



International Public Sector Accounting Standards (IPSAS) Workshop

Mt. Kenya Branch

Theme: Increasing Accountability Through Quality Public Sector Accounting

Developments in Public Sector Accounting

Friday, 29 July 2016

Learning Outcome

- At the end of this session, delegates should:-
 - α Explain the Public sector accounting developments and appreciate the stage of IPSAS implementation across the globe and in Kenya
 - α Understand the public sector accounting requirements
 - α Describe the differences and similarities between IPSAS and IFRS
 - α Understand and explain the merits of accrual accounting
 - α Understand the conceptual framework and key accounting principles

Introduction

- 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
 - 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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 - financial management shall be responsible, and fiscal reporting shall be clear.

Scope & Authority

- IPSAS are designed to guide the **preparation** and **presentation** of general purpose financial statements of public sector entities.
- Public sector entities include national (central), regional and local governments, and their component entities such as departments, agencies, boards, commissions et cetera.
- **IPSAS do not apply to Government Business Enterprises (GBE).**

Government Business Enterprise

- Government Business Enterprise means an entity that has **all the following characteristics**:
 - a) Is an entity with the **power to contract** in its own name;
 - b) Has been assigned the **financial and operational authority** to carry on a business;
 - c) Sells goods and services, in the normal course of its business, to other entities **at a profit or full cost recovery**;
 - d) Is **not reliant** on **continuing** government funding to be a going concern (other than purchases of outputs at arm's length); and
 - e) Is controlled by a **public sector entity**.

Legal Framework –PFM Act

- **Sec. 192 -195** –Establishment of the PSASB, its composition, functions, vacation of office & remuneration.
- **Section 192** of PFM Act - establishment a Public Sector Accounting standards Board which shall perform the functions set out in this part.
- **Section 193(1)** The Composition of the Board. The Accounting Standards Board consist of a representative of each of the following bodies who shall serve on a part-time basis
 - a. the National Treasury
 - b. the Controller of Budget
 - c. the Intergovernmental Budget and Economic Council
 - d. the Auditor General
 - e. the Institute of Certified Public Accountants of Kenya;
 - f. the Association of Professional Societies of East Africa;
 - g. the Capital Markets Authority;
 - h. the Institute of Internal Auditors; and
 - i. the Institute of Certified Public Secretaries of Kenya.

Legal Framework - Function

- Section 194 (1) of PFM Act provide that the Public Sector Accounting Standard Board shall **provide the frameworks** and set **generally accepted standards** for the development and management of accounting and financial systems by all state organs and public entities and shall particularly perform the following functions:

Legal Framework – Function

(continued)

- a. Set generally accepted accounting and financial standards;
- b. Prescribe the minimum standards of maintenance of proper books of accounts for all levels of Government;
- c. Prescribe internal audit procedures which comply with this Act;
- d. Prescribe formats for financial statements and reporting by all state organs and public entities
- e. Publish and publicize the accounting and financial standards and any directives and guidelines prescribed by the Board;
- f. In consultation with the Cabinet Secretary on the effective dates of implementation of these standards, Gazette the dates for application of the standards and guidelines; and
- g. Perform any other functions related to advancing financial and accounting systems management and reporting in the public sector.

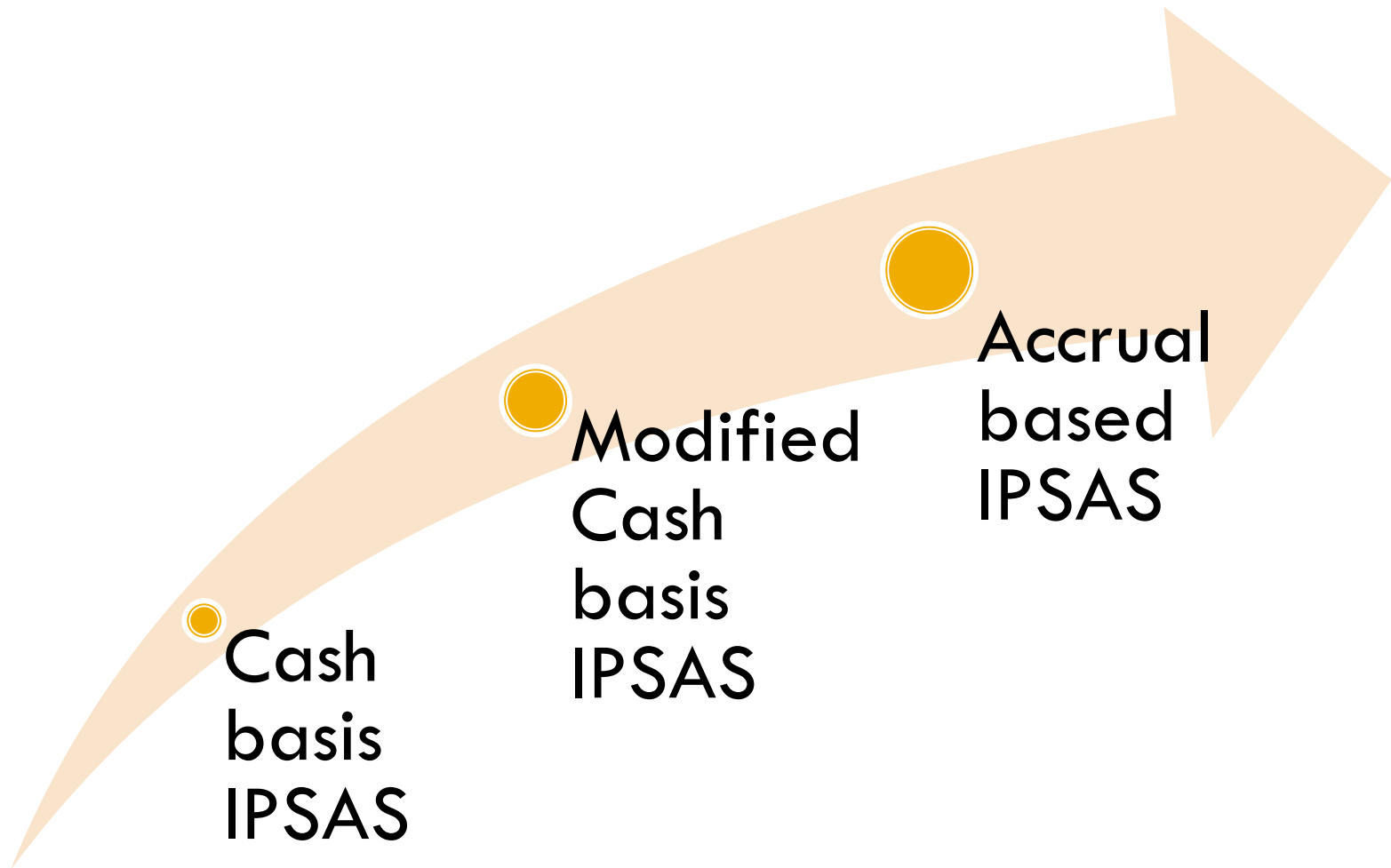
The Board Committees

- The Board has set up 4 committees to assist in the Execution of the mandate:
 - i. Government Owned Enterprises Committee
 - ii. National and County Government Committee
 - iii. Internal Audit Committee
 - iv. 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.

Adoption of IPSAS

- PSASB adopted the financial reporting standards applicable to public sector entities as follows:
 - National Government and County Governments –Cash basis IPSAS;
 - Semi Autonomous Government Agencies – IPSAS accrual; and
 - State Corporations (commercial public sector entities) – IFRS.
- The PSASB adopted International Professional Practice Framework (IPPF) for Internal Auditing Standards
- The Standards became effective on **1st July 2014** and were communicated to the entities via Treasury Circular dated **1st July 2014** and subsequently gazette notice 5440 on **1st August 2014**.

Cash Basis Vs Accrual basis



Cash Basis Vs Accrual basis(Cont..)

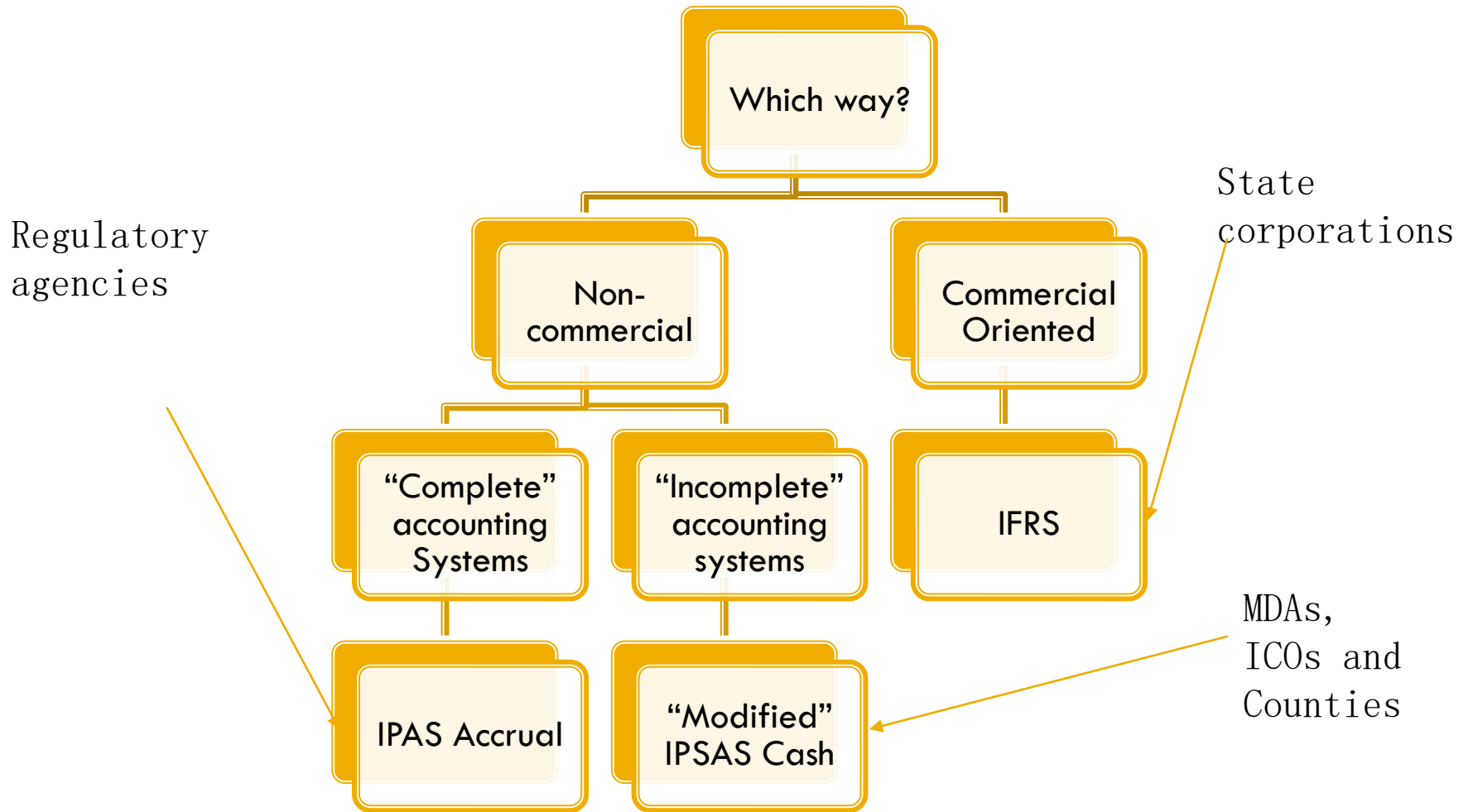
CASH BASIS

- A basis of accounting that recognises transactions and other events **when cash is received or paid.**
- Measures financial results for a period as the **difference between cash received and cash paid.**

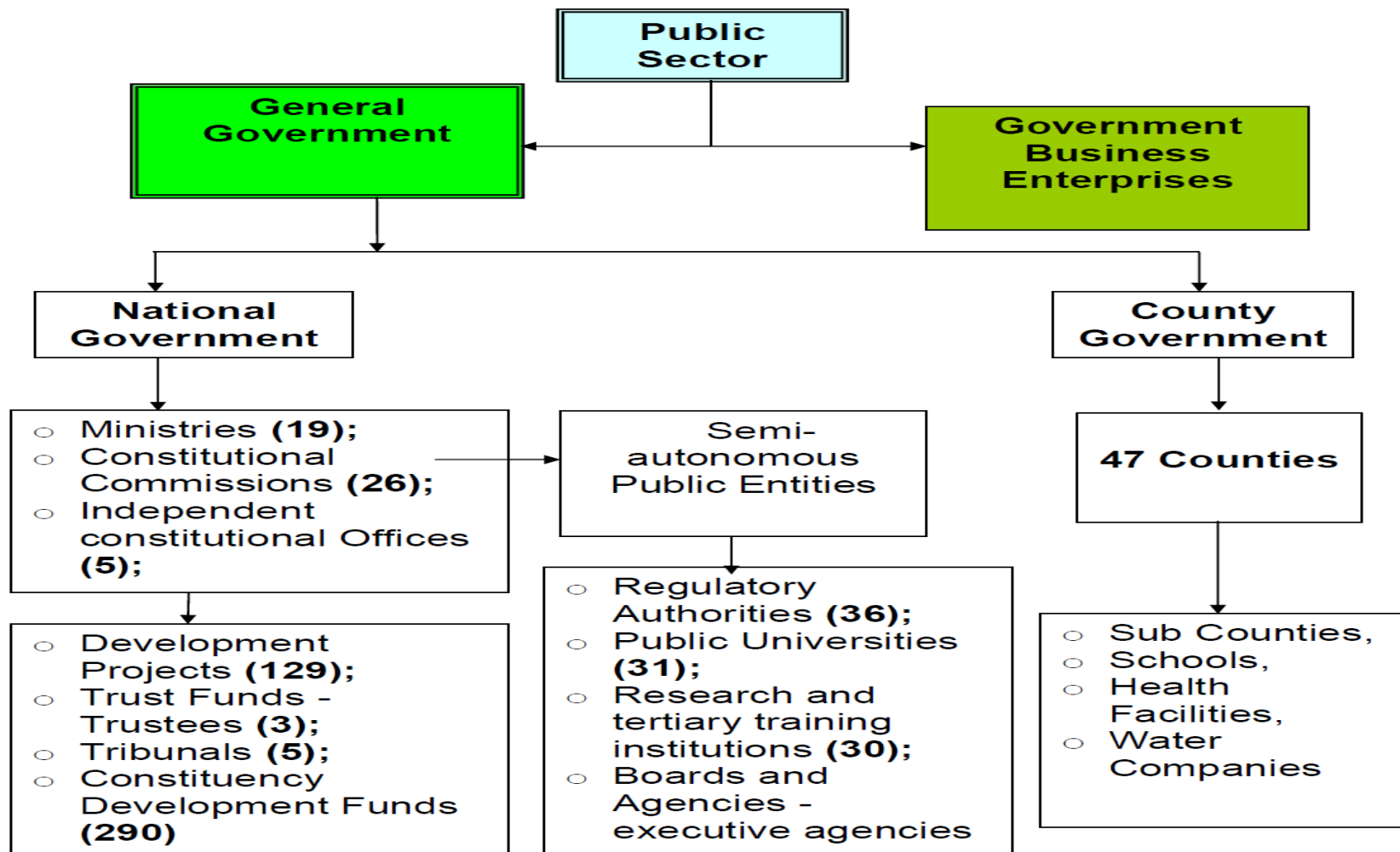
ACCRUAL BASIS

- A basis of accounting under which transactions and other events are recognized **when they occur** (and not only when cash or its equivalent is received or paid).
- Therefore, the transactions and events are **recorded in the accounting records** and recognised in the financial statements **of the periods to which they relate.**
- The elements recognised under accrual accounting are **assets, liabilities, net assets, revenue and expenses.**

Which way???



Public Sector at a Glance



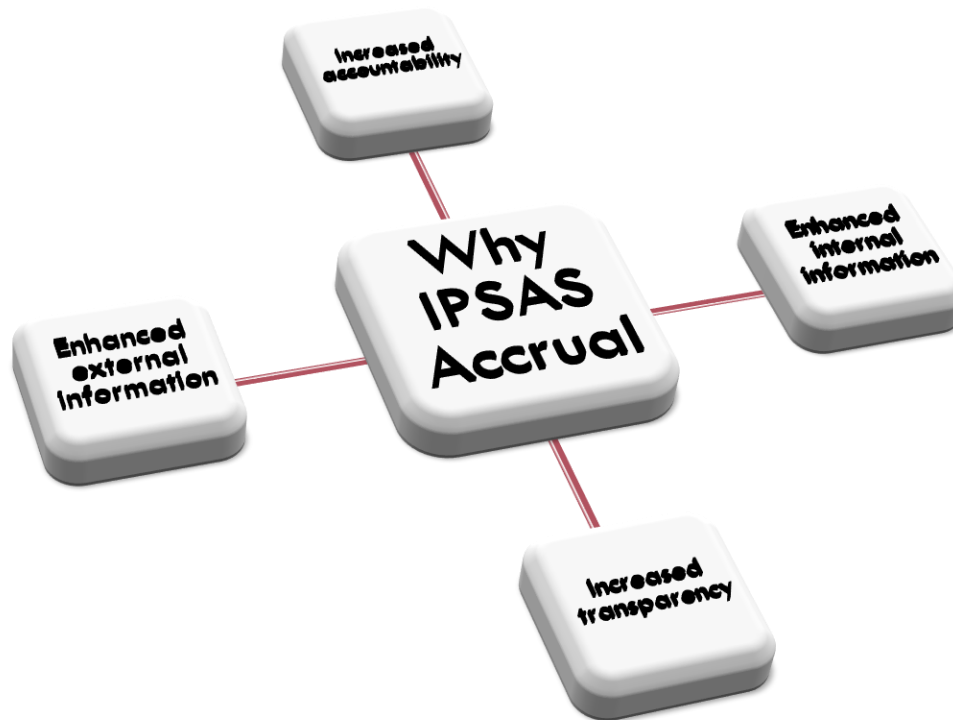
Implementation in Kenya

- All public sector entities were required to prepare their 2013/2014 Financial Statements based on the issued standards and guidelines
- Training on the new standards carried out in Aug/Sep 2014
- Technical Assistance provided by the National Treasury in the preparation of FS for the year 2013/2014
- Consolidation of the FS for the entire public sector carried out in Oct. 2014 by the National Treasury
- Audit of submitted FS for all public sector entities 2014/2015 to be concluded

Adoption across the globe

- Countries that are already applying full accrual accounting standards and applying accounting standards that are broadly consistent with IPSAS requirements include:
 - Australia
 - Canada
 - New Zealand
 - United Kingdom
 - United States of America

Why IPSAS Accrual



Case for IPSAS Accrual

- 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**.

Case for IPSAS Accrual(Cont...)



Case for IPSAS Accrual(Cont...)



Case for IPSAS Accrual(Cont...)

Public debt



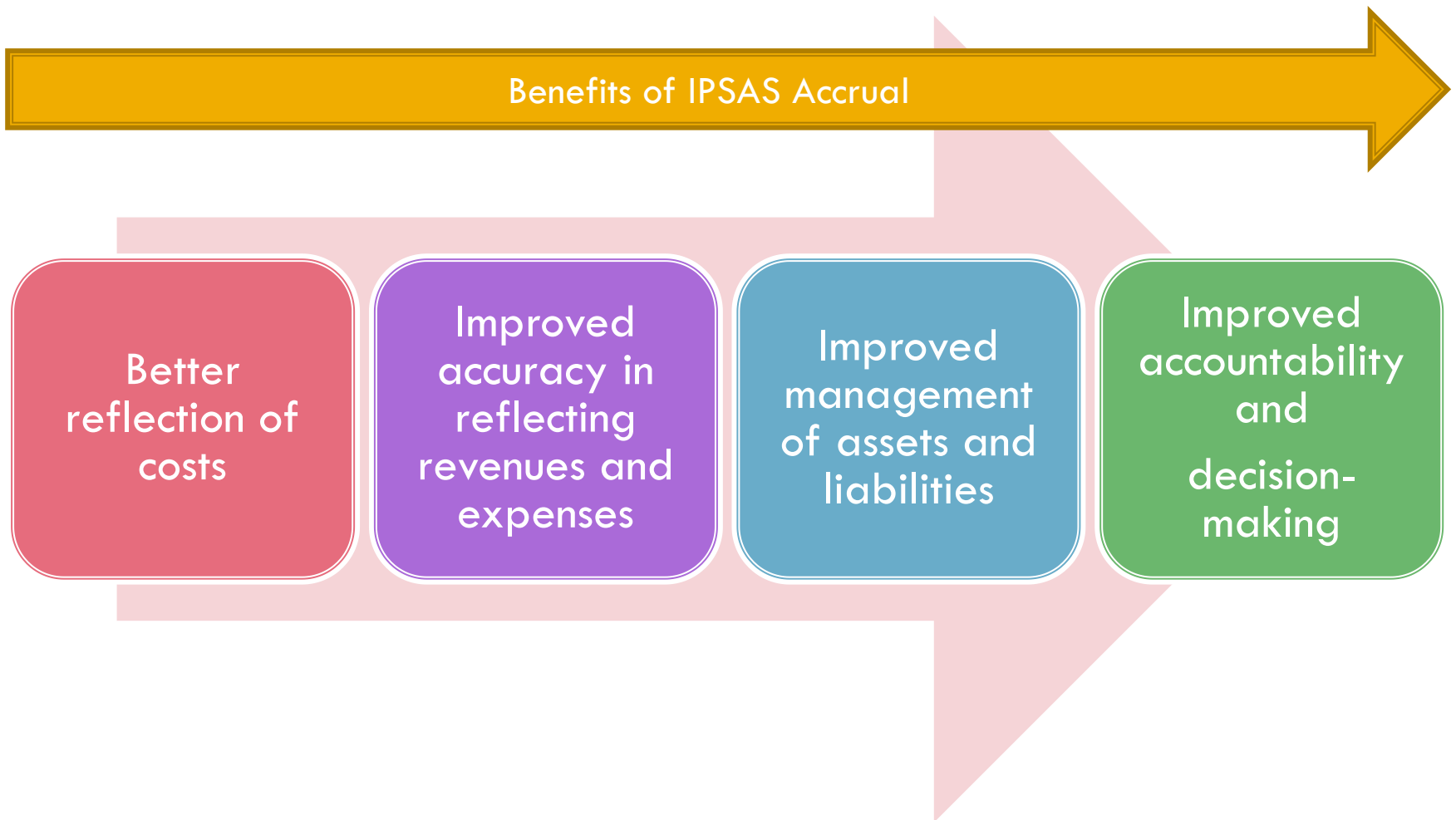
- If not managed well could be a constraint on fiscal and policy options
- Governments need to bring debt under control
- Governments will need to communicate to their population on how they are managing their debt.



Case for IPSAS Accrual(Cont...)

- **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 standards are the new cornerstone of accounting. Governments can benchmark and compare the different counties as well as against other governments.

Benefits of IPSAS Accrual



Scenario

- A public hospital receive donation of medical supplies for distribution for free to affected and infected beneficiaries.
- The hospital will meet the cost of distribution
- Explain the accounting treatment (cash basis vs Accrual)

Key achievements of PSASB

- Consolidation carried out for the first time. The report provides a broad picture of the National Government financial position
- Entities are using the standards pronounced by the PSASB
- Financial statements including consolidated FS for the entire public sector were submitted to Auditor General within statutory deadline.

PSASB Strategic Direction

- **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

Challenges

- As expected, entities had **difficulties in complying** with international standards adopted by the PSASB
- Human resource **capacity constraints**—comprehensive change management, training and capacity building programme required
- Financial statements for National Government entities exclude liabilities and physical assets
- Suspense accounts, misstated and unsupported balances in the FS. **Clean up on-going and taskforce appointed by PAC to spearhead**
- Progressively closing the gaps in Cash Based IPSAS

IPSASB Conceptual Framework

- 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.

Role of the Framework

- 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**
- 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.

Authority of the Framework

- 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.

Applicability of the Framework

- 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 non governmental organisations – AU, UN, World Bank

IPSASB Conceptual Framework

- The *Framework* sets out underlying concepts on IPSASs financial reporting:
 - the objective of general purpose financial reporting
 - qualitative characteristics
 - elements of financial statements
 - recognition
 - measurement
 - presentation and disclosure

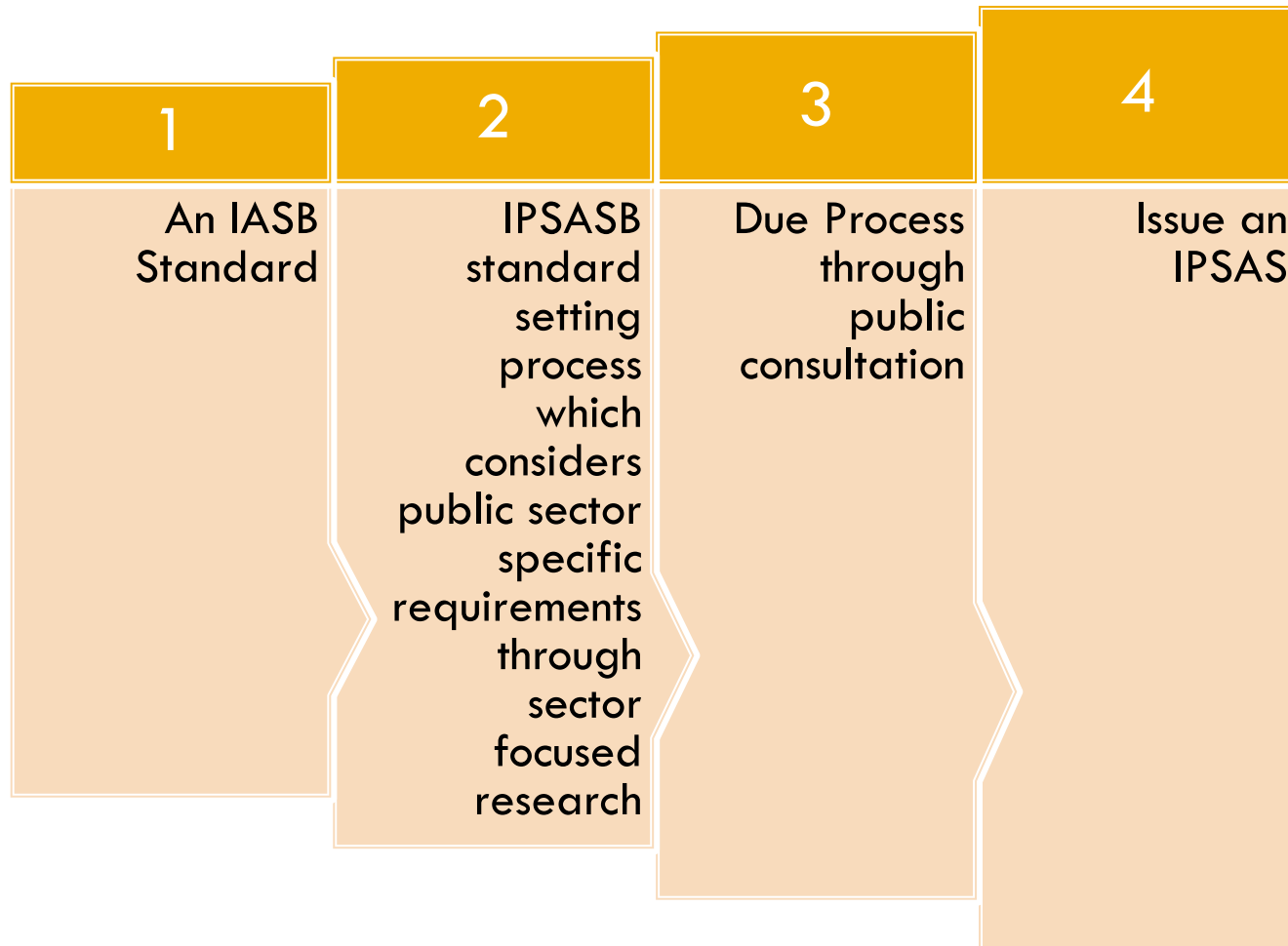
IPSASB Conceptual Framework (continued)

- a cohesive understanding of IPSASs – *Framework* facilitates consistent and logical formulation of IPSASs.
- a basis for judgement in applying IPSASs - – *Framework* established the concepts that underlie the estimates, judgements and models on which IPSASs financial statements are based.
- a basis for continuously updating IPSASs knowledge and IPSASs competencies.

IPSASB Conceptual Framework (continued)

- Does the *Framework* help me apply IPSASs?
- Yes, the Framework is in IPSAS 3:
 - i. Preparers use the *Framework* to make the judgements that are necessary to apply IPSASs
 - ii. Auditors and regulators assess those judgements
 - iii. Investors, lenders and others consider those judgements when using IPSAS financial information to inform their decisions

IPSAS Vs IFRS



Similarities

- Most IPSAS Standards are derived from IFRSs hence incorporate many concepts already in IFRSs
 - Allows for direct or indirect cash flow
 - Provides for cash flows from operating, investing and financing
 - Changes in accounting estimates are treated currently and prospectively
 - Changes in accounting policy are accounted for retrospectively
 - Correction of errors are accounted for retrospectively

Differences(IPSAS vs IFRS)

	IPSAS	IFRS
Issuer	IPSASB	IASB
Scope	IPSAS applies to International organizations Public sectors National government Local government Other government agencies and commissions	IFRS applies to Government Business Entities Private sectors
Basis of accounting	IPSAS allows Accrual Basis; or Cash Basis	IFRS strictly uses Accrual basis
IAS 1 /IPSAS 1	Surplus/deficit	Profit/loss

Differences(IPSAS vs IFRS)

	IPSAS	IFRS
Issuer	IPSASB	IASB
Recognition	Introduces the concept of “service potential”	Only focuses on “economic benefit”
	Exchange vs non-exchange transactions	Only exchange transaction
	Reporting of budget information (IPSAS 24)	Not required
	impairment considerations for non-cash-generating assets (service potential)	Does not exist

Interactive Session





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