

# **PUBLIC FINANCIAL MANAGEMENT CONFERENCE 2016**

## **TOPIC:**

**Transparency and Comparability in Financial Reporting by Public Sector Entities in Kenya**

**Wednesday, 6<sup>th</sup> April 2016**

# Objectives



At the end of the session are we able to decipher the following:

- Does the public sector accounting system in place in Kenya have the ability to generate accrual data?
- Is there a harmonized accrual accounting system for all subsectors of general government in Kenya?
- Will the adoption of IPSAS lead necessarily to harmonize public sector accounting practices and enhance transparency of reporting?

# Background - Why transparency?



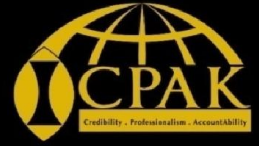
In the 21 years to 2011, a total number sovereign write-downs and restructuring of sovereign bonds stood at 25 – Argentina in 2001 and the PIGS in 2011 -15

The financial crisis of 2008 and euro-zone turbulence of 2011, pushed discussions on government accountability. Consequently,

There have been major concerns around

- lack of transparency and accountability
- poor public finance management and reporting and
- deficiency of fiscal management in government

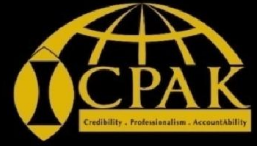
# Measurement of Transparency



**To a greater extent, transparency is dependent on:**

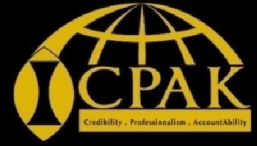
- How much relevant information held by MDAs can we obtain on use of public funds?;
- How well can the information be analyzed to develop action-oriented conclusions?;
- What kind of responses do they elicit from the users of funds? -
  - Are responses deterrent - strengthening of systems & sanctions?
  - Corrective actions - recovery of losses, correction of accounts?

# Legal basis of transparency



- Article 10 – Transparency and accountability are upheld as core to good governance through effective public participation
  - an open budget process
  - public availability of information
  - assurance on integrity through an independent audit process
- Article 201 - Principles of Public Finance ..... Transparency is a key principle of PFM;

# Legal basis of transparency – cont'd



- Beyond the CoK 2010, Sec 194 of PFM 2012 mandates PSASB to secure comparability of financial reports through prescribed reporting standards. The Board's pronouncements:
  - are yielding standardization of reports
  - bring about **COMPARABILITY** both locally and internationally

**Are standardised reporting frameworks a means of securing transparency and comparability of public finances?**

# PSASB Interventions



Vide Gazette Notice No. 94 dated 8th August 2014, the Board decreed that effective 1<sup>st</sup> July 2014:

- National and County Governments and their respective service-based entities shall apply Cash Basis IPSAS;
- SAGAs including regulatory and non-commercial corporations both national and county shall go full accrual IPSASs;
- National and County Corporations carrying out commercial activities shall apply IFRS;

Board subsequently issued illustrative financial statements for use under each of the categories.

# Success stories?!?



Did the adoption of a harmonized reporting framework yield better transparent and comparable financial statements?

How facilitative was the process?

- Standards
  - Reporting guidelines
  - Reporting templates
- 
- What do the results of the 2015 FiRE Awards say?



# Assessment of Financial Reports - FiRE Award 2015



2015 FiRE Awards introduces public sector category and turned out to be the greater sector – 267 participating public sector entities against 111 entries from private sector;

Public sector categorized as either complying with:

- Cash basis IPSAS
- Accrual basis IPSAS
- IFRS

# FiRE Award 2015 – Review of Outcomes



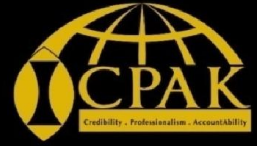
## General Findings/Comments

Use of boiler plate accounting policies - Most entities failed to tailor the accounting policies to meet their unique reporting needs – entities applied generic policies as provided in the illustrative financial statements.

**Does this affect the level of disclosure in the financial statement?**

**Is this building on comparability in a manner that defeats transparency objective of the financial reporting?**

# Specific Comments – Cash Basis Category



## Issues noted:

- Non disclosure of the date the financial statements were authorized for issue
- Majority of financial statements not signed by those charged with governance in accordance with IPSAS 1.4.5
- Significant variations in budgets noted but most statements failed to provide explanations as to whether the variations result from budget re-allocations as required under IPSAS 1.9.23;

## Cash Basis Category – cont'd



- Most statements failed to provide comparisons with approved budgets as required by IPSAS 1.9.17
- No related disclosures on related parties mostly information relating to compensation of key personnel in accordance with IPSAS 2.1.31
- Inconsistency noted in sign-off on statement of management responsibilities – Board should come in and provide guidelines
- General formatting issues

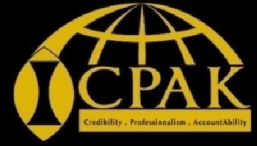
# IPSAS Accrual Category



## Issues noted:

- Failure to disclose the accounting policies used to generate the financial statements
- No disclosure on use of judgement and estimations which permeated through most reports;
- Reports failed to provide an assessment of the entities' ability to continue as going concern yet an important disclosure requirement;

# IPSAS Accrual Category – cont'd



## Issues noted:

- Most statements failed to provide disclosures on risk and the risk mitigating factors;
- Most statements failed to provide for disclosures on related party transactions such as compensation of key personnel;
- It was not clear in some entities the depreciation method used and there was a mix-up between the policy note and the property, plant and equipment movement schedule.

# IFRS Category



Requirement on all government institutions whose operations are at arms length commercial in nature;

## Issues noted:

- Statement of Comp. Income - For most reporting entities, presentation of SOCI was not in line with international accounting standards and not as per illustrative financial statements given;
- Statement of financial position - a number of annual reports and financial statements did not indicate the date of authorisation for issue.

# IFRS Category – cont'd

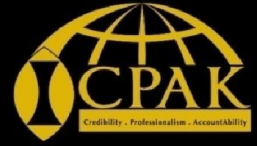


## Issues noted on disclosures:

- Most statements did not provide an assessment of the going concern aspect of the operations of the reporting entities;
- There was a mix-up between the policy note on depreciation and the property, plant and equipment movement schedule.
- Most entities failed to provide comprehensive discussion on assessment of the economy, sector changes, company performance, risk and the future of the organisation.
- Very few entities presented ratio analysis – to enhance reporting



# IFRS Category – cont'd



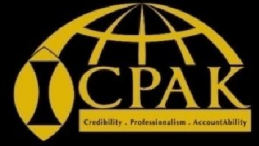
- Governance - Most issues on corporate governance, which would be applicable to state corporations were not disclosed e.g:
  - issues on independence of the board,
  - conflict of interest,
  - frequency of board meeting,
  - board committees,
  - communication policies,
  - Risk management and relationship with stakeholders.
- Most entities failed to provide disclosures on environmental and social sustainability reporting;

# Summary on Audit Opinions



	Cash IPSAS	IPSAS Accrual	IFRS	Total	%
Unqualified	12	37	18	67	25%
Qualified	24	55	35	114	43%
Adverse	12	6	1	19	7%
Disclaimer	25	34	8	67	25%
Total	73	132	62	267	100%

# Achievements



- Consolidation carried out for the first time. The report provides a broader picture of the National Government financial position.
- Entities are to some extent using the standards pronounced by the PSASB.
- Initial training exercise already carried out.
- A lot of capacity building initiatives rolled out both for MDAs and Counties
- Consolidated financial statements submitted to Auditor General within statutory deadline for 2013/14 audit.

# Challenges



- Inadequate capacity
- Stringent timelines
- Lack of records specifically assts and liabilities

# Challenges



- Gap analysis on the current status of IPSAS compliance
- Improvements to the reporting templates
- Intensified trainings to enhance compliance
- Emphasis is on comprehensive disclosures in readiness for adoption of IPSAS accrual
- Drawing of a roadmap towards a progressive adoption of IPSAS accrual for MDAs and County Governments
- **Quarterly government consolidation** as per requirement of the PFM Act