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Cross cutting findings from the 2014/2015 quality review of financial statements for State Corporations and SAGAs

Towards excellence

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The National Treasury

2014/2015

Cross Cutting findings

1. General flow of information in the financial statements

- Notes to the financial statements not chronological.
- Formatting, font and alignment in the financial statements not proper.
- Casting errors in the financial statements.
- Spelling mistakes in narrations included in the report.
- Material balances and transactions not supported balances by notes.

Cross Cutting findings

2. Other important information to users of the financial statements

- Some financial statements had no documentation on chairman’s statement, CEO’s statement, corporate governance, CSR statement, board of directors, management team and progress on follow up of auditor recommendations.

Cross Cutting findings

3. Cash and cash equivalents

- Classification of cash and cash equivalents and investments - Items that are maturing after 90 days were included as cash and cash equivalent, they should be classified as other investments.

- Support of cash and cash equivalents in the notes – there was no notes to the financial statements supporting cash and cash equivalent as included in the statement of financial position and cash flow statement.

Cross Cutting findings

3. Cash and cash equivalents

- Cash balances as per statement of financial position and statement of cash flows were not agreeing. The amounts should agree or be explained by a note why they are not agreeing.

- Presentation and disclosure of bank overdraft in the financial statements – Some entities offsetted the liability with the debit balances, collateral, lender and interest rate were not disclosed.

Cross Cutting findings

3. Cash and cash equivalents

- Break down of where cash and cash equivalents are held by the entities was not included in the financial statements. The entities are supposed to disclose which commercial banks they are holding the cash and cash equivalents as at the end of reporting period.

- Cash and cash equivalent (excluding cash) was not included under financial risk management disclosures – Credit risk exposure and analysis.

Cross Cutting findings

4. Property plant and equipment

- Qualified opinion resulting from lack of ownership documents especially for land and donated vehicles
- Donated assets were not recognized nor disclosed in the financial statements.
- Revaluation of PPE was not done on a regular basis, say 3-5 years, where the entities have adopted the revaluation model.
- There was no distinction between PPE and investment property in the financial statements, whereas the two are accounted for under different accounting standards.

Cross Cutting findings

4. Property plant and equipment

- Under the accounting polices, most entities did not clearly disclose whether they have adopted cost or revaluation model.

- There was no description of what Work In Progress (WIP) under PPE related to.

- PPE that is collateral to the entities borrowings was not disclosed under the PPE and borrowings note.

Cross Cutting findings

4. Property plant and equipment

- Transfer of assets from the line ministries with no documentation.

- Accounting for donated assets, Work in Progress

- Disclosure of PPE note/schedule - in some financial statements there were no comparatives that were presented showing the breakdown of cost and accumulated depreciation brought forward.

Cross Cutting findings

5. Receivables/ debtors

- Classification into receivables from exchange and non exchange transactions was not included in the notes to the financial statements.
- Inadequate provisions for bad and doubtful debts leading to qualification of financial statements.
- Unsupported receivables listing resulting to qualifications.
- No aged listing of debtors for inclusion of the summarized analysis under the credit risk exposure disclosures included in the financial risk management note.

Cross Cutting findings

5. Receivables/ debtors

- Presentation and disclosure of provision for bad debts – some of the entities were disclosing the receivables net instead of grossing up.

- Breakdown of receivables in the notes not different from the one on the statement of financial position. The amount in the notes should be detailed showing Trade receivable, Prepayments, Other Receivables etc.

Cross Cutting findings

6. Borrowings

- Split between current and non current portions of loan balances was not disclosed in the notes.

- Minimum disclosure requirements on borrowings in the financial statements such as interest, loan duration, terms and security, if there are any capitalized borrowing costs were missing.

- Classification of borrowings due to related parties was not prevalent in a number of financial statements yet they had such borrowings.

Cross Cutting findings

7. Taxation

- No tax computation done by some entities.

- No deferred tax provision in the financial statements when it was clear from the draft financials that there are temporally differences.

- Taxation amount in the financial statements not supported by other explanatory notes.

Cross Cutting findings

7. Taxation

- A number of entities have tax penalties from assessments done by Kenya Revenue Authority and are not paying.

- Financial statements did not contain a policy on taxation and deferred taxation.

- Tax losses carried forward for more than four years.

- No disclosure of the entities taxation status ie whether exempted from Taxation or not citing the relevant legislation.

Cross Cutting findings

8. Statement of changes in equity/net assets

- Incorrect opening balances carried forward in the current financial reporting period.
- Casting errors on the statement of changes in equity/net assets.
- Profit or loss not as per the statement of financial performance or income statement.
- Unexplained prior year adjustments – Most of the statements had such and they were not properly restated. There should be a note explaining the restatement and earliest period retained earnings should be amended to reflect the prior year adjustments.

Cross Cutting findings

8. Statement of changes in equity/net assets

- Capital fund for donated assets not matched with expenses(depreciation) – The balances haven't moved since it was recognized which contravenes the accounting standards.
- Nature and purpose of the reserves/Net assets not indicated in the financial statements – as a note or on the face.
- Revaluation reserve was not having movement – the reserve should be reduced every year with the element of the depreciation that relates to the revaluation element.

Cross Cutting findings

9. Statement of cash flows

- Incorrect cash and cash equivalents for both periods which are not agreeing to the notes.

- Use of direct and indirect method of cash flow simultaneously – An entity should use one of the methods which give users more relevant information for decision making.

- Cash flow balances were not supported by notes to the financial statements.

Cross Cutting findings

9. Statement of cash flows

- Cash flow balances not explained by movements in the balance sheet items.

- Casting errors in the cash flow statement.

- No references to notes in the statement of cash flow for items such as additions to PPE etc.

Cross Cutting findings

10. Statement of comparison of budget and actual amounts(applicable to IPSAS)

- Statement not prepared in some financial statements
- Explanations for material variances between budgeted and actual amounts not provided.
- There was no reconciliation of actual amounts as per statement of comparison of budget and actual amounts to the underlying financial statements.
- Where there was budget revisions, some entities did not indicate so and reconcile the original to the revised amounts.
- Budget policy included in the accounting policies did not indicate the basis of budget.

Cross Cutting findings

11. Notes to the financial statements- Accounting policies

- Missing accounting policies e.g. on Taxation, IFRS 7 disclosures, sources of estimation uncertainty, contingent liabilities/ assets, related parties, budget information among others.

- Revenue recognition policy not documented for all material classes of revenue.

Cross Cutting findings

12. Notes to the financial statements – Other explanatory notes

- Material accounting balances and transactions notes were not included in the financial statements.
- No documentation on changes to IFRS as well as new amendments.
- Some notes to the financial statements were not agreeing to the main statements and had different descriptions.
- Some notes did not have breakdown of what it relates, only one line instead of a detailed description defeating the purpose of the notes.

Cross Cutting findings

12. Notes to the financial statements – Other explanatory notes

- Critical judgements and sources of estimation uncertainty were not included under the accounting policies.
- Financial risk management disclosures as per IPSAS 30 and IFRS 7 were not adequate.
- Workings for financial risk management disclosures were not provided
- Significant accounting policies on related parties, subsequent events, contingent liabilities, budget information and taxation were missing in the financial statements.

Cross Cutting findings

13. Revenue and expenditure

- Under IPSAS, no classification of revenue from exchange and non exchange transactions or classification was not correct.
- Accounting for donations from the government and other donors; distinction between restriction and condition not observed.
- Material other income not supported by notes to financial statements.
- Expenses were presented by both nature and function instead of one.

Cross Cutting findings

14. Inter –Entity Transfers

- Accounted differently for recurrent and Development.
- Not agreeing with the transferor records.
- Different interpretation of transfers by different reporting entities.

Discussion – Q & A