



2017 FIRE AWARDS FEEDBACK FOR PUBLIC SECTOR ENTITIES

IPSAS Workshop
April 2018

Overview of the Presentation

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- Evaluation Findings
 - IPSAS Cash
 - IPSAS Accrual
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Introduction

- ❑ 2017 was the 3rd year of public sector evaluation
- ❑ 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 364 annual reports and audited financial statements were received. 268 of those evaluated, of which 218 were from public sector entities are summarised in this presentation.
- ❑ Few entities now publish their annual reports and audited financial statements on their websites.
- ❑ All Counties evaluated - forcing the award gala dinner to be moved from the traditional month of October to November
- ❑ Some entities provided AFS for evaluation without the complete OAG's report

Scoring Criteria

CRITERIA	TOTAL MARKS
Compliance with IFRS & Other Technical Pronouncements	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 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 for the year/period ended..."***
- Insertions – most entities now correctly place the report of the Auditor General (immediately after the statement of management/directors responsibilities).
- All OAG reports now make reference to Article 229 (7) of the constitution

Report of the Auditor General cont...



Improvement noted from 2016:

- 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 2015 on 7 January 2016 (section 73).
- The Audit reports make reference but do not state (confirm) whether or not public money has been applied lawfully and in an effective way (Article 229(6)).
- Addressee - 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.

Report of the Auditor General cont...



What we observed:

- 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.
- 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.)*

Report of the Auditor General cont...



What we observed:

- ✓ The auditor report was very long in some instances including some matters that can be included in the management letter
- ✓ Qualified, adverse or disclaimer of opinion was pervasive.

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 or penalized 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



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.
- A number of entities now including explanation for variances in actual and budgeted amounts.
- Few entities provided explanations between original and final budget including reasons for such changes.

IPSAS Cash 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 (IPSAS 1.4.5).

IPSAS Cash Evaluations cont...

Findings: Annual Reports and Financial Statements

- ✓ It was noted that many 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, either in the notes to financial statements; or (b) in a report issued before, at the same time as AFS (IPSAS 1.9.23).
- ✓ Most entities failed to present a comparison of the budget amounts for which it is held publicly accountable and actual amounts in accordance with this Standard para 1.9.17.
- ✓ Correction of prior period errors was just a lump sum figure with no explanation in either the previous year or current period with explanation as to how it arose (IPSAS 1.5.1).

IPSAS Cash Evaluations cont...

Findings: Annual Reports and Financial Statements

- ✓ A number of entities had items that would qualify as “extra ordinary” due to terms used but had no disclose on the nature and amount of each extraordinary item (IPSAS 2.1.6).
- ✓ Most entities failed to disclose information on related parties (IPSAS 20/IPSAS 2.1.31). This should include information relating to compensation of key management personnel in accordance with IPSAS20.34). *This encouraged disclosure should be made mandatory by the Board.*
- ✓ Use of boiler plate accounting policies. Some entities have not tailored the accounting policies to their entities but instead focused on generic policies as provided in the illustrative financial statements.

IPSAS Cash Evaluations cont...

Findings: Annual Reports and Financial Statements

- ✓ There is need for the Board to clarify who should sign the statement of management responsibilities.
- ✓ There is need for the Board to recommend training on Ms Office since most annual reports and financial statements had numerous formatting issues.
- ✓ Majority of entities did not make their annual reports and financial statements publicly available as a way of enhancing accountability. The Board should recommend that entities avail their audited annual reports and financial statements on their websites.

IPSAS Cash Evaluations cont...

Overall Performance of IPSAS Cash evaluation

A total of 55 annual reports and financial statements on IPSAS Cash were received and evaluated. This number excludes the counties. These entities had the following opinions:

Unqualified – 11

Qualified – 31

Adverse – 4

Other matter-2

Disclaimer – 4

TBC – 3

IPSAS Accrual



- Based on IPSAS Accrual Standard effective on or after January 2015 (IPSAS Handbook (2015)).
- 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

Findings – Financial Statements

- ☐ Most reports failed to disclose the date when the financials were authorised and whether another body has the power to amend the financial statements after issuance.
- ☐ Majority of entities did not make their annual reports and financial statements publicly available as a way of enhancing accountability. The Board should recommend that entities avail their audited annual reports and financial statements on their websites.
- ☐ 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 in line with IPSAS 24.

IPSAS Accrual Evaluations

Findings – Financial Statements

- Cross referencing items in the primary financial statements to the relevant notes not properly done among some public sector entities (1.128)
- Most entities opted to use the indirect method of cash flow presentation as opposed to the indirect method which is encouraged by the standard (2.27)
- Fair presentation and statement of compliance - financial statements should not be described as complying with IPSASs unless they unreservedly comply with **all the requirements** of IPSASs (1.28)

IPSAS Accrual Evaluations

Findings – 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.
- ❑ Significant accounting policies:-
 - a) Use of boiler plate accounting policies. Some entities failed to tailor the accounting policies to their entities but instead focused on generic policies as provided in the illustrative financial statements.
 - b) Some entities failed to disclose the relevant accounting policies used in the preparation of the financial statements.
 - c) Most entities failed to provide a disclosure of how they uses judgments and estimation in preparation of the financial statements.

IPSAS Accrual Evaluations

Findings – Financial Statements

Notes to 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.
- ☐ Majority of annual reports and financial statements failed to disclose of new and amendments to standards issues but not yet effective. Few included these standards and amendments but failed to provide the date when the entity intends to adopt and the impact of adoption on the entities financial statements when they become IFRs issued and interpretations adopted and those not adopted.
- ☐ Most entities failed to provide details of key management compensation and related party transactions.

IPSAS Accrual Evaluations

Findings – Financial Statements

Notes to the financial statements: -

- ✓ 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
- ✓ There is no policy on post-employment benefit plans –whether it is defined benefit or defined contribution plans.

IPSAS Accrual Evaluations cont...

Overall Performance of IPSAS Accrual evaluation

A total of 163 annual reports and financial statements on IPSAS Accrual were received and evaluated. These entities had the following opinions:

Unqualified – 36

Qualified – 88

Adverse – 7

Disclaimer – 8

Emphasis of matter- 8

Other matter-13

TBC – 3

- 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 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.
- Majority of these audits are subcontracted to private auditors.

IFRS Evaluations



Improvement noted from 2016:

- 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....

Observations- Financial statements

- ☐ Most reports failed to disclose whether another body has the power to amend the financial statements after issuance.
- ☐ Majority of entities did not make their annual reports and financial statements publicly available as a way of enhancing accountability. The Board should recommend that entities avail their audited annual reports and financial statements on their websites.
- ☐ Statement of financial position – some of the annual reports and financial statements did not indicate the date of authorisation for 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.

IFRS Evaluations

cont...

Observations-Significant accounting policies:

- ☐ Most of entities failed to provide a disclosure of how it uses judgments and estimation used in the preparation of the statements.

Observations -Notes to 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.
- ☐ Majority of annual reports and financial statements failed to disclose of new and amendments to standards issues but not yet effective. Few included these standards and amendments but failed to disclose the date the entity intends to adopt and the impact of adoption on financial statements.

IFRS Evaluations cont...

Observations - Notes to the financial statements:-

- ☐ 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.
- ☐ There is no policy on post-employment benefit plans –whether it is defined benefit or defined contribution plans.

IFRS Evaluations

cont...

Other Observations

- ☐ **Management Discussion and Analysis** -A majority of the entities failed to provide assessment of the economy, sector changes, company performance, risk and the future of the organisation.
- ☐ **Governance** – Some entities failed to disclose issues on corporate governance applicable to state corporations e.g. 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 investment/responsibility and employees' welfare.

IFRS Evaluations cont...

Overall Performance of IPSAS Cash County evaluation

A total of 50 annual reports and financial statements on IFRS were received and evaluated.

These entities had the following opinions: -

- Unqualified – 14

- Qualified – 28

- Adverse – 5

- Disclaimer – 1

- TBC – 2

PFM & Other Statutory Reporting Obligations

- Reporting requirements of the PFM Act and PFM Regulations
- A requirement for the 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

What we observed:-

- General improvement in the inclusion of appendices by most entities. However, majority of entities under IFRS did not include these appendices especially outsourced audits.
- 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 (disclosed) 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

What we observed:-

- 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.

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 these could be addressed in the management letters since 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

- 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
- Need to address the inconsistency on signing the statement of management responsibilities especially for commissions and independent offices.
- 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.
- Carrot and stick - 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.

Q&A

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