embarrassment.
- (f) To treat fairly and with respect all Sacco employees, members, and stakeholders
- (g) To act honestly and in good faith and not to seek personal gain from their involvement in the Sacco
- (h) To ensure that the Sacco does not engage in any improper or illegal activity, such as money laundering, fraud, bribery or corruption.
- (i) To ensure that the Sacco does not engage in excessive risk taking activities.

The board should ensure that appropriate steps are taken to communicate throughout the Sacco the organizational values, professional standards or codes of conduct it sets, together with supporting policies and procedures with the aim of having the “tone at the top” become the “tone in the middle” and the “tone at the bottom”. The communication should be made repeatedly and through as many avenues as possible.

Every director should sign a copy of the Code and bond of confidentiality to confirm their commitment to adhere to its provisions and their readiness to be sanctioned for violating its provisions

PART IV: INTERNAL CONTROLS AND RISK MANAGEMENT

Sacco's should have an effective internal controls system and a risk management function, headed by an individual/s with appropriate qualification, expertise, sufficient authority, stature, independence, resources and access to the board.

Principle No 10: Internal Controls

The Sacco should maintain a sound system of internal control arrangements and external verification that should be proportionate to the size, complexity and risk profile of the Sacco
The members of the Supervisory Committee should have no other role within the Sacco other than that of verifying the effectiveness of the internal control and risk management system.

Accordingly the Board should ensure that:

- a) It acts expeditiously on the reports of the Supervisory Committee on any internal control issues that need to be dealt with
- b) On receipt of the Auditor's report each year it discusses the content of the report and implements any actions necessary.
- c) It conducts a review of the provision of external audit services annually and to replace its auditors every three years as required by Law.

Principle No 11: Risk Management

The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems

Risk management generally encompasses:

- a) Identifying key risks;
- b) Assessing these risks and measuring exposure to them;
- c) Monitoring the risk exposures and determining the corresponding capital needs on an ongoing basis;
- d) Monitoring and assessing decisions to accept particular risks, risk mitigation measure and whether risk decisions are in line with the board-approved risk tolerance/appetite and risk policy;
- e) And Reporting to senior management, and/or having unfettered access to

the risk committee and/or board as appropriate, on all items noted above.

Accordingly the Board has a crucial role in the management of risk in the Sacco including:

- a) Assisting management in setting the risk appetite
- b) Remaining fully briefed on progress of the risk management initiative and provide the necessary oversight
- c) Receiving management annual risk assessment report
- d) Ensuring all significant risks are minimized
- e) Ensuring it has a risk assessment policy and business continuity plan in place which outlines the way in which the Sacco could continue to operate and meet its regulatory requirements in the event of an unforeseen interruption that may otherwise prevent the Sacco from operating normally. The policy should be thoroughly reviewed on an annual basis
- f) Engaging in regular board discussions of key risks and monitoring resolution of deficiencies.

11.1 Compliance with Laws and Regulations

The Board must have an understanding of and ensure the Sacco complies with the laws and regulations that govern the Cooperative sector and the Sacco industry as well as those laws that are relevant to its business operations including:

- a) The Cooperative Societies Act 2004
- b) The Sacco Societies Act 2008
- c) The Sacco Societies (Deposit –Taking Business) Regulations 2010
- d) Statutes governing business operations (such as employment, safety, taxation etc)
- e) The Common law on director’s duties and liabilities
- f) By-Laws of the Sacco.

The Board must ensure it has unfettered access to suitable legal advice and guidance on all of the above legal matters.

11.2 Governance Audit

The Board should ensure that a governance audit of the Sacco is undertaken at least every two years. The purpose of the governance audit is to ensure that the Sacco conforms to the highest standards of good governance. The governance audit should cover the following parameters among others:

- a) Leadership and strategic management;
- b) Transparency and Disclosure;
- c) Compliance with Laws and Regulations;
- d) Communication with stakeholders;
- e) Board independence and governance;
- f) Board systems and procedures;
- g) Consistent shareholder and stakeholders' value enhancement; and
- h) Corporate social responsibility and investment.

11.3 Internal communications

Effective risk management requires robust internal communication within the Sacco about risk across the organisation and through reporting to the board and senior management. Sound corporate governance is evidenced, among other things, by a culture where senior management and staff are expected and encouraged to identify risk issues. The Sacco's risk exposures and strategy should be communicated throughout the Sacco with appropriate frequency. Information should be communicated to the board and senior management in a timely, complete, understandable and accurate manner so that they are equipped to make informed decisions.

PART IV: BOARD PRACTICES AND PROCESSES

Principle No: 12: Board Meetings

Directors are expected to devote their time and resourcefulness by meeting regularly and participating in all deliberations collectively.

Accordingly the Board shall ensure that:

- a) It meets at most twelve times each year as required by law.
- b) The Chairman develops the Agenda for Board meetings and in doing so should consult the directors and the CEO as necessary.
- c) Except in special circumstances, the notice of all meetings and all items relevant to the agenda should be received by all directors at least two weeks in advance.
- d) Directors are sensitized on the need to prepare themselves adequately well in advance of Board meetings in order to make the meetings effective.
- e) The Board prepares a Board Work Plan or Board Calendar so as to guide the activities of the Board.
- f) The minutes of board and committee meetings are recorded accurately and stored safely.
- g) Existence of a policy guideline on special Board Meetings.

12.1 Board and Director Evaluation

The Board should undertake a formal and rigorous annual evaluation of its own performance; that of the chairperson, individual directors and the CEO. The results of this evaluation will be used as a basis for identifying the strengths and weaknesses for developing and implementing plans in place to rectify any weaknesses and improve overall performance of the Board and the Sacco.

PART V: BOARD AND MANAGEMENT RELATIONSHIP

Principle No 13: Board-Management Relationship

The relationship between the Board and Management should be a positive one providing an enabling environment within which good governance and efficient management can thrive.

The Board should ensure that such an enabling relationship is established by:

- a) Providing for transparent and clear lines of responsibility and accountability.
- b) Appointing the right people with the right skills for all jobs.
- c) Developing transparent and fair recruitment and remuneration procedures.
- d) Making available to each employee on appointment or employment a statement of roles and responsibilities and job description appropriate to the position they are elected/appointed to.
- e) Spelling out clearly the roles and responsibility and reporting structures as well as lines of communication and division of responsibility sufficient to allow them to discharge their duties.
- f) Creating and maintaining effective communication channels at all levels.
- g) Establishing and enforcing appropriate codes of conduct.
- h) Documenting and reviewing on an annual basis, the functions of the CEO and senior managers.
- i) Monitor that senior management's actions are consistent with the strategy and policies approved by the board, including the risk tolerance/appetite;
- j) Meet regularly with senior management;
- k) Question and review critically explanations and information provided by senior management;
- l) Set formal performance standards for senior management consistent with the long-term objectives, strategy and financial soundness of the Sacco, and monitor senior management's performance against these standards.

PART VI: PLANNING FOR THE FUTURE

Principle No 14: Planning for the Future

The Board and management should take a long term view of the future of the Sacco and plan accordingly to ensure that all individuals involved in the running of the Sacco understand the strategies developed and ensure successful implementation.

In doing so the Board should ascertain that the objectives of the Sacco are achieved efficiently in the light of its mission, vision and values.

The Board should continuously determine the purpose and strategic plans of the Sacco as well as the strategy to achieve purpose and implement its values in order to ensure that the Sacco thrives and prospers.

Accordingly the Board should ensure that:

- a) The objectives of the Sacco are clearly documented, including statements of the Saccos' mission, vision and strategies.
- b) It establishes the core values of the Sacco to guide in attaining the mission
- c) The annual reports of the Sacco should be circulated to the members and stakeholders.
- d) The Board develops mechanisms and procedures for monitoring and evaluating the efficiency and effectiveness with which its strategies are achieved. This should also include procedures for monitoring the quality of products and services. These procedures should be part of the strategy document.
- e) Hold a strategy review meeting at least once a year.
- f) Document the strategic direction of the Sacco and include a three year rolling business plan and a membership development plan including simple member development indicators for inclusion in the annual reports
- g) These documents should outline the business objectives, the actions necessary to carry out the plan and the resources to be made available to do this.
- h) It develops and implements a succession plan for both board members and senior management which ensure the continuity of the business strategy and smooth

operation of the Sacco both in normal and crisis situations.

Principle No 15: Governance of Information Technology Resources

The board should monitor and evaluate significant IT investments and expenditure and is responsible for the Sacco's information management.

Accordingly the Board should ensure that:

- a) The Sacco takes full advantage of the use of IT
- b) All personal information is identified and managed appropriately;
- c) Systems are in place for the management of information – which should include information security, information management and information privacy; and
- d) That an information security strategy is used to guide the implementation of an “Information Security Management System” by management.
- e) That the intellectual property built into IT is protected;
- f) That the Sacco is compliant with respect to IT laws and applicable rules, codes and standards.
- g) That the Sacco obtains independent assurance on the effectiveness of the IT internal controls”; and
- h) The Sacco has a competent and suitably qualified officer responsible for management of IT:

PART VII: TRANSPARENCY, ACCOUNTABILITY AND DISCLOSURE

Principle No 16: Transparency and Disclosure

The Board should maintain a formal and transparent strategy for engaging its key stakeholders in the decisions and development of the Sacco as a business as a co-operative enterprise.

Accordingly the Board should ensure that:

- a) Each year it produces an Annual Report on the business and financial performance and position of the Sacco and distribute the report to as wide an audience as is possible.
- b) It is rigorous and transparent in ensuring that decisions taken on behalf of the Sacco are informed, objective and in the best interest of the members.
- c) Whilst the minutes of the Board shall remain confidential the Sacco will comply with all reasonable outside requests for information
- d) It will review the openness of the Saccos arrangements on a regular basis.
- e) It will conduct a regular review of who the key stakeholders in the Sacco are and how their needs should be met.
- f) The Sacco has in place a fair system for dealing internally with accusations from whistle blowers so that honest individuals do not feel threatened when making an allegation.
- g) Employees are made aware of these procedures.
- h) Directors are aware of and uphold the values of the objects and social goals of the Sacco.
- i) It manages the impact of its activities on the local community, in which it operates in a responsible manner, believing that sound and demonstrable performance in relation to corporate social responsibility policies and practices is a fundamental part of the co-operative identity of the Sacco.
- j) It has in place a comprehensive policy aimed at reducing any negative impact on the environment and the community as a result of its activities.

Principle No 17: Accountability to Members and Responsibility to Stakeholders

In accepting appointments, directors should recognize that they become subject to immense pressure imposed by the law and regulations as well as the high expectations of members. Henceforth they may be held liable for all loss or damage that may arise from the performance of their duties as directors (i.e. Liabilities of the Directors).

Accordingly every director should ensure that they:

- a) Act honestly and do not improperly use the inside information or their position.
- b) Exercise the degree of care and diligence in the discharge of their duties that a reasonable person in a like position would exercise in these circumstances.
- c) Perform their duties with the requisite degree of skill.
- d) Give necessary attention to the affairs of the Sacco and this also includes exercising a degree of supervision over officials of the Sacco within the prescribed policy framework.
- e) Ensure that the Sacco complies with the requirements of the Law and that it maintains a transparent relationship with the regulator.
- f) Ensure that the Sacco is up to date with all legal and compliance requirements and that a person is appointed to act as Compliance Officer who will maintain a checklist of requirements in complying with its regulatory and legal requirement and reports regularly to the Board meeting on any changes to the law or regulation and how those changes may be implemented.
- g) Members in this regard have a right to know what is happening in the Sacco and can convene a meeting of the Sacco, in accordance with the By-Laws where the directors are negligent, unwilling or refusing to convene the meeting.

Principle No 18: Corporate Governance Reporting

The Board should indicate in its annual reports the extent to which they have adhered to good corporate governance principles and practices as stipulated in this Guideline.

Accordingly the Board will ensure that:

- a) It entrusts one of the board committees with the task of overseeing the Saccos implementation of this Guideline and that it produces an annual statement outlining its implementation of each of the recommendations in the guideline and makes this statement available to members within its Annual Report.
- b) Attendance figures for Board meetings and details of committee membership are included in this report.

Principle No 19: Corporate Social Responsibility

The Sacco should endeavour to meet its corporate social responsibilities through a structured policy and allocation of resources through the budget process.

Accordingly the Board should ensure that these policies include:

- a) Fair, just and equitable employment policies.
- b) Identification of the causes that the Sacco will support and promote, preferably one or more of those outlined in the Millennium Development Goals(MDG's)
- c) Preservation and protection of the natural environment.
- d) Balancing gender interests and concerns.
- e) Protecting and promoting the interests and rights of children and other vulnerable SACCOs.
- f) Promoting the interests and rights of the host communities.
- g) Regularly monitoring the extent to which the Sacco is meeting its social responsibilities.

PART VIII: REGULATION AND SUPERVISION OF SACCOS

Principle No 20: Regulation and Supervision of Sacco societies

The Sacco Societies Act 2008 and its regulations provide adequate guidance to Saccos on the SASRA's expectations that Saccos will establish robust governance strategies, policies and procedures. Where appropriate, the Authority will endeavour to share industry best practices and emerging risks that are relevant to the Sacco's business practices in Kenya

In this respect, the Authority will regularly perform a comprehensive evaluation of a Sacco's governance policies, practices and procedures and evaluate implementation of the principles that are proportionate to the size, complexity and risk profile of the Sacco.

Such evaluation may be conducted through on-site inspections and off site monitoring and should include regular communication with a Sacco's senior management, board and those responsible for the internal control functions and external auditors.

Monitoring

The Authority will supplement its regular evaluation of a Sacco's governance policies and practice by monitoring a combination of internal reports and prudential reports, including, as appropriate, reports from third parties such as internal and external auditors. Authority will request for information from Saccos on their governance policies and practices which should be updated at regular intervals and when significant changes have occurred.

The Authority requires effective and timely remedial action by a Sacco to address material deficiencies in its governance policies and practices, and has appropriate tools to ensure this is accomplished including the authority to compel appropriate remedial action.

APPENDIX A: RECOMMENDED TERMS OF REFERENCE FOR BOARD COMMITTEES

1. The Nominations Committee

The Committee has responsibility for all aspects of the appointment of Sacco's directors with the following key responsibilities:

- a) Regular review of structure, size and composition of the board and make recommendations on any adjustments deemed necessary.
- b) Identify, nominate and propose candidates to the Board to be recommended for election by the AGM, to fill board vacancies as and when they arise.
- c) Satisfy itself with regard to succession planning and that plans are in place with regard to succession at both the board and senior management level.
- d) Keep under review the leadership needs of the Sacco at board level through a matrix of skills and competencies as a basis for recommending suitable candidates for appointment as directors which shall be updated on an annual basis

2. The Credit Committee

The provisions of Reg. 60(8) of the Sacco Societies (Deposit – Taking Sacco Business) Regulations 2010 prescribes that a deposit – taking Sacco Society should establish a **Credit Committee** with the responsibility of reviewing and overseeing the overall lending policy of the Sacco Society including to:

- a) Review and oversee the overall lending policy of the Sacco
- b) Review lending by the Management Credit Risk Committee including a periodic sampling of processed loan applications to satisfy itself that management is adhering to the lending policies of the Sacco;
- c) Ensure that there are effective procedures and resources to identify and manage irregular problem credits, minimize credit loss and maximize recoveries;
- d) Direct, monitor, review and consider all issues that may materially impact on the present and future quality of the institution's credit risk management: and
- e) Delegate and review lending limits to the sanctioning arms of the institution;
- f) Assist the board with discharging its responsibility to review the quality of the Sacco's loan portfolio and ensuring adequate provisions for bad and doubtful debts in compliance with requirements of the prudential guidelines;
- (g) Ensure that the credit policy and risk lending limits are reviewed at least on an annual basis and as and when the environment so dictates.

3. Audit and Risk Committee

The provisions of Reg. 57 of the Sacco Societies (Deposit-Taking Businesses) Regulations provides for establishment of the Audit committee. An Audit Committee shall be duly constituted by The Board to review the financial conditions of the Sacco Society, its internal controls, performance and findings of the internal auditor and to recommend remedial actions regularly and at least once in every three months. The Audit Committee may have its mandate expanded to include oversight on the Sacco's risk management.

The Committee shall consist of at least three members appointed from the board and one of whom shall be conversant with financial and accounting matters. The chairman of The Board shall not be a member of the audit committee.

The primary responsibility of the audit committee shall include but not be limited to the following:-

Audit Tasks

- (a) Ensuring that internal controls are established and effectively maintained to achieve a Sacco's financial reporting objectives.
- (b) Reviewing internal controls including the scope of the internal audit program, the internal audit findings, and recommend action to be taken by management;
- (c) Reviewing internal audit reports and their overall effectiveness, the scope and depth of audit coverage, reports on internal controls and any recommendations and confirm that appropriate action has been taken;
- (d) Ensuring that accounting records and financial reports are promptly prepared to accurately reflect operations and result;
- (e) 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;
- (f) Nominating names of external auditors from a list gazetted by the commissioner of Co-operatives for appointment by the Annual General Meeting;
- (g) Reviewing with external auditors the scope of their annual audit plan, systems of internal audit reported, assistance given by management to the auditors and any

findings and actions taken, and recommend the auditor's remuneration to the Board;

- (h) Reviewing management reports and reports from the internal and external auditors concerning deviations and weaknesses in accounting and operational controls;
- (i) Reviewing the Sacco Society's internal audit plan, with specific reference to the procedures for identifying regulatory risks and controlling the impacts on the Sacco Society, including receiving correspondence from the Authority and management's responses;
- (j) Monitoring the ethical conduct of the Sacco Society and consider the development of ethical standards and requirements, including effectiveness of procedures for handling and reporting complaints;
- (k) Reviewing any related party transactions that may arise within the Sacco Society;
- (l) Ensuring that relevant plans, policies, and control procedures are established and properly administered;
- (m) Ensuring that policies and control procedures are sufficient to safeguard against error, carelessness, conflict of interest, self-dealing and fraud;
- (n) Investigating members' complaints;
- (o) Keeping minutes of their work;
- (p) Considering any matter of significance raised at the Annual General meeting.

Risk Management Tasks

- a) The committee shall review and assess the integrity of the risk control systems and ensure that the risk policies and strategies are effectively managed.
- b) The committee shall set out the nature, role, responsibility and authority of the risk management function with the Sacco and outline the scope of risk management work.
- c) The committee shall monitor external developments connected to accountability

of Saccos and the reporting of associated risk, including emerging and prospective impact and in doing so will take into account concerns raised by management in the Audit Committee and also issues relating to asset liability management, Sacco finances and business and strategic risk.

- d) The committee, in carrying out its task under these terms of reference, may obtain such outside or other independent professional advice as it considers necessary to carry out its duties.
- e) The risk management function shall have access to any information it needs to fulfill its responsibilities.

The Committee shall report to the Sacco Society Board of directors on measures taken to implement recommendations and corrections of finding reported.

4.0 FINANCE STAFF AND ADMINISTRATION COMMITTEE

Finance Matters

- (a) To receive and consider the Sacco's annual budget and revisions of the same prior to its submission to the AGM for approval.
- (b) To receive and consider the financial analysis of all proposed major capital developments.
- (c) To review from time to time and propose amendments if deemed appropriate to the Sacco's procurement and disposal policies and procedures. Ascertaining that all tender awards made by management have complied with the Sacco's procurement and Disposal procedures.
- (d) To receive and consider the financial implications of any course of action proposed by the Sacco which involves an expenditure of or a write off of revenue or assets to the value of Kshs **(Insert Amount)** million or more.
- (e) To review, recommend, do or cause to be done in consultation where necessary with other relevant Board Committees all measures considered necessary to reduce the Sacco's expenditure.
- (f) To review options for raising capital.

Investment Matters

- (g) To review and give guidelines to management on the investment of Sacco funds and the Saccos adherence to the Investment policies established by law.
- (h) To review the Sacco's marketing activities.
- (i) To review and make recommendations to the board regarding the Sacco's dividend policy.
- (j) To review the placing of the Sacco's insurance portfolio and options for covering all insurable risks.
- (k) To report to the Board, its findings and recommendations in all matters listed above, and to undertake any other functions and projects as requested by the Board.

Strategic Planning Matters

- (l) Ensure the Board is regularly informed about the Sacco's key strategic plans and that the Board provides feedback and guidance to management.

- (m) Review the resources available to management including business plans and financial, operational and human resources required to implement the agreed upon strategy.
- (n) To oversee annual strategic review planning events involving the Sacco's strategic planning process.
- (o) To ensure regular reviews of the status of execution against strategic objectives through reviews at Board meetings of product plans, development, execution and customer service.

Human Resources and Remuneration Matters

- (p) To review human resources development, organizational structure, compensation principles and practices and any significant changes.
- (q) To review salary structures, bonus, benefits and other remuneration of management and staff (excluding the CEO).
- (r) To review and propose recommendations on the compensation of the CEO to the board for approval.
- (s) To provide guidance as needed regarding major changes in compensation, benefit and retirement plans.
- (t) To review, prior to consideration by the full Board of Directors, management's proposals to make significant organizational changes in the Sacco.
- (u) To oversee the Sacco's plan for management succession and development.

5.0 EDUCATION AND GOVERNANCE COMMITTEE

This Committee shall be responsible for carrying the role of providing education to the members, staff, management and the board as well as ensuring the Sacco is governed in accordance with its code of corporate governance and all other relevant guidelines.

Co-operative Education and Training Tasks:

The Education Committee is expected to perform the following duties:-

- (a) Identification and determination of education needs to the members, the board, employees and of the potential members, in the principles and techniques of cooperativeness, both economic and democratic.
- (b) Evaluating training activities due to:
 - Limited supply of resources.
 - Feedback obtained during evaluation is intended for use in correction measures.
 - Feedback obtained from evaluation activities motivated those implementing and those benefiting;
- (c) To create good relations between the Board, staff, members, other cooperative suppliers, business and public at large for increased productivity of the Sacco;
- (d) To acquire literature on behalf of the society, with a view to setting up well stocked library. This could comprise of the cooperative Act, Rules and By-laws, policies, cooperative texts and journals;
- (e) To arrange for education and tours in liaison with other members of the board;
- (f) To advice the board and members in general on matters within their jurisdiction, such as in event of any changes in the policies and legislation;
- (g) Ensuring that adequate funds have been allocated for education purposes and utilized properly, for the benefit of the whole society;
- (h) To represent the Sacco in other bodies carrying educational functions;
- (i) Preparation of educational reports on a fortnightly basis, monthly, quarterly, half – yearly or annually, depending on the needs of the society.

- (j) Identification, collection and preparation of co-operative news on behalf of the society. Annual general meetings, minutes authorized visits and interviews could constitute news.
- (k) The main function of The board is to manage the affairs of the registered by-laws of that society, plus implementation of the directives of the federal cooperative agency and the Annual General Meeting (AGM).

The Governance Tasks:

- (l) To review annually, for board approval, a board manual outlining the policies and procedures by which the board shall operate, and the terms of reference for the board, the chairman and board committees,
- (m) To determine the performance measures to be deployed in assessing the performance of the business, the CEO, Chairman, individual directors and the board as a collective entity.
- (n) To recommend to the board and implement each year, an appropriate evaluation process for the board , the chair, individual board members and the chief executive officer;
- (o) To develop recommendations regarding the essential and desired experiences, skills and competencies for board members of the Sacco;
- (p) To review monitor and make recommendations regarding the induction and development of new board members;
- (q) To lead annual performance review for the chief executive officer and his direct reports,
- (r) To receive annual declarations on the fit and proper criteria for onward transmission to SASRA.
- (s) To recommend to the board the selection and appointment of the CEO.
- (t) At the request of the board, undertake such other corporate governance initiatives as may be necessary or desirable.
- (u) To supervise and monitor matters reported using the Sacco's whistle blowing or other confidential mechanisms for employees and third parties to report ethical and compliance concerns or potential breaches or violations;
- (v) To investigate all allegations of violations of the Sacco's Code of Conduct by directors and to recommend appropriate sanctions to the board.