

AUDITING FINANCE COSTS FORUM HELD  
ON FRIDAY, 11TH APRIL 2008  
AT THE GRAND REGENCY, NAIROBI

In a half day training workshop dubbed Independent Process Assurance: Auditing Finance Costs, on Friday 11th April, IRAC launched (FCAS) service to enable businesses to seamlessly progress from Reconciliation of Bank Statements to Verification of Interest Charged.

The FCAS service will address a lacuna that currently runs into Billions of shillings every year. With FCAS, when Annual Audits are done and Annual Reports made, Finance Costs will have been actually verified, complementing and completing the company's Audit process.

Keeping a tight control on Operating Costs is a key driver of profitability in today's highly dynamic business environment. Indeed, it is demonstrable that highly profitable companies invariably have comparatively low Operating Costs.

Finance Costs - interest on Overdrafts and Loans - are a key component of Operating Costs because Credit, whether in the form of Overdraft or Business Loan, is a necessary prerequisite to smooth business operations. This is true for most enterprises, whether they are in Trading, Manufacturing or Services, as Credit bridges the gap between production and payment.

However, the nature of Finance Costs is such that they are very difficult to verify and confirm. This is despite the fact that the Lender's Statement will usually invite the Borrower to "check and verify the correctness of the statements..." or "advise on any errors or omissions" or "file a notice of disagreement" within a period of 14 days which is an impossible task principally because of the sheer bulk of transactions that a business will enter into in a month. When the month's Finance Costs are posted by the Lender in the month's Statement, almost 100% of businesses are not able to query, verify and confirm the quantum of Finance Costs charged to them.

To address this key business issue, IRAC developed and launched a cost-effective Finance Cost Assurance Service (FCAS) to assist businesses in Kenya to actually audit and verify their Finance Costs, directly addressing the existing barriers of difficulty, time and human resource demands that currently make it impossible to audit Finance Costs.

In his opening remarks, the Chief Guest and MP for Nambale, Honorable. Chris Okemo reminded participants that banks and financial institutions are staffed by human beings who can make errors. Auditors were reminded that they need to check with in-house accountants to ensure that there was adequate on-going verification of finance costs, especially during this period of a liberalised interest regime, ensuring costs were both legitimate and accurate.

Hon. Okemo, a former Minister of Finance also recognised the role that IRAC continued to play in the debate and process of ensuring that businesses and members of the public are not charged excessive financial costs.

The Participants were then taken through the topic, Bank Reconciliation Practices- An In-House Accountant's Perspective by Julius Mosoti B.Com. CPA(K) which comprised the process of accounting of finance costs, especially the inherent shortcomings of the current practices employed by in-house accountants. Mr. Mosoti, himself an in-house accountant of many years, defined 'finance costs' as comprising interest (on loans, overdrafts & mortgages) and item charges for payment of services rendered by the Financial Institution. Participants were advised that 'finance costs' could be contained through sound financial management and a policy of ensuring that bank interest and item charges are properly levied.

Later Mr. Don. M. Odera MMgt, FCCA, CPA (K) when presenting his paper on Auditing Financial Costs advised participants that the Auditor's role was to form an opinion as to the "Truth and Fairness" of the financial statements. He also took them through the Key Audit Principles that the auditor takes into account when considering finance costs including IFRS and IAS.

Mr. Charles Kanjama Advocate, CPA(K) dealt with the Legislative Issues surrounding regulation of Finance Costs. Currently this is provided for by the Banking Act (Cap 488) with subsequent amendment in Section 44A Banking (Amendment) Act 2006

A review of the cases determined to date relating to finance costs, indicated that the courts are not yet clear on what is reasonable when it comes to these costs. Borrowers were therefore urged to ensure that as far as possible all the charges applied are per the contract including when and how to start applying any penalty interest.

Mr. Wilfred A. Onono CPA(K), Managing Consultant Interest Rates Advisory Centre(IRAC) then took the Forum through the various stages of Independent Finance Cost Assurance Process namely Legal audit (banking facility letters), Bank statement audit, Interest recalculation and Report Generation. He then launched Finance Cost Assurance Service. (FCAS)

Finally, the workshop was closed by Hon. Charles Onyancha (MP, CPA-K) who reminded participants that those organisations that take care of their finance and other costs would promote their sustainability. He encouraged the participants to actively review their finance costs (at both individual and corporate level), and to venture for Finance Costs Assurance Services from IRAC where they felt this might assist.

In conclusion, Hon. Onyancha commended the organisers for a workshop well organised and participants for having attended, he then declared the workshop closed.

[Click here to view the full report](#)