



NATIONAL PRACTITIONERS' & PROFESSIONAL FIRMS GROWTH FORUM – Nairobi

Presentation by: CPA Beatrice C. Marusoi MBA

Ag. Manager, UFAL, UFAA

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Presentation Agenda



- Methodology
- Pre-audit Research
- Audit Plan
- Experiences

Methodology



- Over View
- Phase i – Planning
- Phase ii – Execution
- Phase iii – Completion
- Phase iv - Debrief

Planning: Phase 1



- Under take a pre-audit research: Review of the UFA Act, 2011 and Regulation, 2016, Company's Act, Relevant industry prudential guidelines, Reports from the relevant Regulator, Holders related policies among other documents, Audit Reports, merger and acquisition reports if any., investor briefs, Court rulings against the entity.
- Preparation of inception report – Covers Back ground, objectives and scope of assignment, reporting deliverables;
- Description of methodology (planning, execution, reporting,: Workplan and teams involved in the assignments.

Execution: Phase ii



- Review of applications and information general technology controls linked to identification and reporting of unclaimed assets.
- Undertake substantive tests.
- Review of unclaimed assets policies if any
- Review of established procedures to ensure compliance to UFA Act, 2011.

Completion and Reporting : Phase iii



- Share the draft with UFAA Management for review and advise
- Exit meeting with Senior Management (UFAA to organise the Exit meeting in liaison with the External Auditor).
- Penalties and unclaimed assets well spelt out in the draft report.
- Auditor to ensure that the holders signs the Letter of Representation (LoR).
- Final Report signed by the auditor to be presented to UFAA Management.

Legal Framework



Legal	Reporting	Auditing	Unclaimed Assets
Companies Act 2015- Incorporation	International Financial Reporting Standards (IFRS)	International Standards on Auditing	Unclaimed Financial Assets Act 2011; and
Banking/Insurance/ Saccos Acts - And other Industry Specific Acts		International Standard on Assurance Engagement (ISAE) 3000 - Assurance Engagements Other than Audits and Reviews of Historical Financial Information	UFAA Regulation 2016
Prudential Guidelines			
Capital Markets Act and Regulations			

Applicable unclaimed assets



Asset	Period
Ownership interest (Shares and Dividends)	3 Years
Travellers cheques / money holders	2 Years
Cheques, draft or similar instruments	2 Years
Demand, Savings or matured time deposit	5 Years
Life or endowment Insurance Policy or Annuity contract	2 Years
Deposit for utility services	2 Years
Determination or Order by Court of refund by holder	2 Years
Assets from dissolved business entity	2 Years
Assets held in fiduciary capacity	2 Years
Gift certificates or credit memos	5 Years
Unpaid wages	1 Year
Assets held in safe deposit box	2 Years
Assets held by court or Government department	1 Year

Methodology: Substantive Audit Procedures



Liability	Procedure
Customer deposits - 5 years	<ul style="list-style-type: none">✓ Review account opening and know your customer (KYC) procedures;✓ Review the account opening forms for terms and conditions, charges and fees, interest income, taxes applicable.;✓ Obtain aging report and identify dormant/locked accounts;✓ Identify deposits without customer/s details;✓ Ascertain that all the charges levied on deposit are approved by CBK;✓ Obtain evidence for any amounts submitted to UFAA and verify completeness;✓ Identify amounts due for submission but not yet submitted.

Substantive Audit Procedures...Cont'd



Liability	Procedure
Cheques, travellers cheques, drafts and similar Instrument- 2yrs	<ul style="list-style-type: none">✓ Inquire on the terms and conditions for the instruments issued;✓ Obtain the reconciliations for the unpresented cheques and similar instruments;✓ Review the aging of outstanding cheques and highlight the ones due for more than two years; and✓ Obtain evidence for any amounts submitted to UFAA and verify completeness and determine amount due for submission.

Substantive Audit Procedures...Cont'd



Liability	Procedure
Unclaimed dividends & Shares-above 3 yrs	<ul style="list-style-type: none">✓ Obtain evidence for dividends declared in the year;✓ Obtain evidence for dividends paid in the year;✓ Obtain movement schedule for the dividends account;✓ Perform a roll forward to ascertain the closing unclaimed dividends amounts (opening + declared – paid);✓ Inspect dividends account under cash and bank balances;✓ Obtain evidence for any amounts submitted to UFAA and verify completeness;✓ Identify amounts and related shares due for submission but not yet submitted.✓ Request and review the outstanding dividends file from the share registrar and finally obtain and review report and summary of submissions to the Authority.

Substantive Audit Procedures...Cont'd



Liability	Procedure
Assets held in safe deposit box-2yrs	<ul style="list-style-type: none">✓ Obtain the register of items under safe custody and identify ones held to full time and has not been claimed✓ Identify units with unpaid custodial annual renewal fees.✓ Obtain evidence for any units submitted to UFAA and verify completeness;✓ Identify units due for submission but not yet submitted.
Unclaimed Collaterals	<ul style="list-style-type: none">✓ Inspect the register of collateral against the loan covenants;✓ Identify unclaimed collaterals pledged against fully paid loans;✓ Obtain evidence for any amounts submitted to UFAA and verify completeness;✓ Identify amounts due for submission but not yet submitted.

Substantive Audit Procedures...Cont'd



Liability	Procedure
Financial assets surrendered to other government agencies- KDIC & FRC	This include monies seized by FRC through confiscation or forfeiture orders. The seized financial assets will be assessed on the receiving agencies and therefore information obtained from the banks will help in identifying unclaimed assets emanating from seizures.
Due to related parties	<ul style="list-style-type: none">✓ Understand outstanding balances, terms and conditions of payment;✓ Establish if related entities exist;✓ Obtain aging report to identify dormant accounts; and✓ Perform inquiry on dormant accounts and determine assets due for submission UFAA.

Substantive Audit Procedures...Cont'd



Liability	Procedure
Trade & Other payables	<ul style="list-style-type: none">✓ Obtain breakdown of the balance✓ Perform inquiry to establish if entities in the breakdown still operate/exist✓ Obtain aging report to identify the last time transactions occurred between parties.✓ Obtain explanation on why amounts over 2 years have not been settled
Borrowings	<ul style="list-style-type: none">✓ Identify the lender and establish if they are in operation✓ Understand the terms of payment/repayment✓ Obtain breakdown showing movement in the loan balances and where the loan is not being repaid, the reasons for non-payment

Substantive Audit Procedures...Cont'd



Liability	Procedure
Pension sector (assets held in fiduciary)	<p>1. Number of active members of the fund has been disclosed under the report of Trustees (section 13)</p> <ul style="list-style-type: none"> ❖ Are there non-active members (dormant accounts)? ❖ Substantive audit procedures ✓ Determine the entity's policy on dormant accounts ✓ Obtain listing of all inactive/dormant accounts ✓ Review the members files/accounts ✓ Establish the how long accounts have been dormant ✓ Review re-activated accounts.
Contributions in suspense a/c	<ul style="list-style-type: none"> ✓ Ascertain under which component in the financial statements this has been reported. ✓ Review the employers accounts. ✓ Obtain the aging analysis of these contributions. ✓ Review the movements on this suspense account.

Substantive Audit Procedures...Cont'd - Universities



Overpaid fees and Caution money

1. Obtain a list of all students admitted in various programs, (Including those who drop, defer and those who have graduated)
2. Check the admission requirements especially on fees and other fee policies. Obtain Fee schedule for various courses
3. Confirm the deposits and fee payments with the bank and review detailed bank reconciliations.
4. Check the actual class attendance with admission and fee paid to determine those who have paid but not attending

Case Study 1 -Banks and Listed companies; Potential Areas of Unclaimed Assets



- Equity/Shares- bonus issue, stock splits, cash dividends and scrip dividend;
- Customer Deposits- Current Accounts, Call deposits and Fixed Deposits;
- Funds in transit- Cheques and similar instruments;
- Custody Services/Fiduciary activities. Activities include: safe keeping of assets/securities, arranging settlement, collect information and income, manage cash bank transactions.
- Deposits and balances due to banking institutions

Potential Areas of Unclaimed Assets...Cont'd



- Unclaimed cash in transit;
- Short-term and Long-term borrowings;
- Employees benefits;
- Accrued utilities; and
- Unclaimed dividend and shares

Potential Unclaimed Assets XYZ Bank Limited...Cont'd



Shareholders Equity	2016	2015	Potential UFA ?
	KShs "000"	KShs "000"	
Share Capital	1,056,284,000	869,440,000	Yes
Share Premium	62,947,767,000	62,947,767,000	No
Retained Earnings	30,268,722,000	24,392,925,000	Yes
Statutory loan loss Reserve	760,779,000	-	No
Other Reserves	344,325,000	- 37,970,000	No
Proposed Dividend	792,435,000	506,275,000	Yes

Case Study: Potential Unclaimed Assets

XYZ Bank Limited



Liabilities	2016	2015	Potential UFA ?
	KShs "000"	KShs "000"	
Customer deposits	238,103,640	294,051,857	Yes
Deposits and balances due to banking Institutions	16,575,802	8,506,398	Yes
Other liabilities	2,730,847	4,321,306	Yes
Borrowings	24,052,229	25,241,690	Yes
Current Income Tax	XXX	XXX	No

XYZ Bank Limited - Breakdown of customer deposits



Note 18	2016	2015	Potential UFA ?
Customer deposits	"000"	"000"	
Current and demand deposits	70,129,916	58,311,968	Yes
Savings accounts	23,426,777	19,745,273	Yes
Fixed and call deposit accounts	144,546,947	115,994,616	Yes
Total	238,103,640	194,051,857	

XYZ Bank Limited - Breakdown of Other Liabilities



Note 23	2016	2015	Potential UFA ?
Other liabilities	KShs."000"	KShs."000"	
Due to subsidiary company	-		-Yes
Outstanding bankers' cheques	93,085	425,268	Yes
Accrued expenses	894,694	1,159,362	Yes
Revenue collected on behalf of Revenue Authorities	634,496	432,268	No
Deferred income	475,590	607,737	No
Refundable deposits	261,559	218,443	Yes
Other payables	1,371,423	1,568,228	Yes
TOTAL	3,730,847	4,411,306	

CASE STUDY 2:

Possible UFA case of Pension sector (assets held in fiduciary)



1. Number of active members of the fund has been disclosed under the report of Trustees (section 13)
 - ❖ Are there non-active members (dormant accounts)?
 - ❖ Substantive audit procedures
 - ✓ Determine the entity's policy on dormant accounts
 - ✓ Obtain listing of all inactive/dormant accounts
 - ✓ Review the members files/accounts
 - ✓ Establish the how long accounts have been dormant
 - ✓ Review re-activated accounts.

Possible UFA case of Pension sector (assets held in fiduciary)...Cont'd



Contributions in suspense a/c (sec 3(a) and 13)

FY	2016	2015	2014	2013	2012
Amount Ksh. 'm	784	740	2,300	2,500	2,700

❖ Substantive audit procedures

- ✓ Ascertain under which component in the financial statements this has been reported.
- ✓ Review the employers accounts.
- ✓ Obtain the aging analysis of these contributions.
- ✓ Review the movements on this suspense account.

Case study 3: Listed Company XYZ

Dividends



Statement of Changes in Equity			
	2016	2015	2014
	KShs."000"	KShs."000"	KShs."000"
Proposed Dividend	892,435	705,275	681,064
Dividend paid to controlling Interest	705,275	681,064	

The SoCE shows movement of dividend amount among Reserves within Equity.

Dividends- XYZ Limited...Cont'd



Statement of Cash flows			
	2016	2015	
	KShs."000"	KShs."000"	
Cash flows (used in)/from financing activities			
Dividends paid to equity holders of the bank	(705,275)	(681,064)	
All the dividend declared was paid out.			

Note 13 shows comparative dividend withholding tax rates.

per share and the applicable

Listed companies - Other Key areas for Consideration



Item	Unclaimed Assets
Initial Public Offers (IPO)	<p>UFA arise from unclaimed refunds in case of oversubscription leading to allocation on pro rata basis.</p> <p>Substantive Audit procedures</p> <ul style="list-style-type: none">✓ Obtain the offer documents (prospectus, Director and Shareholders resolutions) and requisite approvals issued by CMA.✓ Understand the size, terms, timelines of the offer

Listed companies - Other Key areas for Consideration



Item	Unclaimed Assets
Rights Issue- Unclaimed refunds	<ul style="list-style-type: none">✓ Existing shareholders are given pre-emption rights to buy additional shares proportional to their current shareholding.✓ When the issuer offers a window for subscribing excess allotment, this could result to oversubscription triggering refunds.✓ UFA arise from unclaimed refunds in case of oversubscription leading to allocation on pro rata basis.

Case Study 4: Entity : XYZ University

Period of study : FY 2015 to 2016



XYZ University -financial statements

Statement of profit or loss Year ended 31 December

	2016 Shs '000	2015 Shs '000
Tuition fees	2,003,296	1,931,631
Donations received	55,870	43,621
Deferred income	16,138	11,168
Other operating income	581,107	362,440
	<u>653,115</u>	<u>417,229</u>
Total income	<u>2,656,411</u>	<u>2,348,860</u>
Administrative expenses	(2,300,762)	(2,032,769)
Establishment expenses	(265,020)	(226,214)
	<u></u>	<u></u>
Operating surplus	90,629	89,877
Finance costs (net)	(34,461)	(58,514)
Revaluation surplus on investment property	25,248	-
	<u></u>	<u></u>
Surplus for the year	<u>81,416</u>	<u>31,363</u>

XYZ University ...Cont'd



Statement of financial position Balance

	2016 Shs '000	2015 Shs '000
ASSETS		
Non-current assets		
Property and equipment	2,604,650	2,561,746
Investment property	100,906	75,658
Prepaid operating leases	2,515,289	2,549,864
Intangible assets	59,109	28,692
Endowment fund deposits	11,246	19,574
Designated funds deposits	26,768	45,176
Bank balances held by receivers	43,478	-
	5,361,446	5,280,710
Current assets		
Inventory	50,565	20,550
Trade and other receivables	620,752	493,706
Short term deposits	45,666	55,421
Amounts due to related parties	31,780	7,849
Cash and bank balances	55,107	88,447
	803,870	665,973

XYZ University ...Cont'd



CAPITAL FUND AND LIABILITIES

Capital and reserves

Capital investment fund	148,732	148,732
Revaluation reserve	2,918,196	2,953,609
Designated funds	105,763	110,199
Accumulated surplus	577,529	514,116
	3,750,220	3,726,656

Non-current liabilities

Endowment funds	102,103	95,628
Designated funds	94,389	83,484
Deferred income-Capital grants	290,518	304,365
Long term loans	840,170	878,814
	1,327,180	1,362,291

Current liabilities

Trade and other payables	855,138	728,284
Contribution to SERT	75,450	42,034
Short term borrowings	157,327	87,419
	1,087,915	857,737

TOTAL EQUITY AND LIABILITIES

6,165,316	5,946,683
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Possible UFA - case of XYZ University



1. **School Fees** deposited but not reported. Students are usually required to pay school fees in advance. Apart from a non-refundable deposit, any excess fees paid without reporting should be Unclaimed Financial Asset. There are also cases of unknown deposits.

2. **Excess school Fees** paid by students but few claim for refund.

3. **Caution money i.e.** for those who graduate and do not request for their caution money.

SU has a policy of reporting as income such fees within the next financial period.

Audit procedures..cont



5. For those who have paid, check the fees required against payments made to identify those who may have over paid and if any refund has been made.
6. Check those who have deferred to see if fees is carried forward or if they have not resumed classes and where relevant refunds made.
7. Check the list of those graduating and see if their caution money was refunded.
8. Additional procedures required for unknown deposits and follow up with the bank.

Case study 5: Saccos



Liability	2016 KShs 000's	2015 KShs 000's	Potential UFA?
Members' deposits	19,017,989	15,893,502	Yes
Provision for interest on members deposits	1,137,962	1,104,217	Yes
Tax payable	18,997	19,861	No
Other payables	584,783	174,447	Yes
Borrowings	647,382	419,534	Yes
Equity			
Share Capital	854,027	789,502	Yes

Fines and Penalties for Non - Compliance



The Authority may exercise powers prescribed under Section 31 in the event that a holder(s) is not complying with regards to due filing procedures.

- Section 33: “Failure to pay or deliver assets and penalties” provides for the fines and penalties. Penalties that can be instituted are (Section 33):
- 1% above the adjusted prime rate per annum per month on the assets/value of the assets from the date the assets should have been paid or delivered.

Fines and Penalties for Non – Compliance...Cont'd



- The adjusted prime rate shall be based on the Central bank of Kenya average (CBR) rate(Per Month) during the twelve-month period ending thirtieth day of September. 33(2).
- The resulting current monthly interest rate based on the twelve-month period ending thirtieth day of September shall become effective on the first day of January of the following year. 33(3)

Fines and Penalties for Non – Compliance...Cont'd



- A person who wilfully fails to render any report or perform other duties required under the Act shall be liable to pay penalty of Kshs 7,000 but not more than Kshs 50, 000 for each day the report is withheld or the duty is not performed.33(4)
- A person who wilfully fails to pay or deliver assets shall be liable to pay a penalty equal to 25% of the value of the Assets that should have been paid or delivered.33(5)

Fines and Penalties for Non – Compliance...Cont'd



- These penalties under subsections (1), (4) and (5) shall be recoverable as a civil debt summarily.
- Cost of the Audit is imposed on the holders as outlined in Section 31 (6)&(7)
- Section 52 “Offences and penalty”
- A person Convicted of an offence under this section shall be liable to a fine of not less than fifty thousand shillings and not more than one million shillings or to imprisonment for not more than one year, or to both.

Fines and Penalties for Non-Compliance; Illustration



Where:	First compliance cycle		01 November 2014	
	Last compliance cycle (date of audit)		01 November 2018	
		Days overdue	1,461	(48 Months)
Section	Type of Penalty	Penalty Kes.		
Sec. 31(1) ¹	Interests (CBR +1 %) per month	3,960,000		
Sec. 31(4) ²	Daily penalty between 7,000-50,000	73,050,000		
Sec. 31(5) ³	25% of assets held	250,000		
Total Penalties ⁴		77,260,000		
	Total dues	78,260,000	Excludes cost of audit	
The UFA Act, 2011				
Sec. 31(1) ¹	Adjusted prime rate per annum (assumed at 10%)per month on the assets or value.			
Sec. 31(4) ²	Assumed Max - 50,000 shillings for each day the report is withheld or the duty is not performed.			
Sec. 31(5) ³	Liable to pay a penalty equal to 25% of the value of the assets that should have been paid or delivered.			
Total Penalties ⁴	Section 31(7) cost of audit / examination shall be assessed against the holder			
Fines	Kes. 50, 000 - 1 million or imprisonment for not more than one year, or to both.			

Our Audit Experiences



- Important to have experienced IT staff / IT Professionals and data analysis softwares
- Some holders may interfere with the data
- Some holders may not cooperate
- Delay in providing documents to frustrate the audit team.
- Team leaders to ensure the officers involved in the exercise are people of integrity
- Confidentiality of the audit report/ findings
- Collaboration and partnership is key

Collaboration and partnership



If you want to go fast, go alone.
If you want to go far, go together.

--African Proverb





THANK YOU!



Pacis Centre, 2nd Floor, Slip Road, off Waiyaki Way
P.O. Box 28235 - 00200, City Square, Nairobi
Mob: +254 706 866984, 736 559152
Tel: +254 20 4023000
www.ufaa.go.ke

 @UFAAKenya

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Q & A



Pacis Centre, 2nd Floor, Slip Road, off Waiyaki Way
P.O. Box 28235 - 00200, City Square, Nairobi
Mob: +254 706 866984, 736 559152
Tel: +254 20 4023000
www.ufaa.go.ke

@UFAAKenya

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