Report on

DFID/FSDU

Study of impact of accounting & audit training

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Executive Summary

Introduction

Stakeholders in the MFI Industry in Uganda have been concerned about the low quality of financial statements produced by MFIs, as well as the low quality and high cost of MFI audits. A three pronged strategy was developed, namely to enhance auditor capacity, standardise accounting systems and enhance MFI bookkeeping skills.

In July 05, FSDU commissioned a pilot training for AMFIA members and their auditors. In March 05 to July 06, three courses (Fundamentals of Accounting 1&2 and Auditing MFIs) were then given to MFIs and their auditors in 4 districts of Uganda. The purpose of this evaluation is to assess the impact of that training in terms of knowledge acquisition and application by selected MFIs and their auditors.

Methodology

Basing on the training materials, 10-15 key learning objectives were identified for each course, and tools developed to assess whether or not those objectives had been met. The most critical learning objectives for the courses were identified as follows:

FAP 1	FAP 2	Audit of MFIs
• Double entry • Ageing and provisioning loan portfolio	• Bank reconciliations • Trial Balance • Balance sheet • Income Statement	• Features of MF Industry • Audit approach for loan portfolio • Need for client visits • CGAP disclosure guidelines

Effectiveness in meeting the objectives was assessed according to a range of criteria: such as the trainees' own assessment on how well the objectives were met and the level of confidence they had gained in carrying out certain skills, improvements in the financial statements, quality of accounting records and implementation of key internal controls, quality of client audit files and existence of specialised audit programmes.

Impact of the trainings

Trainees' assessments of the degree to which the learning objectives had been met were not positive. For FAP1 and the auditing course, 50% of the most critical objectives were met to an acceptable level, but for FAP 2, none were satisfactorily achieved.

MFI trainees' assessments of confidence in various skills was high for double entry & cashbook maintenance, medium for preparation of Income statement and Balance sheet and low for preparation of a portfolio report or developing a chart of accounts.

Over 80% of the MFIs visited were able to produce an income statement, balance sheet and portfolio report, which were about 85% PMT compliant.

Apart from cash count reconciliations, key internal controls and accounting procedures were severely lacking (which casts doubt on the accuracy of the financial statements they were able to produce), such as bank reconciliations, maintenance of double entry ledgers and adequate audit trail from financial statements to accounting records to supporting documents.

Only one of the seven auditors sampled was able to produce any audit client files, and none were able to show any evidence of audit tests carried out or of any work plans.

The financial statements produced by the auditors were on average only 43% compliant with the CGAP disclosure guidelines.

Factors contributing to the low impact

The level that the training courses were aimed or pitched at was in many instances too high for the trainees that were present, possibly because the pilot courses were developed without first carrying out a training needs assessment. Some of the FAP course content was more appropriate to a 1st year BCom student than to a CBFI bookkeeper. The content of the audit course, based on CGAP materials, assumed that the auditors knew about auditing, but needed to be updated on the peculiarities of the MF Industry, whereas many of the DCOs present were knowledgeable about the industry but lacked basic audit skills.

The methodology of the training was focussed on power point lectures, with some exercises. The training materials developed for the pilot audit course included overheads, power point slides, session plans, pre & post tests, in addition to the participants' manual. However, only the participants' manual was passed on to the next trainers, who subsequently re-developed new power point slides and exercises. We were not able to ascertain what further materials were originally developed for the FAP pilot course, but again, it was only the participants' manual that was passed on to the next trainers.

No provision was made for follow up or mentoring of trainees after the course, which is known to have a big impact on helping them to apply knowledge and implement skills learned during a training course.

There is little in the way of effective review or regulation of DCOs or private audit firms, so there is not much incentive to implement labour intensive and costly practices such as maintaining audit client files, developing or following audit programmes, documenting audit evidence, using disclosure checklists etc. Many auditors perceive their primary role as helping clients to prepare the year end financial statements, rather than forming a reasonable basis for an opinion on those statements.

Recommendations for the way forward

The findings of this report should be used as the basis for re-designing the training courses so that they are appropriately pitched and have a high enough level of participation, similar to the CGAP training methodology.

Some level of on site mentoring or follow up should be part of the process to help trainees to apply and implement their learning.

The audit course should be split into two courses: a two week course for DCOs on basic auditing skills, in addition to the current 2-3 day course for selected private audit firms about the MFI industry.

Some mechanism for review of DCO audit files should be instituted.

In order to have control over the quality of services provided by private audit firms, we recommend the establishment of a list of approved auditors, and requirement by key industry regulators / stakeholders that MFIs use auditors from that list. Audit firms could apply to receive an evaluation / review of their audit files to establish whether or not they qualify to receive the training and be added to or retained on the list.

Appreciation

We are grateful to FSDU for the opportunity to carry out this evaluation, to Kisaka & Co for their hard work in delivering the training, and very helpful provision of information for this evaluation, and to all the CBFI and auditor trainees who participated. We look forward to industry stakeholders debating these recommendations and implementing strategies to help continue improving the quality of financial reporting in the MFI Industry in Uganda.

CONTENTS

ABBREVIATIONS

ACLAIM	Associated Consultants in Leadership and in Management
AMFIA	Association of Micro Finance Institutions of Ankore
AMFIU	Association of Micro Finance Institutions of Uganda
CBFI	Community Based Financial Institution
CGAP	Consultative Group to Assist the Poorest
CPA	Certified Public Accountants
DCO	District Cooperative Officer
DFID	Department for International Development (UK Govt)
ETB	Extended Trial Balance
FAP	Fundamentals of Accounting Practice I&II – Training courses
FSDU	Financial Sector Deepening Project Uganda
IAS	International Accounting Standards
ICPAU	Institute of Certified Public Accountants of Uganda
MDI	Micro Deposit-Taking Institution
MFI	Micro Finance Institution
MIS	Management Information System
PAR	Portfolio at risk
PMT	Performance Monitoring Tool
SACCO	Savings and Credit Cooperative Organisation
UCA	Uganda Cooperative Alliance

1 BACKGROUND

FSDU and other stakeholders in the MFI industry were concerned about the low quality of financial statements prepared by CBFI accountants and the low quality and high cost of audit services. The key strategies to help solve these problems had been identified as:

1. Enhancing the capacity of auditors through training in the audit of CBFIs using CGAP guidelines;
2. Standardising the accounting systems as far as possible; and
3. Enhancing the skills of CBFI bookkeepers through training in basic accounting skills.

In July 2005, FSDU engaged ACLAIM Africa Ltd to design and deliver two pilot training courses to members of AMFIA and their auditors: Financial Analysis and Audit of CBFIs. Friends Consult Ltd developed the training in fundamentals of accounting 1. Lessons learnt from these pilots were then incorporated into a new training scheme, and Kisaka & Co, CPA was contracted to develop Fundamentals of Accounting 2, and to train selected CBFI staff and auditors in 4 regions of Uganda in three courses:

1. Fundamentals of Accounting 1
2. Fundamentals of Accounting 2
3. Audit of MFIs / SACCOs

FSDU contracted ACLAIM Africa Ltd in September 2006 to carry out an assessment of that training. The exercise was conducted by four ACLAIM consultants from September to November, 2006.

2 OBJECTIVES

The full TOR is attached, but in essence, the objectives of the evaluation are to answer the following 4 questions:

1. Were the CBFI staff trainees able to apply the skills learnt and write the books of account correctly?
2. Has the quality of the Financial Statements of the trained CBFIs improved?
3. Have the trained auditors gained skills to improve their CBFI audits?
4. What further improvements (if any) should be made to the training materials?

3 METHODOLOGY

The assignment was conducted in 3 phases

- Phase 1: Preparation of tools, team briefing & logistics
- Phase 2: Field visits to selected CBFIs and auditors
- Phase 3: Analysis of findings, report writing & presentation

Phase 1:

- The Consultants familiarised themselves fully with the training materials from the three courses, including any amendments made after the initial pilot phase.

3 METHODOLOGY (contd)

Phase 1 (contd):

- 10-15 critical learning points from each of the 3 training courses were identified, and tools were then developed (see appendices 3-7) to enable the researchers to identify the extent to which these critical learning points had been 1) understood and 2) applied by the trainees. The tools resulted in quantitative results that enabled subsequent comparison and analysis, as well as qualitative comments and opinions to help guide recommendations for improvements. The tools were developed by Dan Opio for FAP I&II and Edgar Beyaraaza for Audit training, with input and review from other team members and was approved by FSDU.

- The sample CBFIs were randomly selected and logistical arrangements made for travel, accommodation and timing of visits.

Phase 2:

- Out of the 60 CBFIs trained in 6 towns, 15 were selected (25%) See appendix 2.

- 3 researchers went into the field: A total of 15 CBFIs were visited in Arua, Gulu, Soroti, Iganga, Mbarara & Kabale regions, with an estimated 1 day for each visit. In addition, 3 auditors from each of Mbarara and Nebbi were visited, for ½ day each.

- The CBFI visits included review of accounting records and financial statements of the CBFIs, and interviews with trainees and users of the financial statements. The auditor visits included review of 2-3 CBFI audit files (including audited financial statements) conducted since the training, and any standardised work plans developed, together with interviews with the trained staff and an audit partner (or senior manager).

- The field researchers documented their findings on laptops as they went along thereby reducing the amount of write up time necessary.

Phase 3:

- The data was collated and analysed, a draft report prepared and reviewed by the team and FSDU.

- The draft report was presented to a range of industry stakeholders on 6 December 2006.

4 FINDINGS AND ANALYSIS

4.1 FUNDAMENTALS OF ACCOUNTING COURSES 1 & 2

4.1.1 Sampling for evaluation purposes

68 CBFIs received training in FAP1 and FAP2 courses. The evaluation contract stipulated that 20% should be reviewed within a sample, which is 14 CBFIs. In fact 15 CBFIs were visited, 5 in each of three regions: Western, Eastern & Northern. The CBFIs and individuals spoken to are listed in Appendix 2.

4.1.2 Training course objectives

FAP 1 objectives (in summary form)

- Double entry bookkeeping
- Aging and provisioning of the loan portfolio

- Purpose of financial accounting
- Importance of financial management
- Chart of accounts for CBFIs
- Expenditure controls
- Balance sheet
- Income statement
- Types of financial disclosures to be made by MFIs

- Accounting principles/concepts
- Cash flow statement

Of the 11 FAP1 objectives, the first two are considered most critical and the last two least critical to the overall objectives of the course.

FAP 2 objectives (in summary form)

- Prepare bank reconciliation statements
- Prepare a trial balance
- Know format for balance sheet
- Prepare income statement for an MFI

- Revision of FAP 1 concepts
- Components and operations of accounting cycle
- Double entry records for depreciation
- Importance of keeping a fixed assets register
- Control accounts
- Key performance measures and how they are calculated

- How to prepare a worksheet (Extended Trial Balance)
- How to prepare the cash flow statement

Of the 12 FAP2 objectives, the first four are considered most critical and the last two least critical.

4.1.3 Training course dates

FAP1 Training dates

Region	Course	Dates Conducted	Time before evaluation
Soroti	FAP 1	13-17 March 2006	6 months
Iganga	FAP 1	8-12 May 2006	4 months
Nebbi	FAP 1	16-20 January 2006	8 months
Gulu	FAP 1	28 Nov – 2 Dec 05	9 months
Mbarara	FAP 1	No information	
Kabale	FAP 1	12-16 June 2006	3 months

FAP2 Training dates

Region	Course	Dates Conducted	Time before evaluation
Soroti	FAP 2	24-26 April 2006	5 months
Iganga	FAP 2	26-28 June 2006	3 months
Nebbi	FAP 2	13-17 February 2006	7 months
Gulu	FAP 2	27-29 March 2006	6 months
Mbarara	FAP 2	22-4 May 2006	4 months
Kabale	FAP 2	10-12 July 2006	2 months

4.1.4 Degree to which training objectives were met

The degree to which the training objectives were met is considered on the basis of the following 5 criteria:

- Self-assessment by the trainees according to the objectives
- Results of pre and post training tests
- Self-assessment by the trainees according to skills acquired
- Quality of the financial statements and records prepared since the training
- Existence of key internal controls and accounting procedures

The first two are considered for each course separately, while, the last three are considered together.

a) Self-assessment by trainees: objectives

FAP 1

The 15 trainees interviewed rated each of the 12 training objectives as being met largely, to some extent, or not at all. No objectives were judged as ‘largely met’ by all interviewees.

According to the trainees, those best met were (>60% said largely met)

- The purpose of accounting
- The meaning and importance of financial management
- Double entry bookkeeping
- Income Statement

Those least met were (<30% said largely met)

- Aging and provisioning of the loan portfolio
- Financial disclosures
- Chart of accounts
- Cash flow statement (27% said not at all)

4.1.4 Degree to which training objectives were met (contd)

a) Self-assessment by trainees: objectives (contd)

FAP 1 (contd)

Of the two most critical objectives, one was satisfactorily met (understanding of double entry), while the other was not (ageing and provisioning the loan portfolio). Overall the 'value added', according to trainees, was 47%.

FAP 2

The 15 trainees interviewed rated each of the 12 training objectives as being met largely, to some extent, or not at all. No objectives were judged as 'largely met' by all interviewees.

According to the trainees, only one objective was well met (>60% largely met)

- Revision of FAP 1 concepts

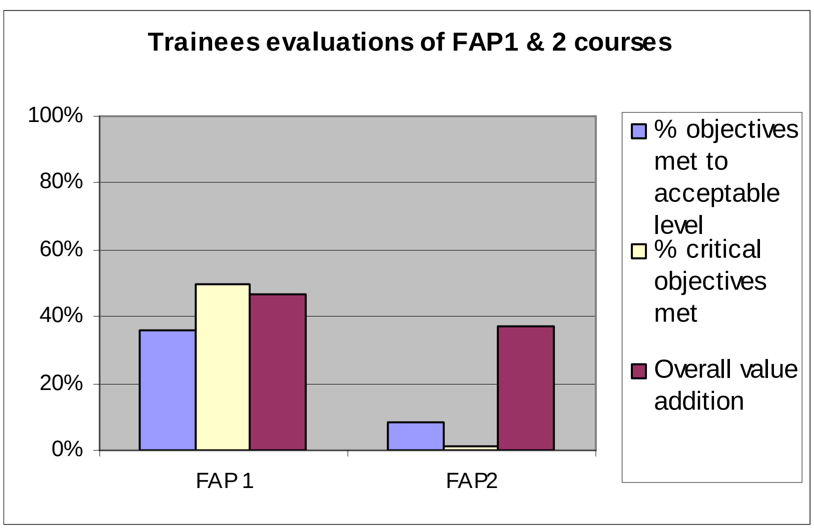
Those least met were (<27% said largely met)

- Keeping a fixed asset register
- Cash flow statement
- Key performance measures

The four most critical objectives were:

- Prepare bank reconciliation statements
- Prepare a trial balance
- Know format for balance sheet
- Prepare income statement for an MFI

They each received similar but not very encouraging results with just about 50% saying 'largely met' and 50% 'to some extent'. Overall the 'value added' by the training, according to trainees, was 37%.



b) Pre & post training test results

The pre & post training quiz is designed to evaluate the extent to which the training added to knowledge that the trainees had before they were trained. One might expect an average pre training result of ~35% and a post training result of ~75%, based on a simple test of critical aspects covered in the course.

4.1.4 Degree to which training objectives were met (contd)

b) Pre & post training test results (contd)

FAP1

The results of the pre training test ranged from 10% to 70%, and the post training ranged from 22% to 100%, with the average moving from 41% to 61%.

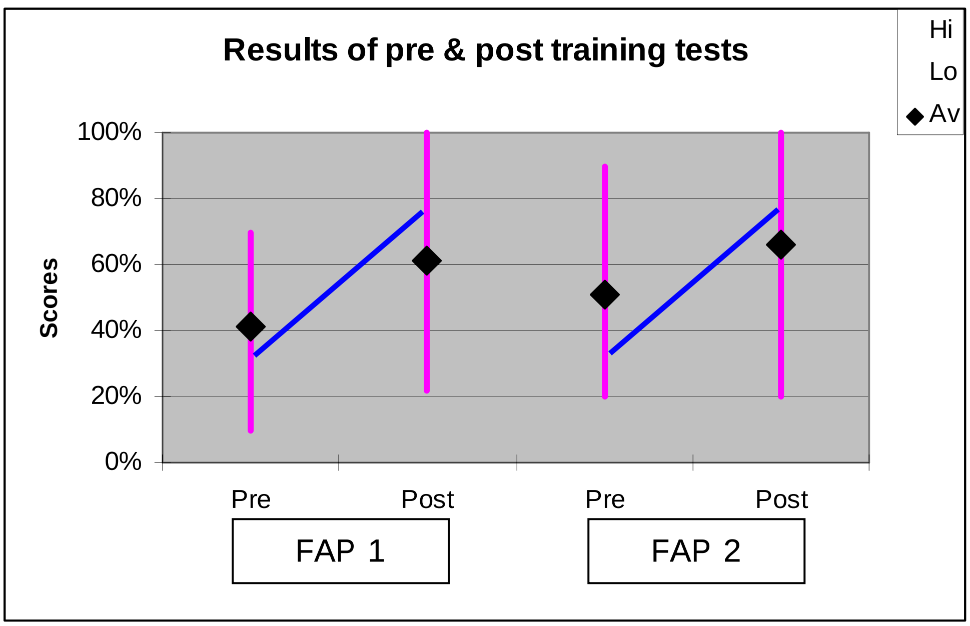
Our review of the test (Appendix 9) suggests that this poor result may be more to do with the design of the quiz than the performance of the trainers or trainees. The quiz was a multiple choice, which is a good format for pre/post tests, but Qs 7,8 & 10 contained errors, Qs 2,3,5 were too academic (accounting concepts, bases, classification of errors) or not relevant (e.g. sales and purchases are most relevant to trading companies not CBFIs) for the trainees, and Q1 was too easy.

FAP2

The results of the pre training test ranged from 20% to 90%, and the post training ranged from 20% to 100%, with the average moving from 51% to 66%.

The test was again multiple choice, but Qs 1, 5 &9 contained errors or were poorly worded, and Qs 2, 3, 5 &10 were too academic or not relevant to the trainees (e.g. cost of goods sold, statement of changes in equity, analysis of financial performance).

The graph below shows the results from the pre & post test from the two courses, illustrating the relatively small increases seen. The diagonal line represents the desired increase from 35% to 75%.



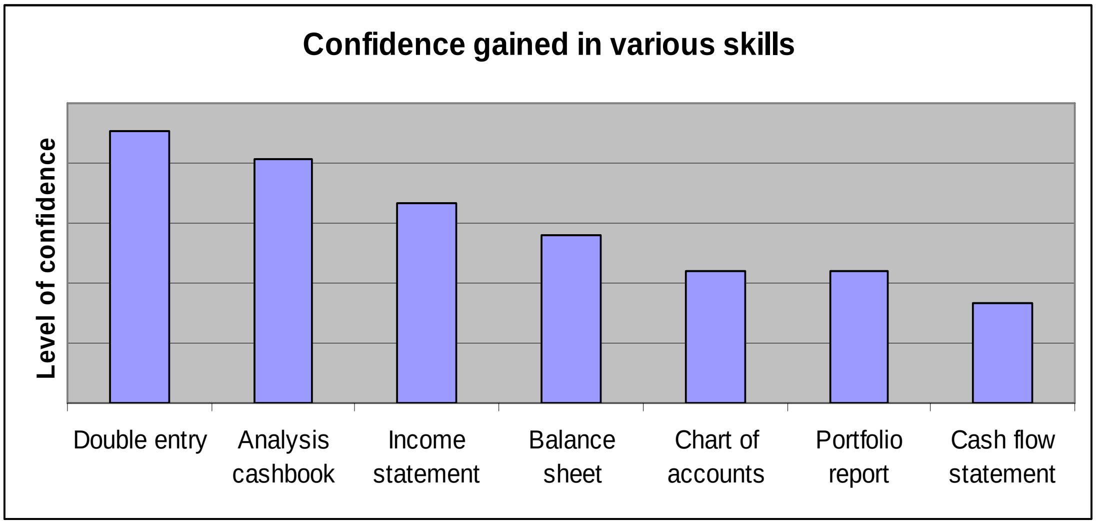
Future pre/post tests should be based on the key objectives of the course, and should test acquisition of basic but important and relevant knowledge.

c) Self-assessment by trainees: skills acquired

Each of the 15 trainees interviewed was asked to what extent they now felt able and confident (large extent, some extent, not at all) to carry out certain activities. The following is a graphical representation of the findings. The last 5 represent a disappointing result.

4.1.4 Degree to which training objectives were met (contd)

c) Self-assessment by trainees: skills acquired (contd)



The ability to prepare an analysis cashbook and do double entry bookkeeping is a good foundation. The lack of confidence about preparing the three financial statements (IS, BS & CFS) may be overcome with help from auditors. Lack of confidence about how to develop a chart of accounts means that the goal of increased standardisation in accounting processes is unlikely to be achieved. The lack of confidence with respect to the portfolio report is of particular concern as it contains information of critical importance to managing the quality of the portfolio on an ongoing basis.

d) Quality of financial statements & portfolio reports prepared

The financial statements of each of the CBFIs visited were reviewed and assessed to see if it would be possible to classify the figures according to the various PMT format headings. 2 of the 15 CBFIs were not able to present any financial statements for review. Of the remaining 13, the quality of the financial statements was quite good, with the Income Statements containing 90% of the required information, and the Balance sheets containing 80% on average.

The particular areas where information was relevant and applicable but was not presented correctly or omitted by more than 2 (15%) of statements are as follows:

- Depreciation expense
- Savings account balances, analysed between compulsory and voluntary
- Other capital accounts

Only 2 of the 15 CBFIs were able to present cash flow statements one of which was in the format printed by Loan Performer software package. On enquiring why, trainees said they did not understand them and were not able to generate them.

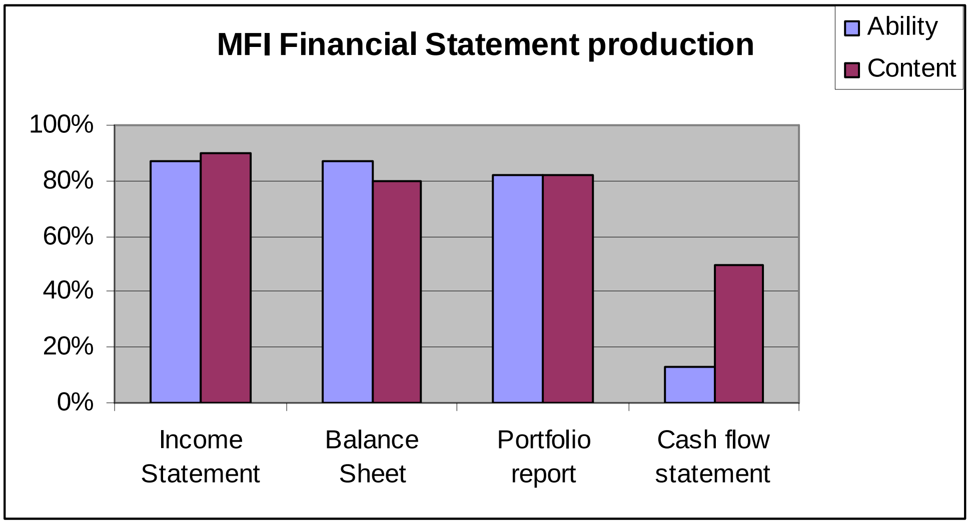
3 of the 15 CBFIs were not able to present any portfolio reports. Of the remaining 12, the quality of the portfolio reports was quite good, with reports containing 82% of the required information on average. The particular areas where information was omitted by more than 2 (17%) of reports are as follows:

- Average outstanding value of loans
- Value of loans written off

4.1.4 Degree to which training objectives were met (contd)

d) Quality of financial statements & portfolio reports prepared (contd)

These findings can be summarised in the chart below which shows the % of CBFIs able to produce each of the four financial statements at all, and the content / quality of those reports that were produced.



e) Existence of key internal controls and accounting procedures

The most encouraging result was that of the 15 CBFIs visited, 12 (80%) did monthly cash count reconciliations, of which all but one were up to date. Other findings were not so good, and cast considerable doubt over the reliability of the figures in the financial statements and reports mentioned above.

- 80% Do not have up to date bank reconciliations
- 67% Do not carry out bank reconciliations at all
- 60% Do not have an up to date Trial Balance
- 60% Do not have adequate safeguards to protect their records
- 60% Have errors in pay or deductions
- 47% Do not maintain a double entry ledger
- 47% Do not have pre-numbered receipts
- 33% Do not have adequate audit trail between the accounting records and the supporting documents
- 27% Do not have adequate audit trail between the financial reports and the underlying books of account
- 13% Do not use receipts in logical order

Of the 47% that did not have a double entry ledger, some were using analysis cashbooks or 'waste sheets', which at least record double entry transactions, while others really had little in the way of accounting records.

Conclusion about impact of the training

In terms of the above analysis, it is only reasonable to conclude that the training objectives were not met. The critical training objectives of FAP1 were met more effectively than those of FAP2, but the impact has not yet been seen in terms of implementation at the CBFI level.

4.1.5 Training pitching

The training materials were developed on the basis of TORs, which did not include carrying out a training needs assessment. The trainers were not involved in the selection or screening of the trainees. The content of the course was basically satisfactory (subject to some comments below), but in general it assumed a greater level of education and basic accounting skills than many of the trainees possessed.

Comments from the trainers such as 'some of the people we were given to train were not trainable' is a clear indication that there was a mismatch between the level of the trainees and the pitching of the training materials.

Specific examples are cited below of some areas covered in the training that may have been wrongly pitched, together with the amount of time given, as per the timetable (may have been different during the training).

Topic addressed	**Course**	**Relevance to trainee CBFIs**
Fundamental accounting principles, concepts, bases etc (4 hours)	FAP 1	Too theoretical. Important for basic background and introduction purposes only.
Classification of accounting errors (4 hours)	FAP 1	This is more important for auditors. Accountants need to learn to avoid errors rather than classify them
Financial Statements	FAP1	The model financial statements shown on the power point were based on a standard trading company rather than CGAP or PMT formats
Debtors & Creditors control accounts	FAP1	This section should have used loans control accounts rather than suppliers and customers accounts. The examples were geared towards a trading company, not a CBFI
Ratio Analysis	FAP1	The ratios shown were too advanced and not all relevant (e.g. inventory turnover & earnings yield – which relates to the market value of shares)
Bank reconciliation Large focus on dishonoured cheques 2 methods of presentation given	FAP1	Dishonoured cheques are not very common. Not enough time was given to the basic skills of how to do a simple bank rec. The exercises were incredibly difficult, 1st year university standard, and the 2 alternative presentation methods would have been very confusing.
Cash flow statement	FAP1	Too technical, given that many were still struggling with maintenance of basic records and still needed help to produce a proper Balance Sheet and Income statement
Use of a worksheet or Extended Trial Balance	FAP2	This tool is only used by auditors when assisting clients in preparation of their financial statements. CBFIs themselves should make adjustments in their own ledgers rather than using worksheets. 60% didn't even have trial balances!

4.1.5 Training pitching (contd)

The content of the training was technically accurate, but was geared more towards university level, and based on trading company examples. Not enough time was spent focussing on the basic skills needed such as writing up and balancing a cashbook, carrying out cash and bank reconciliations, loans control account reconciliations, extracting a trial balance, creating audit trail between supporting documents and accounting records, pre-numbering of receipts (and the associated controls to ensure completeness of income).

4.1.6 Training Methodology

We were able to review the participants' manuals, power point slides, programmes, pre & post tests and programmes, in addition to the comments made by the trainees as recorded in the training reports. From our review, it appears that much of the training focussed on the factual presentation of what should be done, with less attention to why or precisely how it should be done, which are important for commitment and implementation.

There was a heavy reliance on power point, whereas some information would have been better presented as handouts or worksheets or pre-prepared flip charts (such as Financial Statements formats, Bank reconciliation formats, ratio analysis etc).

Some exercises had been developed to help participants to apply the theory, but a number of them were fairly long and difficult, and some were not tailored to be relevant to a CBFI.

All the sampled participants on FAPI and FAP2 courses complained that they were not given manuals or sufficient handouts to take away as reference materials, which is clearly important. The trainers themselves said that they did give handouts, but not until the end of the course, because if they give them out at the beginning then participants do not attend the other days of the training. This is clearly a challenge, as it can be very useful for trainees to have manuals during the training, which the trainers can refer them to at certain points so that they become familiar with the materials and confident to refer to them later.

4.1.7 Recommendations with respect to FAP1 & 2 training

- Given the assessment above, showing the (low) level at which most of the CBFIs are operating, the course materials should be re-designed to be pitched at a lower level so that they are more relevant and accessible to the CBFI trainees. More time focus should be placed on building confidence in practicing basic skills rather than theoretical ideas, through use of simple relevant exercises and less presentation of factual information using power point.
- In addition to presentation of what needs to be done, attention should be given to why it is important and how it should be done in practice. In general, we recommend a reduction in the breadth of material content and an increase in depth of understanding and applying critical ideas and skills.
- Trainees should be assisted and encouraged through two follow up mentoring visits after the training to help give impetus to the implementation.
- Participants' manuals should be given out so that all participants have well written material to which they can refer after the training, which can also be a resource for the institution.

4.2 AUDITOR TRAINING

4.2.1 Sampling for evaluation purposes

26 auditors were trained, from which a sample of 5 (20%) were selected. The identity of the samples is not disclosed in this report for reasons of confidentiality. Of the 5 chosen, one said that he did not have any micro finance audit clients. For another, the partner, having agreed to be present, was not available, and the trainee had lost his mother, and was therefore also not available. The office attendant informed us that all the client files were locked up in the partner's office – just two sets of financial statements had been left out for our review. Another audit partner who had agreed to a meeting up-country, later said (during a mobile conversation) that his offices were in Kampala, although we were unable to verify the address he gave. He went on to deny that the trainee who had attended the course was associated with him.

In order to overcome these difficulties, and to obtain sufficient data for the analysis, alternative samples were selected at short notice in the field. In the end, we obtained a full data set for 4 auditors, and reviewed the financial statements prepared by 5 auditors.

It should be noted that the lack of hard data accessed from the three auditors mentioned above is not neutral. It is likely that one was a 'briefcase' firm, one may have attended the training under false pretences (no CBFI clients), and that all three lacked audit files and evidence to back up their audit opinion.

4.2.2 Training course objectives

13 training objectives were identified from the audit training materials, and are stated in summary form as follows:

- Unique features of MFI operations
- Risk and audit approach for loan portfolio
- Importance of client visits in verifying loan portfolios
- CGAP disclosure requirements

- Major stakeholders of MF external audit and their expectations
- High risk and high cost nature of MFI audits
- Risk and audit approach for cash and cash equivalents
- Risk and audit approach for interest income
- MF accounting disclosure best practice
- Key management letter considerations

- Inconsistencies in MF accounting with IAS
- Difficulties in applying IAS in MF audit report
- Requirement of IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance*

Out of these 13, the first 4 are considered to be the most critical, and the last 3 the least critical.

4.2.3 Training course dates

Training was carried out in the following regions on the dates shown. The dates of the evaluation visits to auditors in the different regions are also shown.

Region / town	Training dates	Evaluation date
Nebbi	13-17 Feb, 2006	4-13 Oct, 2006
Mbarara	24-27 Jul, 2006	14-25 Oct, 2006
Mbale	7-10 Aug, 2006	-

The Nebbi training was given only 1½ days, which the trainers felt was not adequate to cover the full course content. For that reason, the pre & post audit training test was not carried out in Nebbi and the training length was increased for the subsequent regions.

Given the length of the audit cycle, 3 months between training and evaluation in Mbarara is quite a short time span.

4.2.4 Degree to which training objectives were met

The degree to which the objectives were met is here assessed on the basis of 6 criteria:

- Self-assessment by the trainees
- Performance in the pre & post training test
- Quality of client files and audit evidence maintained
- Quality of financial statements prepared
- Ability of the trainee to demonstrate simple ageing analysis calculations
- Comments from CBFIs about improvements in audit quality

a) Self – assessment by trainees

The 4 trainees interviewed rated each of the 13 training objectives as being met largely, to some extent, or not at all. No objectives were judged as 'largely met' by all interviewees.

According to the trainees, the objectives best met (75% said they were largely met) were as follows:

- unique features of MFI operations
- major stakeholders of MF external audit and their expectations
- high risk and high cost nature of MFI audits
- importance of client visits in verifying loan portfolios
- risk and audit approach for cash and cash equivalents

According to the trainees, the objectives least met (at least 25% said they were not at all met) were as follows:

- inconsistencies in MF accounting with IAS
- difficulties in applying IAS in MF audit report
- requirements of IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance*

The International Accounting Standards are of course critical to a professional audit process, but given the (low) level at which the auditors are operating, they are an academic add on, with far more fundamental auditing aspects still lacking. It is therefore not of great concern that these objectives were least well met.

4.2.4 Degree to which training objectives were met (contd)

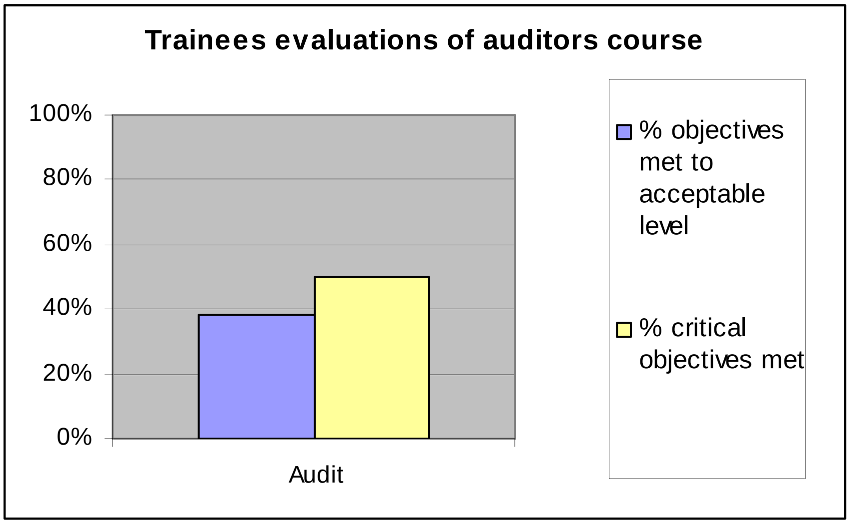
a) Self – assessment by trainees (contd)

Of the 4 most critical objectives, 2 were acceptably met (60% largely met)

- Understanding of the unique features of MFI operations
- Understanding of the importance of client visits in verifying loan portfolios

Two of the most critical objectives were considered to have been met only to 'some extent' by 75% of the interviewees:

- Understanding of the risk and audit approach for loan portfolio
- Awareness of CGAP disclosure requirements



b) Performance in the pre & post training test

The pre and post training test is designed to evaluate the extent to which the training added to knowledge that the trainees had before they were trained. One might expect an average pre training result of ~35% and a post training result of ~75%, based on a simple test of critical aspects covered in the course.

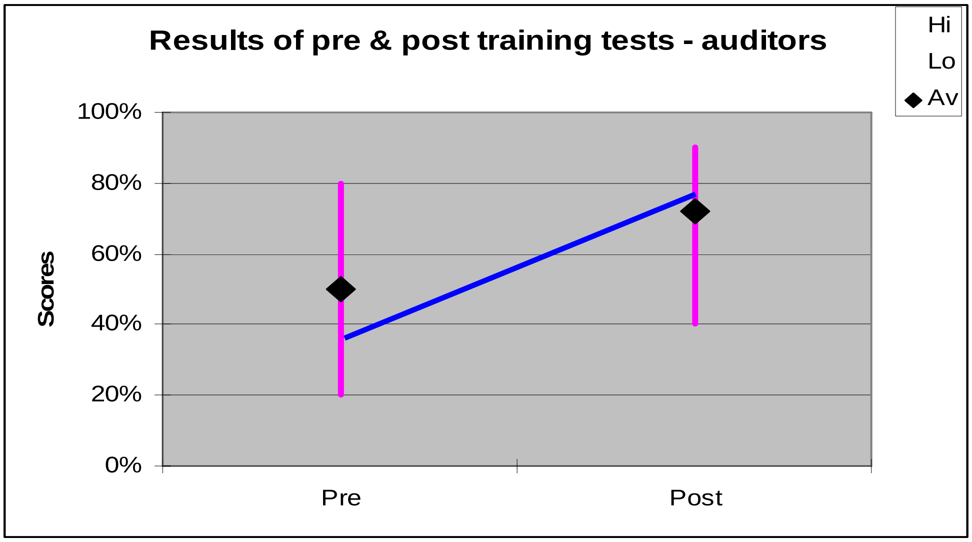
The results of the pre training test ranged from 20% to 80%, and the post training ranged from 40% to 90%, with the average moving from 50% to 72%.

Our review of the test (Appendix 11) suggests that this poor result may be more to do with the design of the test than the performance of the trainers or trainees. The test was a multiple choice, but 8 of the 10 questions were of the format where the answer involves selecting a number of right or wrong options from a list. This type of test often confuses trainees, especially of lower education levels. Question 7 was not stated as a question, but rather as a statement, and it was not clear what was being requested for. Questions 2, 3, 4, 5, 9 & 10 were in our opinion poorly phrased or conceived, or the correct answer was not clear even to us as highly experienced and qualified auditors of CBFIs!

4.2.4 Degree to which training objectives were met (contd)

b) Performance in the pre & post training test (contd)

The graph below shows the results from the pre & post audit training test, illustrating the relatively small increases seen, although it is better than FAP1&2 courses. The diagonal line represents the desired increase from 35% to 75%.



Future pre & post tests should be based on the key objectives of the course, and should test acquisition of basic but important and relevant knowledge.

c) Maintenance of client files

Only 1 of the 6 auditors contacted was able to show us any client files. The two files seen contained schedules relating to accounts preparation (i.e. consolidation of monthly summaries), and ticks indicating that the final financial statements had been cast, but no audit evidence. Not one auditor was able to produce evidence of any planning, evidence gathering, evidence evaluation, review or file completion procedures. None had audit programmes or work-plans.

When exploring the reasons why there were no audit files, one (District) auditor said that since he works alone, and no one reviews what he does, he sees no point in documenting his work. Another (Private) auditor said that it is not part of their company policy to maintain audit files, despite this being a basic requirement of the International Standards on Auditing.

d) Quality of financial statements prepared

The financial statements were assessed against the CGAP disclosure checklist provided as an Annex to the CGAP Disclosure guidelines. The 5 sets of financial statements scored an average of 43% (ranging from 37% to 48%), and there was no correlation between the score obtained at the post training test and the quality of the financial statements, although the sample size was small.

The most common non disclosures were in the following areas

- Portfolio quality and management information (e.g. PAR)
- Key accounting policies (donations, interest income, provisioning policy etc)
- Loan portfolio details (opening balances and movements during the year)
- In-kind donations
- Number of loans and savings accounts

4.2.4 Degree to which training objectives were met (contd)

e) Ability to carry out simple portfolio calculations

During the interview, the trainees were asked to carry out three simple portfolio at risk and loan loss provision calculations, as shown in the interview tool, Appendix 6, Q4. Of the four interviewees trained, two were unable to attempt the calculations (those trained for just 1½ days) and the other two could not perform the calculations correctly.

f) Comments from CBFIs about their auditors

80% of CBFIs said that there had been no notable difference in the audit between this year and last year. One mentioned that there had been a management letter this year for the first time, and two mentioned that the quality of the management letters had improved. One CBFI reported that the audit had become more expensive. It may have been too early to expect to see changes, given that the audit cycle is long, and the period since the training was short.

Conclusion about impact of the training

Overall, it is clear that the training has achieved an increase in awareness and understanding of issues relating to CBFI audits, but it does not yet seem to have had any detectable impact on audit practice.

4.2.5 Audit Methodology

The trainees were asked questions about the audit methodology practiced in their work place, as described in the Q2 of the interview tool attached at Appendix 6. The findings are presented in order of concern – those at the top of the list are encouraging, while those at the bottom are of great concern. It should be noted that these findings are on the basis of the trainees' own disclosure and assessment.

- To a large extent, there is a mechanism for skills transfer within the audit practice
- Exit meetings are usually held with audit clients to discuss issues arising
- There is some confidence that the correct audit opinion is given
- MFI audits are sometimes carried out by people with the relevant specialised knowledge
- An engagement letter is not always in place
- Review of the audit file by a second person does not always take place
- 50% of auditors said there was pressure from audit clients to give a clean audit report
- 75% said they do not carry out client visits
- 75% said that the low cost of audit fees has a significant impact on the quality of the audit.

Given an audit environment of low audit fees, pressure from clients and little accountability or regulation, coupled with low levels of professional qualification, it is not surprising that the increased awareness and understanding achieved by the training has not yet had a discernable impact on audit practice.

Training and capacity building is an important part of the process to improve audit practice, but without fundamental changes in the audit environment, it will not produce any change in behaviour.

4.2.6 Training pitching

The training materials were developed on the basis of TORs, which did not include carrying out a training needs assessment. The trainers were not involved in the selection or screening of the trainees. The content of the course was basically satisfactory (subject to some comments below), and based on CGAP content, but in general it assumed a greater level of education and basic audit skills than many of the trainees possessed.

The CGAP materials are aimed at auditors who know how to audit, and just need to be trained in the specific differences between normal audits and CBFI audits, whereas in practice very few of the trainee auditors actually do any audit work at all; their main function is to assist with the preparation of the year end financial statements. The CGAP materials are also aimed primarily at MFIs / MDIs rather than CBFIs / SACCOs.

This pitching mismatch is reflected in the low impact ratings, and also the comments of the trainers that some of the trainees simply were not trainable – i.e. that the training materials were pitched at a level too high for many of the trainees.

Examples of the pitching problem are outlined below:

Topic addressed in the auditing course	**Relevance to trainee auditors and their clients**
Auditing basics revision	It was not revision, they were not aware of the auditing basics in the first place
Evaluation of key internal controls in place over the MIS	Most CBFIs have manual MIS
Compliance testing of controls	This is a more advanced form of audit testing than substantive testing, and yet none of the auditors were even doing substantive testing
Sample size and materiality calculation	These are only relevant when auditors are actually doing real audit tests, and scientifically analysing their findings to consider their audit opinion. The auditors were not doing this.
Key controls in an MFI, namely compensation structures and quality of internal audit function	CBFIs rarely have bonus based compensation packages, or an internal audit function
International Accounting Standards – potential non compliance of MFIs and impact on audit report	The auditors did not have knowledge of the IAS. Few of the auditors would issue a qualified opinion even if there were fundamental accounting problems – even less so for non compliance with an accounting policy.

In summary, the course design was not matched to the realities of the auditors' or their clients' work situations. Rather than challenge and addressing those realities, the course delivered some technically accurate and important content to trainees who were not ready to receive or apply it.

In addition, the trainees are in two groups with different needs: the DCOs know about the MFI industry but do not know about auditing. Private registered auditors ought to know about how to audit, but need to learn about the peculiarities of CBFI audits in particular. It would be very difficult for one course to meet the needs of all.

4.2.7 Training methodology

The original pilot course prepared, based on CGAP materials, included session plans, power point slides, exercises, overhead slides, pre & post test and a manual. Only the manual was shared with the trainers for the next phase, who then prepared new power point slides bringing out all the factual content in the manual. There were consequently few exercises and relatively little group work and participation, which is very important for understanding, memory and application.

4.2.8 Recommendations with respect to Auditor training

a) Training content & methodology

- A two week course in basic audit methodology (planning, file maintenance, documentation, audit programmes, audit tests, evidence gathering and evaluation etc) should be designed for the DCO auditors, using this report, or another training needs assessment as a basis for the pitching and content.
- For DCOs, the training should be followed up with 2 or 3 mentoring visits to help them apply the skills learnt.
- The training should include, and test, the ability to perform basic ageing calculations.
- The training methodology should keep power point down to a useful level, and include use of exercises, group work and case studies. The training materials developed should include participants manual, trainers manual, session plans (including key messages and objectives for each session), power points, overheads, flip chart designs, tools, props, handouts, exercises, pre & post test as necessary.

b) Recommendations with respect to private audit firms

- An approved list of auditors should be compiled, on the basis of application, who are able to meet a minimum set of criteria in terms of basic audit capacity, quality and practice. Approval should be by a suitable industry stakeholder, on the basis of an assessment, the content of which may be developed by a consultant. Clearly liaison with ICPAU will be important in achieving this.
- Only auditors on the approved list should qualify to receive training in CBFI audit methodology.
- Donors and other industry regulators should be informed of the list of trained, qualifying private audit firms, and require MFIs / SACCOs to submit financial statements audited by auditors on the list.
- Auditors on the list should be subject to annual or bi-annual review to remain on the list.

c) Recommendations with respect to DCOs

- A mechanism for review and accountability needs to be established, with consequences for failure to meet certain minimum standards. In order to facilitate the capacity building process and work within the realities of the situation, these minimum standards could be set at a very low level initially, with annual changes so that over time the basic minimum is increased.

5 SUMMARY OF FINDINGS & RECOMMENDATIONS

5.1 FINDINGS

The three training courses were diligently executed and well received, but have as yet resulted in little or no discernable impact in the sampled CBFIs and auditors. This is due to:

- mis-pitching of the training courses, relative to the levels and needs of the trainees
- short time span between the training and evaluation
- lack of follow up or mentoring to help participants to apply their learning
- lack of an accountability structure for auditors

5.2 RECOMMENDATIONS

5.2.1 FAP1 & 2

- Re-design the training materials to be pitched at lower level than present, based on the education and skill levels of the trainees, as highlighted in this report or in a formal training needs assessment.
- Ensure that the re-designed training course materials include a participants manual, trainers manual, power point slides, overheads, flip chart designs, exercises and handouts, tools, props, session plans (including key messages and objectives for each session) and pre & post test as necessary.
- Reduce the breadth of the training, removing or limiting topics such as accounting concepts, classification of errors, ratio analysis, cash flow statements, control accounts, and use of worksheets
- Increase the depth of coverage of critical objectives, to cover why and how, including cash and bank reconciliations, establishing audit trail between supporting documents and accounting records, sequential numbering and recording of receipts, maintenance of accounting records (double entry ledger), extraction of trial balance, and preparation of portfolio report.
- Follow up the training with mentoring visits to help trainees to apply the skills learnt in their workplaces.
- Ensure that all participants receive reference material to take away after the course to facilitate memory, application and knowledge transfer.

5.2.2 Auditor training

- Two separate training courses are needed:
  - One 2 week course for District auditors, including detailed coverage of basic audit techniques (what, why and how), and taking time to challenge the misconception about the basic role of auditors as simply accounts preparation consultants.
  - One 2-3 day course for selected private audit firms with demonstrated capacity to carry out audit work, but who need to understand more about the CBFI industry
- A mechanism needs to be developed for auditors (DCOs and private firms) to be accountable, or for their work to be reviewed by others, without which there is little incentive for them to implement any of the practices covered in the training.
- A mechanism needs to be developed for selecting private audit firms which qualify to be trained and to appear on a list of approved auditors, competent to audit MFIs & SACCOs.

6 CONCLUSION & APPRECIATION

ACLAIM Africa Ltd is grateful to FSDU for the opportunity to carry out this evaluation, to Kisaka & Co for their hard work in delivering the training, and very helpful provision of information for this evaluation, and to all the CBFI and auditor trainees who participated. We look forward to seeing stakeholders debating these recommendations and implementing strategies to help continue improving the quality of financial reporting in the MFI Industry in Uganda.

Samantha Musoke, ACA
Team Leader
Financial Consultancy & Training
ACLAIM Africa Ltd

1 December 2006

APPENDIX 1

Work plan

Activity	dates
Phase 1	
Signing Contract	
Planning, coordination	
tools development	12-15 Sep, 2006
Identifying samples, setting up visits and logistics	19-21 Sep, 2006
meeting with FSDU to discuss tools	21-22 Sep, 2006
Briefing & training	22-23 Sep, 2006
Phase 2	
Visits to Soroti & Iganga (5 CBFIs), incl. travel by car	24-30 Sep, 2006
Visits to Gulu & Nebbi (5 CBFIs and 2 auditors), incl. travel by car to Gulu, plane to Arua and car to Nebbi	2-6 Oct 2006 Arua & Nebbi 10-13 Oct Gulu
Visits to Mbarara & Kabale (5 CBFIs and 3 auditors), incl. travel by car	14-25 Oct, 2006
Phase 3	
Analysis and collation of data	2-27 Oct, 2006
Consideration of improvements to training materials	
Report writing	30 Oct - 13 Nov 2006
Presentation to stakeholders (and prep time)	20 Nov 2006
Finalize Report	
Submit final Report	

APPENDIX 2

List of People met / Interviewed

Name	Position	Organization	District
1. Janet Among	Acting Accountant	Ebenezer SACCO	Soroti
2. Joyce Arwako	Treasurer	Ebenezer SACCO	Soroti
3. Ekinu Emmanuel	Acting Manager	Ebenezer SACCO	Soroti
4. Charles Okwalinga	Bookkeeper/general Secretary	Ajokis Edeke	Soroti
5. Justin Ekoli	Board Member	Ajokis Edeke	Soroti
6. Ephraim Omoding	Beneficiary Member	Ajokis Edeke	Soroti
7. Jennifer Ekilayi	Treasurer	Ajokis Edeke	Soroti
8. Arikooli Peter	Secretary, Loans Committee	Ajokis Edeke	Soroti
9. Joseph Oraba	Cahier/Ag. Manager	Mass Integrated Development Organization (MIDO) SACCO	Kumi
10. Margaret Aryenyo	Chairperson	MIDO SACCO	Kumi
11. Odong Tom	General Secretary	MIDO SACCO	Kumi
12. Basoga Waiswa	Chairperson, Loan Committee	Abattugha SACCO	Iganga
13. Katangula Rose	Board Member	Abattugha SACCO	Iganga
14. Mebrah Nabirye	Cashier	Abattugha SACCO	Iganga
15. Susan Ikoolit	Manager	Naluwoli Tubewalala	Kamuli
16. Kabi John	Chairman	Naluwoli Tubewalala	Kamuli
17. Mujasi Fred	Treasurer	Naluwoli Tubewalala	Kamuli
18. Olive Nayebare	Cashier	Buyanja SACCO	Rukungiri
19. Musa Mukundane	Manager	Mutara SACCO	Bushenyi
20. Elijah Sabiiti	Treasurer	Rubanda SACCO	Kabale
21. Ivan Musiime	Manager	Rupee SACCO	Mbarara
22. Oyoo Geoffrey	Accountant/Supervisor	uwmfo	Gulu
23. Loyce Asinduru Ndera	Accountant	ayivu farmers' savings & credit scheme	Arua
24. Christine Otim	Accountant	Nebbi town SACCO	Nebbi
25. Auma Vivian Annet	Accounts Assistant	Oribcing women co-op savings & credit society limited	Lira
26. Michael Uyenykeu	Accountant	Panyimur rural coop savings & credit society	Nebbi
27. Gerald Okello	Manager	Nebbi Town SACCO	Nebbi
28. George Odongkara	Manager	Panyimur Rural coop Savings & credit soc	Nebbi
29.			
30. Ronald Anguma	Manager	Ayivu farmers' savings & credit scheme	Arua
31. Chandiru Regina	Treasurer	Ayivu farmers' savings & credit scheme	Arua
32. Walter Kinyera	Accountant	UWMFO	Gulu
33. Sophia Ojungu	Treasurer	Oribcing	Lira
34. Geoffrey Odur	Loan officer	Oribcing	Lira

Please note that the identities of the audit firms has not been disclosed for reasons of confidentiality.

List of consultants involved in the exercise

Mrs Samantha Musoke, ACA, MA Natural Sciences (Cantab)
Mr Edgar Beyaraaza, ACCA, BStat
Mr Dan Opio, MA Economics
Mr George King, CPA (K), BSc Economics
Mr Lawrence Lutalo, ACCA, Bsc Applied Accounting
Mr Bazil Wanzira, MA Social Anthropology

APPENDIX 3

MFI / SACCO Tool 1 – Trainee interview

Fundamentals of Accounting Training Evaluation Tool 1

Interview with trainees

Prepared by
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September 2006

This tool is designed for interviewing trainees (accounting staff) to establish whether they acquired the necessary skills to enable them to post entries and write the books of account accurately

Name of Interviewee:
Position in the MFI/SACCO:
Name of the MFI/SACCO:
District of location:
Name of Interviewer:
Date of Interview:

Learning objectives
Go through this Questionnaire with the trainee.

Training Attended (please tick):
Fundamentals of accounting I
Fundamentals of accounting II ☐

1. 0 Achievement of learning objectives for FA I
Tick the response that best describes how much the training helped achieve these objectives

	Learning Objective	**Not at All**	**Some extent**	**large extent**
1.1	Increased my knowledge about the purpose of financial accounting			
1.2	Increased my understanding of the purpose of accounting for every MFI			
1.3	Increased my understanding of the meaning and importance of financial management			
1.4	Increased my understanding of accounting principles/concepts			
1.5	Increased my knowledge and understanding of double entry bookkeeping			
1.6	Increased my knowledge and understanding of chart of accounts for MFIs			
1.7	Increased my knowledge and understanding of expenditure controls			
1.8	Increased my knowledge and understanding of the balance sheet			
1.9	Increased my knowledge and understanding of the income statement			
1.10	Increased my knowledge and understanding of the cash flow statement			
1.11	Increased my knowledge and understanding of the types of financial disclosures to be made by MFIs			
1.12	Increased my knowledge and understanding of aging and provisioning of the loan portfolio			

2.0 Achievement of learning objectives for FA II

Tick the response that best describes how much the training helped achieve these objectives

	Learning Objective	Not at All	Some extent	large extent
2.1	Refreshed my memory on the concepts learnt during Financial Accounting 1			
2.2	Increased my knowledge and understanding of the components and operations of accounting cycle			
2.3	Increased my knowledge and understanding of double entry records for depreciation			
2.4	Increased my knowledge and understanding of the importance of keeping a fixed assets register			
2.5	Increased my knowledge and understanding of how to prepare a trial balance			
2.6	Increased my knowledge and understanding of how to prepare a worksheet			
2.7	Increased my knowledge and understanding of how to prepare the cash flow statement			
2.8	Increased my knowledge and understanding of how to prepare income statement for an MFI			
2.9	Increased my knowledge and understanding of the format for balance sheet			
2.10	Increased my knowledge and understanding of the control accounts			
2.11	Increased my knowledge and understanding of key performance measures and how they are calculated			
2.12	Increased my knowledge and understanding of how to prepare bank reconciliation statements			

3.0 Attainment and application of accounting skills
Which of these activities are you able to do now that you were not able to do before the training? Please state the extent to which you agree with the statement.

	Description of activity	Not at all	some extent	Yes
3.1	I can now maintain an analysis cash book			
3.2	I can now do double entry bookkeeping			
3.3	I now feel confident to develop chart of accounts with all necessary components			
3.4	I can now prepare the following financial statements using the correct format and items:			
	• The balance sheet			
	• The profit and loss account/income statement			
	• The cash flow statement			
	• Portfolio Report			

4.0 Results of the test/quiz done after the training

Course	Before training	After training	% added value
FA 1			
FA 2			

5.0 Use of quantitative measures
Does the MFI use any of the following quantitative measures to judge its performance? Please tick the ones you use now and show how the MFI calculates the ratios. (NB Profitability ratios are considered separately in the next question)

	Measure	Tick	How it is calculated by MFI	Actual recorded	Date
5.1	Liquidity ratios				
5.2	Leverage ratios				
5.3	Activity ratios				
5.4	Other (please Specify)				

6.0 Use of profitability ratios

If you use any of these profitability ratios, please tick and show how the MFI calculates the ratios.

	Measure	Tick	How the MFI calculates the ratio	Actual ratio recorded	Date
6.1	Gross profit margin				
6.2	Net profit margin				
6.3	Operational self-sufficiency				
6.4	Financial self-sufficiency				
6.5	Return on investment				
6.6	Earnings yield				
6.7	Other (please specify)				

7.0 Other training attended

Have you received other trainings from other sources similar in content to Fundamentals of accounting 1 and 2? Yes/No

If Yes, Please list each similar training, the subject of the training, the dates, the donor (such as MSC, SUFFICE, Rural SPEED), and the provider (such as MCC)

Subject	dates	Donor	Provider

Did any of these trainings overlap with the content of Fundamentals of Accounting 1 and 2? Please specify

APPENDIX 4

MFI / SACCO Tool 2 – Checklists

Fundamentals of Accounting Training Evaluation Tool 2

Checklists

Prepared by
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September 2006

Checklists for reviewing financial records and reporting to find out if there has been improvement in the quality of financial statements of the MFIs whose staff attended the training in financial accounting 1 & 2.

1.0 Income statement format

Could somebody reading the financial statements transfer the figures into each of the following PMT headings?

		Y	N	N/A	Comments/Action Needed
	Operating Income				
1.	Interest income from loans				
2.	Fee income from loans				
3.	Income from investments				
4.	Other operating income				
	Expenses				
5.	Interest and fee expense				
6.	Loan loss provision expense				
7.	Personnel expense				
8.	Rent & utilities				
9.	Travel & transport				
10.	Depreciation				
11.	Stationery & office supplies				
12.	Other operating expenses				
	Non-Operational Income and expenses				
13.	Other non-operational income				
14.	Other non-operational expenses				
	Grants received				
15.	Grants received for loan capital				
16.	Grants received for fixed assets				
17.	Grants received for operations				
18.	Unrestricted grant income				

2.0 Balance Sheet format?
Could somebody reading the financial statements transfer the figures into each of the following PMT headings?

		Y	N	N/A	Comments/Action Needed
	Assets				
1.	Cash and bank				
2.	Deposits in financial institutions				
3.	Investments				
4.	Gross loan portfolio				
5.	(Loan loss reserve)				
6.	Other current assets				
7.	Gross fixed assets				
8.	Accumulated depreciation				
9.	Other short-term assets				
10.	Other long-term investments				
	Liabilities				
11.	Savings accounts: compulsory				
12.	Savings accounts: voluntary				
13.	Time deposits				
14.	Loans: commercial banks				
15.	Loans: subsidized				
16.	Loans: Central Bank				
17.	Other short-term liabilities				
18.	Other long-term Liabilities				
	Equity				
19.	Capital from shareholders /members				
20.	Donated equity				
21.	Prior years retained earnings/losses				
22.	Current year surplus / deficit				
23.	Other capital accounts				

3.0 Does the cash flow statement show the following?

		Yes	No	Comments/Action Needed
3.1	Operating activities: services provided (income earning activities)			
3.2	Investing activities: expenditures that have been made for resources intended to generate future income and cash flows			
3.3	Financing activities: resources obtained from and resources returned to the owners, resources obtained through borrowings (short-term or long term) as well as donor funds			

4.0 Does the portfolio report show the following?

		Yes	No	Comments/Action Needed
4.1	Number of loans outstanding at end of period			
4.2	Value of loans outstanding at end of period			
4.3	Total number of loans disbursed during the period			
4.4	Total value of loans disbursed during the period			
4.5	Average outstanding balance of loans,			
4.6	Value of payments in arrears			
4.7	Value of outstanding loan balances in arrears			
4.8	Value of loans written off during the period			
4.9	Portfolio aging analysis			
4.10	Information on loan terms, loan officers, savings accounts and balances, etc			
4.11	Portfolio quality ratios (including portfolio at risk)			

5.0 Records Maintained

Tick which of the following records are in place

	Records	Yes	No	Comments/Action Needed
5.1	Savings ledger cards			
5.2	Loan ledger cards			
5.3	Shares ledger cards			
5.4	Customer passbooks			
5.5	Other similar (please specify)			

6.0 Cash Book

		Yes	No	Comments/Action Needed
6.1	Does the MFI do bank reconciliations?			
6.2	Does the MFI do cash count reconciliations?			
6.3	Does the MFI do bank reconciliations once a month?			
6.4	Does the MFI do cash count reconciliations once a month?			
6.5	Does the MFI have up to date bank reconciliations?			
6.6	Does the MFI have up to date cash count reconciliations?			

7.0 General Ledger (Journal)

		Yes	No	Comments/Action Needed
7.1	Is a separate double entry ledger maintained as defined by general accounting and auditing standards?			
7.2	Is trial balance extracted to ensure ledger balances?			
7.3	Is trial balance extracted monthly to ensure ledger balances?			
7.4	Does the MFI have up to date trial balance?			
7.5	Is there a written chart of accounts?			
7.6	Is there an adequate audit trail from the ledger to the source documents?			
7.7	Are the ledgers adequately safeguarded from fire, theft, computer breakdowns, etc?			
7.8	Is there a separate cash book for every account			

8.0 Financial Reports

		Yes	No	Comments/Action Needed
8.1	Are financial reports produced			
8.2	Are financial reports of actual incomes and expenses distributed to relevant staff?			
8.3	Are the reports timely (submitted to Apex body on time)			
8.4	Are the reports based on the ledger?			
8.5	Do the reports indicate budget versus actual (BVA) performance?			
8.6	If the MFI receives grant or contract funds, do you prepare periodic and separate statements of the status of each grant or contract?			

9.0 Payroll

		Yes	No	Comments/Action Needed
9.1	Are monthly payrolls prepared?			
9.2	Are there errors on employee pay or deductions?			

10.0 Cash receipts

		Yes	No	Comments/Action Needed
10.1	Are all receipts issued entered into the cash book?			
10.2	Are receipts pre-numbered?			
10.3	Are receipt books used in a logical order?			
10.4	Are unused receipt books safeguarded?			

11.0 Payments

		Yes	No	Comments/Action Needed
11.1	Are check numbers and payment vouchers recorded in the cash book on a logical order?			

APPENDIX 5

MFI / SACCO Tool 3 – Interview with Management & Board

Fundamentals of Accounting Training Evaluation Tool 3

Interview with Management & Board

Prepared by

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September 2006

For interviewing end users (MFI board members and management) to find out if there has been improvement in the quality of financial statements of the MFIs whose staff attended the training in financial accounting.

There may need to be some flexibility in definition of Board & Management depending on the structure of the MFI / SACCO and who is available.

1. Questions on the MFI in General

The purpose of these questions is to create relationship with the group. Show that you are interested in their story and their MFI / SACCO. The answers to each questions are not so important and establishing a general rapport and getting an overview of the organisation.

- When was this MFI/SACCO started?
- Do you belong to an Apex body such as UCA, AMFIU, UCUSCU, WOCU?
- Who are your target group?
- What is your geographical coverage?
- Roughly how many members do you have now?
- How are you financed?
- What basic product types do you have?
- How many staff do you have?
- Are cash collections done in the office or in the field?

2. Questions on the loan conditions (could ask the loan officer)

The purpose of these questions to understand the basic credit and savings practices, in preparation for looking at the records.

- Does the borrower receive the full value of the loan, or is the interest deducted (discounted) at the time the loan is disbursed? Are any other costs deducted from the loan amount (such as administrative charges, compulsory savings or insurance?)
- Do most loans have a grace period? If so, what is the average length of the grace period and is interest repaid during this period?
- What method is used for principal and interest payments (fixed monthly mount covering both items, equal principal repayments each month or quarter, and so forth)?
- Do payments also include compulsory savings payments by the borrower?
- Are interest fines charged on overdue loans?

3. Questions on the availability of financial statements

- How often do you get financial statements?
- When was the last time you got financial statements?
- If not prepared on a regular basis ask why not.

4. Questions on the Use of financial statements/analysis reports to make management decisions

What kind of decisions have you been able to make using the financial statements you receive?

Have you been able to use the financial statements to help make decisions to help with any of the following areas?

		Yes	No	Comments/Action Needed
4.1	Increase profitability			
4.2	Improve sustainability			
4.3	Increase efficiency			
4.4	Reduce cost per client			
4.5	Manage costs			
4.6	Improve portfolio quality			
4.7	Set interest rates			
4.8	Manage liquidity			

If possible, ask for examples of specific decisions they have made if they are able to remember them.

5. Questions on Auditing

Who are your auditors? (See if they were among those trained)
If their auditors were among those trained, ascertain the date of the last audit.
If the last audit was carried out since the date of the training, ask:

- Did they notice any changes in the way the audit was done this year
- Were any changes made in the formats of the audited financial statements?
- Was there any change in the cost?
- Was there a management letter (previous year and this year)?
- Was there any noticeable improvement in the usefulness of the recommendations in the management letter?
- Ask to see copies if possible, and go through each point in the most recent letter asking if the MFI / SACCO was able to implement the recommendations. In case they do not have a copy to hand, ask if they can remember any of the recommendations made. If not, what were the limiting factors?

Make your own evaluation of the following

	High	Medium	Low
The quality of recommendations			
Level of improvement since previous letter			
Implementation of recommendations			

APPENDIX 6

Auditor Tool 1 – Interview

Audit Training Evaluation Tool

Interviews

Prepared by

ACLAIM Africa Ltd

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September 2006

Interviews

Name of interviewee:
Date:
Audit firm (code):
Name of interviewer:

1. Learning objectives

Go through this Questionnaire with the trainee.

To what extent did the training help you in achieving these objectives?

		Not at all	Some extent	Large extent
1.1	Increased my understanding of the unique features of MFI operations			
1.2	Increased my understanding of the major stakeholders of MF external audit and their expectations			
1.3	Increased my understanding of the high risk and high cost nature of MFI audits			
1.4	Increased my understanding of the risk and audit approach for loan portfolio			
1.5	Increased my understanding of the importance of client visits in verifying loan portfolios			
1.6	Increased my understanding of the risk and audit approach for cash and cash equivalents			
1.7	Increased my understanding of the risk and audit approach for interest income			
1.8	Increased my understanding of the requirement of IAS 20 *Accounting for Government Grants and Disclosures of Government Assistance*			
1.9	Increased my awareness of CGAP disclosure requirements			
1.10	Increased my understanding of the inconsistencies in MF accounting with International Accounting Standards (IAS)			
1.11	Increased my understanding of MF accounting disclosure best practice			
1.12	Increased my understanding of the difficulties in applying ISA in MF audit report			
1.13	Increased my understanding of key management letter considerations			

2. Audit Methodology (Trainee)*

The following statements are to do with general audit work performed. Tick as appropriate.

		Not at all	Some extent	Large extent
2.1	Despite the lack of clear, documented controls in MFIs, I have confidence that the audit opinion given is correct			
2.2	The low audit fees received from MFI clients have an effect on the quality of the audit			
2.3	An engagement letter exists for all clients prior to audit field visits			
2.4	Because there is a mechanism for skills transfer within the audit firm, the audit firm is able to continue to produce good audits even when staff leave			
2.5	The auditor feels pressured by clients to give clean audit reports			
2.6	There is usually an exit meeting at the end of each audit visit during which issues arising from the management letter are discussed			
2.7	Review by a second person is a key component of the firm's audit processes			
2.8	The audit senior and manager assigned to MFI audits have specialised knowledge in this area			
2.9	Audit of loan portfolio includes client visits			

*Interview the trainee unless the trainee is a partner. If partner, then interview an audit manager or senior dealing with MFIs instead.

3. Pre and post-training quiz comparison

Pre-training score	Post-training score	Improvement in score

4. Portfolio Management (Trainee)

Please carry out the following short computations:

The MFI's loan portfolio is as follows:

Group	Loans outstanding	Amount past due (Shs million)		
	(Shs m)	1 day	30 days	>30 days
X	5	-	-	-
Y	2	2	-	-
Z	3	2	1	-
Total	**10**	**4**	**1**	**0**

Assuming the MFI's policy is to provide 10% for amounts past due for 1 day and 50% for 30 days, what is:
(a) The Portfolio at Risk (PAR) at 1 day
(b) PAR % at 1 day and at 30 days
(c) Loan loss provision

Portfolio Management (Answers)

a) 2 + 3 = 5m

b) 1 day 5/10 = 50% and 30 days 3/10 = 30%

c) (10% x 5) + (50% x 3) = 2m

5. Audit Partner/ Manager Interview (trainee should be present and also contribute)

1) To what extent was the training useful? Was it practical and with easily transferable skills?

2) What other areas would you recommend for future trainings? Of the existing course topics, where do you feel the biggest need for improvement?

3) Given that one of the key messages from the training was that MFI audits are high risk and high cost, has this had any impact on your thinking of whether to focus on or accept MFI engagements?

4) Have you heard of the CGAP disclosure guidelines?

APPENDIX 7

Auditor Tool 2 – Checklist

Audit Training Evaluation Tool

Checklists

Prepared by
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September 2006

Checklists

1) Audit file checklist

The audit file review will be carried out on one file completed before training and one commenced after training and a comparison made.

Before	**After**
Client name:	Client name:
Year end:	Year end:
Date audit report signed:	Date audit report signed:

	Before		**After**		
	Yes	No	Yes	No	Comments
Planning					
There is evidence of a pre-audit meeting with client (minutes)					
There is a signed engagement letter on file					
There is evidence of review of relevant prior year documents (Last year's accounts & management letter etc)					
Preliminary Analytical Review of draft financial statements on file					
A risk assessment was done and documented on file					
A materiality level based on the risk assessment was established					
Sample sizes determined (basis shown)					
There is evidence that audit programs to be used were reviewed (and signed off) by person other than auditor going to field					
The audit programs used reflect any significant issues arising from the risk assessment					
The audit programs include client visits					
Time / budget and logistics considered are included on file					

	Before		After		
	Yes	No	Yes	No	Comments
Gathering Evidence					
Compliance tests carried out are clearly documented					
Substantive tests are clearly documented					
Evidence gathered and conclusions arrived at reviewed by person other than auditor who carried out field visit					
Evaluating Evidence					
All audit adjustments made can be traced					
Balances in Financial Statements (audit report) prepared can be easily traced to audit file					
Review and Completion					
Are audit file completion checklists in use?					
Are the lead Schedules updated to reflect any audit adjustments?					
Is a final analytical review done and documented on file?					
Are International Accounting Standard compliance checklists in use?					
Is there a Management letter?					
Are there management responses to the issues raised in the management letter?					
Is there evidence of Manager/ Partner review of draft financial statements?					
Any points forward noted on file?					

2) Review of MF specific audit programs

The purpose of this section is to check whether certain key considerations were made when preparing the MF audit programs for the loan portfolio. The checklist will be used against the audit firm's MF audit programme, where applicable.

Question: Does the auditor have any audit programmes tailored for MFI or SACCO audits, that is, for loan portfolio or interest?

If Yes – Continue
If No – go to checklist 3

KEY
Yes – if part of audit program
No – if not part of audit program
Done – if test carried out

1. Loan portfolio

1	**Year end balances outstanding agrees to list of individual balances**			
Test	Description	Yes	No	Done
1	Obtain a breakdown of the closing balances figure, into individual balances, or branch sub-totals. For selected branches, obtain a breakdown of the branch sub-totals into individual balances.			
2	Cast the list / breakdown to ensure the population is complete.			
3	Where the TB figure differs from the list total, pass an adjustment to bring the TB total into line with the list total.			
2	**Analytical review is reasonable**			
Test	Description	Yes	No	Done
4	Prepare or obtain a schedule showing Bal Bfwd, disbursements, interest accrued, principal received, interest received and amounts written off for the year, for each branch.			
5	Check that the schedule casts and cross casts, and comment on any unusual trends			
6	Ascertain the number of active clients at each branch and calculate the average balance outstanding and loan size, for each branch. Comment on findings			
7	Calculate the % portfolio at risk for each branch and comment on findings.			

3	Disbursements and year end balances are not overstated			
Test	Description	Yes	No	Done
8	Calculate the total sample size, based on the control risk assessment and materiality factor.			
9	Select a sample of branches for testing. All branches should be visited at least every three years.			
10	Select half the sample of loans from the list of balances carried forward and the other half from the list of disbursements during the year. Select on a systematic basis (e.g. every 20th figure), depending on the size of your population.			
11	Perform visits for each of the selected clients in the selected branches and complete the questionnaire.			
	NB Client visits should be unannounced.			
12	Compare the timings and amounts of disbursements and repayments, and loan terms from each client with the MIS.			
13	Summarise and evaluate your findings			

4	Repayments made by clients are not understated			
Test	Description	Yes	No	Done
14	Identify the best source documents for loan repayments, and assess their completeness. (E.g. receipts – check all the receipt books are available for inspection. Daily / weekly collection forms – check all the forms are there)			
15	Select a sample of repayments from the complete population of source documents identified in 14 above. This sample may be ¼ the size of the sample used in 8 above			
16	For each sample in 15 above, trace the amounts and timings from the source documents through to the cashbook, loan ledger card and MIS.			

5	The delinquency status report at year end is accurate			
Test	Description	Yes	No	Done
17	Obtain a copy of the delinquency status report at the year end.			
18	Ascertain and comment on the basis for calculating the delinquency ratios			
19	For each of the clients visited, confirm that the status of their balance is correctly classified. Where a repayment is past due, ensure that the entire balance is shown as ‘at risk’, not just the overdue repayments.			
20	Check the casting of the delinquency report			

6	Loan provision policy is adequate			
Test	Description	Yes	No	Done
21	Ascertain and comment on the client's loan provisioning policy			
22	Confirm that the calculations have been made in accordance with the policy			

2. Interest income is properly calculated

Question	Yes	No	Comments
1. Is the interest income computed in accordance with the stated policies?			
2. Was the interest income recognised on an accrual basis?			
3. Is the policy for interest computation reducing balance?			

3) Evaluation of Financial Statements with respect to CGAP guidelines

This section will be filled in by the evaluator by making reference to one set of financial statements prepared after the training.

Financial Statements Date:

1. Financial Statements	Yes	No	N/A
1.1 At a minimum, MFI financial statements should include both a balance sheet and an income (profit and loss) statement, with accompanying notes.			
1.2 Statements should show financial information for both the current year and at least the previous year. They should also include a comment on any unusual movements.			
2. Segment Reporting for Multi-service Microfinance Institutions			
2.1 An MFI that offers both financial and material non-financial services should provide a separate income statement for the financial service operations, in addition to a consolidated income statement and balance sheet for the institution as a whole.			
2.2 The methods used to allocate shared costs or revenues between financial and non-financial services should be clearly explained.			
2.3 Specific accounts in the balance sheet of a multi-service MFI that are tied to microfinance services (segment assets) should be clearly identified.			

3. Donations	Yes	No	N/A
3.1 The amount of any current-period donations should be shown.			
If the donations are reported as revenue on the income statement, such revenue should be shown separately from income generated by an MFI's financial operations. The source and amount of any current-period donations should be reported.			
3.2 The method of accounting for donations should be explained.			
3.3 Material in-kind donations or subsidies should be disclosed and an estimate of the additional expense the MFI would incur in their absence should be provided.			
3.4 OPTIONAL. The cumulative amount of all donations to an MFI's financial operations in all prior periods should be shown.			
(This guideline rule is optional—while strongly recommended, *it is not required.)*			
4. Microloan Portfolio Accounting Issues			
4.1 Any provision expenses related to actual or anticipated loan losses should be shown separately from other expenses in the income statement. The accounting policy underlying the recognition and amount of such loan loss expenses should be clearly described.			
4.2 The amount of the allowance for loan losses should be shown.			
The provisioning policy underlying the determination of this allowance should be clearly described.			
4.3 The amount of loans written off during the period must be shown. The policy governing the amount written off should be stated clearly and in detail, including how other accounts are affected by the write-off.			
4.4 The financial presentation should include a table that reconciles the accounts affecting the loan portfolio, including:			
• Loan portfolio at the beginning and end of the period			
• Loan loss allowance at the beginning and end of the period			
• Loan loss provision expenses recognized during the period			
• Write-offs of uncollectible loans during the period			
4.5 If an MFI accrues unpaid interest on late loans, there should be a clear and thorough explanation of its policies on this matter, especially the point at which further accrual of unpaid interest ceases and previous accruals are either reversed out of income or expensed.			
4.6 Income from investments should be shown separately from interest, fees, or other loan income collected from borrowers.			

5. Portfolio Quality and Management	Yes	No	N/A
5.1 A portfolio report should show the extent of late payment on loans for the current reporting period. The measure(s) of late payment should be thoroughly explained, including precise definitions of the numerator and the denominator of any ratio measuring loan portfolio quality.			
5.2 A portfolio report should clearly describe an MFI's approach to allowing, tracking, and provisioning for the renegotiation of delinquent loans, as well as the outstanding balance of renegotiated loans.			
5.3 Related-party ("insider") disclosures loans—whether to members of an MFI's management, governing body, or parties related to them—should be fully disclosed, including outstanding amounts, interest rates, collateral, and repayment status. Small loans generally available to all employees can be reported showing only the total amount, number, interest rate, and degree of late payment on such outstanding loans. Policies on both types of insider loans should be described precisely.			
6. Details of Liabilities and Equity			
6.1 The following information should be provided for all loans to an MFI that are material in relation to total liabilities:			
• Source of the liability			
• Terms of the loan—amount, repayment schedule (including grace periods), interest rate, and (if applicable) the foreign currency in which it is to be repaid.			
• Guarantee mechanisms used to obtain the loan, including the percentage of the loan covered by the guarantee			
• Average outstanding principal balance of the liability during the reporting period, calculated on a monthly or at least quarterly basis			
• Interest expense during the reporting period, including cash payments and accruals			
• Full details of any arrears if the MFI has failed to make a payment when due during the period or is not current on the loan at the end of the reporting period			
6.2 Any type of deposit account that is tied to the ability of MFI clients to obtain loans should be shown separately from other deposits. A general description of the conditions of the account and its linkage to loans should also be provided.			
6.3 Long-term deposits (i.e., deposits that are not potentially payable within one year) should be shown separately from other deposits.			
6.4 If an MFI requires clients to make an equity investment (e.g., share capital in financial cooperatives) in order to access loans or other services, such capital should be shown separately and the requirement should be described.			

7. Other Significant Accounting Policies	Yes	No	N/A
7.1 Accounting policies on the accrual or deferral of income or expenses should be briefly explained.			
7.2 Any accounting policy that provides for, registers, or otherwise compensates for the effects of inflation on an MFI's financial situation should be briefly described, including an indication of the accounts that are affected.			
7.3 MFIs with assets or liabilities denominated in a foreign currency should disclose any significant currency mismatch (financial assets in one currency balanced against liabilities denominated in a different currency).			
7.4 If the MFI has material unrealized gains or losses due to foreign currency fluctuations, their amount should be reported, as well as the accounting treatment of such gains or losses.			
8. Other Non-Accounting Disclosures			
8.1 The number of outstanding loan accounts at the beginning and at the end of the period should be disclosed.			
8.2 The number of voluntary savings accounts at the beginning and at the end of the period should be disclosed.			

APPENDIX 8

Documents reviewed

The following documents were reviewed as part of the training evaluation exercise

Training reports from each training carried out
Auditor training materials: Power point, manual, pre & post test, programme
FAP1 training materials: Power point, manual, pre & post test, programme, exercises
FAP2 training materials: Manual, pre & post test, programme, exercises

APPENDIX 9

FAP 1 – Pre & post training test

DFID Financial Sector Deepening Project Uganda
Fundamental Accounting One
Pre and Post Training Assessment Questionnaire

Time allowed: 45 min

Name:……………………………… Age:………… MFI:…………………….

Date:………………… Venue:………. Title:……………………

Q1. What is the relevance of accounting to an MFI?

a) To keep track of loans and advances.
b) To comply with requirements of MFI Act.
c) To assess profitability of the MFI.
d) To identify financial position, performance and cashflows of the MFI.
e) All the above

Q2. Which of the following is the appropriate set of Fundamental Accounting Concepts?

a) Going concern, equity, historical cost, accrual and matching concepts
b) Business entity, Going concern, Historical cost and accrual concepts
c) Business entity, LIFO, Going concern, Historical cost.
d) Accrual, disposal, Going Concern, Historical cost, business entity
e) Business entity, going concern, historical cost, depreciation

Q3 Distinguish between an Accounting base, policy and standard?

a) Bases override accounting policies, which override accounting standards.
b) Bases are guidelines/rules, policies are methods developed and standards are specific accounting bases.
c) Bases are methods developed, policies are guidelines/rules, standards are specific accounting bases
d) Bases are specific accounting bases, policies are guidelines/rules, standards are methods developed.
e) Bases are methods developed, policies are specific accounting bases, standards are guidelines/rules.

Q4 Which of the following is the correct accounting equation?

a) Assets = Liabilities
b) Assets = Capital invested
c) Assets = Cash at hand and bank
d) Assets = Capital + Liabilities

Q5 Which of the following are common adjustments to the year end financial records?

i.	Bad and doubtful debts	a)	(i) + (iv) + (vi)
ii.	Sales	b)	(i) + (ii)
iii.	Purchases	c)	(iii) + (vi)
iv.	Prepaid expenses	d)	(i) + (iv) + (v)
v.	Depreciation	e)	(vi) Only
vi.	Closing stock		

Q6 What is an error of commission?

a) Error committed when an entry is made on a wrong class or type of account
b) Error originating from source documents
c) Error committed when an entry is made on a wrong person's account or account title but the double entry properly effected
d) Error committed when an entry is made on a wrong persons account or account title and the double entry is wrongly effected
e) None of the above

Q7 Which of the following is the best way to record field advances for accommodation before and after the event?

a) Dr staff advances cr cash then Dr cash, Cr staff advances
b) Dr Accommodation Cr cash
c) Dr cash Cr Staff advances Dr staff advances Cr Cash
d) Dr cash Cr receivables Dr Receivables Cr cash
e) Dr Staff advances Cr. Cash then Dr. Accommodation/Cash Cr. Staff advances

Q8 Which of the following is a correct set of double entry rules?

i) All expenses and income are recorded in the Income Statement
ii) Debit "receiver" and credit "giver"
iii) Debit what goes out and credit what comes in.
iv) Debit "giver" and Credit "receiver"
v) Debit what comes in and Credit what goes out
vi) Debit all expenses (and losses) and credit all incomes (and gains)

a) All the above.
b) (i), (ii), (iii), (vi)
c) (ii), (v), (iv)
d) (iii), (v), (vi)

Q9. Which of the following is the correct order of the accounting cycle?

i) Entering entries into journals
ii) End of year adjustments and preparation of financial statements
iii) Occurrence of business transaction
iv) Analysis and interpretation of financial statements
v) Posting to ledgers

a) (i), (ii), (iii), (iv), (v)
b) (iii), (i), (iv), (v), (iii)
c) (iii), (i), (vi), (iv), (ii)
d) (iii), (i), (v), (ii), (iv)

Q10. Based on the principles of double entry, which of the following would happen if we obtained a Grant from DFID that was spent to train accountants

a) Dr Cash; Cr Grant Income DFID then Dr. Training, Cr Cash
b) Dr training, Cr Cash then Dr Cash, Cr DFID
c) Dr DFID, Cr Cash, then Dr Cash, Cr Training
   Dr Cash, Cr Deferred Grant Income then Dr. Deferred Grant Income
d) Cr Grant Income, then Dr. training Cr. Cash
e) Dr. Cash, Cr Grant Income, then Dr Training Cr. Cash

APPENDIX 10

FAP 2 – Pre & post training tes

DFID Financial Sector Deepening Project Uganda

Fundamental Accounting Two (2)

Pre and Post Training Assessment Questionnaire

Name: ……………………………………………….

1) What is the importance of preparing financial statements?

   a) Disclose operating results of an Entity
   b) Assess profitability of an Entity
   c) To show the financial position, financial performance and cash flows of an entity
   d) To comply with requirements of MFIs and SACCO's

2) What are the major financial statements that are required to be prepared by profit making organizations?

   a) Income statement, Cash flow statements, Statement of changes in equity and Cashbook
   b) Bank reconciliation statements, Income statement, Cash flows statements and Cashbook
   c) Balance sheet, Income statement, Trading account and Cash flow
   d) Income statements, Statements of changes in equity, Cash flow statements and Balance sheet

3) Which equation best describes cost of goods sold?

   a) Purchases – Closing stock + Gross profits – Expenses
   b) Purchases – Closing stock – Gross profit – Expenses
   c) Opening stock + Purchases – Closing stock
   d) Closing stock + Purchases – Opening stock
   e) Opening stock + Purchases + Closing stock

4) What is a current ratio?

   a) Non-current assets – Current assets
   b) Current assets – Current liabilities
   c) Current assets + Current liabilities
   d) Current liabilities – Non current assets
   e) Current asstes/current liabilities

5) What do we look for when analyzing financial performance from financial statements?

a) Liquidity, Solvency, Gearing and Profitability
b) Profitability, Deliquency, Loan recovery and Good management team
c) Loan recovery, Bad loans, profitability and solvency
d) Gearing, Liquidity, Deliquency, and Loan recovery

6) Why may a cashbook balance differ from bank statements balance?

i) Direct debits in Bank statements not credited to the Cashbook
ii) Direct credits in Bank statements not debited to to the Cashbook
iii) Unpresented Cheques
iv) Poor filing of Bank statements by the Accountant
v) Uncredited cheques received but, not yet written in the cashbook

a) (i) (ii) (v)
b) All the above
c) (i) (ii) (iii)
d) (iv) (iii) (ii) (i)

7) Why may a bank dishonour a cheque?

i) No sufficient funds on drawers account
ii) Drawers signature differ from specimen signature
iii) Cheque is stale
iv) Material alteration not counter signed
v) Cheque post dated

a) None of the above
b) All the above
c) Depends on which bank
d) Only (i) (ii) and (iv)
e) Only (v) (iv) and (iii)

8) Which adjustments are usually made at the year end?

a) Bad doubtful debts, errors, prepayments, depreciation and control accounts
b) Corporation tax, dividends, control accounts, reserves and expenses
c) Accruals, bad and doubtful debts, depreciation and dividends
d) Bad and doubtful debts, depreciations, corporation tax, dividends and reserves.

9)	What is the use of control accounts? i) Location of errors ii) Detection of fraud iii) Custody for debtors and creditors iv) Summarises debtors and creditor balance a) i), iii) and iv b) iv), iii), ii) c) iv only d) iv and i) only
10)	How would you record fees charged for servicing a loan in your financial statements a) Revenue as the services are provided b) Revenue even if services will be provided in future c) Revenue on anticipation of loans to be granted d) Revenue over the loan period of a client.

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APPENDIX 11

Auditors – pre & post training test

Pre and Post Training Assessment Questionnaire
DFID FSDU Funded Audit of MFI Training Course

1. Which of the following are common MFI/SACCO audit engagements

    i. Annual financial statement audit
    ii. Performance of agreed upon procedures
    iii. Writing manuals and policies
    iv. Supplying accounting packages
    v. Special purpose audit

    a) All the above
    b) i, iv, v
    c) i, ii, iii
    d) i,ii, v
    e) i, iii, iv

2. What are the most acceptable stages of the audit process of an MFI/SACCO?

    i. Understanding the MFI industry
    ii. Confirming balances
    iii. Planning the audit
    iv. Obtaining audit evidence
    v. MFI audit report
    vi. Match with International Standards

    a) i, ii, iii, iv
    b) i, iii, iv, v
    c) iii, iv, v, vi
    d) All the above
    e) None of the above

3. Which of the following can best describe an average MFI/SACCO?

    i. Innovative lending methodology
    ii. Offer small unsecured loans
    iii. Heavily rely on collateral to secure repayments
    iv. Large number of poor clients
    v. Usually have well structured policies and procedures
    vi. Maintain high repayment levels

    a) i, ii, iii, iv
    b) i, iii, iv, v
    c) i, ii, iii, iv
    d) i, ii, iv, vi
    e) All the above

4. What is the primary source of frauds in MFI/SACCO operations?

   i. Phantom or fictitious loans
   ii. Lack of segregation of duties
   iii. Non reporting of clients re-payments
   iv. Distance from urban centres
   v. Lack of registration certificates

   a) i, ii, iii
   b) i, ii, iv
   c) i, iii, iv
   d) i, iv, v
   e) i, iii, v

5. The following are necessary when planning an MFI/SACCO audit in order to gain knowledge of the business.

   i. Hold strategic meetings with MFI/SACCO stakeholders
   ii. Get permission from the Chairman NGO Board and AMFUI
   iii. Visit some branches of the MFI/SACCO
   iv. Review relevant reports and documents
   v. Negotiate audit fees with Board members

   a) i, ii, iii
   b) i, iii, iv
   c) i, ii, iv
   d) i, iii, v
   e) ii, iii, iv

6. The audit risk comprises of the following

   i. Artificial risk
   ii. Inherent risk
   iii. Control risk
   iv. Foreign exchange risk
   v. Detection risk

   a) i, ii, iii
   b) ii, iii, v
   c) i, ii, iv
   d) ii, iii, iv
   e) i, ii, v

7. The following are the most important account balances of an MFI/SACCO

   a) Loan portfolio and loan loss provision
   b) Cash and fixed assets
   c) Fixed assets and investments
   d) Capital accounts and income accounts
   e) Payables and cash and cash equivalents

8. Which of the following are possible elements of an appropriate MFI/SACCO Credit policy?

i. Human Resource Procedures
ii. Client qualifications
iii. Repayment capacity
iv. Credit history
v. Credit delivery methodology
vi. Forex policy

a) i, ii, iii, iv
b) i, ii, iv, v
c) ii, iii, iv, v
d) i, ii, v, vi
e) i, iii, iv, v

9. The following are elements that are expected to be found on a client loan file that is tested for audit purposes

i. Application for a loan
ii. Client factual information
iii. Cash flow analysis
iv. Approval by the Loan Officer and Committee or Manager
v. Details of clients academic qualifications
vi. Clients credit history

a) i, ii, iii, iv, vi
b) i, ii, iii, v, vi
c) i, v, ii, iii, v
d) i, ii, iii, v, vi
e) i, ii, iii, v, iv

10. The MFIs total asset amount to 170 million and total loans amount to 158 million. The MFI offer you the auditor Shs 2.8 million audit fees for the period ended 31/12/2005. But the audit Terms of References contain other tasks to be performed like writing 6 manuals and analyzing portfolio position.

What would you do?

a) Accept the audit without delay
b) Accept the audit but demand the whole amount to be paid at once
c) Decline the audit, as the audit fees are too small compared to tasks assigned
d) Accept audit because the audit firm does not have jobs currently
e) Decline the audit and report the MFI/SACCO to their donors or District Co-operative Officer