

INSTITUTE OF CERTIFIED PUBLIC  
ACCOUNTANTS OF KENYA



## FINANCIAL REPORTING FOR SACCOS

**“SASRA REGULATORY REPORTS”**

**12<sup>TH</sup> MAY 2015**  
**LAICO REGENCY HOTEL, NAIROBI**  
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# KENYA SACCO PERSPECTIVE



The Sacco movement has evolved in the past over 40 years into a formidable force for the social and economic transformation of Kenyan people.

In Kenya we have over 7,000 registered Sacco's i.e. 44% of total 16,000 Co-operatives

# KENYA SACCO PERSPECTIVE



Out of the 7000 Saccos 215 (3%) have FOSAs offering basic banking services across the country but only 186 Saccos are licensed.

All Sacco's have mobilised over KSH.380 Billion in savings i.e. more than 20% of the National Domestic savings.

The 215 SACCOs with FOSAs have mobilised over 80% of the savings  
*KSH.304 Billion*

# SACCOS MISSION



- ✓ Mobilize savings,
- ✓ Provide diversified financial products & services
- ✓ Maximize returns to stakeholders
- ✓ Vehicle for Investments

# WHY FINANCIAL REPORTING



- ✓ Financial reporting is the act of reporting on the financial performance, and the financial handling of a specific Co-operative
- ✓ It provides the owners with information on how funds are used and allocated.
- ✓ It provides a level of transparency in the a Co-operative financial system

# RATIONALE



- ✓ Measure financial soundness & growth
- ✓ Measures profitability/loss of the business
- ✓ Analyzed & interpreted-reflect areas of strengths & weakness
- ✓ Indicate periodic performance/growth
- ✓ Prepared at the end of the financial year in preparation of the General meeting
- ✓ Legal requirement

# LEGAL MANDATE



## CSA sec 25 & SSA sec 40

Every Co-operative society shall keep proper accounts which shall;

- ✓ Prepared in accordance with IAS/IFRS
- ✓ Reflect the true and fare state of the financial affairs
- ✓ Explain transactions i.e. receipts & payments, Assets & liabilities

# RESPONSIBILITY



## Reg.60 (2).

✓The BOD shall ensure that management maintains proper and accurate records that reflect the true and fair position of the Sacco society's financial condition.



# BASICS



- ✓ Source documents: receipts, payments, purchases, sales, etc
- ✓ Processed/posted to General Ledger
- ✓ General Ledger summarised to produce trial Balance
- ✓ Trial Balance used to generate final accounts

# Flow of Accounting Information



The Trial Balance used to produce

- ✓ Statement of Financial position
- ✓ Statement of comprehensive Income
- ✓ Statement of Changes in Equity
- ✓ Cash Flow Statement

The System based on Double entry bookkeeping

# Statement of Comprehensive Income



Matching Incomes and Expenses=Surplus(Loss)

- **Helps Invent ways to grow income;**

- Widen the product base with new products

- Introduce other activities i.e. FOSA, Microfinance, financial investments & otherwise,

- **Costs Management i.e. depressed costs**

- Budgetary controls i.e. Within budgetary limits

- Computerization i.e. Efficiency

- Economies of scale i.e. Increase Volumes

- Quality Management- Quality is free

# Statement of Financial position



A classified summary of the value of the society entity i.e. it depicts the business financial state of affairs or position.

Accounting equation where  $\text{Assets} = \text{Capital} + \text{Liabilities}$

**-Assets-** Resources controlled by the society

**-Capital-** Contribution from the owners i.e.

Share Capital, Retained earnings, Statutory Reserve fund, General Reserves e.t.c. It is very strategic to heavily capitalize your society.

# Statement of Financial position



**Liabilities**-Contribution from the outsiders i.e. Members deposits, external loans & otherwise

The financial strength of a society can be reflected through the Balance sheet items.

# Adaption of IFRS



- ✓ Many countries moving towards adapting IFRS-
- ✓ IFRS allow greater comparability and this helps investors better determine where their investments should go
- ✓ IFRS are principle based rather than rule based, hence more flexibility in adaptation

# WHY IFRS FOR SACCOS



✓ IFRS provides a set of principles to be followed while accounting for transaction and events in financial statements. IFRS was adopted by IASB with the objective to have uniform accounting standard across all countries.

# WHY IFRS FOR SACCOS



- ✓ Provides mgt greater discretion and flexibility in preparing financial statement
- ✓ Value relevance of accounting information
- ✓ Comparability
- ✓ Decision Making
- ✓ Investors options



# WHY IFRS FOR SACCOS



- ✓ Trade across border and raise capital globally
- ✓ Provide consistent presentation of financial statement along with uniform measures for recognition, measurement and disclosures of financial transaction

# REGULATORS (SASRA) OBJECTIVE



- ✓ To achieve a sound and efficient SACCO system in the interest of members
- ✓ To promote safety, soundness and stability of member assets
- ✓ To create an enabling environment for sustainable development of SACCOs
- ✓ To ensure the autonomy and independence of the supervisory authority

# LEGAL PROVISION



Provided in the 2<sup>nd</sup> Schedule of the Sacco Societies Regulations, 2010

- ✓ Form 1- Sasra2/001-Capital Adequacy Return
- ✓ Form 2- Sasra2//002-Liquidity Statement
- ✓ Form 3 –Sasra2/003-Statement of Deposit Return
- ✓ Form 4 –Sasra2/004 –Risk Classification of assets and provisioning

# LEGAL PROVISION



- ✓ Form 5- Sasra2/005-Investment Return
- ✓ Form 6- Sasra2//006-Statement of Financial Position
- ✓ Form 7 –Sasra2/007-Statement of Comprehensive Income
- ✓ Form 8 –Sasra2/008 –Other Disclosures

# CAPITAL ADEQUACY- PART III



Reg. 9-12;

✓ To ensure that each SACCO Society maintains a level of capital which is adequate to protect or cushion member deposits and creditors against losses resulting from business risks that the SACCO, as a financial institution faces.

# CAPITAL ADEQUACY- PART III



- ✓ Core capital NOT less than 10% of total assets
- ✓ Core capital Not less than 8% of deposits
- ✓ Institutional Capital NOT less than 8% of total assets

The Authority may require higher minimum capital ratios

# CAPITAL ADEQUACY- PART III



- ✓ Core Capital = Fully paid up members' share capital + statutory reserves + retained earnings + disclosed reserves + grants/donations;
- ✓ Institutional capital = core capital less the members' share capital i.e. Institutional capital refers to the portion of the core capital that belongs to the Sacco society as an institution such that no one member can individually lay claim on it.
- ✓ Authority return at end of every month on or before the 15 day of the following month

# WHY CAPITAL ADEQUACY



- ✓ Achieve the legal requirement for core capital of 10% of the total assets
- ✓ Enhance liquidity position of the society (15%)
- ✓ Finance the Society's major projects
- ✓ The Members will earn higher returns
- ✓ Long-term loans i.e. Mortgages
- ✓ The society can consider reviewing the multiplier effect.



# Part IV- LIQUIDITY MGT



- ✓ Reg. 13-14
- ✓ Liquidity is simply the ability of a Sacco to pay short-term obligations – members loans demand, Savings withdrawals, creditors etc
- ✓ It is usually expressed as a ratio or % age of current assets over current Liabilities (Deposits for a Sacco)
- ✓ Authority return end of every month on or before the 15 day of following month

# RATIONALE



- ✓ Liquidity is the life blood of all financial institutions
- ✓ It is the key daily indicator of the health of the institution
- ✓ Liquidity is a prime concern in a ‘**BANKING**’ environment and a shortage of liquidity has often been a trigger for ‘**bank**’ failures

# LEGAL PERSPECTIVE



- ✓ Reg.13-Liquidity & Asset Liability Management
- ✓ Reg.13(1)-Board shall be responsible
- ✓ Reg.13 (2)-15% Requirement of savings & short-term liabilities (exclude members non-withdrawable deposits)
- ✓ Reg.13(3)-Defines liquid assets i.e. cash, Bank balances, Short-term investments, Time deposits
- ✓ Reg.13(4)-Contingency plan for liquidity

# MONITORING & EVALUATION



- ✓ Liquidity indicators
  - Ratios i.e. 15%
  - Absolute limits (figure)
- ✓ Liquidity reports
  - Daily reports
  - Monthly reports
  - Monitoring trends and cycles

# WHY POOR/LOW LIQUIDITY



- ✓ Weak Capital base
- ✓ The Sacco Model of 3 times or 4 times deposits factor for credit
- ✓ High appetite for borrowing more than savings
- ✓ Introduction of many & long-term products
- ✓ Engagement of funds in non-earning assets
- ✓ Multiple channels for distribution i.e. Branches, ATM, Mobile & internet Banking.
- ✓ Weak policy direction i.e. approvals

# INDUSTRY CHALLENGES



- ✓ High liquid assets tend to reduce the **INCOME** from that asset i.e. cash
- ✓ Low/poor savings culture i.e. hand to mouth
- ✓ Clarity i.e. Members deposits
- ✓ Lack of financial instruments
- ✓ Expensive Bank loans

# REMEDIES



- ✓ Capitalization i.e. Financial Capability
- ✓ Patronize/Leverage on FOSA activity.
- ✓ Embrace ICT platforms
- ✓ Introduce other financial instruments i.e. Sacco bonds, overnight lending, inter-Sacco borrowings
- ✓ Alternative **cheap** financing
- ✓ Match Credit & savings
- ✓ Managing member perceptions

# POLICY



- ✓ Develop financial instruments raise capital-internal & external
- ✓ Create a 'stock market' to encourage permanent capital
- ✓ Clarity i.e. members deposits
- ✓ Deposits from non-members
- ✓ Control the developments in the market



# Part V- Shares, Savings & Deposits



✓ Reg. 21-27

Terms of members shares prescribed, i.e. minimum, cannot pledge as collateral, transferability, earn a dividend

**Disclosures on;**

✓ Non withdraw able deposits

✓ Withdraw able deposits

✓ Authority return end of every month on or before the 15 day of the following month

# CLASIFICATION & PROVISIONING



✓ Reg. 39-46

Issues;

✓ Computing delinquency

✓ Basic Classification

✓ Loan loss allowances

✓ Authority return at end of every quarter on or before the 15 day of the following month.

# CLASIFICACION & PROVISIONING



- Reg. 41:
- Basis for classification Performance of an account against contract
- ✓ Performing-
  - ✓ Watch-one installment outstanding 1-30 days
  - ✓ Substandard-Unpaid 30-180 days
  - ✓ Doubtful-Unpaid 181-360 days
  - ✓ Loss-Unpaid for over 360 days

# WHY IS DELIQUENCY A CONCERN



- ✓ Loans to members make the largest single asset
- ✓ Loans are made from member deposits
- ✓ Loans form largest earning asset
- ✓ Hence Loan portfolio quality must be a **PRIORITY** for a safe and sound SACCO

# Part VIII- INVESTMENTS



✓ Reg. 47-51

Issues;

✓ Develop an Investment policy

✓ Limits investment in non-earning assets -Not more than 10% of total assets

✓ Restricted investments transactions

✓ Authority return at end of every quarter on or before the 15 day of the following month

# Part IX-FINANCIAL PERFORMANCE REPORTING



✓ Reg. 52-58

## Issues;

- ✓ Internal Auditor-review internal controls & financial matters of the society
- ✓ External Auditor appointment -3 years
- ✓ Submission of audited accounts within 3 months after the end of the year, before publication-
- ✓ Authority return at end of every quarter on or before the 15 day of the following month.

# Part IX-FINANCIAL PERFOMANCE REPORTING



- ✓ Authority return on Statement of Income & Expenditure and a Statement of financial position showing results of its operations for the preceding month by the 15 day.
- ✓ The Sacco shall submit to the authority on the quarter date & year date Financial Statements in the prescribed format without deviating from Form 6,7& 8.



***THANK YOU***

***“LONG LIVE  
SACCO MOVEMENT”***

Credibility

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Professionalism

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AccountAbility