

SPEECH BY MR. JOHN M. MWAKA, THE ACTING CHIEF EXECUTIVE OFFICER, SASRA DURING FINANCIAL REPORTING FOR CO-OPERATIVES SEMINAR BY ICPAK, AT JUMIA CENTRE-KISUMU ON 8TH JULY, 2015

<Observe protocols>

Background to the Prudential Regulatory framework for Sacco societies

Prudential regulation of the Sacco societies is part of the wider reform agenda in the financial services sector to ensure that Sacco industry plays its pivotal role in driving national economic development in line with Vision 2030. This development was also a key milestone for the Sacco subsector in underscoring the financial services business that Saccos conduct.

The policy objective of the Sacco Societies is essentially to enhance transparency and accountability in the Sacco subsector, thereby financial soundness of Sacco societies.

Ultimate, the policy outcomes expected by the Government are:

- Improved governance in Sacco societies;
- Increased efficiency in Sacco business through adoption of prudential standards provided;
- Increased protection of members' savings; and
- Increased level of savings and credit through the Sacco societies.

To this end, the Authority is currently implementing obligations under Financial Services Sector plan dubbed the medium Term plan 2013-17, to ensure that:

- i) There is Full implementation of Risk based supervision framework
- ii) Enhanced financial access and stability in the Sacco Industry
- iii) Establishment of Deposit Guarantee Fund to protect members' deposits
- iv) Facilitating capacity development of the Sacco Industry for growth and stability

The first three are where our energies are focused in the financial year 2015/16 while the fourth is a performance indicator that can only be achieved through our various

collaborations with the National government, County governments, the Deposit Taking Sacco's and other stakeholders.

Ladies and gentlemen, the Subsector has registered impressive performance with an average growth in assets of 17.2% over last four years to stand at Ksh. 301 Billion by end of December 2014. This was funded by deposits, which stood at Ksh.206 billion as at the same date with at least Kshs. 70.7 billion being lent to SMEs by Sacco's.

Financial reporting as a governance tool

This meeting shall be deliberating on financial reporting, a key governance requirement for any business. I note the areas to be covered include presentation and disclosure, accounting judgments, measurements, provisions and liabilities. Other areas include compliance with professional and legal requirements including to what extent the Board of directors and management are responsible for the accuracy and hence fair reporting on the financial affairs of the Sacco. These topics will greatly contribute in improving financial reporting in Saccos.

I therefore urge the Auditors and Accountants herein present to ensure that these important professional aspects are not only brought to the attention of owners of the Saccos, who are members but also the general public and other stakeholders as well who rely on audited accounts for information and decisions.

As a regulator, our key concern is proper governance within Saccos that translate to safe and sound Saccos, hence protection of member's funds and ultimately all these efforts including legal provisions converge towards this goal.

Challenges of financial reporting

We are aware that that no industry/subsector is free of challenges. This is why the professional and regulatory standards exist to continually assist businesses to address these challenges. The capacity gaps in a number of Sacco's continue to hamper their general understanding, and compliance on International Financial Reporting Standards. This in turn has a negative bearing in the quality of information systems and consequently preparation

of the financial statements. Thus we note a Sacco's tend to rely on external auditors to prepare their financial statements, a clear conflict of interest.

In other instances, the Management Information Systems is also inflexible, unscalable and unreliable in generating routine and exceptional financial reports, not secure enough for information assets protection, and are not able to guarantee operational efficiency. To this end, we have witnessed Sacco's experiencing system changeovers, where data migration process is usually wrought with errors of commission/omissions leading to inaccuracies hence compromising on the true and fair view principle of financial reporting.

The high levels of staff turnover attributed either due to ineffective governance structures where board and management doesn't draw line on their roles; or integrity issues besides the poor retention terms leading to material lapses in reporting.

The lack of proper governance and internal control systems mainly attributed to the lax by Sacco boards/CEO's to adequately segregate of duties causing irregularities and insufficient oversight/errors.

Some of the non-compliance/ Regulatory Issues observed by the Authority include;

- Many auditors never report the statutory basis of the audit nor report on other legal requirements as expected of them.
- Sacco management abdicate the role of submission of audited Financial statement to the external auditors who present those statements to the Authority for approval denying the Authority the opportunity to seek clarifications from the directors on matters arising from the disclosures in the statements.
- In various instances external auditors assist or fully participate in the preparation of the financial statements which compromises on the independence and objectivity of the external audit with a potential of conflict of interest.
- Failure by the external auditors to comply with the key regulatory requirements.
- Attempts by both Sacco management and external auditors to circumvent legal requirements on term auditors by reappointing an auditor who has served for more

than 3years in a particular Sacco then seeking approval from SASRA or changing of the name of the auditor or audit firm.

- Failure by the Auditors to directly submit a confidential report of their audit, in respect of the Sacco Society for which they were appointed not later than four (4) months after the end of the financial year.
- External auditors in presenting the audited financial statements to the members, in addition to reading their report.
- Failure by the Sacco management to notify the Authority of the appointment of the external auditor within 30days as required under regulation 54.
- Lack of clear distinction between non-audit services e.g. tax consultancy, reconciliation of financial records and audit services and to what extent an auditor may offer these services without compromising on the auditor's independence and objectivity.

In order to address these challenges, the Authority has held consultative meeting with the Institute of Certified Public Accountants (ICPAK)and agree to work together on guideline clarifying the key regulatory and professional issues and provide direction to enhance compliance with professional and regulatory requirements for the good of the Sacco industry.

SASRA's focus in the medium term

SASRA notes with appreciation the aggressiveness of the deposit taking Saccos in order to satisfy their customers. We have noted Saccos entering partnership with commercial banks to offer chequeing accounts to attract more deposits to some businesses (SMEs) and high net worth individuals.In this regard, SASRA believes a vertical integration of the Saccos through a special purpose vehicle such as a Central Liquidity System will allow pooling of liquidity in the Sacco industry, thereby address short-term liquidity needs especially for deposit Taking Sacco Businesses. Further it will provide a payment settlement mechanism for Saccos.

At SASRA, we believe that Consolidation of Sacco's is inevitable as we work towards creating more viable entities towards efficiency and effectiveness as financial intermediaries to reduce risk of failure. Sharing services platform especially amongst small Saccos is a key strategy to reducing operational costs and leverage on pooled resources with focus on information sharing like ICT linkage and strategic alliances with service providers.

None, of all these mentioned above would be possible unless we strengthen the legal and regulatory framework through simplification of the financial reporting and auditing requirements for saccos, by using a risk assessment-based system. This will ensure the management and board work towards safety and soundness, and to enable levies to be paid based on Operational risk profile of each licensed Sacco.

The introduction of enforceable undertakings is a cost-effective method of facilitating compliance with the law. In view of lapse of transition period in early 2014, the Authority will continue strictly enforcing the law and Sacco's should expect sanctions in case of non-compliance in accordance with the law. Compliance will be inevitable since the penalties and fines are quite deterrent and need to be avoided.

CONCLUSION

I would like to extend my appreciation for the leadership role played by ICPAK in ensuring the efficient functioning of our accounting and financial reporting system. Forums such as this provide an essential platform where we are able to engage constructively and coordinate the implementation of our respective programmes in support of the Sacco Subsector.

Finally, Ladies and Gentlemen, it is now my pleasure and duty to officially declare this seminar open.

Thank you All and God bless

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