

FINANCIAL STATEMENTS; THE ROLE OF C-SUITE EXECUTIVES IN ENHANCING PRESENTABILITY, COMPLIANCE AND RELIABILITY

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Uphold public interest

Session Objectives



- Gain understanding of the Annual Reports and Financial Statements;
- Accounting Methods under Public Sector Audit and the elements of Financial Statements;
- Public Sector Audit Report Format; and
- Take Away..

Introduction



- A. Why do we prepare the annual reports and the financial statements?**
- B. Who is then responsible for their preparation and presentation?**
- C. Who are the users of financial statements?**
- D. What do users of financial statements expect?**
- E. How do we position ourselves as C-Suite to meet the needs?**

Definitions



Presentation

Sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts.

Compliance

Financial statements are compliant if they are in accordance with the acceptable accounting frameworks and meet the disclosure requirements.

Reliability

Information is considered reliable if it can be checked, verified, and reviewed with objective evidence.

Annual Reports and Financial Statements



A. Key Entity Information and Management;

a) Background information

- Where is the entity premised?
- What is the mandate of the entity, vision and mission ?
- What are the entity's strategic objectives and core values ?
- What are the departments and institutions under the entity?

b) Principal Activities

c) Key Management

d) Fiduciary Arrangements

Annual Reports and Financial Statements



Key Entity Information and Management cont'd;

- e) Fiduciary Oversight arrangements
 - Committees and their functions
- f) Entity headquarters
- g) Entity Contacts
- h) Entity Bankers
- i) Independent Auditors-OAG
- j) Principal Legal Advisor

Annual Reports and Financial Statements



B. Forward by the CS / Chairman's Statement

- Budget performance by programmes and sub-programmes;
- Key performance highlights;
 - Financial performance summary,
 - Key achievements during the year-project implementation status, and
 - Challenges faced and the way forward.

Annual Reports and Financial Statements



C. Statement of Entity Management responsibilities

- Affirmation of compliance with Sections 83(1) and (2 (b) of PFM Act, 2012 - preparation of financial statements in the format prescribed by the PSASB of Kenya;
- Approval of the financial statements for issuance and signed off by the accounting officer and the accountant who must be a member of ICPAK.



Microsoft Word
Document

For current reporting templates, refer to <https://www.psasb.go.ke/resources/>

Accounting Methods under Public Sector



A. Cash Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)-County Governments, MDAs and Donor Funded Projects

Elements

- a) Statement of receipts and Payments;
- b) Statement of Assets and Liabilities;
- c) Statement Of Cash Flows;
- d) Summary Statement of Appropriation: Recurrent And Development Combined as well as separately;
- e) Budget Execution by Programmes and Sub-Programmes;
- f) Significant Accounting Policies; and
- g) Notes to the Financial Statements and appendices.

Accounting Methods under Public Sector



B. Accrual Basis of Accounting Method under IPSAS- State Corporations, SAGAs and Funds

Elements

- a) Statement of Financial Performance;
- b) Statement of Financial Position;
- c) Statement of Changes in Net Assets
- d) Statement Of Cash Flows;
- e) Summary Statement of Comparison of Budget and Actual Amounts;
- f) Notes to the Financial Statements; and
- g) Appendices.

Accounting Methods under Public Sector



C. International Financial Reporting Standards (IFRSs) Accounting Method – Corporations Trading including listed Entities

Elements

- a) Statement of Comprehensive Income;
- b) Statement of Financial Position;
- c) Statement of Changes in Equity;
- d) Statement Of Cash Flows;
- e) Summary Statement of Comparison of Budget and Actual Amounts;
- f) Notes to the Financial Statements ; and
- g) Appendices.

Public Sector Audit Report Format



A. Opinion Section

- Fair statement of the financial position and performance
- Compliance with the applicable accounting framework e.g. IPSAS Cash Basis, Accrual or IFRS;
- Compliance with the applicable legislation (enabling or otherwise) e.g. Companies Act 2015, Water Act, 2016 or PFM Act, 2012.

Opinion Types

- Disclaimer of Opinion;
- Adverse opinion;
- Qualified opinion; and
- Unqualified opinion.

Public Sector Audit Report Format



B. REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

- Article 229 (6) of the constitution requires the Auditor-General to confirm the lawfulness and effectiveness in the use of Public resources;
 - Adherence to the applicable laws, entity policies and procedures, and
 - Value for money from the expenditure;- market prices, idle, stalled or delayed completion.

Public Sector Audit Report Format



C. REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Section 7(1)(a) of the Public Audit Act, 2015, requires the Auditor-General to confirm whether internal controls, risk management and overall governance were not operating in an effective way during the year under review e.g.

- Poor governance at the leadership levels,
- Management override on controls,
- Lack of or an ineffective internal audit function in place,
- Abnormal losses beyond the set threshold, and
- Lack of risk management policy.
- Amongst others

Take Away..



- Annual report should speak to the financial statements;
- Accounting method used should be appropriate to the entity;
- Reporting is a joint responsibility for the entire C-Suite, not a preserve for the accountants;
- Quarterly reports prepared and submitted to the boards or equivalent should have a bearing to the year end financial statements;
- Invest in an accounting system that gives you the desired reports including the financial statements;
- Inbuilt controls in the processes, financial reporting is just but the last milestone; and
- Invest in the right people, train them and continuously keep them motivated.



