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Financial Reporting by Saccos in Kenya

Status, Gains and Challenges

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Laico Regency, Nairobi, Kenya

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Session Objectives



The aims of the Session:

- Assess the contribution of the 2010 ICPAK disclosure guidelines on the quality of financial reporting by Kenyan SACCOs.
- Evaluate the current state of financial reporting by Kenyan SACCOs.
- Answer the Question: Have Kenyan SACCOs embraced social performance reporting?
- Discuss reporting challenges faced by SACCOs from a research-based perspective.

Preamble



Spotted somewhere in the local dailies...



“Savings and credit co-operative societies (Saccos) are grappling with lack of qualified and experienced accountants to keep their financial records, affecting the quality of reporting in the sector.”

Quoted verbatim from Business Daily of 7 July 2013

Objective One



Assess the contribution of the 2010 ICPAK disclosure guidelines on the quality of financial reporting by Kenyan SACCOs.

The 2010 ICPAK FR Guidelines...



Are we aware?

- Released in **November 2010** by the ICPAK.
- A joint project by **SASRA & the Ministry in charge of Co-operatives**.
- Other stakeholders involved:
 - Academics;
 - Partners at audit firms
 - WOCCU representative
- Why the FR Guidelines for Co-operatives?



Illustrative Annual Report and Financial Statements for Savings and Credit Co-operative Societies (SACCOS)

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Source: <http://www.sasra.go.ke/index.php/resources>

Are we Aware?

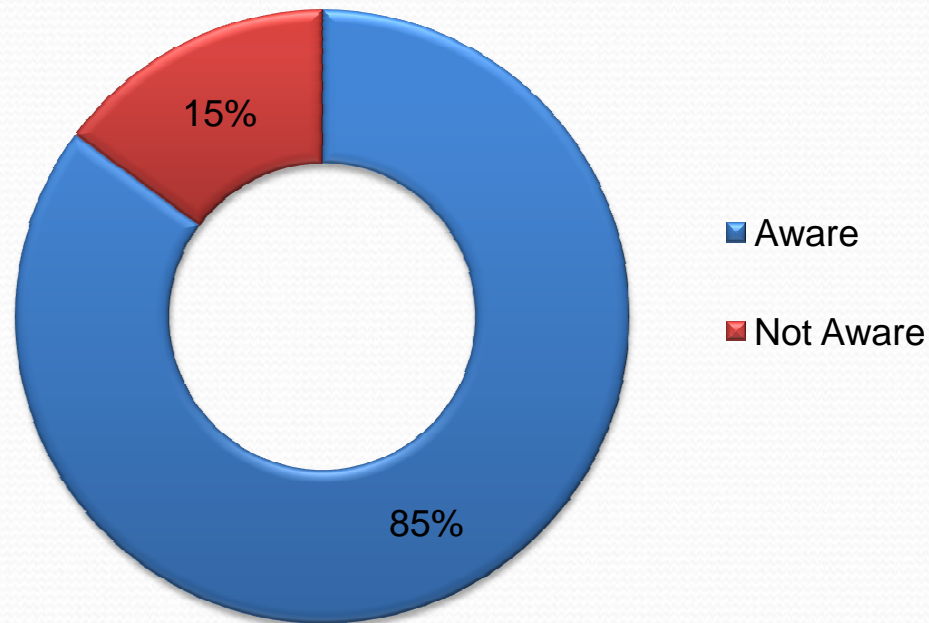


The \$1 million Question

Are we aware of the ICPAK Disclosure Guidelines?

Out of 74 responding SACCOs so far...

Are we Aware?



- Of those NOT aware:

- 2 were SACCO Accountants
- 1 was a SACCO Chairman
- 1 was a Marketing Manager

.... and

- **5** were SACCO Managers!

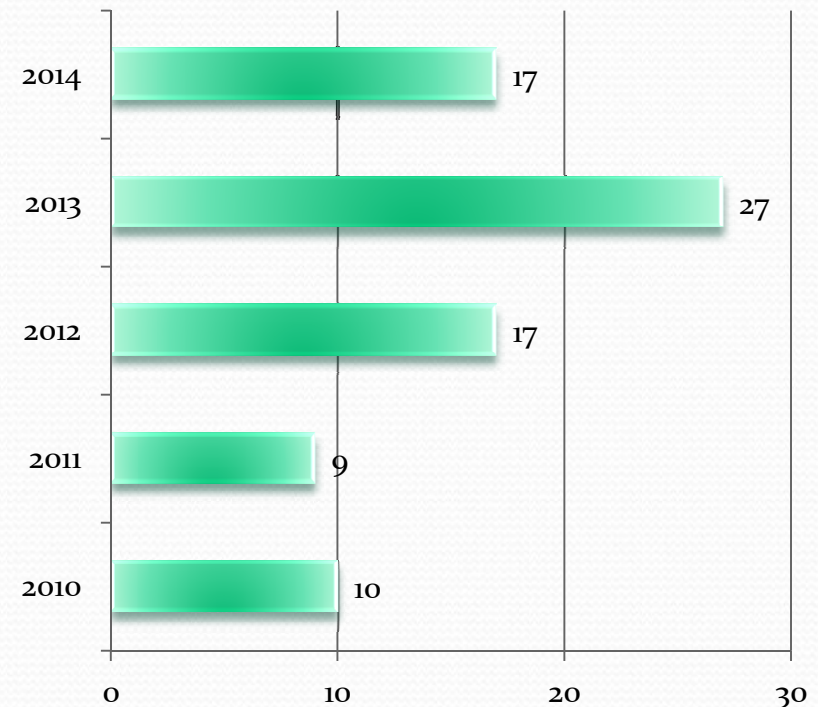


Now you know...



- The guidelines were issued four years ago...
- As of 2013, the quality of financial reporting in the sector was still “below par”
- Few Saccos [out of 1,995 active and over 6,000 SACCOs in total] have since expressed interest in competing with peers, esp. in the FIRE Awards.

Number of participating SACCOs in FIRE awards

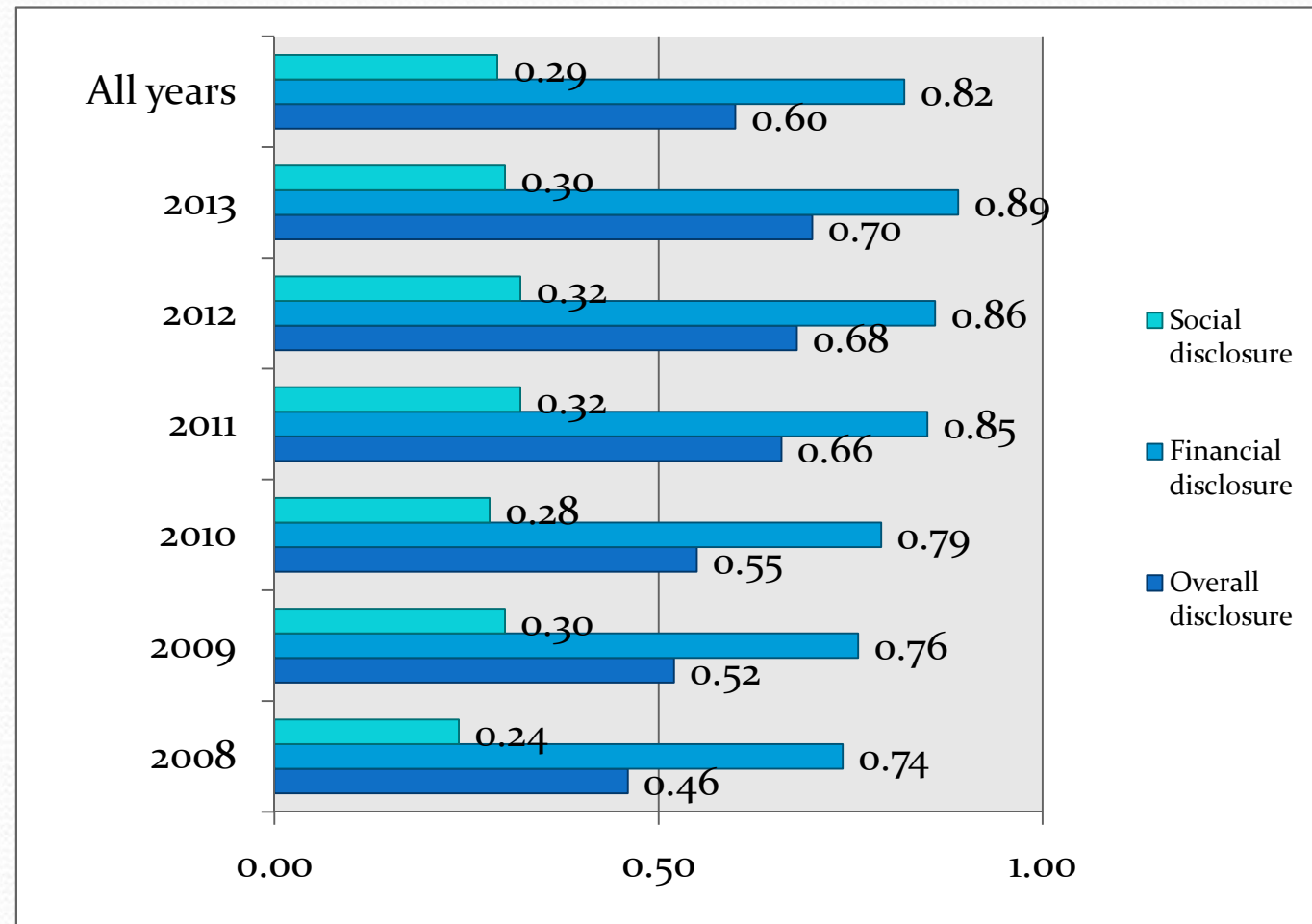


Source: ICPAK

..but, have the ICPAK Guidelines been useful?

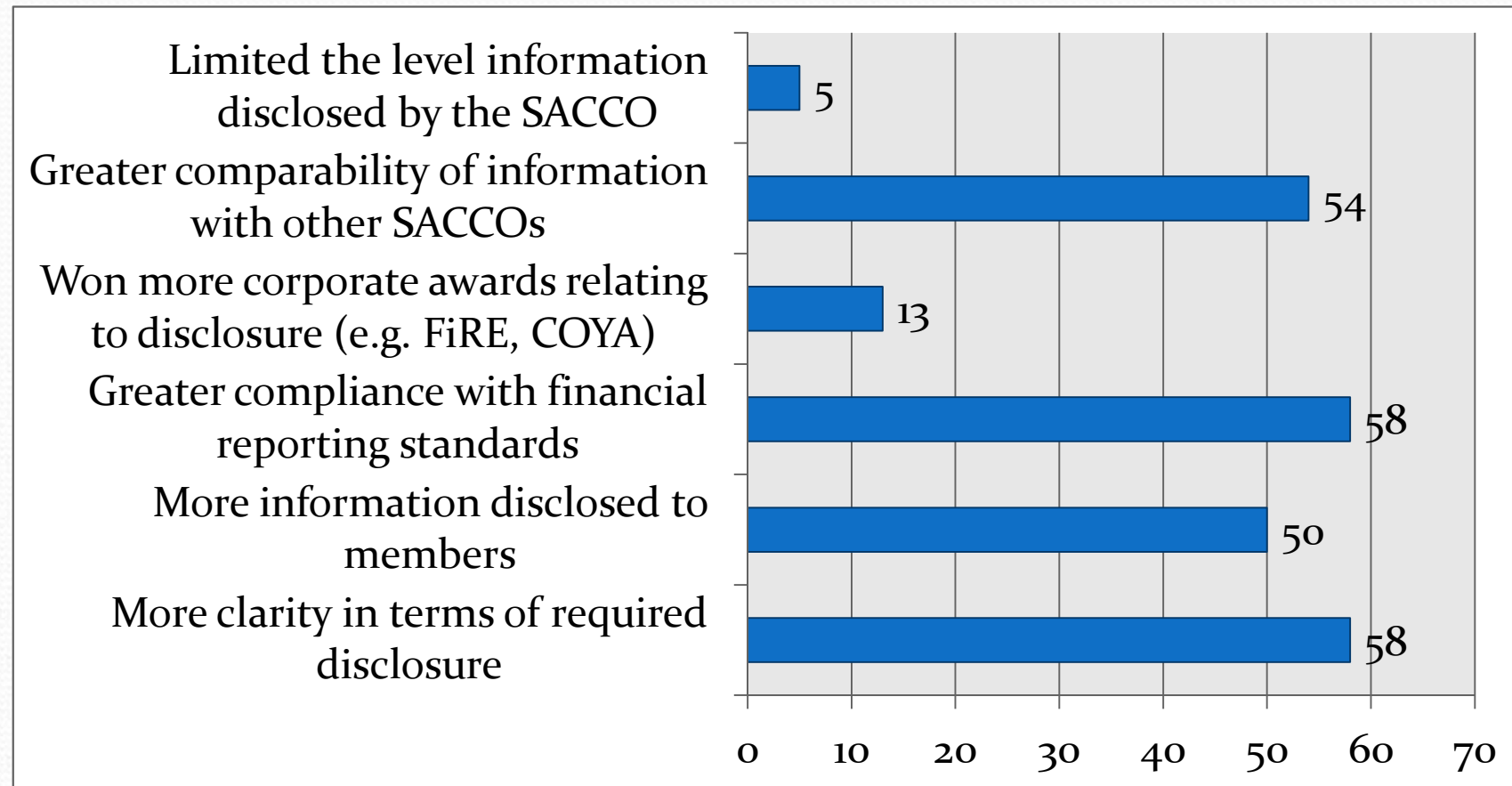


- The answer is **YES!** – but we are not there yet..
- ...and this applies to the adopters though...



Source: Research data 2014/2015

What respondents said about the guidelines...



Source: Research data 2014/2015

OTHERS

- Performance monitoring
- Clear understanding

The status: Before and after ICPAK guidelines...



Disclosure category	ICPAK guidelines	N	Mean	Standard Deviation
Overall	Pre-release	636	0.512	0.089
	Post release	636	0.683	0.086
Financial	Pre-release	636	0.765	0.057
	Post release	636	0.868	0.059
Social	Pre-release	636	0.274	0.078
	Post release	636	0.313	0.072

Source: Research data 2014/2015

CONCLUSION: The ICPAK guidelines assisted in improving SACCO disclosure, especially financial reporting related disclosures

Objective Two



Evaluate the current state of financial reporting by Kenyan SACCOs

How have SACCOs performed disclosure wise?



- Financial disclosures and related disclosures are higher than social disclosures.
- Key financial disclosures include:
 - accompanying reports of the management committee and auditor's,
 - inclusion of the income statement and
 - statement of financial position in the annual report....the obvious BASICS!
- Average compliance to financial disclosures:
 - those relating to income statement items are higher at **88.6%** compared to those relating to the statement of financial position items at **72.5%**.

How have SACCOs performed disclosure wise?



- The least disclosed financial items include:
 - retirement benefits liability (8.6%),
 - deferred income tax (13.4%),
 - other financial assets held by the SACCO (23.9%) and
 - **intangible assets** (39.3%).
- Social performance disclosures discussed briefly under **Session Objective 3**.

Objective Three

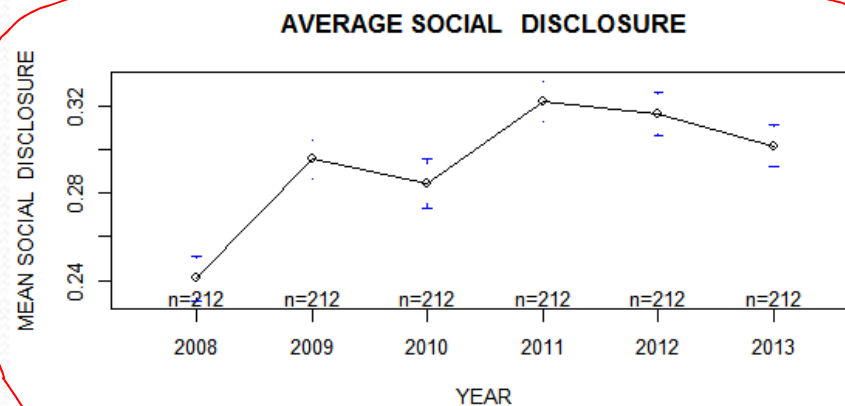
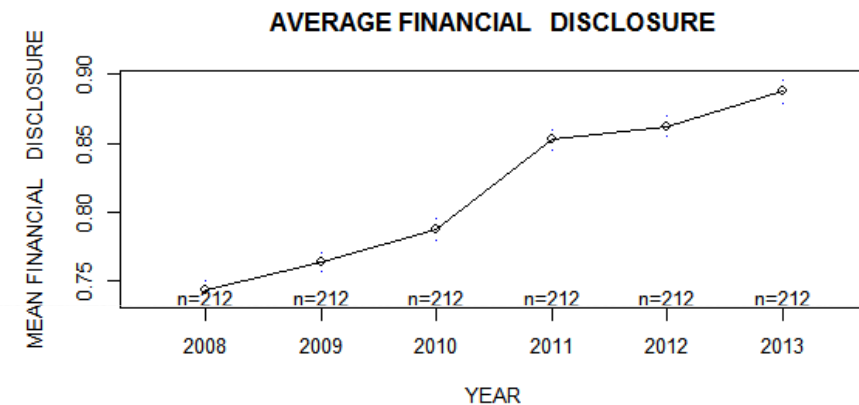
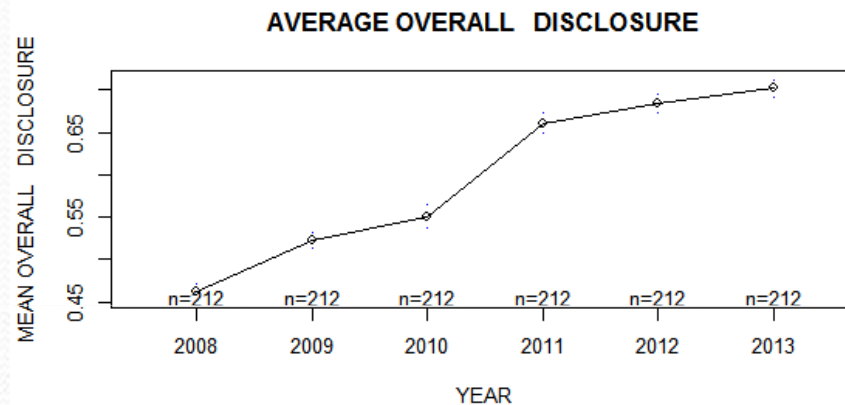


Have SACCOs embraced social
performance reporting?

Have SACCOs embraced social reporting?



You can tell from the trends..



Source: Research data 2014/2015

What areas of social focus can SACCOs in Kenya engage in?



Community involvement and other social activities

Charitable/social activities sponsored

Amount spent

Participation in social days

Source of funds utilized

Environmental conservation

Nature of activities

Amount spent

Environmental policies or statement

Conservation of natural resources

Provision of green loans

Member welfare

Number of members

Member education or training

Amount spent

Recruitment of members

Provision for "special-needs" customers

Products and services

Marketing

Products and services

Quality of the products and services

Customer matters

Lending and investment policies

Human resources welfare

Number of employees

Brief employee profiles

Employee morale

Employee education and/or training

Amount spent

Employee salaries, allowances and benefits

Health and safety

Employment of minorities

Industrial relations

Source: Research data 2014/2015 & Kenyan SACCO League Blog: <http://kenyansaccolleague.blogspot.com/>

How have SACCOs performed disclosure wise?



- Assuming that the level of social performance disclosure indicates the importance of the relevant indicator:
 - Kenyan SACCOs place greater importance to
 1. human resources welfare (at 41.9%),
 2. member welfare (at 39.2%),
 3. products and services (at 32.3%),
 4. community involvement and other social activities (at 21.1%) and
 5. environmental conservation (at 0.4%)
 - in that order.

Objective Four



Reporting challenges: A research-based perspective

Key reporting challenges...



- Literacy levels:
 - Most SACCO members who are farmers do not understand retention. They want to be paid everything as dividends.
 - Low level of education of members and the board of directors.
- ICT-related challenges:
 - Finding a good software is costly and challenging,
 - Publication of the report in a daily paper - few people read yet it is a requirement.
- Conflicting regulations:
 - e.g. IFRSs and SASRA and ICPAK requirements.

Key reporting challenges...



- Resource constraints and management integrity:
 - Incompetence by finance and accounting employees, mismanagement and impropriety.
 - Inexperience; external auditor not conversant with.
 - Cost of producing and circulating information to members.
- Competition:
 - Competitors can use the information to their advantage.
 - Some members withdraw because of negative information, competitors learn the SACCO's strategy.
 - Competition from liquid commercial banks.

Key reporting challenges...



- Strict and complexity in legislation:
 - Especially for small DT SACCOs
 - The complexity of the outlook of the financial information presentation by SASRA Regulations of 2010
- Understandability:
 - Language and format in which a layman would understand is limiting.

Key reporting challenges...



- Lack of guidelines:
 - There are no proper guidelines for reporting on social information
- Governance:
 - Political interference, negative influence especially where there is competition at the board level.
 - Presence of BoD members who try to safeguard their interest of stay in the office at the expense of clear governance.

The End



Note: Most of the presentation material is largely sourced from research currently being carried out by David Mathuva who is studying “The Drivers of Financial and Social Disclosure Practices by Savings and Credit Co-operatives in Kenya” at JKUAT, Nairobi, Kenya.



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