



# INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF KENYA

Credibility

.

Professionalism

.

AccountAbility

Do you agree?



Do you agree?



Did you hear the joke  
about the interesting  
accountant?

No. Me neither.

True or false?



OPTIMIST  
half full

PESSIMIST  
half empty

ACCOUNTANT  
twice as large as necessary

**THE LOOK YOU GET ON YOUR  
FACE**



**WHEN EVERYTHING BALANCES IN ALL YOUR FINANCIAL  
STATEMENTS**





# INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS)



# AGENDA



- Overview of IPSAS
- Standard setting process & structure of IPSAS
- Mandatory standards Vs Non-mandatory guidelines (RPGs)
- Stage of IPSAS implementation Globally and in Kenya\*\*
- Overview of the conceptual framework



# OVERVIEW OF IPSAS

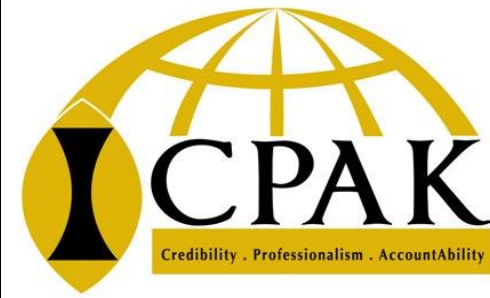


## Rationale (Why?)

- There is increasing demand for public accountability and transparency by stakeholders
- The preparation of transparent and understandable financial statements is an important way for PSEs to facilitate meaningful internal control and monitoring by oversight bodies such as the legislature.
- In the past, there has not been a clear financial reporting framework for the Public Sector, thus the need for (IPSAS).
- Part of accounting in Public Sector does not give insight into actual situation of assets, finances, and revenue (true and fair view)

# OVERVIEW OF IPSAS

## Cont'd...



### Scope and authority of IPSAS

- IPSAS are designed to apply to the GPFRs of all PSEs, which include governments and their component entities e.g. departments and agencies
- They set out to recognize, measure, present and disclose requirements dealing with transactions and events in GPFRs
- The IPSASB encourages the adoption of IPSAS and advocates for the harmonization of national reporting requirements with IPSAS

# OVERVIEW OF IPSAS

## Cont'd...



### Types of IPSAS

#### **Accrual basis IPSAS (38 in No)**

Prescribes the manner in which GPFRs should be presented under the accrual basis of accounting

Focuses on revenue, cost, assets, liability and equity, instead of cash flow only. Most IPSAS are on accrual basis which is in line with IFRS

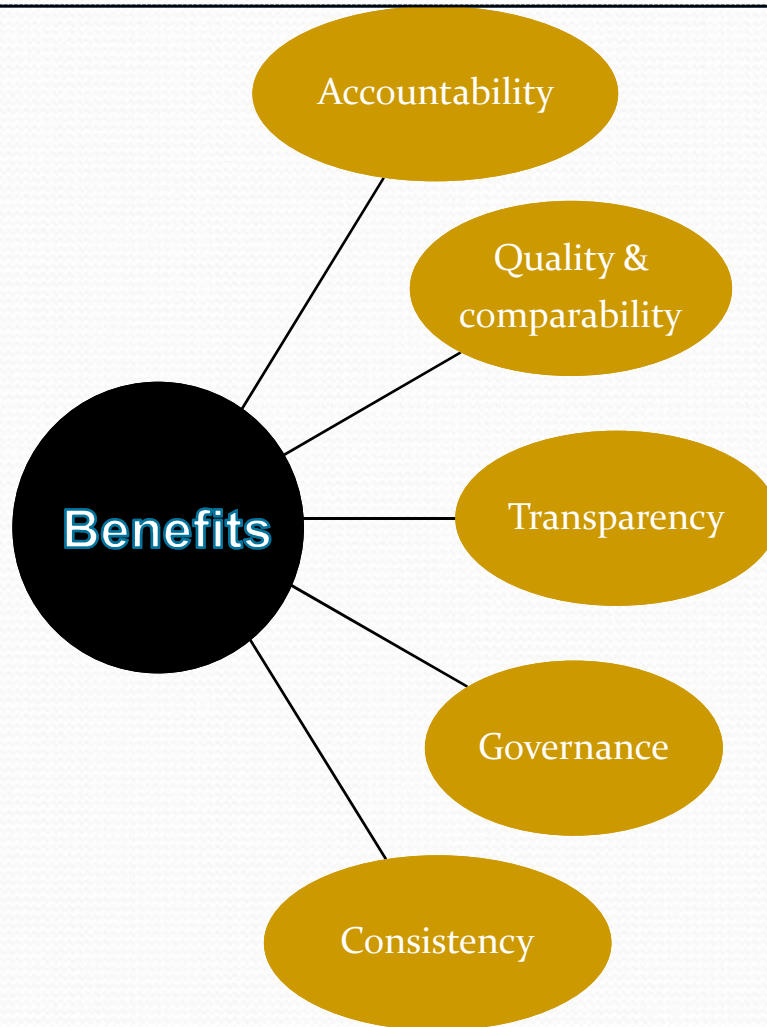
#### **Cash basis IPSAS (1)**

Prescribes the manner in which GPFRs should be presented under the cash basis of accounting

Focuses on financial reporting of cash receipts, payments and balances, under the cash basis of accounting



# Benefits of adopting IPSAS



# STANDARD SETTING PROCESS



- The IPSASB adopts a very structured and public due process for the development of IPSASs that provides the opportunity for comment by interested parties
- The IPSASB also consults with Consultative Groups on major projects, technical issues, and work program priorities
- There are 6 steps involved in the standards setting process though not each standard necessarily goes through each of the steps

# STANDARD SETTING PROCESS cont'd...



Base line  
study

Review  
other  
pronounc-  
-ments

Form of  
working  
groups

Issue of  
exposure  
draft  
(ED)

Modify  
exposure  
draft

Publish  
IPSAS



# STANDARD SETTING PROCESS cont'd...



- Study of national accounting requirements and practice(s) and exchange of views about the issues with national standard-setters
- Consideration of pronouncements issued by IASB, national standard setters, and other authoritative bodies, professional accounting bodies, and organizations interested in financial reporting
- Formation of steering committees, project advisory panels, or sub-committees to provide input to the IPSASB on a project

# STANDARD SETTING PROCESS cont'd...



- Publication of exposure draft (ED) for public comment usually for at least 4 months, includes basis of conclusion. The ED may be preceded by a consultation paper (CP)
- Consideration of all comments received within the comment period on discussion documents and exposure drafts, and modifications to proposed standards where appropriate
- Publication of an IPSAS which includes a basis for conclusions that explains the steps in the IPSASB's due process and how the IPSASB reached its conclusions



# MANDATORY STANDARDS vs. NON-MANDATORY GUIDELINES



	Mandatory Standards	Non-mandatory guidelines
<b>What they are</b>	IPSAS –standards which set out the recognition, measurement, presentation and disclosure requirements relating to transactions & events reported in GPFR	A relatively new publication that provides guidance on the broader aspects of financial reporting, outside the financial statements
<b>History</b>	First issued in May 2000	First issued in July 2013
<b>Current number</b>	38+1	3
<b>Compliance requirements</b>	Entity must comply with ALL IPSAS in order to said to be IPSAS Compliant	Are not mandatory; provide good practice guidelines. An entity can be IPSAS compliant without applying the RPGs
<b>Applicable entities</b>	All public sector entities except government business enterprises	
<b>Applicable reports</b>	General purpose financial reports	

# STRUCTURE



IPSAS are generally structured as follows:

- Objectives,
- Scope
- Definitions
- Main body
- Effective date
- Appendices
- Comparison with the relevant IAS



# ADOPTION/ IMPLEMENTATION PROGRESS



“Which countries have adopted IPSAS? This is a tough question, a highly complicated question, whose answer depends on who you ask. To the average IPSAS salesman, whose daily bread comes from IPSAS marketing, the number of IPSAS compliant countries ranges between 30 and 100. If you seek confirmation, the number varies from zero to 30. “ Public Finance International

# IMPLEMENTATION PROGRESS – Cont'd...



- Countries which have adopted full accrual basis of accounting include: New Zealand, Australia, USA, UK, Canada, France, Colombia, Indonesia, Cayman Islands\*. For some like USA & UK, IPSAS adoption has been indirect through application of local standards which are consistent with IPSAS
- In some countries, IPSAS have been adopted for some governments and other related agencies e.g. Japan, Switzerland, Germany, Abu Dhabi
- Some countries have a commitment towards adoption of cash basis IPSAS such as Malawi, Mozambique, Lesotho, Namibia
- Some countries have agreed processes or have a project in place to adopt accrual based IPSAS or align with IPSAS as part of wider reforms to adopt accrual accounting, e.g. Kenya, Uganda, Brazil, Italy, South Africa, India, Pakistan, Israel, Austria, Jamaica, Costa Rica, Chile, Spain, Russia, Greece, Ghana



# IMPLEMENTATION PROGRESS – Cont'd...



Then there is the category of countries that do not have any solid plans towards the adoption of IPSAS...such as Bosnia, Croatia, and Belarus

**International public sector bodies that have adopted IPSASs include:**

- The European Commission—for their own financial statements
- The North Atlantic Treaty Organization (NATO)
- The Organization for Economic Co-operation and Development (OECD)
- The United Nations system

# OVERVIEW OF CONCEPTUAL FRAMEWORK (CF)



- A framework is described as the abstract, logical structure of meaning(s) that guide the development of a study
- A concept abstractly describes and names an object or phenomenon providing it with a separate identity and meaning
- Therefore a CF consists of concepts that are placed within a logical and sequential design and represents a less formal structure & are used for studies in which existing theory is inapplicable or insufficient
- The CF establishes the concepts that are to be applied in developing IPSAS and RPGs that are applicable to the preparation & presentation of GPFRs for PSEs

# OVERVIEW OF CONCEPTUAL FRAMEWORK (CF)



2006

- Formal commencement of the conceptual framework project

2009

- Project timetable revised and accelerated; ceased to be a collaborative project with the National Standard Setters and other bodies

2008 - 2013

- December 2010 – ED on Phase I & CP on phase II
- April 2011 – Key characteristics of Public Sector with potential implications for FR
- Jan 2012 – CP on Presentation

2013

- Publication of chapters 1-4 (from Phase I)
- ED on Presentation (Chapter 8)

2014

- September 2014 – Approval of chapters 5-8
- October 2014 – Publication of chapters 5-8



# OVERVIEW OF CONCEPTUAL FRAMEWORK (CP) Cont'd...



Phase	Chapter in the Conceptual Framework	Scope
Phase 1 <sup>~</sup>	Chapter 1 <i>Role and Authority of the Conceptual Framework</i> Chapter 2 <i>Objectives and Users of General Purpose Financial Reporting</i> Chapter 3 <i>Qualitative Characteristics</i> Chapter 4 <i>Reporting Entity</i>	GPFRs
Phase 2 <sup>*</sup>	Chapter 5 <i>Elements in Financial Statements</i> Chapter 6 <i>Recognition in Financial Statements</i>	GPFSs <sup>2</sup>
Phase 3 <sup>*</sup>	Chapter 7 <i>Measurement of Assets and Liabilities in Financial Statements</i>	GPFSs
Phase 4 <sup>*</sup>	Chapter 8 <i>The Presentation of Information in General Purpose Financial Reports</i>	GPFRs

## Chapter 1: Role & authority of the CF

- The role of the CF is to establish the concepts that underpin financial reporting by PSEs that adopt accrual basis of accounting.
- It neither establishes authoritative requirements nor overrides the requirements of IPSASs or RPGs
- It therefore applies to GPRFs of governments and a wide range of PSEs such as government ministries, departments, programs, boards, commissions, agencies, and international governmental organizations.

## Chapter 2: Objectives and users

- The objective of Financial Reporting by PSEs is to *provide information about the entity that is useful to users of GPFR for accountability and decision-making purposes*
- The identification of accountability as an objective of FR reflects the fact that most governments and PSEs operate for service delivery rather than profit seeking and that their nature of funding is mainly through taxation
- The users of information are identified as service recipients and resource providers



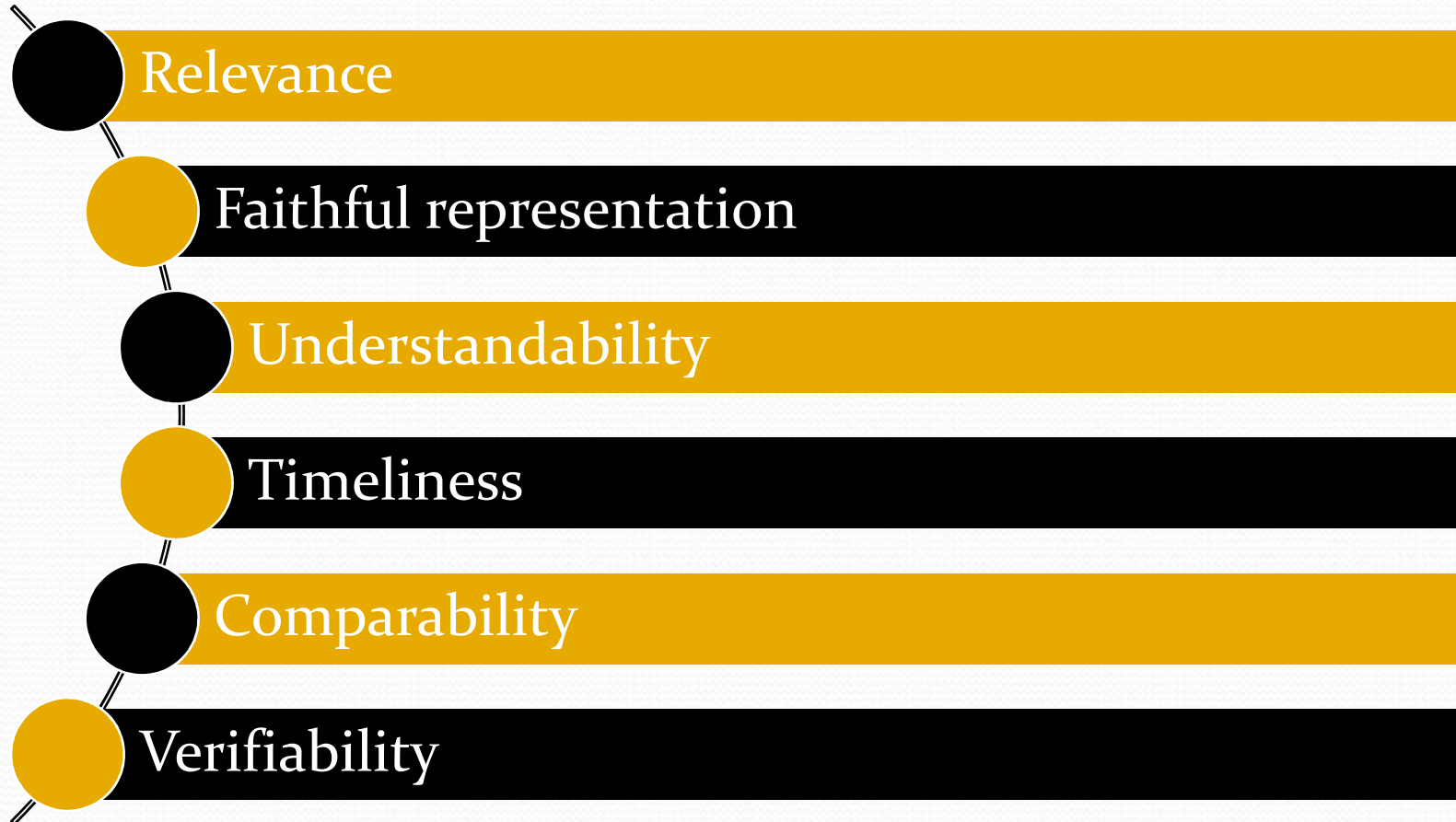
## Chapter 3: Qualitative Characteristics

- The qualitative characteristics are the attributes that make that information useful to users and support the achievement of the objectives of financial reporting
- They apply to all financial and non-financial information reported in GPFRs, including historical and prospective information and explanatory information
- No distinction is made between fundamental and enhancing QCs (as in IASB) since the fundamental may be seen to be more important than the enhancing QCs even if such a hierarchy is not intended, leading to unintended consequences

# OVERVIEW CF cont'd...



## Chapter 3: QC's



# OVERVIEW CF cont'd...

## Chapter 3: QCs cont'd...



- Relevance - capable of making a difference in achieving the objectives of financial reporting
- Faithful representation-represents the economic phenomenon it purports to represent; complete, neutral and free from error
- Understandability - enables users to comprehend its meaning. Prepared in simple plain language
- Timeliness - being available for users before it loses capacity to be useful for accountability and decision making purposes
- Comparability-enables users to identify similarities in and differences between 2 sets of phenomenon
- Verifiability – can be corroborated

## Chapter 4: Reporting entity

- Identified as government or other public sector organization, program or identifiable area of activity that prepares GPFRs
- May comprise 2 or more entities
- Separate legal identity not essential
- IPSASB identifies key characteristics of a reporting entity as:
  - Raises resources from or on behalf of service recipients & uses of resources for the benefit of constituents
  - There are service recipients or resource providers that are dependent on GPFRs



# OVERVIEW CF cont'd...

## Chapter 5: Elements of financial statements



- Focuses on financial statements rather than the broad area of financial reporting outside of the FS
- FS portray the financial effects of transactions and other events by grouping them into broad classes which share common economic characteristics
- Elements:

Assets	Expenses
Liabilities	Ownership contributions
Revenue	Ownership distributions

## Chapter 6: Recognition

- Recognition is the process of incorporating and including an amount to be displayed on the face of an appropriate financial statement, an item that meets the definition of an element and can be measured in a way that achieves the QCs
- This chapter identifies the criteria that must be satisfied in order for an element to be recognized in the financial statements.
  - Item should meet the definition of an element
  - Item should be measurable in a way that meets the QCs
- Recognition is a distinct stage in the financial reporting process



## Chapter 6: Measurement Objective

- Was identified as necessary in order to guide standard level decision on the selection of measurement bases
- To select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account and for decision making purposes
- The CF does not identify a single measurement basis or group of bases for all circumstances.
- The CF identifies 5 measurement bases for assets and liabilities from a high level on non-specific circumstances when it is appropriate to apply them.

## Chapter 6: Measurement Objective

### MEASUREMENT BASES FOR ASSETS

Historical  
Cost  
values

#### Current cost values

Market  
value

Replac-  
ement  
value

Net  
selling  
price

Value  
in use

### MEASUREMENT BASES FOR LIABILITIES

Historical  
Cost  
values

#### Current cost values

Cost of  
fuliment

Market  
value

Cost of  
release

Assum  
ption  
price

## Chapter 8: Presentation

- This chapter provides guidance by evaluating presentation of 3 related dimensions
- **Selection** - what information is required in the financial statements and GPFRs; should be concise & easy to understand
- **Location** - address allocation of information between different reports and on locating information within a report
- **Organization** - addresses the arrangement, grouping & ordering of information; includes decisions on how information is arranged within GPFR & its overall structure

# QUESTION & ANSWER



IF IT WASN'T HARD  
*everyone*  
WOULD DO IT. IT'S THE  
HARD  
THAT *Great.*  
MAKES IT