



Financial Reporting Workshop for SACCOs and Cooperative Societies

Theme: Changes in SACCOs & Cooperative Societies Reporting for Decision Making

VENUE: Hilton Hotel, Nairobi

DATE: 17th – 18th October 2019

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Uphold public interest

Need For Adherence To IFRS Link To Prudential Guideline Supervision Report 2018

Why Accounting & Finance Matter



- **Profitability** and **cash flows** drives the **sustainability** of any enterprise
- Accounting is the language of business
- Finance provides the tools for informed decision making

International Financial Reporting Standards



International Financial Reporting Standards, usually called **IFRS**, are standards issued by the IFRS Foundation and the International Accounting Standards Board (IASB) to provide a common global language for business affairs so that accounts are understandable and comparable across entities

Why Comply with IFRS



Co-operative Societies are member owned organizations making accountability to members and stakeholders very central for their success.

SACCOs core business is financial intermediation which can only thrive under high levels of trust and confidence of members and the general public.

SACCOs can achieve the trust and confidence if they comply with IFRS and Regulatory requirements.

Sacco's Legal Requirements for Compliance With IFRS

1. NON-DEPOSIT TAKING: The Co-operative Societies Act Cap 490 Section **25(1)** provides that:

- *“Every co-operative Society shall keep proper accounts which shall
(a) be prepared in accordance with International Accounting Standards;”*

➤ **Sec. 25(3):** *“ It shall be the duty of every co-operative Society to cause its accounts to be audited at least once in every financial year by an auditor appointed under subsection (4).*

Sub Sec.6 (a) *“ The accounts referred to in subsection (3) shall; conform with **IFRS.**”*

2. DEPOSIT TAKING SACCOs (Licensed by SASRA):

The SACCO Societies Act 2008 provides that:

❖ **Sec. 40 (3):** *“The accounts and other financial records of a Sacco Society shall be denominated in Kenya Shillings and shall comply with the **IFRS** and such other requirements **as the Authority may prescribe.**”*

Significance of full compliance with IFRS for SACCOs

1. Promotes Financial Stability (Global and Nationally):

- ❑ At the international level, standards enhance transparency and identify weaknesses that may contribute to economic and financial vulnerability

❑ Foster **efficiency** and **discipline** in the SACCO subsector
(Service delivery)

❑ At the national level, standards provide ***benchmarks*** for
identifying systemic vulnerabilities and guide in designing
an agenda for ***policy reforms***

2. Reduce the risk of failure of SACCOs:

- ☐ Protect SACCO members and investors
- ☐ Support market discipline
- ☐ Support competition & dynamism and
- ☐ Keep pace with innovation in the financial reporting system

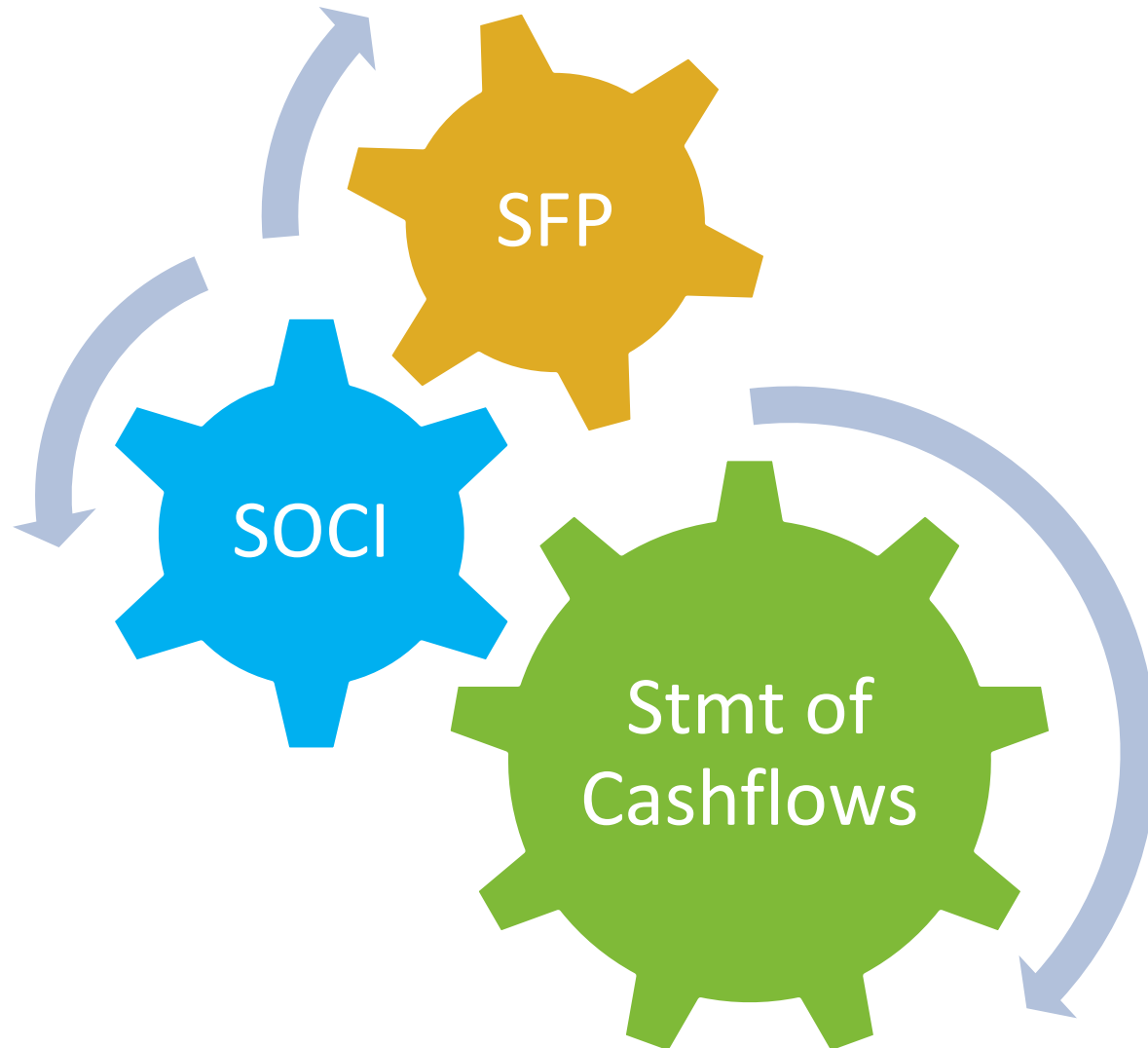
Financial Statements



Also referred to as final accounts these are the reports in the accounting cycle. They include

- ❖ Income statement or statement of comprehensive income/ Income and expenditure
- ❖ Statement of financial position

Three Key Financial Statements



- ❖ Statement of cash-flows
- ❖ Statement of net assets
- ❖ Statement of budgetary comparison
- ❖ Notes to financial statements



Balance Sheet



Key Considerations of Financial Reporting



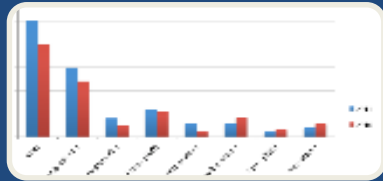
- Proper documentation in the files to support all information reported in financial report.
- All financial reports should be based on the organization's accounting system.
- There should be a review and reconciliation of the information to ensure accuracy

Information Consumption By Leaders



- There are several methods you can use to interpret your financial statements & extract key information to help you in improving company performance

1



Trend Analysis

2

Financial ratios	
Current ratio	Total debt to assets
1.86	8.23
1.14	20.57

Ratio Analysis

3

	Plan	Actual
INCOME		
gross sales	\$4,771,503	\$4,600,818
Less returns and allowances	95,432	200,000
net sales	\$4,676,071	\$4,400,818
COST OF SALES		
total cost of goods sold	\$3,000,889	\$3,388,000
gross profit (loss)	\$1,675,182	\$1,012,818

Variance Analysis: Projected vs. Actual

Bank Risks :The Profitability, Liquidity, and Solvency Trade-off.

1. Credit Risk.
2. Liquidity Risk.
3. Market Risk.
4. Operating Risk.
5. Reputation Risk.
6. Legal Risk.





IAS 8

Accounting Policies, Changes in Accounting Estimates and Errors

Objective



To prescribe the criteria for:

- Selection and application of accounting policies
- Changes in accounting policies
- Errors

1. Introduction - Scope



- IAS 8 applies to entities complying with general IFRSs
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Accounting policies



Specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.

Selection and application of accounting policies



- When a Standard or an Interpretation specifically applies to a transaction, other event or condition- **apply the Standard or Interpretation and consider any relevant Implementation guidance by IASB**

Selection And Application Of Accounting Policies



In the absence of a Standard or an Interpretation that specifically applies to a transaction, other event or condition -
Management must use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable.

Managerial Considerations In Selection Of Policies



- Similar and related issues
- Conceptual framework
- Most recent pronouncements of other standard-setting bodies

Consistency of accounting policies



An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless a Standard or an Interpretation specifically requires or permits categorization of items for which different policies may be appropriate

Consistency of accounting policies



If a Standard or an Interpretation requires or permits categorization, an appropriate accounting policy shall be selected and applied consistently to each category

Changes in accounting policies



An entity is permitted to change an accounting policy only if the change:

1. is required by a standard or interpretation;
2. or results in the financial statements providing reliable and more relevant information

Exclusions



- Transaction or event that did not occur previously
- or were immaterial

Treatment of Change In Accounting Policies



- If a change in accounting policy is required by a new standard or interpretation- as per that standard
- If the new pronouncement does not include specific transition provisions, then the change in accounting policy is applied retrospectively.

Disclosures relating to changes in accounting policies



- Title of the standard or interpretation causing the change
- The nature of the change in accounting policy
- Description of the transitional provisions
- To the extent practicable, the amount of the adjustment: for each financial statement line item affected

Disclosures Relating To Changes In Accounting Policies



- If retrospective application is impracticable, an explanation and description of how the change in accounting policy was applied.

Financial statements of subsequent periods need not repeat these disclosures.

Disclosures For Voluntary Changes In Policies



- ☐ Nature
- ☐ Amount
- ☐ Description

If an entity has not applied a new standard or interpretation that has been issued but is not yet effective, the entity must disclose that fact

SACCO Supervision Report



DT-SACCOs owed Kshs 2.81 Billion in non-remitted deductions by various employer institutions

Universities and Tertiary Colleges owed DT-SACCOs over Kshs. 1.09 Billion

Proposed amendments to protect the usage of the word “SACCO” pending in Parliament since February, 2018.

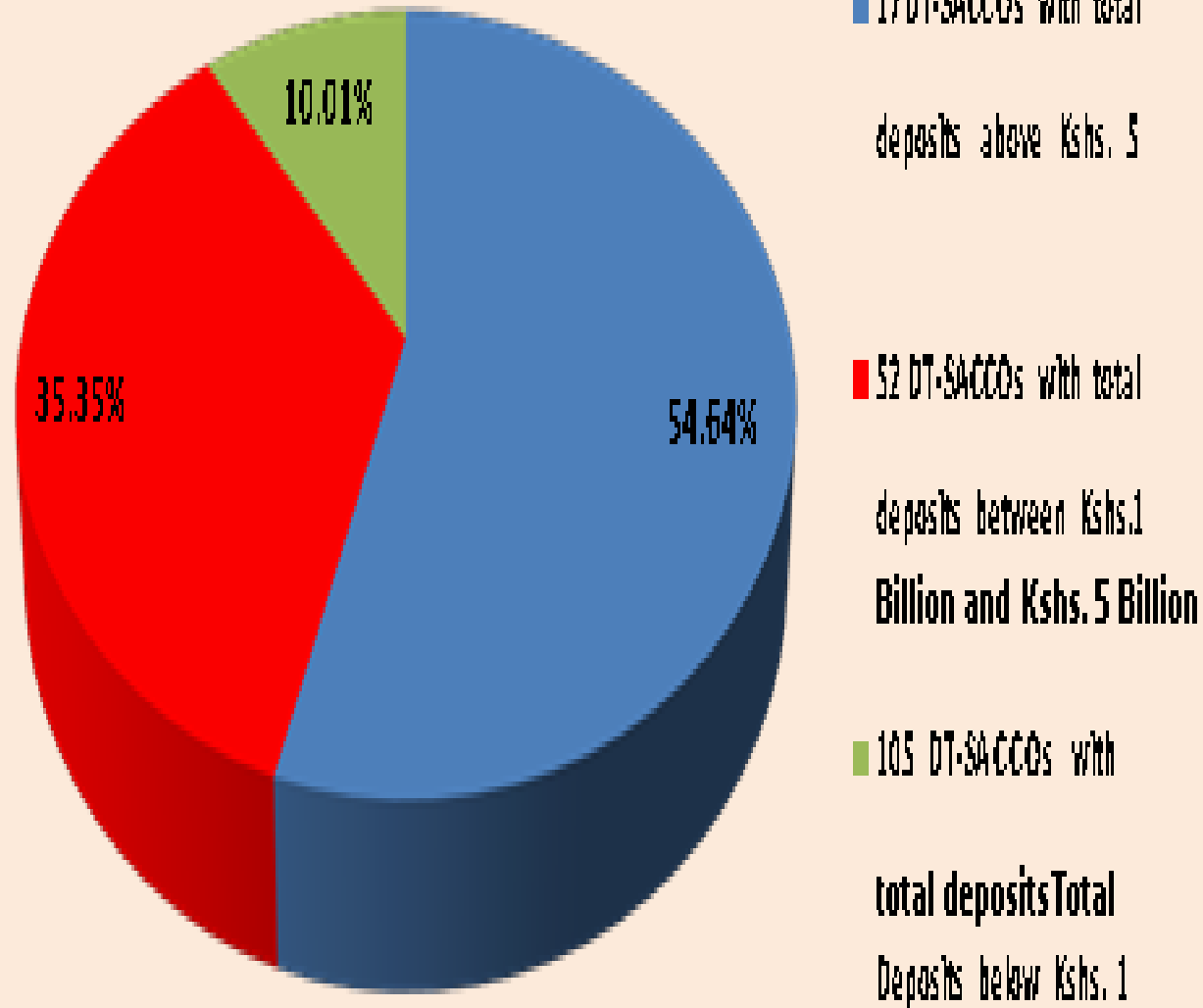
Deepening the public trust and confidence in SACCOs critical for sustainability

**27 DT-SACCOs with total
assets above Kshs. 5 Billion**

**57 DT-SACCOs with total between Kshs.1
Billion above Kshs. 5 Billion**

**90 DT-SACCOs with total assets below
Kshs. 1 Billion**

Market share of DT-SACCOs by total



- 17 DT-SACCOs with total deposits above Kshs. 5 Billion
- 52 DT-SACCOs with total deposits between Kshs. 1 Billion and Kshs. 5 Billion
- 105 DT-SACCOs with total deposits below Kshs. 1 Billion



17 DT-SACCOs with total deposits above Kshs. 5 Billion

52 DT-SACCOs with total deposits between Kshs.1 Billion and Kshs. 5 Billion

105 DT-SACCOs with total depositsTotal Deposits below Kshs. 1 Billion

“If a man is called to be a street sweeper, he should sweep streets even as a Michaelangelo painted, or Beethoven composed music or Shakespeare wrote poetry. He should sweep streets so well that all the hosts of heaven and earth will pause to say, 'Here lived a great street sweeper who did his job well.’”



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End

GOD BLESS YOU ALL