



ICPAK Seminar

**Improving Financial
Reporting for Counties
through IPSAS**

26 May 2016

- **Legal framework of public sector accounting standards – PSASB (K) and ICPAK**
- **PSASB's strategic direction and IPSAS roadmap**
- **The Conceptual Framework**
- **Towards IPSAS Accrual**



Legal framework of Public Sector Accounting Standards

Chapter 12 Section 201 of the constitution - principles shall guide all aspects of public finance in the Republic:

- **there shall be openness and accountability, including public participation in financial matters;**
- **the public finance system shall promote an equitable society, and in particular:**
 - **the burden of taxation shall be shared fairly;**
 - **revenue raised nationally shall be shared equitably among national and county governments; and**

Legal framework – the Constitution.....cont'd

- **Expenditure shall promote the equitable development of the country, including by making special provision for marginalised groups and areas;**
 - **the burdens and benefits of the use of resources and public borrowing shall be shared equitably between present and future generations;**
 - **public money shall be used in a prudent and responsible way; and**
 - **financial management shall be responsible, and fiscal reporting shall be clear.**
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Legal framework – the Constitution.....cont'd

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Legal framework – PFM Act

- **The Public Finance Management Act, 2012 (PFM) section 192, 193(1), 193(5) provides for the establishment of PSASB, appointment of its Board Members and the Secretariat**
- **The Public Sector Accounting Standards Board (PSASB) was established by the PFM Act No. 18 of 24th July, 2012**
- **The Board was gazetted by the Cabinet Secretary, National Treasury on 28th February, 2014**

PSASB's Board and secretariat

The PSASB (K) Board is composed of 9 members - Representatives from:

- ✓ The National Treasury
- ✓ The Controller of Budget
- ✓ The Intergovernmental Budget & Economic Council
- ✓ The Auditor General
- ✓ The Institute of Certified Public Accountants of Kenya
- ✓ The Association of Professional Societies of East Africa
- ✓ The Capital Markets Authority
- ✓ The Institute of Internal Auditors
- ✓ The Institute of Certified Public Secretaries of Kenya

PSASB's Board and secretariat.....cont'd

- **The Board has set up 4 committees to assist in the Execution of the mandate:**
 - ✓ Government Owned Enterprises Committee
 - ✓ National and County Government Committee
 - ✓ Internal Audit Committee
 - ✓ Governance and Strategy Committee
- **The National Treasury supports the Board through appointed officers to form the Secretariat to support the work of the committees and the Board**
- **The committees assist in fast tracking the implementation of the new reporting framework.**

PSASB's Mandate

Section 194 (1),(2),(3),(4) & (5) - (PFM Act 2012)

The Accounting Standards Board shall:

- (1) Provide frameworks
- (2) Set generally accepted standards for the development and management of accounting and financial systems by all State organs and public entities; and
- (3) In particular perform the following functions:
 - ✓ set general accepted accounting and financial standards;
 - ✓ prescribe the minimum standards of maintenance of proper books of accounts for all levels of Government;

PSASB's MandateCont'd

- ✓ prescribe internal audit procedures which comply with this Act;
- ✓ prescribe formats for financial statements and reporting by all state organs and public entities;
- ✓ publish and publicize the accounting and financial standards and any directives and guidelines prescribed by the Board;
- ✓ Perform any other functions related to advancing financial and accounting systems management and reporting in the public sector.
- ✓ (2) In setting the standards under subsection (1), the Board shall take into account any relevant factors including;
 - ✓ *best international accounting practices*; and
 - ✓ *the capacity of the relevant entity to comply with the standards.*

PSASB's MandateCont'd

- 4) The Board may set different standards for different categories of entities including to develop content, structure and format of county frameworks and accounting and financial guidelines which are in line with the setting of county standards
- 5) The Board shall monitor the adherence to the standards by all State organs and public entities
- 6) The standards set by the Board shall promote transparency and other Constitutional values and principles in effective, prudence and efficient management of revenue, expenditure, assets and liabilities of the institutions to which these standards apply
- 7) Periodically review and prescribe the applicable financial reporting standards, which shall include progressive application of IPSAS Accrual standards by National and County Governments and their respective entities
- 8) Monitor the adherence to the standards by all State organs and public entities

PSASB's strategic direction and IPSAS Road map

- Through a gazette notice by CS National Treasury dated 8 August 2014, the Board issued the financial reporting and internal auditing standards to be applied by all state organs and public sector entities
- The Board has approved the following standards for adoption:
 1. **State Corporations - The International Financial Reporting Standards (IFRS)**
 2. **All public sector entities except the State Corporations - The International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB) for application. The Board approved application of these standards as follows:**
 - a) **The National and County government and their respective entities - IPSAS cash**
 - b) **The Semi-Autonomous National County Government Agencies - IPSAS Accrual**
 - c) **Regulatory and noncommercial State and County Corporations - IPSAS Accrual**
 - d) **The state and County Corporations carrying out commercial activities - IFRS**
 - e) **Internal audit of state organs and public sector entities - International Professional Practice Framework (IPPF) for internal Auditing Standards by the Institute of Internal Auditors**

The effective date of adoption and application of the standards was 1 July 2014

PSASB's strategic direction & IPSAS roadmap - Next steps

- Gap analysis on the current status of IPSAS compliance
- Improvements to the reporting templates including their automation in IFMIS and other accounting systems
- 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 the requirement of the Section 18 of PFM Act

IPSAS – The global trends

- **IPSAS Board**
- **Standards**
- **In Africa – SA, Botswana, Zimbabwe**



cutting through complexity

The conceptual framework of IPSAS



- The IPSASB (the Board) approved The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities at the IPSASB's in September 2014 and its publication on 31 October 2014
- The framework is developed to facilitate the implementation of the IPSAS and to enhance the consistency of practice.

- The Framework established the concepts that are to be applied in developing IPSAS Standards and Recommended Practice Guidelines (RPGs) applicable to the preparation and presentation of General Purpose Financial Reports (GPFRs) for public sector entities.
- **Provides guidance when IPSAS does not** e.g. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* excludes provisions related to social benefits in non-exchange transactions from its scope. **The framework provides guidance on this**

Role of the Conceptual framework (Continued)

- The Framework addresses key public sector characteristics in its approach to financial statements elements such as:
 - needs for high-quality financial reporting information for both accountability and decision-making purposes;
 - the presentation of financial reports, while focusing on service recipients (e.g. Citizens) and resource providers; and
 - the measurement of assets and liabilities.

- The framework was developed as a guidance on the development of IPSAS standards; and
- It does not override the requirements of IPSAS and RPG's, rather it provides guidance in dealing with financial reporting issues not dealt with by IPSASs or RPGs.

It applies largely to public sector entities that apply IPSAS such as the following:

- National Government
- Provincial/State Government
- Local Government
- Government ministries, departments, programs, boards, commissions, agencies
- Public sector social security funds, trusts
- International governmental organisations – AU, UN, World Bank

- GPFRs are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.
- The Conceptual Framework acknowledges that, to respond to user's information needs, public sector GPFRs may include information that enhances, complements, and supplements the financial statements.
- The Framework therefore reflects a scope for financial reporting that is more comprehensive than that encompassed by financial statements.

General Purpose Financial reports (continued)

- The factors that determine what may be encompassed within the scope of financial reporting are determined by the objectives and users of the GPFRS.

Objectives

- Useful for accountability purposes; and
- For decision making purposes

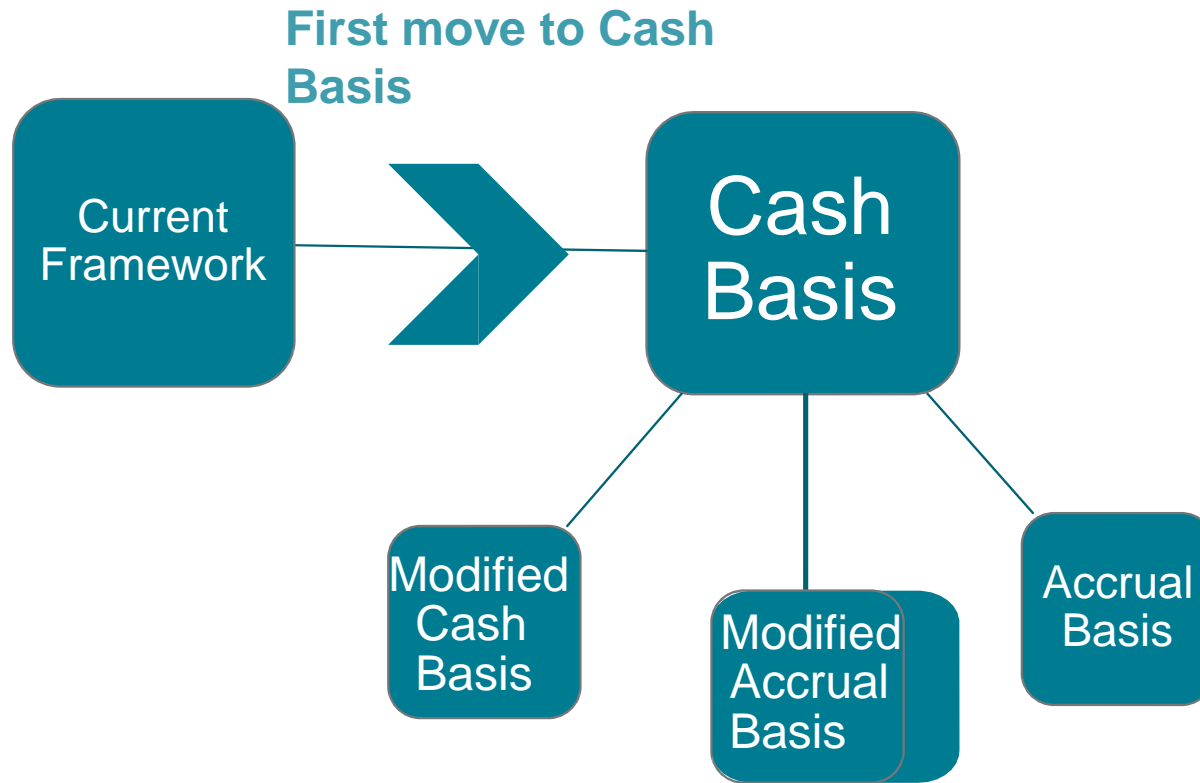
Primary users

- Service recipients – Citizens
- Resource providers – Donor agencies, citizens
- Other users
- Media
- Financial advisor
- Lobby groups

Towards IPSAS Accrual Accounting



Conversion approaches



Then move from Cash Basis to chosen basis

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Conversion Approaches

Parallel (Cash and Accrual at the same time)

Bottom up Top down Piloting

Phased Approach (Cash to Accrual)

e.g. Cash for central, financial assets and liabilities for departments, Full
accounting for government, GBE's and Consolidated AFS (International
Consortium Government Financial Management [ICGFM])



Cash basis IPSAS as a stepping stone

The Case for Cash to Accrual Accounting

THE CASE

IPSASB has highlighted that the financial and sovereign debt crises have brought to light, as never before, the need for better financial reporting by governments worldwide, and the need for improvements in the management of public sector resources. Citizens are affected by a government's financial management decisions.

Accrual accounting improves the quality of general purpose reporting by public sector entities, leading to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability.

The difference between Cash and Accrual Accounting

Cash vs. Accrual Accounting

CASH

- Transactions accounted for only at the point where there is a cash receipt or cash payment
- Revenue recognised when cash is received
- Expenses recognised when a cash payment is made
- Only CASH assets and CASH liabilities recognised on statement of cash balances (balance sheet)

ACCRUAL

- Transactions are recognized as the underlying economic events occur, regardless of the timing of the related cash receipts and payments
- Revenue recognised when income is earned
- Expenses recognised when liabilities are incurred or resources consumed
- Assets and Liabilities include non cash assets and liabilities like Property, Plant & Equipment and Employee Liabilities

Why move to Accrual Accounting?

High life expectancy



Increasing proportion of the elderly



Birth rates

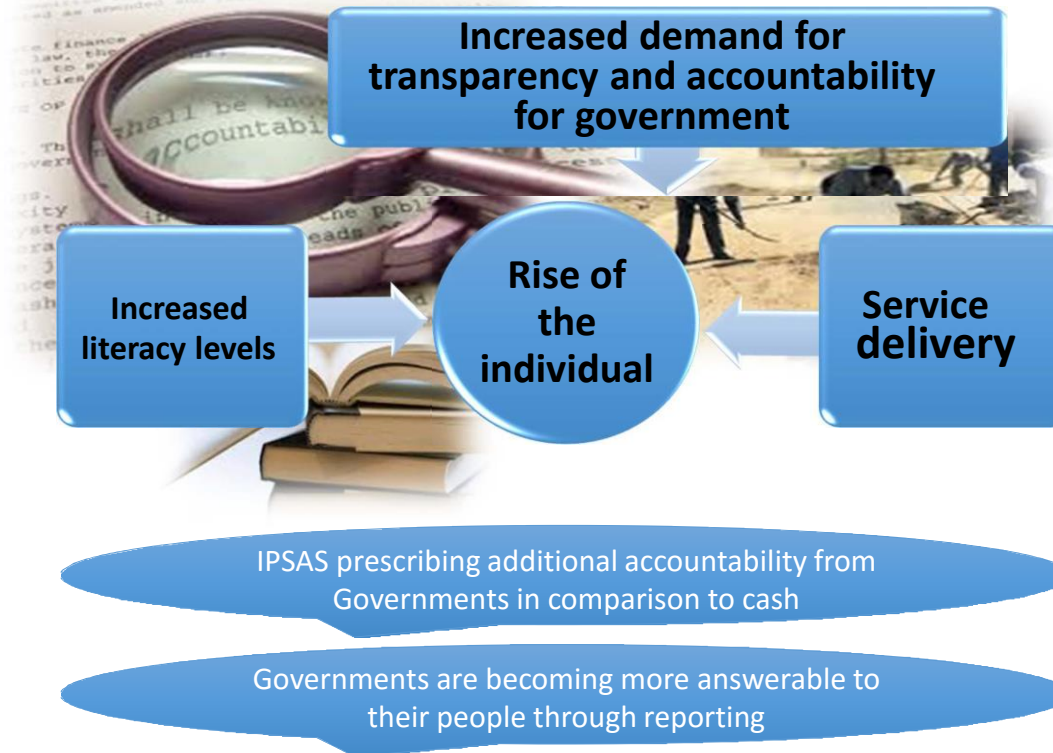


Governments need to start accruing for pensions and grants

Effect on pensions, social welfare and health care



Why move to Accrual Accounting?

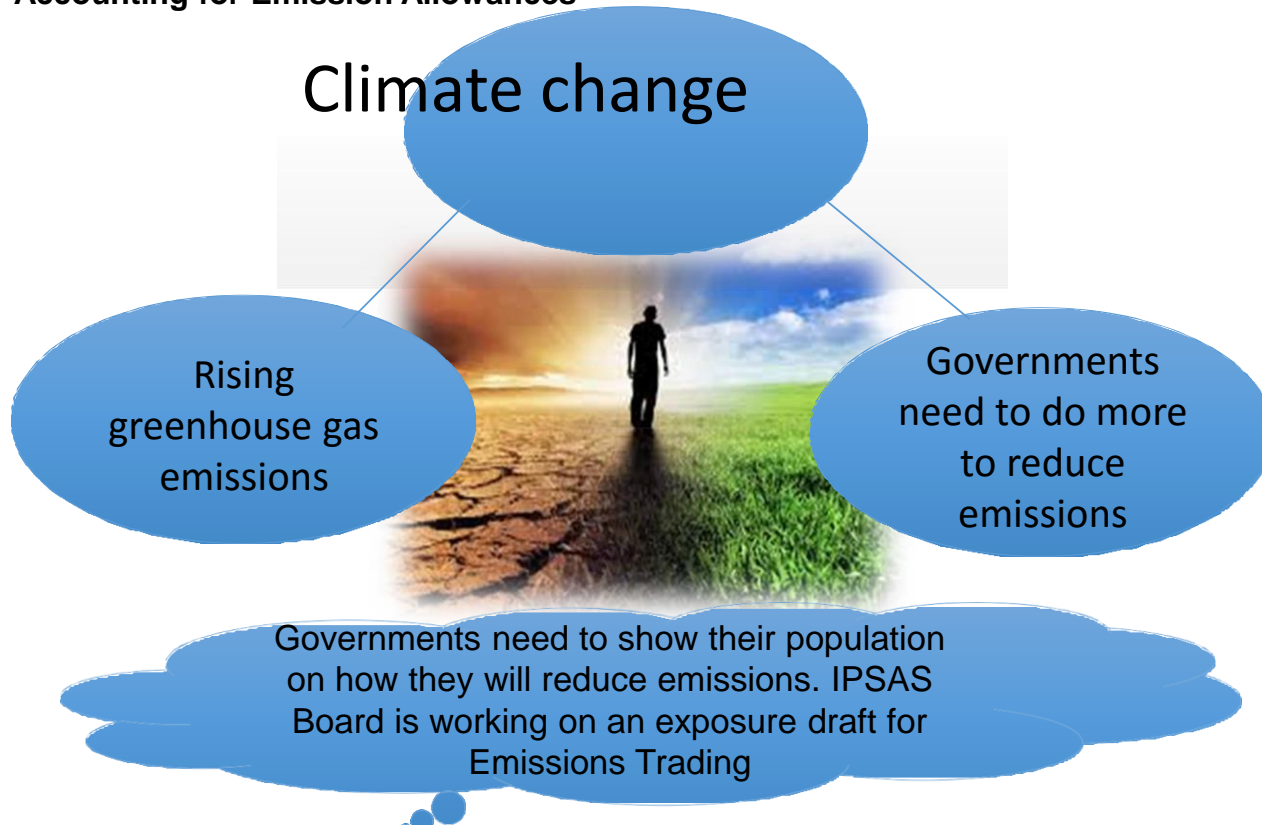


Why move to Accrual Accounting?



Why move to Accrual Accounting?

Accounting for Emission Allowances



Why move to Accrual Accounting?

Public debt



- If not managed well could be a constraint on fiscal and policy options
- Governments need to bring debt under control
- Governments will need to communicate to their population on how they are managing their debt.



Reporting Service Performance

- **Effectiveness** – Actual results versus performance objectives
- **Efficiency** – Inputs versus Output
- **Impact on society – Service delivery**
- **Budget versus Actual**

Commitments, other expense

- **Surpluses** recognized in essence whilst expenses **are understated**.
- Need to recognize **commitments, depreciation and impairment and** this could be important for setting future budgets.

Donor funding

- **Assets** donated are **not recognized** if not on Accrual
- Lack of stewardship and accountability
- Donor funds have developed own reporting frameworks
- The benefits of IPSAS might not be quantifiable or difficult to quantify

Why move to Accrual Accounting?

- Some of the benefits noted by countries who have adopted IPSAS accrual accounting include:
 - Ability to determine Receivables
 - Ability to determine Payables
 - Actual money has been spent against budgeting
 - Ability to determine unit costs of projects etc
 - Accrual accounting represents a developmental goal. No longer acceptable to prepare Trial balances.
 - Accrual standards are the new cornerstone of accounting. Governments can benchmark and compare the different counties as well as against other governments.

In a nutshell.....



IPSAS Accrual Accounting will ensure:



Improved accountability and decision- making

Improved management of assets and liabilities

Improved accuracy in reflecting revenues and expenses

Better reflection of costs

The Road Ahead

Phase 1

- Enactment of enabling key pieces of legislative
- Set up project management function
- Plan conversion to cash basis

IPSAS

- Development of accounting policies including definition of reporting entity/boundary
- Preparation of chart of accounts
- Development of reporting templates
- Alignment of Financial Instruments and Procedures Manual with new legislation and accrual based accounting standards.
- PPE verification exercise commences
- Planning of phased projects
(Assets, Liabilities Revenue)
- Financial Statements prepared to be broadly consistent with achievable IPSAS standards

Phase 2

- Implementation of accounting policies
- Chart of accounts developed
- Reporting templates developed
- Asset verification completed
- Asset valuation commences
- Implementation of phased projects
(Assets, Liabilities, Revenue)

Phase 3

- Phased implementation of Accrual standards and AFS starts at Central Government (Ministries and Departments)
- Asset valuation completed
- Align Local Government accrual accounting policies with Central Government Policies

Phase 4

- First set of accrual Accounts produced or Central Government
- Consolidated accounts prepared on a modified accruals basis

Phase 5

- Whole of Government financial statements

Next step forward

	Preparation for Change	Enabling Change	Sustaining Change
HR Alignment and Skills Development Leadership Intervention Ongoing Communication	<ul style="list-style-type: none"> ■ HR professionals identified and allocated to deliver upon activities emanating from the project outcomes ■ Determine HR requirements for business process changes ■ Determine skills gaps ■ Assessment on change leadership index 	<ul style="list-style-type: none"> ■ Develop the approach to training and initiate training programmes to address skills gaps ■ Assess organisational climate throughout and provide feedback ■ Actively drive the performance management process 	<ul style="list-style-type: none"> ■ Report on HR matters regarding the change implementation ■ Conduct post-implementation improvements ■ Engage leadership on their ongoing change leadership role

Thank you!

Comments?



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