



FINANCIAL REPORTING AWARD

Improving Compliance in Public Sector Accounting & Reporting

Friday, 29th July 2016

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Introduction

- ❑ An **Excellence** Award aimed at **promoting transparency** in reporting – compliance with financial reporting framework and best practices in environmental social and governance (ESG) reporting
- ❑ A beauty contest for annual reports and audited financial statements
- ❑ Been there since 2002.
- ❑ Voluntary for private sector entities but mandatory for public sector entities – Board's directive (PSASB).

Scoring Criteria

| CRITERIA | TOTAL MARKS |
|--|--------------------|
| Compliance with IFRS/IPSAS & Other Technical Pronouncements | 70 |
| Report of the Independent Auditor | 30 |
| Clarity of Notes, including Significant Accounting Policies | 10 |
| Compliance with Reporting Requirements of the PFM Act or any other regulatory requirements | 30 |
| Board & Management reports | 10 |
| Presentation of performance data | 10 |
| Design, layout & visual appearance of the annual report including type face | 05 |
| Governance Report | 30 |
| Social Responsibilities & Environmental Reporting | 05 |
| Total Marks Awarded | 200 |

Evaluation Findings...

Report of the Auditor General – All (ISA 700)

- The report of the Auditor General failed to indicate the **addressee** as required by the circumstances of the engagement (ISSAI 700.22)
- The report of the Auditor General **failed to clearly identify the entity** to which the report relates in subsequent pages
- There were few cases where the **auditor's report confused the applicable reporting framework** – made reference to IFRS under statement of management responsibilities' paragraph and IPSAS under the opinion paragraph.
- Encourage the OAG to include the Practising Number.

Evaluation Findings

cont...

Annual Reports and Financial Statements – IPSAS Accrual

Significant accounting policies:

- Use of boiler plate accounting policies (Not customised/generic).
- Some entities failed to disclose the relevant accounting policies used in the preparation of the financial statements.
- Use of estimates and judgments in the preparation of the statements, without proper disclosures.
- Management failed to make an assessment of the entity's ability to continue as a going concern.
- Disclosure of new and amended standards (issued but not yet effective) and their impact on the financial statements.

Evaluation Findings

cont...

Annual Reports and Financial Statements – IPSAS Accrual

Notes to the financial statements:

- It was not clear in some entities the **depreciation method** used and there was a mix-up between the policy note and the property, plant and equipment movement schedule.
- Most entities failed to provide details of **key management compensation** and related party transactions.
- Significant number of entities did not provide **qualitative and quantitative disclosure of risks** such as credit risk, liquidity risk and market risk and policies on how to manage such risks.

Evaluation Findings

cont...

Annual Reports and Financial Statements – IPSAS Accrual

Notes to the financial statements:-

- A number of entities failed to present an **explanation of whether changes between the original and final budget** are a consequence of reallocations within the budget, or of other factors in line with IPSAS 24.

Evaluation Findings

cont...

Overall Performance of IPSAS Accrual

A total of 132 annual reports and financial statements on IPSAS Accrual were received and evaluated.

These entities had the following opinions:-

- ☐ Unqualified – 43
- ☐ Qualified – 77
- ☐ Adverse – 11
- ☐ Disclaimer – 1

Statistics

Average – 68.51

No of entities above 100 (50%)– 32

Highest score – 153.18

Lowest score – (204). We stop at 0.

Evaluation Findings

cont...

Annual Reports and Financial Statements - IFRS

- ✓ Statement of Comprehensive Income - Presentation of SOCI is not in line with IAS 1. For example the **other comprehensive income part** is missing.
- ✓ Statement of financial position - a number of annual reports and financial statements did not indicate the **date of authorisation for issue** and whether the **entity's owners or others have the power to amend** the financial statements after issue.
- ✓ Some entities failed to disclose **new and amendments standards in issue** but not yet effective., while other did not include effective date.

Evaluation Findings

cont...

Annual Reports and Financial Statements - IFRS

- ✓ In few annual reports and financial statements, management failed to make an **assessment of the entity's ability to continue as a going concern.**
- ✓ Mix-up of depreciation method - accounting policy vs the property, plant and equipment movement schedule.
- ✓ Use of boiler plate accounting policies.
- ✓ Signing of financial statements – **significant time lag** between date signed by management and date signed by the Auditor General

Evaluation Findings

cont...

Annual Reports and Financial Statements - IFRS

- ✓ Most entities failed to provide details of **key management compensation** and related party transactions as per IAS 24 requirements.
- ✓ Significant number of entities did not provide **qualitative and quantitative disclosure of risks** such as credit risk, liquidity risk and market risk and policies on how to manage such risks – IFRS 7.
- ✓ In some cases, there was **no accounting policy on post-employment benefit plans**. In other cases, the policy provided for both defined benefit or defined contribution plans failed to indicate which one(s) the entity has.
- ✓ IFRS (13) - Fair value hierarchy of financial and non financial assets (liabilities) was missing in majority of the annual reports and financial statements.

Evaluation Findings

cont...

Overall IFRS Performance

A total of 62 annual reports and financial statements on IFRS (two of which were on IFRS for SMEs) were received and evaluated.

These entities had the following opinions:-

- ☐ Unqualified – 21
- ☐ Qualified – 39
- ☐ Adverse – 2
- ☐ Disclaimer – 0

Statistics

Average – 96.85

No of entities above 100 (50%) – 34

Highest score – 141.94

Lowest score – 17.65

Evaluation Findings

cont...

Annual Reports and Financial Statements – IPSAS Cash

- Use of boiler plate accounting policies.
- Some entities failed to disclose the relevant accounting policies used in the preparation of the financial statements.
- In few annual reports and financial statements, management failed to make an assessment of the entity's ability to continue as a going concern.
- Failure to include appendices required by the board:-
 - Analysis of pending payables (consider ageing)
 - Progress on follow-up of auditor general's recommendations

Evaluation Findings

cont...

Annual Reports and Financial Statements – IPSAS Cash

- Most entities failed to provide details of key management compensation and related party transactions.
- Most entities failed to present an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors.
- Most of entities failed to provide a disclosure of how it uses judgments and estimation used in the preparation of the statements.
- Appendices required were not included.

Evaluation Findings

cont...

Overall Performance - MDAs

A total of 73 annual reports and financial statements for Ministries, Departments and Agencies (including projects) were evaluated.

These entities had the following opinions:-

- ☐ Unqualified – 12
- ☐ Qualified – 24
- ☐ Adverse – 12
- ☐ Disclaimer – 23
- ☐ Unknown - 02

Statistics

Average – 76.72

No of entities above 100 (50%) – 21

Highest score – 145.94

Lowest score – 0. We stopped at 0.

Evaluation Findings

cont...

Overall Performance - Counties

A total of 31 (out of 47) annual reports and financial statements for Counties were evaluated

These entities had the following opinions:-

- ☐ Unqualified – 0
- ☐ Qualified – 2
- ☐ Adverse – 5
- ☐ Disclaimer – 24

Statistics

Average – 58.68

No of entities above 100 (50%) – 0

Highest score – 98.35

Lowest score – 0

Evaluation Findings

cont...

Annual Reports and Financial Statements – Other Reports

- ✓ Management Discussion and Analysis – Most entities failed to provide comprehensive discussion on assessment of the economy, sector changes, company performance, risk and the future of the organisation. Further, very few entities presented ratio analysis and graphical presentation of the results.
- ✓ Governance - Most issues on corporate governance, which would be applicable to state corporations were not disclosed e.g. issues on independence of the board, conflict of interest, induction and training of new board members, frequency of board meeting, board committees, communication policies, risk management and relationship with stakeholders.
- ✓ Environmental and social sustainability reporting – More than 80% of these entities failed to provide disclosures on environment, corporate social responsibility and employees' welfare.

Evaluation Findings

cont...

Annual Reports and Financial Statements – Other Reports

- ✓ Numbering and separate identification of financial statements.
- ✓ The role of audit committee; management committee and the supervisory committee
- ✓ Other information accompanying audited financial statements
 - Need for consistency with the audited financial statements. *It is important to note that auditors are required to read any information accompanying audited financial statements. Therefore before the financial statements are signed off, please ensure that the chairman's report, the supervisory report and all other reports are availed to the auditor.*
 - Key management vs fiduciary management.
 - Enhanced disclosure on the oversight arrangements
- ✓ Most entities had poor layout and a lot of typos

Evaluation Findings

cont...

Annual Reports and Financial Statements (continued)

The good

- Significant improvement in financial statements in comparison to prior years (before standards became effective).
- General disclosure on principle business of public sector entities and strategic direction as aligned to V2030.
- The disclosures of County Executive (Finance) and the County government for some annual reports and financial statement was impressive and addressed significant progress by the administration.
- General improvement of annual reports and audited financial statements.

Lessons

1. The **illustrative and technical assistance** helped entities to prepare financial statements that were “auditable”
2. **Late submission** of annual reports and financial statements.
3. **Lack of conformity and compliance** to the financial reporting standards by entities.
4. **We should not overlook trainings on computer skills** (Ms. Applications) for preparers of annual reports and financial statements
5. **Need to discuss the audit process with auditees** so as to enhance communication between the auditor and the auditee.

Recommendations

- 1. More trainings** of preparers on the application of the standards and use of illustrative financial statements.
- 2. Revise the illustrative financial statements** to reflect the updates to IPSAS and automation of the same.
- 3. Transition to IPSAS Accrual** - MDAs with no “historical baggage” should transit to IPSAS accrual much faster.
- 4. Allocation of resources** to enable continuous evaluation and assistance to the public entities in financial reporting.
- 5. Include the scoring/results of FiRe Award** in the performance evaluation of public sector entities.

FiRe Award 2016

- ❑ The Excellence in Financial Reporting (FiRe) Award marks the fifteenth (15) year since its inception.
- ❑ The theme of this year is ***“Accountable Governance for Excellence and Reliable Financial Reporting in East Africa”***.
- ❑ 2015/16 has seen the confidence on our financial sector tested to the core. It calls for rethinking how we communicate financial information as well as need to reinvent governance. We have seen a number of business reform laws aimed at strengthening governance and accountability. The theme aims to enhance accountability through reporting that inspires confidence.

FiRe Award 2016 (continued)

- ❑ FiRe Award Conference shall be held on **Thursday October 27th 2016** at the Safari Park Hotel & Casino, Nairobi.
- ❑ The Topics to be addressed during the Conference include:
 1. Will your Governance stand the tides???
 2. Sustainability reporting – how is your organisation impacting the future?
 3. Towards IPSAS Accrual – Transparency and Accountability in Government Accounting
 4. Informative value of the auditors report
- ❑ Gala Dinner (Black tie/ African themed event) shall be held on **Friday, 28th October 2016** at Windsor Golf & Country Club Nairobi.
- ❑ Please mark the dates....

For more information, please visit our website
www.fireaward.org

For inquiries, please get in touch with
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Q&A

Thank you



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