



FiRe Award 2016

Feedback

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Overview

- Introduction
- Scoring Criteria (weighting)
- Evaluation Findings
- Recommendations
- Interactive session

Introduction

- ∞ The 15th year of FiRe Award
- ∞ Used the evaluation tools as revised and updated in line with standards which were effective on or after 1 January 2014
- ∞ Evaluators were drawn from both the public sector and private sector evaluators with at least five years of relevant professional experience
- ∞ A total of 399 annual reports and audited financial statements were received and evaluated.
- ∞ **No Counties evaluated as their audits had not been completed.**

Scoring Criteria

| Criteria | Total Marks |
|---|-------------|
| Compliance with IFRS & Other Technical Pronouncements including report of the independent auditor | 100 |
| Clarity Notes and Accounting Policies | 10 |
| Compliance with Accounting Requirements of the Companies Act and the relevant regulatory requirements (reporting requirements only) | 15 |
| Board & Management reports | 10 |
| Presentation of performance data | 10 |
| Design, layout & visual appearance of the annual report including typeface | 5 |
| Corporate Governance | 40 |
| Social Responsibilities & Environmental Reporting | 10 |
| Total Marks Awarded | 200 |

Report of the Independent Auditor

- Based on ISA 700 (ISSAI 1700).
- Scoring - deduction of marks for non-compliance noted
- Public Sector
 - Takes into account the nature of opinion an entity receives.
 - Article 229 (6) – Matter for discussion with the OAG.
 - Public Audit Act and the relevant provisions of the PFM Act, 2012

Report of the Independent Auditor cont...

What we observed:

- Failure by the report of the independent auditor to indicate the addressee
- Identification of financial statements – the page reference to the AFS in some cases was off.
- Public Sector:-
 - The Audit reports yet to state (confirm) whether or not public money has been applied lawfully and in an effective way (Article 229(6)).
 - Addressee - to whom should the OAG address his/her report? - ISSAI 1700, P11.
 - Public Audit Act, 2015 – should the OAG include his/her practising number – Section 5 (1) (e).
- **Effect of ISA 700 (Revised) and the New ISA 701 – effective after December 2016 = ARE YOU READY FOR THE CHANGE???**

IFRS

- Based on IFRSs effective on or after January 2014 (IFRS Handbook (2014) and IFRS for SME, 2009)
- Scoring - deduction of marks for non-compliance noted in the course of evaluation.
- Applicable to private sector entities, commercial public sector entities and approved non-commercial public sector entities such as the Central Bank of Kenya.
- We noted significant variations in the quality of annual reports and audited financial statements under IFRS.
- A number of commercial public sector entities audits are subcontracted to private auditors.

IFRS Evaluations

Improvement noted from 2015:

- Cross referencing – notes agreeing to the numbers in the “primary” financial statements
- Attempt to customise significant accounting policies as opposed to boiler plate policies.
- General improvement in formatting of financial statements, including deletion of unnecessary tables spellcheck etc.

IFRS Evaluations cont...

Findings:

Annual Reports and Financial Statements

- Few financial statements did not include the **date of authorisation** for issue and **whether the entity's owners or others have the power to amend the financial statements** after issue.
- In few annual reports and audited financial statements, management failed to make an assessment of the entity's ability to continue as a going concern.
- A number of entities failed to disclose of new and amendments to standards issues but not yet effective.
- Notes "to the financial statements"

IFRS Evaluations

cont...

Complete set of financial statements

IAS 1.10 - A complete set of financial statements comprises:

- a) a statement of financial position as at the end of the period;*
- b) a statement of profit or loss and other comprehensive income for the period;*
- c) a statement of changes in equity for the period;*
- d) a statement of cash flows for the period;*
- e) notes, comprising significant accounting policies and other explanatory information;***
- f) comparative information in respect of the preceding period as specified in paragraphs 38 and 38A; and*
- g) a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A–40D.*

IFRS Evaluations

cont...

Findings:

- It was not clear in some entities the depreciation method used and there was a mix-up between the accounting policy and the property, plant and equipment movement schedule.
- Most entities failed to provide details of key management compensation (IAS 24.17)
- The disclosure of related party transactions and balances failed to include the terms of the agreement, the nature of consideration to be provided in settlement and any impaired amounts.

IAS 24.18 - If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the nature of the related party relationship as well as information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements. These disclosure requirements are in addition to those in paragraph 17. At a minimum, disclosures shall include:

- a) *the amount of the transactions;*
- b) *the amount of outstanding balances, including commitments, and:*
 - i. *their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and*
 - ii. *details of any guarantees given or received;*
- c) *provisions for doubtful debts related to the amount of outstanding balances; and*
- d) *the expense recognised during the period in respect of bad or doubtful debts due from related parties.*

IFRS Evaluations

cont...

Findings:

- Few insurance companies failed to provide claims development/maturity profiles (actual claims compared with previous estimates) – IFRS 4
- 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.
- Missing or unclear accounting policy on post-employment benefit plans.
- Fair value hierarchy of financial and non financial assets (liabilities) not included in some financial statements.
- Use of boiler plate accounting policies - *copy pasting generic policies as provided in the illustrative financial statements.*

IFRS Evaluations

cont...

Findings:

IFRS 8:13...segment profit or loss:

- a) **revenues from external customers;**
- b) revenues from transactions with other operating segments of the same entity;
- c) interest revenue;
- d) interest expense;
- e) **depreciation and amortisation;**
- f) material items of income and expense disclosed in accordance with paragraph 97 of IAS 1
- g) the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method;
- h) income tax expense or income; and
- i) material non-cash items other than depreciation and amortisation

IFRS Evaluations

cont...

Overall Performance of IFRS

A total of 171 (2015 – 168) annual reports and financial statements on IFRS (3 [2015 – 2] of which were on IFRS for SMEs) were received and evaluated.

These entities had the following opinions:-

- ☐ Unqualified – 118
- ☐ Qualified – 45
- ☐ Adverse – 4
- ☐ Disclaimer – 3
- ☐ Unknown – 1

Statistics

Average – 124.43 (2015 - 96.85)

No of entities above 100 (50%) – 123

Highest score – 159.45

Lowest score – 0 (we stop at 0)

Other Reports Evaluations cont...

Scoring – principles based. Judgement of the evaluator in determining the marks to award subject to a maximum for each question.

Findings:

- 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.

Other Reports Evaluations cont...

What to consider

- In addition to disclosing the **total remuneration** in the notes, management should specifically make disclosures for remuneration of senior personnel/executives/council members (those charged with governance)
- **Management reports** (Chairman, CEO or Financial highlights) need to include information about the following:
 - Review of the Economy
 - Review of the sector & any changes
 - Review of performance
 - Review of operations and management
 - Review of Risk
 - Future developments

Other Reports Evaluations cont...

What to consider

- **Performance Data** needs to be disclosed as part of the management report or chairman's statement to cover the following:
 - Ratio Analysis & Disclosure of key industrial/sectoral ratios and general ratios
 - Graphical presentation of data/trends: bar charts, pie charts & graphs
 - Comprehensive five-year summary (summarised statement of financial position and financial performance)
 - Any other relevant tool e.g. value added statement (specify)

Other Reports Evaluations cont...

What to consider:-

Governance report which should disclose the following in detail:-

- The appointment dates, experience and skills of board (commission, council etc.) members
- Role and functions of the Board
- Conflict of interest disclosures by the Board
- Induction & training programme for the Board
- Board's performance monitoring
- Remuneration policy for the directors and those charged with governance
- Entity performance, strategies, vision and mission
- Conduct & ethics: code of ethics and how it is communication

Other Reports Evaluations cont...

What to consider:-

Governance report (continued):-

- Whistle blowing policy
- Compliance/ statutory accountability- Board's policy to ensure compliance
- Governance audit- whether any is conducted and who does it
- Committees of the Board (human resources or nomination committee, audit committee, risk management committee etc.)
- Communication policy – *whether they promote open door policy*
- Policy on relationship with stakeholders
- IT governance policy

Other Reports Evaluations cont...

What to consider:-

- **Environmental and Sustainability (Social) Responsibility** is assessed against the financial statement in the following five perspectives.
 1. Sustainability strategy and profile
 2. Environmental performance
 3. Employee welfare
 4. Market place practices
 5. Community engagement

Most entities did not have this reports

Other Reports Evaluations cont...

Integrated reporting

- ❖ ... a whole new approach to reporting.
- ❖ *Presents the organisations as a whole... more than just numbers... how strategies are aligned with the present and the future... sustainable development/growth objectives*
- ❖ *Five entities prepared IRs*

IPSAS Cash

- Based on IPSAS Cash (Handbook 2014) Standard:-
 - Part I of the evaluation tool was mandatory and entities were penalised for non-compliance (deduction of marks).
 - Part II of the evaluation tool (except for cash flows) is based on encouraged disclosures and entities are awarded/penalised marks (*subject to a maximum of 21 (30% of the applicable marks)*).
- Scoring - deduction of marks for non-compliance noted in the course of evaluation.
- Applicable to Ministries/state departments, their projects and a number of Independent and Constitutional Offices.

IPSAS Cash Evaluations cont...

Overall Performance of IPSAS Accrual

A total of 107 (2015 – 62) annual reports and financial statements on IPSAS Cash were received and evaluated.

These entities had the following opinions:-

- ☐ Unqualified – 43
- ☐ Qualified – 41
- ☐ Adverse – 12
- ☐ Disclaimer – 3
- ☐ Unknown – 8

Statistics

Average – 89.05 (2015 - 68.51)

No of entities above 100 (50%) – 56

Highest score – 141

Lowest score – 0 (we do not go below zero)

IPSAS Accrual

- Based on IPSAS Accrual Standard effective on or after January 2014 (IPSAS Handbook (2014)).
- Scoring - deduction of marks for non-compliance noted in the course of evaluation.
- Applicable to semi autonomous government agencies, non-commercial state corporations and some independent and constitutional offices.

IPSAS Accrual Evaluations cont...

Overall Performance of IPSAS Accrual

A total of 109 (2015 – 132) annual reports and financial statements on IPSAS Accrual were received and evaluated.

These entities had the following opinions:-

- ☐ Unqualified – 40
- ☐ Qualified – 61
- ☐ Adverse – 6
- ☐ Disclaimer – 2
- ☐ Unknown – 0

Statistics

Average – 75.71 (2015 - 68.51)

No of entities above 100 (50%) – 25

Highest score – 156

Lowest score – 0 (we do not go below zero)

PFM & Other Statutory Reporting Obligations

- Reporting requirements of the PFM Act and PFM Regulations
- A requirement for evaluator to take into account the enabling and other relevant acts when evaluating an entity (the Companies Act, State Corporations Act etc.)
- Scoring - deduction of marks for non-compliance noted in the course of evaluation.

PFM & Other Statutory Reporting Obligations (cont...)

What we observed:-

- General improvement in the inclusion of appendices by most entities. However, majority of entities under IFRS did not include these appendices – *outsourced audits*
- Progress on follow-up of auditor recommendations
 - most entities included this table and indicated that issues had been resolved, whereas same or related issues were present in the current auditor's report as basis for modification
 - Signed off but not dated
 - Highly summarised audit issues and the resolution, it was not possible to know what issues the auditor had raised and how it had been addressed
 - Few entities included a statement to the effect that *"we have responded to the audit queries raised by KENAO at the ministry level. Final report has been presented to PAC and the ministry is waiting for clearance"* – this negates the spirit of this appendix.
- Analysis of pending bills, outstanding imprest and other payables – several entities simply provided a listing... It adds value to include movement schedule.
- We did not see any entity which indicated that they had not complied with PFM and therefore a disclosure of steps to become compliant with the PFM Act in the Annual Report and Financial Statements.
- Very few entities presented a statement of the national government entity's performance against predetermined objectives – *this can be achieved by providing a detailed performance reports template for MDAs and other entities to populate which links the strategies of the entities to its performance and budget(s)*

Recommendations

- Increased training of preparers and the auditors on the application of the standards and use of illustrative financial statements.
- Review and updating of illustrative financial statements and also provide guidance/templates on performance, governance and other reports
- Allocation of resources to enable continuous evaluation and assistance to the public entities in financial reporting.
- Need to include reports of the **audit committee** in the financial statements which provides information about:-
 - External audit matters
 - Financial statements
 - Internal controls and internal audits

Q&A

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