



INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF KENYA

Financial Reporting Workshop for Co-operative Societies

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Credibility

Professionalism

AccountAbility

COMPLIANCE WITH IFRS: The Regulatory Perspective



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Session Objectives



1. To outline the significance of full compliance with IFRS for SACCOs in Kenya
2. To discuss the Compliance Challenges facing SACCOs
3. Suggest solutions towards full compliance with IFRS

Introduction



- ❑ Co-operative Societies are member owned organizations and hence are public organizations in the broad sense making accountability to members and stakeholders very central for their success.
- ❑ SACCOs core business is financial intermediation which can only thrive under high levels of **trust** and **confidence** of members and the general public.
- ❑ SACCOs can achieve the trust and confidence if they comply with **IFRS and Regulatory requirements**.
- ❑ In Kenya, the SACCO regulatory framework requires full compliance with IFRS despite the dual regulatory environment which divides SACCOs into Deposit taking and Non-Deposit taking.

Legal requirements for SACCOs to Comply with IFRS



1. NON-DEPOSIT TAKING: The Co-operative Societies Act Cap 490 Section 25(1) provides that:

- *“Every co-operative Society shall keep proper accounts which shall (a) be prepared in accordance with International Accounting Standards;”*
- **Sec. 25(3):** *“ 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 subsection (4).”*

Legal requirements for SACCOs to Comply with IFRS



➤ **Sec.6 (a)** *“The accounts referred to in subsection (3) shall; conform with **IFRS**.”*

2. DEPOSIT TAKING SACCOs (Licensed by SASRA):

The SACCO Societies Act 2008 provides that:

❖ **Sec. 40 (3):** *“The accounts and other financial records of a Sacco Society shall be denominated in Kenya Shillings and shall comply with the **IFRS** and such other requirements **as the Authority may prescribe.**”*

Significance of full compliance with IFRS for SACCOs



- **ICA Blueprint** for Coop Development intends to take the co-operative way of doing business to a new level. Core to this blueprint is the “2020 challenge” which is that by 2020, co-operative enterprises will become:
 - ❑ The acknowledged leader in economic, social and environmental sustainability
 - ❑ The business model preferred by people
 - ❑ The fastest growing form of enterprise

Significance of full compliance with IFRS for SACCOs



1. Promotes Financial Stability (Global and Nationally):

- ❑ At the international level, standards enhance **transparency** and **identify weaknesses** that may contribute to economic and financial vulnerability in which SACCOs play a major role.
- ❑ Foster **efficiency** and **discipline** in the SACCO subsector (Service delivery)
- ❑ At the national level, standards provide **benchmarks** for identifying systemic vulnerabilities and guide in designing an agenda for **policy reforms**

Significance of full compliance with IFRS for SACCOs



2. Reduce the risk of failure of SACCOs:

- ☐ Protect SACCO members and investors
- ☐ Support market discipline
- ☐ Avoid adverse impacts on other countries
- ☐ Reduce the scope of regulatory arbitrage
- ☐ Support competition & dynamism and
- ☐ Keep pace with innovation in the financial reporting system

Significance of full compliance with IFRS for SACCOs



3. Promotes Economic Growth and Development:

- ❑ The quality of accounting information about financial performance of a SACCO is vital for proper functioning and results in:
 - ❑ efficient resource allocation
 - ❑ effective planning and control purposes, and
 - ❑ accurate economic decisions
- ❑ Leads to Growth of SACCOs due to improved transparency and accountability.
- ❑ Increased access to finance and growth of business enterprises
- ❑ IFRS promotes a financial reporting platform conducive to sustainable private and financial sector growth, and to increase access to global financial markets.

Significance of full compliance with IFRS for SACCOs



4. Facilitates Good Governance and Accountability Practices:

- ❑ Building both member and public **confidence** in the SACCO subsector. *Lack of sound governance and transparency in Financial reporting previously led to low public confidence in SACCOs hence they **stagnated or experienced little growth***
- ❑ Availability of **reliable financial data**, provides members with relevant information that facilitates **rational economic decisions**
- ❑ Improved **honesty** and **integrity** in financial reporting creates a positive work relationships for forward looking **strategic policy directions**

Overview of Compliance Challenges in Kenya



1. SACCOS' lack of Awareness on IFRS and Regulatory Requirements

- ❑ In most SACCOs the board of Directors are heavily involved in the day to day operations despite the fact that they lack professional accountancy knowledge and skills.
- ❑ In such SACCOs the directors have to approve training courses for technical staff and may not see the need for sending staff to ICPAK seminars and workshops for update on new developments in IFRS.

Overview of Compliance Challenges in Kenya



2. Lack of Accounting Professional staff in SACCOs

- ☐ No finance and accounting policy, appropriate organization structure....,
- ☐ No qualified accounting staff (*Lack of Capacity to recruit and retain staff*)
- ☐ Poor record Keeping and reconciliation of accounting records.....,

3. IFRS Training and Updates Status by SACCOS' Staff

- ☐ SACCOS' accountants have less chances to attend IFRS training. In most cases they attend Co-operative Bank and Co-operative University Courses)

Overview of Compliance Challenges in Kenya



4. Complexity of IFRS requirements

SACCOS' accountants who are aware of IFRS requirements are facing technical difficulties in understanding and interpreting IFRS requirements. Some provisions of IFRS gives a leeway for professional judgments.

Examples of IFRS that SACCOs find challenging to implement

- i. **IFRS 9 Vs Regulation 44(1):** Financial Instruments Recognition and Measurement and loan loss provisions
- i. **IAS 40:** Investment property Vs Regulation 48, many SACCOs heavily invested in land and buildings with no specific objective and utilization to generate economic benefits

Overview of Compliance Challenges in Kenya



iii) **IAS 24: Related Party Disclosures**, many SACCOs have registered separate co-operatives or investment Companies to take over the investments in land and buildings to overcome **Regulation 48**. The operations of these entities and their relationships with respective SACCOs are often not disclosed.

5. Other Challenges:

a) **Financial constraints for training and purchase of IFRS materials**

Small SACCOS in Rural area face financial constraints to meet necessary requirements such as funds for IFRS training expenses and purchase of IFRS books and materials

Overview of Compliance Challenges in Kenya



b) The Dual Legal Regulatory Framework

- FOSA SACCOs: regulated and supervised by SASRA
- BOSA SACCOs: Supervised by the Ministry departments in every County
- Thus misconception as to who should comply fully and who should not?

Both the Co-operative Societies Act and Sacco Societies Act are clear that all SACCOs must comply with IFRS, reality is that those operating BOSA only are far from full compliance status.

Overview of Compliance Challenges in Kenya



- c) **Taxation Issues:** ambiguities in taxation laws for Co-operatives (FOSA Vs BOSA), misconception that FOSA income should be subjected to 100% taxation.
- d) **Inappropriate ICT Infrastructure:** Inability of MIS to accurately record, maintain and produce accurate financial reports.
- e) **Historical accounting baggage:** material suspense accounts carried forward from previous years.
- f) **Capacity of Audit Firms:** Some audit firms lack capacity to audit large & complex Sacco Operations.
- g) **Political expediency:** Promoting individual or certain interest at the expense of what is professionally right and just for the common good.

Way forward



1. ICPAK should work closely with SASRA to create awareness on specific areas of non-compliance and organize targeted trainings to SACCOS
1. SACCOs be encouraged to employ professional accountants who can interpret the IFRS requirements through competitive recruitment
2. In addressing the complexity and structure of the IFRS, the IASB should write standards in simple English that is understandable, clear, and capable of translation in a consistent application.
3. ICPAK and other professional academicians should write manuals/guidelines in simple language to demonstrate the applications of IFRS in SACCOS

Way forward



4. ICPAK should liaise with relevant Authorities to ensure that there are statutory punitive provisions for the non-compliance of IFRS in SACCOS.
5. On other hand, Deposit Taking Sacco Regulations 2010 should be revised to include all SACCOs irrespective of FOSA or BOSA operations.
6. More regional ICPAK Trainings to accommodate Rural SACCO staff
7. Appointment of external auditors should be competitive and capacity of audit firms given the complexity of SACCO operations taken into consideration.

Way forward



.....End.....

Questions and Comments