



FINANCIAL REPORTING AWARD

FEEDBACK FOR 2017 FIRE AWARDS FOR COUNTY GOVERNMENTS

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Overview of the Presentation

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Introduction

- ∞ The 2nd year of public sector evaluation
- ∞ Used the evaluation tools as revised and improved by the consultant and approved by the Board in August 2017.
- ∞ Evaluators were drawn from both the public sector (trained in August) and private sector evaluators who have been involved in the Evaluation for at least three years.
- ∞ A total of 362 annual reports and audited financial statements of public sector entities were received and evaluated.
- ∞ Several entities now publish their annual reports and audited financial statements on their websites.
- ∞ Some entities publish AFS without the complete OAG's report
- ∞ We thank the Board and the National Treasury for their invaluable support and also thank all those entities which participated in the FiRe Award 2017
- ∞ Counties utilize IPSAS Cash in preparation of the financial reports

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 typeface	05
Governance Report	30
Social Responsibilities & Environmental Reporting	05
Total Marks Awarded	200

Report of the Auditor General

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

Report of the Auditor General cont...

Improvement noted from 2016:

- The auditor general's report now incorporates footer of the entity. However, the footer should clearly indicate that this is the *“report of the Auditor General on the **annual report and** financial statements of ministry X/ County for the year/period ended...”*
- Insertions – most entities now correctly place the report of the Auditor General (immediately after the statement of the statement of management/directors responsibilities on the financial statements).
- All OAG reports now make reference to Article 229 (7) of the constitution
- Few instances of mix up in the reporting framework (management responsibility for the financial statements vs the opinion paragraph) in comparison to 2016 – signifying more robust review mechanism within the Office of the Auditor General.
- Identification of financial statements – the page reference to the AFS in most cases was accurate.

Report of the Auditor General cont....

What we observed:

- The audit reports based on Public Audit Act of 2003 even when the reports are issued after the commencement of Public Audit Act 2015 on 7 January 2016 (section 73).
- 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. *When applying paragraph A16 of the ISA and when laws and regulations do not specify the addressee for the auditor's report, public sector auditors address the auditor's report to **those charged with governance** or **relevant part of the legislature**, as appropriate.*
- Some basis for modification would not arise if the audit process was effectively addressed between the auditee and the auditor – Need for joint trainings of auditors and the auditees on the audit process.

Report of the Auditor General cont...

What we observed:

- The OAG should consider separating historical issues from new issues resulting into modification (qualified, adverse or disclaimer) - *this will enable the users of the reports to assess the accounting officers on the basis of their tenure while also seeking legislative and other policy issues to address historical issues (mainly ownership/transfer of assets, historical payables and receivables, etc.)*
- Effect of ISSAI 1700 (Revised) and the New ISSAI 1701 – effective after December 2016...
- **To what extent does the auditor general audit the annual reports?**
- Public Audit Act, 2015 – should the OAG include his/her practising number – Section 5 (1) (e).

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 County Evaluations

Improvement noted from 2016:

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

IPSAS Cash County Evaluations cont...

Findings:

Annual Reports and Financial Statements

- ✓ Most reports failed to disclose the date when the financial statements were authorized for issue and who gave that authorization; and whether another body has the power to amend the financial statements after issuance.
- ✓ Huge lag between the date of approval of financial statements (30 September 2016) and the opinion date was evident in most entities.
- ✓ Some entities failed to ensure that the relevant statements and other information in the annual reports and financial statements are signed by those charged with governance
- ✓ Most entities failed to present an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget and the actual

IPSAS Cash County Evaluations cont...

Findings:

Annual Reports and Financial Statements

- ✓ Most entities failed to present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the statement of cash receipts and payments in accordance with this Standard, subject to the requirements of paragraph
- ✓ A number of entities had items that would qualify as “extra ordinary” either due to terms used. Entities should identify and separately disclose the nature and amount of each extraordinary item in the notes to the financial statement
- ✓ Correction of prior period errors was just a lump sum figure with no explanation in either the previous year of current period with explanation as to how it arose

IPSAS Cash County Evaluations cont...

Findings:

Annual Reports and Financial Statements

- ✓ Failure to prepare all the financial statements for example some entities would exclude the statement of cash receipts and payments
- ✓ No disclosures of any restrictions on cash balances in most entities annual reports and audited financial statements.
- ✓ Few entities provided disclosures on undrawn borrowings and grants available to fund future operations.
- ✓ No disclosure of any amounts of external assistance cancelled or returned by entities – projects
- ✓ Failure to state the conditions on grants

IPSAS Cash Evaluations cont...

Overall Performance of IPSAS Cash County evaluation

- A total of 46 annual reports and financial statements for counties was received and evaluated.
- All the entities had qualified opinions (disclaimer, adverse) and for this reason did not meet the requirements to merit an award

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

Non compliances we observed:-

- Failure to present a statement of the entity's assets and liabilities as at the end of the financial year (period)
- Failure to present the remuneration of committee or commissions in the annual report and financial statements
- Failure to include a statement on follow up on implementation of the recommendations of the Auditor General (Independent auditor) in the annual report and financial statements

PFM & Other Statutory Reporting Obligations

- Failure to give an 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.

PFM & Other Statutory Reporting Obligations

- ❑ 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 counties and other entities to populate which links the strategies of the entities to its performance and budget(s)*

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.

Challenges Faced

1. Late submission of annual reports and financial statements - the evaluation process was hastened and compressed within a short time.
2. Counties financials were received after the award
3. Basis of modification and the entire audit process – *in few cases, the evaluators felt that the basis of modification did not “merit modification as they could be addressed in the management letters because they have no bearing on the “true and fair view.”*
4. Most public sector financial statements are “ugly” and not interesting to review
5. Lack of conformity and compliance to the financial reporting standards by entities.

Recommendations

- Increased training of preparers and the OAG staff 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.
- Address the gap in audit process between the auditee and the auditor – the approval of audited financial statements should be closer to the opinion date.
- Consider including KPI on quality of financial statements prepared and opinion from OAG on the PI of accounting officers and those involved in the preparation of financial statements.
- Motivation for preparers of financial statements and other reports

Recommendations

cont....

- Format/Quality of the financial statements – the GoK should consider setting up a printing division for AFS of public sector entities – layout, formatting and printing
- There is need for the Board to clarify who should sign the statement of management responsibilities especially for commissions and independent offices.
- There is need for the Board to recommend training on Ms Office since most annual reports and financial statements had numerous formatting issues.
- Technical Assistants need to be assessed on knowledge transfer.
- With the introduction of audit committees, the board should mandate audit committees to be involved in the audits and include a report of the audit committee as a mandatory report in the annual reports and audited financial statements.

Where are we...

- Preparing reports to be sent to entities
- Open communication line should an entity wish to clarify any issues in the feedback reports.

Q&A

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