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

**SASRA/SS/CS.1726/L/Vol. I/ (23)**

**13<sup>th</sup> February, 2018**

**Chief Executive Officer,**  
Mombasa Port Sacco Society Limited,  
P.O Box 95372 - 80104,  
**MOMBASA.**

Dear Sir,

**RE: AUTHORITY'S APPROVAL AND OBSERVATIONS ON THE SACCO'S AUDITED  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>st</sup> DECEMBER 2017**

Pursuant to provisions of Section 41 of the Sacco Societies Act, 2008 as read with Reg. 55 of the Sacco Societies (Deposit-Taking Sacco Business) Regulations, 2010, the Authority has considered the Sacco's audited financial statements for the year ending 31<sup>st</sup> December, 2017 for approval.

The Sacco's Board of Directors was responsible for the preparation of the Audited Financial Statements of the Sacco in accordance with Section 40 of the Act and takes responsibility for the same, while the External Auditor was responsible for auditing the said financial statements in accordance with Section 44 of the Act as read with Reg. 56 of the aforesaid Regulations, reports thereon and takes responsibility for the same.

However, the Authority makes the following observations on the said audited financial statements on the basis of the Authority's statutory mandate of on-site and off-site supervision of the Sacco.

- i. The audited financial statements substantially comply with Reg. 55 (2) of the Sacco Societies (Deposit-Taking Sacco Business) Regulations 2010, subject to the External Auditor's opinion, in respect of the level of disclosures required.

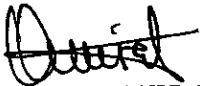
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- ii. The Sacco engaged in the construction of an office block to the tune of Kshs. 113 million as at 31<sup>st</sup> December 2017, thereby exceeding the Land & Buildings to Total assets ratio which was at 6% against the required maximum of 5%, without seeking approval of the Authority, contrary to Reg. 48 (1).
- iii. The Sacco has written off loans amounting to KShs. 21 million without the members' resolution to approve/support the write off.
- iv. The Authority takes cognizance of the issues raised by the external auditor in the management letter and will be monitoring for implementation thereof.

The Board should ensure that the members are adequately informed of the financial performance of the Sacco including concerns raised herein.

Subject to the auditor's opinion on the said audited financial statements, the Authority hereby approves the same for publication and presentation to the Sacco's Annual Delegates Meeting.

Yours faithfully,



**PETER OWIRA**  
**FOR: CHIEF EXECUTIVE OFFICER**

Cc: PKF Kenya  
Certified Public Accountants  
P.O. Box 90553 - 80100  
**Mombasa**



**MOMBASA PORT SAVINGS AND CREDIT  
CO-OPERATIVE SOCIETY LIMITED  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**APPROVED**  
*for publication and presentation  
to AGM or ADM subject to observations issued*

13 FEB 2018

SIGN:.....*[Signature]*

**THE SACCO SOCIETIES REGULATORY AUTHORITY**

## REPORT OF THE DIRECTORS

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2017 which disclose the society's state of affairs.

### PRINCIPAL ACTIVITY

The principal activity of the society continued to be that of receiving savings from and providing loans to its members.

RESULTS	2017 Shs	2016 Shs
Profit before tax	249,845,993	256,568,966
Tax charge	<u>(14,977,865)</u>	<u>(5,750,154)</u>
Profit for the year	<u>234,868,128</u>	<u>250,818,812</u>
Profit before tax is arrived at after deducting interest on members' deposits	<u>264,171,438</u>	<u>273,402,439</u>

### INVESTMENT SHARES

The issued and paid up share capital of the society increased during the year to Shs 31,439,4463 from Shs 22,456,830 in 2016.

### DIVIDENDS AND INTEREST

The directors have recommended payment of 20% (2016: 20%) as dividend on investment shares and provided 12.5% (2016: 16%) interest on member deposits.

### DIRECTORS

The directors who held office during the year and to the date of this report are shown on page 1.

### INDEPENDENT AUDITOR

The society's auditor, PKF Kenya have indicated willingness to continue in office.

### BY ORDER OF THE BOARD



Signature 1 February 2018

### SECRETARY

\_\_\_\_\_ 2018

**FINANCIAL AND STATISTICAL INFORMATION**

		As at 31 December	
		2017	2016
		Numbers	Numbers
<b>Membership</b>	Active	6,684	5,603
	Dormant	180	150
<b>Number of branches</b>		1	1
<b>Number of employees</b>		31	28
<b>Financial</b>		2017	2016
		Shs	Shs
Total assets		4,619,265,373	3,870,961,867
Members' deposits		2,300,181,529	1,865,826,904
Loans and advance to members		3,252,915,028	2,682,911,818
Provision for loan losses		92,684,998	109,117,076
Investments		535,973,452	389,199,956
Total revenue		656,624,921	656,317,291
Total interest income		477,841,441	533,636,808
Total expenses		414,795,347	397,292,600
Investment shares		31,439,463	22,456,830
Statutory reserve		271,724,779	224,751,153
Appropriation account		1,029,091,957	847,998,179
Core capital		1,461,130,334	1,205,498,542
Institutional capital		1,429,690,871	1,183,041,712
Loan loss reserve		18,581,755	26,251,604
<b>Key ratios:</b>		Statutory requirement	
		%	%
<b>Capital adequacy ratios</b>			
Core capital/Total assets	10*	32	31
Core capital/Total deposits	8*	64	65
Institutional capital/Total assets	8*	31	31
<b>Liquidity ratio</b>			
Liquid assets/Total deposits and short-term liabilities	15*	19	27
<b>Operating efficiency/loan quality ratios</b>			
Total expenses/Total revenue		63	61
Interest to members deposits/Total revenue		40	42
Interest rate on members' deposits		12.5	16
Dividend rate on members share capital		20	20
Total delinquent loans/Gross loan portfolio		3	4
<b>Investment ratios</b>			
Land and buildings/total assets	5.0**	6	4
Financial investments/core capital	40.0**	37	32

\* Recommended statutory minimum

\*\* Recommended statutory maximum

The board is aware that investment in land and buildings has exceeded the recommended statutory ratio to total assets and would be seeking exemption from the regulatory authority (SASRA) due to the intended commercial property development.

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Sacco Societies Act No. 14 of 2008 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the the society as at the end of the financial year and of and of its profit or loss for that year. It also requires the directors to ensure that the company keeps proper accounting records that are sufficient to show and explain the transactions of the society; that disclose, with reasonable accuracy, the financial position of the society and that enable them to prepare financial statements of the society that comply with the International Financial Reporting Standards and the requirements of the Sacco Societies Act. The directors are also responsible for safeguarding the assets of the society and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards and in the manner required by the Sacco Societies Act. They also accept responsibility for:

- i. Designing, implementing and maintaining such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- ii. Selecting and applying appropriate accounting policies; and
- iii. Making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the society as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Sacco Societies Act.

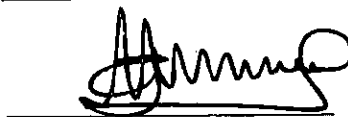
In preparing these financial statements the directors have assessed the society's ability to continue as a going concern. Nothing has come to the attention of the directors to indicate that the society will not remain a going concern for at least the next twelve months from the date of this statement.

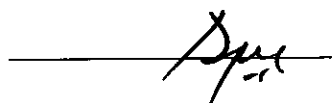
The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

So far as each of the directors is aware, there is no relevant audit information which the auditor is unaware of and each of the directors has taken all the steps that ought to have been taken in order to become aware of any relevant audit information and to establish that the auditor is aware of that information.

Approved by the board of directors on 1 February 2018 and signed on its behalf by:

  
CHAIRMAN

  
TREASURER

  
CHIEF EXECUTIVE OFFICER

**REPORT OF THE INDEPENDENT AUDITOR  
TO THE MEMBERS OF MOMBASA PORT SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED**

**Opinion**

We have audited the accompanying financial statements of Mombasa Port Savings and Credit Co-operative Society Limited set out on pages 7 to 40 which comprise the Society's statement of financial position as at 31 December 2017 and the statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of Mombasa Port Savings and Co-operative Credit Society Limited as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Sacco Societies Act.

**Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**Impairment of loans and advances**

Loans and advances represent 70% of the society's total assets. The impairment provisions for loans and advances is considered to be a matter of most significance as it requires the application of judgement and use of subjective assumptions by directors. The society records both general and specific impairment provisions for loans and advances in accordance with statutory regulations and International Financial Reporting Standards.

Our audit procedures included understanding and testing of the design and operating effectiveness of the key controls around the origination and disbursement, monitoring and collection and periodic review and evaluation of loans and advances. In our audit we also considered the process around the internal validation of the models used to determine the loan loss provisions, as well as the periodic evaluation of the parameters applied in these models. We also carried out tests on specific balances to assess the history of payments and accuracy of loan classifications, the valuation of collaterals and adequacy of impairment provisions.

We have also assessed the adequacy of the society's disclosures made in the financial statements.

Refer to Notes 1 b (i), 8 and 20(b) to the financial statements on pages 14, 25, 25 and 34 - 37 respectively.

**Other information**

The directors are responsible for the other information. The other information comprises the directors' report and financial and statistical information on pages 2 and 3 respectively, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Directors for the Financial Statements**

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the Sacco Societies Act No.14 of 2008, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

.....continued on page 6

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**REPORT OF THE INDEPENDENT AUDITOR  
TO THE MEMBERS OF MOMBASA PORT SAVINGS AND CREDIT CO-OPERATIVE SOCIETY LIMITED (CONTINUED)****Responsibilities of Directors for the Financial Statements (continued)**

In preparing the financial statements, the directors are responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Erick Mbutia Njuguna P/No. 2061

*Erick Mbutia*

Certified Public Accountants  
Mombasa

02-February-2018

023/2018



**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

	Notes	2017 Shs	2016 Shs
<b>Revenue</b>			
Interest income	2 (a)	477,841,441	533,636,809
Other interest income	2 (b)	104,577,922	67,504,332
<b>Total interest income</b>		582,419,363	601,141,141
Interest expenses	2 (c)	(272,066,704)	(282,950,209)
<b>Net interest income</b>		310,352,659	318,190,932
Other interest income	2 (d)	13,523,047	9,899,230
Other operating income	2 (e)	74,205,558	55,176,151
Impairment charge on loans and advances	8	(5,506,628)	(12,354,956)
Members' expenses		(28,577,913)	(20,602,265)
Administrative expenses		(90,978,435)	(72,564,168)
Other operating expenses		(23,172,295)	(21,175,958)
<b>Profit before tax</b>	3 (a)	249,845,993	256,568,966
Tax charge	5	(14,977,865)	(5,750,154)
<b>Profit for the year</b>		<u>234,868,128</u>	<u>250,818,812</u>
<b>Other comprehensive income:</b>			
<b>Items that may be reclassified subsequently to profit or loss:</b>			
- Fair value loss on available for sale financial assets		79,715,534	(96,538,932)
- Deferred tax on fair value of available for sale financial assets		(3,985,777)	(15,582,847)
		<u>75,729,757</u>	<u>(112,121,779)</u>
<b>Total comprehensive income</b>		<u>310,597,885</u>	<u>138,697,033</u>
<b>Dividend:</b>			
Proposed final dividend for the year		<u>6,287,893</u>	<u>4,491,366</u>

The notes on pages 12 to 40 form an integral part of these financial statements.

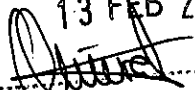
Report of the independent auditor - pages 5 to 6.

13/AR/FS/17

Mombasa Port Savings and Credit Co-operative Society Limited C/S - 1726  
Annual report and financial statements  
For the year ended 31 December 2017

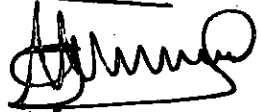
**STATEMENT OF FINANCIAL POSITION**


	Notes	2017 Shs	2016 Shs
<b>Assets</b>			
Cash and cash equivalents	6	506,830,966	592,360,388
Receivables and prepayments	7	28,179,678	23,804,568
Loans and advances	8	3,252,915,028	2,682,911,818
Financial assets	9	535,973,452	389,199,956
Property and equipment	10	282,066,282	167,636,563
Intangible assets	11	13,299,967	15,048,574
<b>Total assets</b>		<b>4,619,265,373</b>	<b>3,870,961,867</b>
<b>Liabilities</b>			
Other payables	12	25,040,222	21,110,803
Interest due	13	274,422,848	279,253,780
Members' deposits	14	2,300,181,529	1,865,826,904
Deferred tax	16	19,568,624	15,582,847
Tax payable		4,546,412	1,076,796
<b>Total liabilities</b>		<b>2,623,759,635</b>	<b>2,182,851,130</b>
<b>Equity</b>			
Investment shares	15	31,439,463	22,456,830
Statutory reserve	17 (i)	271,724,779	224,751,153
Loan loss reserve	17 (ii)	18,581,755	26,251,604
Insurance reserve	17 (iii)	106,958,764	106,958,764
Capital reserve	17 (iv)	3,333,616	3,333,616
Appropriation account	17 (v)	1,029,091,957	847,998,179
Fair value reserve	17 (vi)	371,803,851	296,074,094
Proposed dividends and honorarium	17 (vii)	14,470,572	12,185,516
Revaluation reserve		148,100,981	148,100,981
<b>Total equity</b>		<b>1,995,505,738</b>	<b>1,688,110,737</b>
<b>Total liabilities and equity</b>		<b>4,619,265,373</b>	<b>3,870,961,867</b>

**APPROVED**  
for publication and presentation  
to AGM or ADM subject to observations issued  
**13 FEB 2018**  
SIGN:   
THE SACCO SOCIETIES REGULATORY AUTHORITY

The financial statements on pages 7 to 40 were approved and authorised for issue by the Board of Directors on 1 February 2018 and were signed on its behalf by:

 CHAIRMAN

 TREASURER

 CHIEF EXECUTIVE OFFICER

The notes on pages 12 to 40 form an integral part of these financial statements.

Report of the independent auditor - pages 5 to 6.