



Theme: Changes in SACCOs Reporting for Decision Making

Prudential Supervision and Statutory Audit of SACCOs



18th August 2019



Presentation Outline

1. Introduction
2. Regulatory Framework
3. Responsibilities of External auditors
4. Challenges in financial reporting



Introduction

- SASRA established under SSA to license, supervise and regulate DTS.
- Regulations for non-DTS at an advanced in the legislative process.
- Supervision and regulations aimed at ensuring operational stability and financial soundness of the sub-sector.
- SSA & SSR are risk based instruments providing minimum operational regulations and prudential standards for DTS
- Gradual adoption of risk based supervision methodology in the regulation of DTS



Regulatory Framework

- Provides for licensing and supervision of:
 - Deposit taking Sacco business
 - Specified non-deposit taking Sacco business
- Provides for manner of supervision: Onsite and offsite surveillance aimed at providing early warning indicators to identify DTS with high probability of failure for corrective actions.
- Regulatory tools target areas entailing significant risk for DTS business and hence going concern;



Regulatory Framework

- Minimum operational standards to enhance integrity of financial and operating data
- Regulation stipulate compliance with international Financial Reporting standards (IFRSs)
- Explicit and implicit responsibilities on professionals



Regulatory Framework: Prudential and Operating Standards

- i. Adequacy
- ii. Liquidity Management
- iii. Shares and deposits
- iv. Credit Risk Management
- v. Risk classification of Assets and Provisioning
- vi. Investments
- vii. Financial Performance Reporting
- viii. Governance
- ix. Regulation



Example ... On Credit Risk Management

Section 33(3) Every Sacco society shall prescribe in writing-

- (a) A loans policy and procedures manual specifying the criteria and procedures applicable in the evaluation, processing, approval, documentation and release of loans or credit facilities;
 - (b) An asset review system, which shall accurately identify risk and assure the adequacy of the provisions for losses account;
 - (c) A system of reviewing the entire asset portfolio including contingent accounts or off balance sheet items and adequate provisioning for losses at periodic monthly intervals.
- *Followed with regulations 28 to 46*



Example ... On Financial Condition

- S44(3) An external auditor shall, not less than four months after the end of each financial year, submit his report to the Authority, on the financial conditions of the deposit-taking business of the Sacco for which he has been appointed.
- S44(4) An external auditor's report submitted under subsection (3) shall contain information on the:
 - (a) solvency of the Sacco society's business and any concerns with respect to the financial condition of the society's business;
 - b) any violation of prudential standards or a condition of the licence; and
 - (c) any other contravention of this Act.



Regulatory Framework ... more Specific

Responsibilities of external auditor to the Authority

Reg.56. The duties of the external auditor in relation to the Authority shall be to

- (a) communicate any evidence of irregularities or illegal acts that have been committed by directors, employees or the Sacco itself;
- (b) inform the Authority, if there are grounds to believe that the Sacco is insolvent or that there is a significant risk that it may become insolvent;



Regulatory Framework ... more Specific

Responsibilities of external auditor to the Authority

Reg. 56 continued;

(c) report failure by the officers to provide all of the necessary information and documentation to enable the auditor to perform audit duties; and

(d) provide an opinion as to whether the Sacco management practices and procedures are sufficient to safeguard members' assets.



Challenges in Financial Reporting

- i. Non-compliance with legal and regulatory requirements by the Auditors and preparers of FS
- ii. Failure to consolidate financial statements
- iii. Misreporting of loans portfolio under IFRS-9
- iv. Failure to disclose non-compliance with prudential requirements
- v. Doubling as preparers of FS and external auditors.
- vi. Misclassification of financial Investments
- vii. Opinions not supported by the financial condition as reported in the FS
- viii. Balance between prudence and short term member interests



Your Say!!!

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