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Definition of auditing

Auditing is an **independent examination** of, and **expression of opinion** on the **financial statements** of an entity by an **appointed auditor** in pursuant of that appointment and in compliance with any relevant statutory requirements.

Accounting

The systematic and comprehensive recording of financial transactions pertaining to a business, summarizing, analyzing and reporting these transactions.

Appointment of external auditor

The Co-operative Societies Act CAP 490 Section 25 (3) provides that “It shall be the duty of every co-operative society to cause its accounts to be audited at least once in every financial year by an auditor appointed under sub section (4)”

Sub section (4) provides that “The auditor shall be appointed at the annual general meeting from a list of auditors approved by the Commissioner in consultation with the Institute of Certified Public Accountants of Kenya”

For societies regulated by SASRA, the Sacco society shall recommend three names (out of a list of auditors approved and authorised by the Authority) to the Annual General Meeting which shall select one Auditor to Audit its accounts. The Sacco Society shall submit to the Authority the selected names of the external Auditor within thirty days after the annual general meeting together with an extract of minutes recording his appointment (Regulation 54).

Rotation of auditors

For Sacco Societies regulated by SASRA, they shall change or rotate its external auditors every three years, except with leave of the Authority upon written request in which case this requirement may be waived.

Role of Internal Audit function on the Financial Statements

For Saccos regulated by SASRA, section 53 of the SASRA regulations provides for the establishment of an internal audit function responsible for reviewing and reporting on the adequacy of the internal audit system and the financial matters of the society. The internal auditor shall report to the Audit committee of the board.

Primary responsibilities of audit committee

a) Ensuring that accounting records and financial reports are promptly prepared to accurately reflect operations and results.
b) 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.
c) Recommending three names of external auditors to the board of directors.
d) Reviewing with external auditors the scope of their annual audit plan, systems of internal audit reports, assistance given by management to the auditors and any findings and actions taken, and recommend the auditor's remuneration to the board.
e) Reviewing management reports and reports from internal and external auditors concerning deviations and weaknesses in accounting and operational controls.

The Board of Directors’ Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and statute requirements. The responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are fee from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. The Board of Directors is required to ensure that the society maintains proper books of accounts which are in agreement with financial statements.

Auditor's Responsibility on the Financial Statements

The responsibility of the Auditor is to express an independent opinion on the financial statements based on their audit. The audit has to be conducted in accordance with International Standards on Auditing. The ISAs require that the auditor comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

Further legal requirement on external auditor

Section 25 (8) of the Co-operative Societies Act requires the auditor to include in his opinion as to whether or not the co-operative society's business has been conducted-
In accordance with the provisions of the Act and whether the books of accounts kept by the co-operative society are in agreement therewith and give a true and fair view of the state of the affairs of the society; and
In accordance with the co-operative society's objectives, by-laws and any other resolutions made by the society at a general meeting.

The duties of the external auditor in relation to the Authority shall be to:

a) Communicate any evidence of irregularities or illegal acts that have been committed by directors, employees or the Sacco Society itself
b) Inform the Authority, if there are grounds to believe that the Sacco Society is insolvent or that there is a significant risk that it may become insolvent.
c) Report failure by the officers to provide all of the necessary information and documentation to enable the auditor perform audit duties and
d) Provide an opinion as to whether the Sacco Society management practices and procedures are sufficient to safeguard members' assets.

Submission of audited accounts for approval

A Sacco Society regulated by SASRA shall within three months after the end of the financial year submit for approval to the Authority its audited financial statements, before publication and presentation to the Annual General Meeting.

The Co-operative Societies Act CAP 490 section 27(2) provides that “subject to sub section (3), a co-operative society shall hold an annual general meeting within four months after the end of each financial year.” The Co-operative Societies Act CAP 490 section 25(7) provides that “No auditor shall present the audited accounts of a co-operative society to the members at a general meeting unless the accounts have previously been submitted to the Commissioner in such form as may be prescribed.”
Section 25 (11) provides that “Where a co-operative society fails to cause its accounts to be audited within the prescribed period in respect of its business for the previous financial year, members of the committee shall automatically lose their positions at the next general meeting and shall not be eligible for re-election for three years unless the Commissioner is satisfied that the failure was due to circumstances beyond their control.”

END

THANK YOU