

# CO-OPERATIVE SOCIETIES FINANCIAL REPORTING WORKSHOP

Presentation by:

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# Presentation Outline

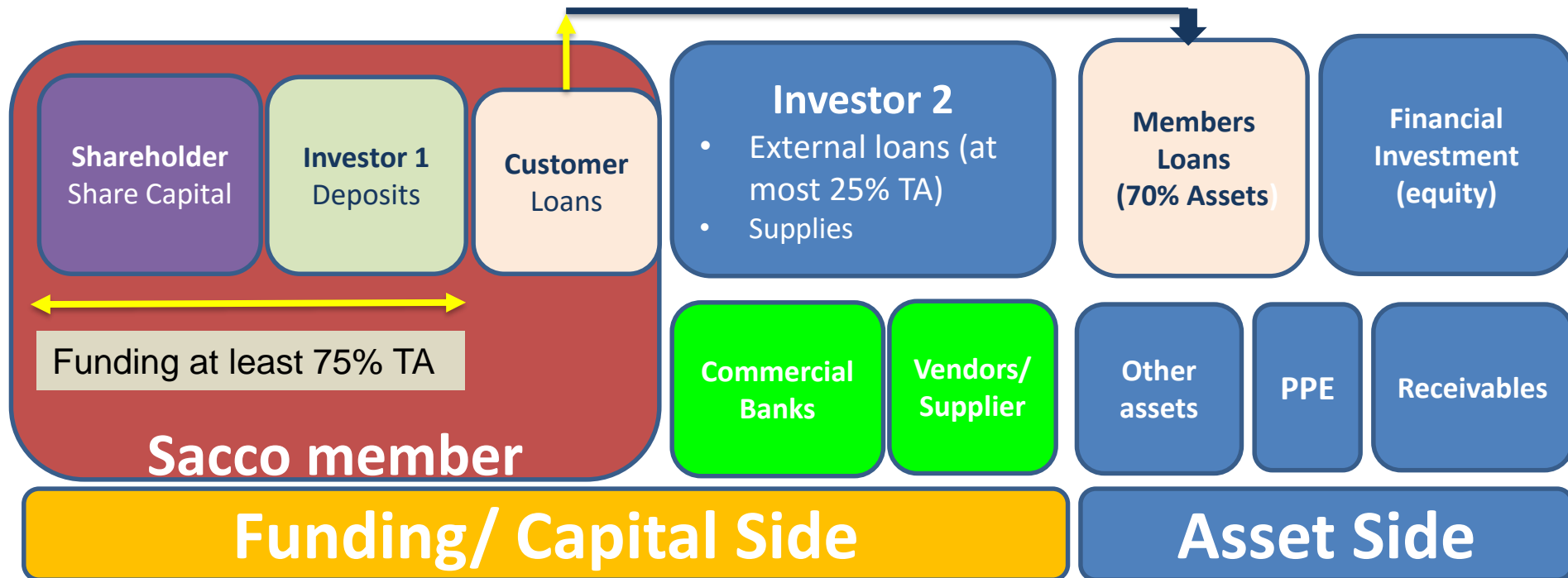


1. Sacco Business Model
2. Why Regulatory Framework
3. Why IFRS
4. Recognition of IFRS
5. Financial Disclosures
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8. Where next
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# 1. Sacco Business Model



## Saving and Credit Cooperative Society



**Key principle in the business model:**

- Voluntary and open membership

## 2. Sacco Sub-sector Growth Indicators (Deposit Taking Saccos)



INDICATOR	2013	2014	2015	Dec 2016*
Total Assets	241,621	301,537	342,959	393,136
Deposits	172,526	205,974	237,512	272,749
Loans	184,538	223,230	251,161	291,677
TurnOver	33,715	39,339	48,220	52,730
Membership	2,612,250	3,008,497	3,145,565	3,456,975*

### 3. Why Regulatory Framework?



- S.91 of CSA envisioned the need to regulate operations of Saccos.
- Sacco Societies Act, 2008 primary purpose is to:
  - ✓ Enhance Governance through transparency and accountability in the management of Sacco societies;
  - ✓ Mainstream Sacco's as significant players in the Kenya financial system;
  - ✓ Deepen financial access in Kenya in an efficient and convenient manner;
- SSA regulates both DTS and Non DTS

## 4. Why IFRS?



- Global standards are used to prepare financial statements
- Standardized reporting framework for comparison
- High quality, reliable financial information is the lifeblood of Investors (capital markets).
- Provide a standardized way to describe the financial performance of an entity (companies, investors, regulators and Government).

## 4. Why IFRS?



- Provided investors and other users (lenders and Members) of financial statements with the ability to compare the financial performance of financial institutions (Saccos).

## 5. RECOGNITION OF IFRS IN SACCO LAWS



### ☐ **CSA 25: Account and audit**

(1) Keep proper accounts in accordance with International Accounting Standards;

(6) The accounts to conform with International Financial Reporting Standards;

(8) The auditor to submit the audited accounts to AGM/ADM within four months after the end of the accounting period.



## 5. RECOGNITION OF IFRS IN SACCO LAWS



### ☐ **SSA 40: Form of accounts**

(1) Every Sacco society shall keep proper books of accounts,

(3) The accounts and other financial records of a Sacco society:

- denominated in Kenya shillings;
- comply with the IFRS; and;
- such other requirements as the Authority may prescribe.

## 5. RECOGNITION OF IFRS IN SACCO LAWS



### ❑ SSA 40: Form of accounts

(4) The board of directors shall cause the accounts of the Sacco society to be audited within three months after the close of each financial year.

## 6. FINANCIAL DISCLOSURES



**SSA 41 & Reg 55: Submission of accounts to the Authority:**

- ☐ A Sacco society shall, not later than three months after the end of each financial year, submit to the Authority, in the prescribed format approval to the Authority its audited financial statements, before publication and presentation to the Annual General Meeting

## 6. FINANCIAL DISCLOSURES



**SSA 41 & Reg 55: Submission of accounts to the Authority:**

- ☐ Mkopo Reporting template (developed by SASRA and ICPAK) aimed at sufficient disclosure and transparency in financial reporting
  
- ☐ Reporting template makes reference to standards on particular headings for ease of reference and understanding

## 6. FINANCIAL DISCLOSURES



### SSA 42. Disclosure requirements

(a) members, if any, who hold more than twenty percent of the share capital and deposits in the Sacco society;

(b) any advances or credit facilities exceeding such limits of its core capital as may be prescribed by the Authority; and

(c) any lending to insiders.

## 6. FINANCIAL DISCLOSURES



### IFRS 10: Consolidated Financial statements

- ☐ *Saccos* to consolidate entities it controls  
(Housing/Investment cooperatives, investment companies etc.
- ☐ Recognition of the investments activities and controlling interest

## 7. External Auditor Reporting



### **External auditors have dual reporting responsibility to Sacco and Authority.**

- S. 44 (3), requires auditors to submit a report to SASRA not less than 4 months after year end on financial condition of the Sacco he' s audited.
  
- Specific information required as per S.44(4) are;
  - i. Solvency of the Sacco
  - ii. Any violation of prudential standard or a condition of the license
  - iii. Evidence of irregularity committed by staff BoD, staff or Sacco
  - iv. Failure by Sacco to provide information for audit
  - v. Opinion on management practices to safeguard members assets

## 8. Financial Reporting Observations



- ❑ Compliance with requirements of r.56 on solvency, irregularities, measures to safeguard assets and failure to receive necessary documents for their audit.
- ❑ Auditors resigning at the end of the financial year before audit, with no disclosure to the Authority for the reason thereof
- ❑ Ownership of Financial statements: Who prepares the financial statements (Auditor or board of Sacco) - management refer financial issues to the auditor



## 8. Financial Reporting Observations



- ❑ Format of the financial statements:
  - ✓ Minimal level of disclosure (financial statements and notes thereof),
  - ✓ Management letters and non disclosure of issues thereof to the members,
  - ✓ **Key Audit matters: important to bring to the attention of members key issues required for decisions**
  - ✓ **Approval letter of the Authority, non Disclosure to the members of issues therein, if any.**
  - ✓ **Format challenges in presentation of the financial statements, in compliance with IFRS**



## 8. Financial Reporting Observations



- ☐ Inconsistency between the inspection reports findings and final external audits (the Audit reports are used in court post audit opinion)
- ☐ Insufficient explanations on un-reconciling accounts still made in the financial statements
- ☐ Differences in the returns and final audited information, without any reconciliations
- ☐ Delay in submission of audited financial statements, (deadline – 31<sup>st</sup> March)

## 8. Financial Reporting Observations



### CAUSE OF CHALLENGES IN FINANCIAL REPOTING

#### ☐ Lack of professionals

- Internal auditors members of ICPAK,
- External auditors, members of ICPAK,
- Most CEOs and Finance Manager, members of ICPAK



#### ☐ Remuneration/Cost of external audit?

- Recruitment through procurement
- Auditor quote the cost of performing the work



#### ☐ Reporting infrastructure (MIS)?

- Even with robust system have challenges in reporting



# 9. Where next for Saccos



Seeking capital for expansion from Capital markets



Joining of the National Payment System



Adoption of Islamic Finance Products and reporting



Financial Sector restructuring (Merger) (need for Market Conduct Reporting)

- ❑ Need for robust reporting for Saccos for the various stakeholders

# Way Forward



**REMOVED**

- ❑ Disclosures should be accurate, clear and presented in an understandable manner to users of financial statements
- ❑ Full disclosures of Financial information should be received on a timely basis for decision making
- ❑ The Authority to consider development of Auditor's list in line with Section 45) and/or enforcement action on board and management in line with Section 51

# Thank You

