

INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF KENYA

THE PLACE OF AUDIT IN SACCOS AND COOPERATIVE
SOCIETIES

CPA CHARITY MBURU

Credibility

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Professionalism

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Accountability

The Place of Audit in SACCOs and Cooperative Societies



What do the following remind you? Ekeza SACCO, Goodlife SACCO?

These are SACCOs that made to the media due to loosing their members contribution and had scandals.

The Place of Audit in SACCOs and Cooperative Societies



Background

A. Provision of financial services

B. Cooperatives simply serve as vehicles to financial freedom.

Auditing



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- Auditing is examining the financial practices of a business.
- This helps detect errors, fraud and specific performance trends.
- Auditing is a means of evaluating the effectiveness of a SACCO's internal controls.

Auditing, cont



- Maintaining an effective system of internal controls is vital for:
 - achieving a SACCO's business objectives,
 - obtaining reliable financial reporting on its operations,
 - preventing fraud and misappropriation of its assets,
 - and minimizing its cost of capital.

Both internal and independent auditors contribute to a SACCO's audit system in different but important ways.

Accounting



Accounting is the systematic and comprehensive recording of financial transactions pertaining to a SACCO. Accounting -the process of summarizing, analyzing and reporting transactions. The financial statements are summary of hundreds of thousands of financial transactions.



Accounting v Auditing



Accounting

- Maintaining the monetary records of a company in preparation of financial statements which will give a true and fair view of the business of company.

Auditing

- Auditing is the evaluation of financial records / statements prepared through the accounting function.

Accounting v Auditing



Accounting

- Financial Statements is the key deliverable of accounting
- The starting point of accounting is Bookkeeping

Auditing

- Audit report is the key deliverable of auditing
- Auditing starts only when the work of an accountant is complete

External v Internal Auditing



- An internal audit might be more **forensic**, spotting problems and opportunities with your policies and procedures, while an external audit might focus on **verifying** your numbers and that you are following standard accounting procedures.
- Internal auditors are **responsible to management**, while external auditors are **responsible to the members** of the SACCO or the stakeholders
- Internal audit reports are used by **management**, while external audit reports are used by **stakeholders**

External v Internal Auditing, cont.



- Internal auditors will examine issues related to SACCOs business practices and risks, while external auditors examine the financial records and issue an opinion regarding the financial statements of the SACCO.
- Internal Audit is a constant or continuous audit activity. External Audit, on the other hand, is an examination and evaluation by the third or the independent body, of the annual statements of accounts of the SACCO to give an opinion thereon.

External v Internal Auditing, cont.



- Internal Audit is discretionary which means there is no compulsion for same, but the External audit is compulsory.
- Internal Auditors are the employees of the SACCO, whereas External Auditors are not employees.



Importance of Audit



Verification

Your bookkeeping is sound and the numbers you present are accurate.

Enables the Pursuit of Business Objectives

Effective audit system enables to pursue and attain its various objectives

Assess the Risk of Misstatement

Auditors assess the risk of material misstatement in a SACCO's financial reports. to create reliable financial reports for internal or external purposes.

Importance of Audit, Cont.



Fraud Prevention and Detection

Internal audit serves an important role for SACCOS in fraud prevention. Recurring analysis of a SACCO's operations and maintaining rigorous systems of internal controls

Cost of Capital

Cost of capital is largely comprised of the risk associated with an investment. Strong audit systems can reduce various forms of risk in an enterprise, including its information risk, the risk of fraud and misappropriation of assets, as well the risk of suboptimal management.

Importance of Audit, Cont.



Expertise

Many small businesses can't afford to hire expert certified public accountants. Using an independent external auditor from time to time provides you with the opportunity not only to verify your numbers, but also to learn ways to improve your processes and procedures.



The Importance of External Audit in a SACCO



- External audit provides an impartiality
- Thorough investigation into a SACCO's finances and accounting processes
- Strengthen a SACCO practice within the remit of government compliance.

The Importance of External Audit in a SACCO



- Highlight other areas for improvement.
- Training for a company's internal audit team.



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Case studies



- A study done by Munyi and Njiru (2015), the role of financial auditing in enhancing corporate governance in SACCOs in Nakuru County, Kenya indicated that risk-based auditing was vital in detecting risks, promoting transparency and accountability and enhancing quality financial reporting which was key in corporate governance.
- Discussion paper 35 (2007) by Ajai & Renate on Reaching rural areas with financial services: Lessons from financial cooperatives in Brazil, Burkina Faso, Kenya and Sri Lanka; the cases reinforce that FCs operate better in environments with prudential regulation and financial supervision.

Case studies



- A study done by Chepngeno (2017) on the effect of internal audit function on financial performance of SACCOs (Nairobi County) revealed that internal audit function; internal audit roles; internal audit qualifications, Reporting structure and records accessibility explained 74.3% of variation in financial performance.

Conclusion



- External Audit and Internal Audit are not opposed to each other. Rather, they complement one another.
- Internal Audit acts as a check on the process
- On contrary, external audit is totally independent. It checks the accuracy, completeness, and validity of the annual account, of the firm.

Conclusion



“If you think compliance is expensive, try non compliance”

Former U.S. Deputy Attorney General Paul McNutty



Thanks Questions!

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