



# INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF KENYA

Chief Judge comments

J Gichuki

Co-Chief Judge 2019 Fire Awards

Credibility

Professionalism

AccountAbility

# The state of IFRS



<b>PUBLIC SECTOR</b>	<b>No. of entries at final stage</b>	<b>Average score out of 200</b>
IPSAS ACCRUAL	6	121.16
IPSAS CASH	6	137.48
IFRS	3	117.50
COUNTIES	2	141.175
NG-CDF	1	150.90

# Findings 2018-2019



- What does it take to get the highest mark of 85?
- 3 minor errors e.g.
  - Auditor used a very slightly outdated version of the report
  - Failed to outline key sources of estimation uncertainty
  - Failed to use IAS 24/ IPSAS 20 classifications on key management personnel remuneration

# Findings 2018-2019 – some Some Issues – IPSAS Accrual



- 1.132 Failure to disclose policies relating to key elements in the summary of significant accounting policies: - Key financial statement items should have an accounting policy (See 1:135)
- Failure to disclose the number of individuals, determined on a full time equivalent basis, receiving remuneration within the category of key management personnel and within each major class  
20.34 (a)

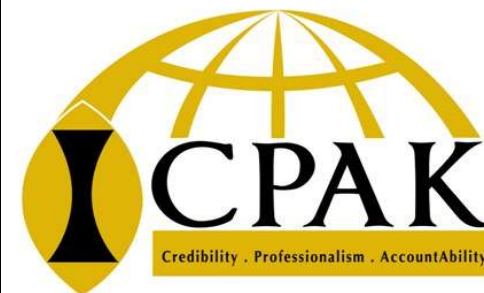


# Findings 2018-2019 – some Some Issues – IPSAS Accrual



- Failure to disclose the methods and, where a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities: 30.31
- Failure to provide qualitative disclosures for each type of risk arising from financial instruments: 30.40

# Findings 2018-2019 – some Some Issues – IPSAS Accrual



- (c) reserves, including a description of the nature and purpose of each reserve within net assets/equity 1.95 (c)
- Failure to disclose the amount of any significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity and/or a management commentary 2.59

# Findings 2018-2019 – some

## Some Issues – IPSAS Accrual



- Failure to provide information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital – e.g. contents of official circulars on capital management 1.148A
- Failure to provide an explanation of material differences between the budget and actual amounts been presented in the notes, except where such explanation has been included in other public documents issued in conjunction with the financial statements and a cross-reference to those documents has been made in the notes 24.14 (c)



# Findings 2018-2019 – some

## Some Issues – IPSAS Cash



- Non disclosure in relation to key management personnel and their remuneration 20:34
- Failure by the report of the Auditor General to include a section describing other information accompanying audited financial statements in accordance with ISA 720 (Revised) ISA 700 (Revised) 2015 Para 32
- Failure to clearly identified and distinguished financial statements from other information in the same published document. 1.4.21
- By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.



# Findings 2018-2019 – some

## Some Issues – IPSAS Cash



- Failure to present additional line items, headings and sub-totals in the statement of cash receipts and payments when such presentation is necessary to present fairly the entity's cash receipts, cash payments and cash balances.

1.3.14

# Findings 2018-2019 – some

## Some Issues - Banks



- IAS 1:113 Failure to present, as far as practicable, notes in a systematic manner.
- IAS 1:79(b) a description of the nature and purpose of each reserve within equity.
- "IAS 24:17 short-term employee benefits; (failure to classify properly or at all)
- IAS 7:19 cash flows from operating activities using the direct method. Bonus given! (Only one did)
- "IAS 24:18(b)" i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement;

# Findings 2018-2019 – some

## Some Issues - Banks



- Maturity analysis for liabilities has the same figures as b/s despite the fact that it should be undiscounted. (IFRS B11D - IFRS 7 & para 39a)
- There was a wide variety of different issues mostly IAS 1 and IFRS 7 naturally
- However - little or no clustering = no systematic failure to comply with presentation requirements.
- One complied with complied with the IAS 12.82A! (tax & profit distribution)

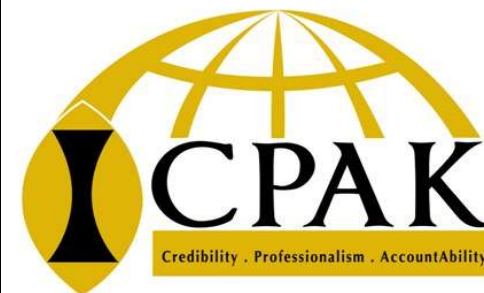


# Findings 2018-2019 – some Issues - ICS



- IFRS 7:36(a) the amount that best represents its maximum exposure to credit risk omitted
- IFRS 7:36(b) a description of collateral held as security etc. omitted
- IAS 1:10(b) Failure to indicate "for the period"
- IAS 40:79(e) the fair value of investment property omitted

# Findings 2018-2019 – some Issues - Agriculture



- IAS 10:17 failure to disclose the names of the directors authorising financial statements.
- IAS 16:77(e) for each revalued class of PPE, the carrying amount that would have been recognised under the cost model;
- "IAS 24:17(a)" failure to disclose post employment component
- IAS 40:75(e) failure to state that the valuer has experience in class and location...

# Findings 2018-2019 – some Issues - Insurance



- IAS 1:77 Failure to present either in the statement of financial position or in the notes, further sub-classifications of the line items presented...
- IAS 12:81(e) the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the statement of financial position;



# Findings 2018-2019 – some Issues - Insurance



- IAS 1:77 Failure to present ...further sub-classifications of the line items presented...
- ISA 700:40 Audit report not signed.
- IAS 1:82(b) Where there is evidence of borrowing (overdraft) one expects the interest to be shown as finance costs.
- IAS 12:81(e) Does not mention the expiry date of tax losses.

# Findings 2018-2019 – some Issues - Insurance



- Similar observations arose in the Sacco and NFP groups.

# Findings 2018-2019 – Some other comments



- “Auditors” or “auditor?”
- Surplus from fair value changes in biological assets
- Gearing ratio computed for a non-leveraged entity – overcommunication?
- Generally lenient on Public Sector when it comes to Governance and Integrated reporting. This needs to improve.

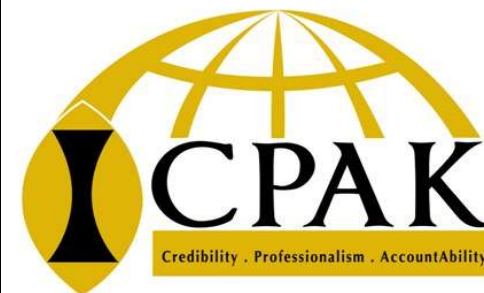


# Findings 2018-2019 – Some other comments



- Gratuity falls under the definition of a DB scheme – often forgotten
- F/S should not be mixed up with other statements. (Someone had an “Embedded Value” statement embedded in the F/S)
- Sacco auditors’ reports were **ALL** non-compliant with the Co-operative Societies Act which prescribes some of their content.

# Findings 2018-2019 – Some other comments



- Some Sacco auditors attempted to address Sasra requirements in the audit report which was also incorrect.
- A retirement Benefits Scheme had a Cash Flow Statement – which wasn't required. And then got penalised because it lacked X-refs. Be careful what you wish for.
- Inventories expensed during the year.

# Findings 2018-2019 – Some other comments



- Reporting non-relevant issues. Notoriously common.
- *Quote from the Conceptual Framework –*
- *Understandability*
- QC30 *Classifying, characterising and presenting information clearly and concisely makes it understandable.*
- QC31 *Some phenomena are inherently complex and cannot be made easy to understand. Excluding information about those phenomena from financial reports might make the information in those financial reports easier to understand. However, those reports would be incomplete and therefore potentially misleading.*



# Findings 2018 –2019 Some other comments



- QC33 *Enhancing qualitative characteristics should be maximised to the extent possible. However, the enhancing qualitative characteristics, either individually or as a group, cannot make information useful if that information is irrelevant or not faithfully represented.*
- *Information must be both relevant and faithfully represented if it is to be useful. Neither a faithful representation of an irrelevant phenomenon nor an unfaithful representation of a relevant phenomenon helps users make good decisions.*