



INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF KENYA

Credibility

.

Professionalism

.

AccountAbility

OVERVIEW OF IPSAS AND PRESENTATION OF IPSAS FINANCIAL STATEMENTS



Presentation of IPSAS financial statements and specific disclosure requirements

Annual Report and Financial Statements



Session objectives

- Understand the purpose of the annual report
- The key statements required for compliance
- The key elements of the financial statements
- Practice session on how to prepare the financial statements

Scope and Authority of IPSASs



- ❑ 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) or also known as Commercial Public Sector Entities

Government Business Enterprises (GBEs)



GBEs use IFRS and not IPSAS.

A GBE is an entity that has meets the following criteria,

- 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.

General purpose financial statements



- ❑ General purpose financial statements are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their specific information needs, e.g taxpayers and ratepayers, members of the legislature, creditors, suppliers, the media, and employees.
- ❑ Such reports provide information about an entity's assets, liabilities, changes in net assets/equity, revenue, expenses, and cash flows and may be presented separately or within another public document such as an annual report.

Objectives of general purpose financial statements



To provide information that is useful for decision-making and to demonstrate the accountability of the entity for the resources entrusted to it by providing information:

- (a) About the sources, allocation and uses of financial resources entrusted to it;
- (b) On how the entity financed its activities and met its cash requirements;
- (c) That is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments;
- (d) About the financial condition of the entity and changes in it
- (e) Useful in evaluating the entity's performance in terms of service costs, efficiency and accomplishments.

Objectives of general purpose financial statements (cont.)



- ❑ General purpose financial statements also have a predictive or prospective role. They provide information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties.
- ❑ Financial reporting may also provide users with information indicating whether resources were obtained and used
 - (a) in line with the legally adopted budget; and
 - (b) in accordance with legal and contractual requirements, including financial limits established by appropriate legislative authorities

Responsibility for Financial Statements



- ❑ The responsibility for the preparation and presentation of financial statements varies within and across jurisdictions with some drawing a distinction between the responsibility for preparing and responsibility for approving or presenting the financial statements.
- ❑ Consider examples of people / positions responsible for the preparation and for the approval and presentation of financial statements of individual public entities.
- ❑ These may be the heads or chief executives for the individual entities and the finance minister or the head of the central finance agency (e.g., controller or accountant-general) for the government as a whole.

Components of Financial Statements



A complete set of financial statements comprises:

- (a) **A statement of financial position;**
- (b) **A statement of financial performance;**
- (c) **A statement of changes in net assets/equity;**
- (d) **A cash flow statement;**
- (e) **When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and**
- (f) **Notes, comprising a summary of significant accounting policies and other explanatory notes.**

Statement of Financial position



- ☐ Present current and non-current assets, and current and non-current liabilities, as separate classifications on the face unless liquidity order is more relevant

- ☐ line items, headings and sub-totals presented on the face of the statement of financial position when such presentation is relevant to an understanding of the entity's financial position

Statement of Financial position: Minimum Line Items



Include line items that present assets:

- Property, plant and equipment; (IPSAS 17)
- Investment property; (IPSAS 13)
- Intangible assets; (IPSAS 31)
- Financial assets (IPSAS 28, 29 & 30)
- Investments accounted for using the equity method; (IPSAS 7 & 8)
- Biological assets; (IPSAS 25)
- Inventories; (IPSAS 12)
- Trade and other receivables; (IPSAS 28, 29 & 30)
- Cash and cash equivalents; (IPSAS 28, 29 & 30)

Statement of Financial position: Minimum Line Items



Liabilities

- Trade and other payables; (IPSAS 28, 29 & 30)
- Provisions; (IPSAS 19)
- Financial liabilities (IPSAS 28, 29 & 30)
- Finance lease obligations (IPSAS 13)
- Employee benefit liability (IPSAS 25)

Other Requirements



- Related parties, risks related to investments, legal liabilities, actuarial assumptions, segment reporting...
- Accounting Policies, Changes in Accounting Estimates and Errors;(IPSAS 3)
- The Effects of Changes in Foreign Exchange Rates; (IPSAS 4)
- Borrowing Costs (IPAS 5)
- Consolidated and Separate Financial Statements; (IPAS 6)
- Financial Reporting in Hyperinflationary Economies; (IPAS 10)
- Construction Contracts (IPAS 11)
- Events after the Reporting Date; (IPSAS 14)
- Related Party Disclosures (IPSAS 20)

Statement of Financial Performance



- all items of revenue and expense recognized in a period are included in surplus or deficit.
- This includes the effects of changes in accounting estimates.
- However, circumstances may exist when particular items may be excluded from surplus or deficit for the current period.
- IPSAS 3 deals with two circumstances: the correction of errors and the effect of changes in accounting policies.

Statement of Changes in Net Assets/Equity



show on the face of the statement:

- Surplus or deficit for the period;
- Each item of revenue and expense for the period that, as required by other Standards, is recognized directly in net assets/equity, and the total of these items;
- Total revenue and expense for the period (calculated as the sum of (a) and (b)), showing separately the total amounts attributable to owners of the controlling entity and to minority interest; and
- For each component of net assets/equity separately disclosed, the effects of changes in accounting policies and corrections of errors recognized in accordance with IPSAS 3.

Statement of Cash flows



- **Overview of IPSAS 2**
 - **IPSAS 2 – Cash Flow Statements** was issued in May 2000.
 - The Standard is drawn primarily from International Accounting Standard (IAS) 7, Cash Flow Statements.

- **Objective & Scope**
 - The objective of this Standard is to require the provision of information about the historical changes in cash and cash equivalents of an entity by means of a cash flow statement that classifies cash flows during the period from operating, investing, and financing
 - **Cash** comprises cash on hand and demand deposits.
 - **Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Statement of Cash flows



- **Presentation of a Cash Flow Statement**

- The cash flow statement shall report cash flows during the period classified by operating, investing, and financing activities.
- **Operating activities** are the activities of the entity that are not investing or financing activities.
- **Investing activities** are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
- **Financing activities** are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

- **Reporting Cash Flows from Operating Activities**

An entity shall report cash flows from operating activities using either:

- **The direct method**, whereby major classes of gross cash receipts and gross cash payments are disclosed

Statement of Cash flows



- **Reporting Cash Flows from Operating Activities**
 - **The indirect method** whereby surplus or deficit is adjusted for the effects of transactions of a noncash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing or financing cash flows
- **Reporting Cash Flows from Investing and Financing Activities**
 - An entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities.
- **Comparison with IAS 7**
 - No technical departure from IAS 7.
 - IPSAS 2 uses different terminology that are specific to public sector entities.

Statement of Cash flows



- ☐ Operating activities
 - ☐ Investing activities
 - ☐ Financing activities
-
- Operating Cash flows Presented under the direct approach or indirect approach,

Notes to the Financial statements



The notes shall:

- Present information about the basis of preparation of the financial statements and the specific accounting policies used;
- Disclose the information required by IPSASs that is not presented on the face of the statement of financial position, statement financial performance, statement of changes in net assets/equity or cash flow statement; and
- Provide additional information that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement, but that is relevant to an understanding of any of them.

Notes to the Financial statements



- IPSAS 1 specifies minimum disclosure requirements for the notes. These shall include information about:
 - Accounting policies followed
 - The judgments that management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognised in the financial statements
 - The key assumptions concerning the future, and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year
 - The domicile and legal form of the entity
 - A description of the nature of the entity's operations
 - A reference to the relevant legislation
 - The name of the controlling entity and the ultimate controlling entity of the economic entity

Key Entity Information and Management



Background Information

- Principal activities e.g Providing health and medical services
- Key management e.g PS
- Fiduciary management e.g PS, Deputy PS etc
- Fiduciary Oversight Arrangements e.g audit and finance committees, development partner's oversight activities etc

Key Entity Information and Management...Contd



- Entity Headquarters
- Entity Contacts
- Entity Bankers
- Independent Auditors (e.g OAG)
- Principal Legal Advisor i.e the Attorney General

Statement of Entity Management Responsibilities



- The FS have to have a statement of Entity Management Responsibilities & either the Principal Secretary and the Principal Accounts Controller will sign the financial statements for them to be valid.
- In cases of projects the Project Coordinator may be the signatory alongside another principal officer of the Ministry/Department or Agency

Entity's Management Responsibilities...



- The PS is responsible for the preparation & presentation of the entity's FS this includes;
 - Maintaining adequate financial management arrangements and ensuring they remain effective throughout the reporting period
 - Maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the entity.
 - Designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the FS

Entity's Management Responsibilities...cont



- Ensuring FS are free from material misstatements whether due to error or fraud
- Safeguarding assets of the entities
- Selecting and applying appropriate accounting policies
- Making accounting estimates that are reasonable

Types of audit Opinion



- **Unqualified Opinion-** this is a clean opinion, meaning that the financial statements were recorded properly & were in agreement with underlying supporting documents and accounting records
- **Qualified Opinion-** this means that there were certain areas where the Auditor-General was unsatisfied with the veracity of certain expenditures, which may not have been significant
- **Adverse opinion-** means that the Auditor-General was unsatisfied with the veracity of **significant amounts** of expenditure
- **Disclaimer of opinion-** this is serious and means that there was no basis upon which the Auditor-General could have satisfactorily undertaken an audit because the accounting records were unreliable and there were no verifiable supporting documents or adequate explanations for transactions

Exercise



- Review of Financial statement sets (for illustrative purposes only)
 - Brand Kenya
 - Kenya Roads Board
 - Teachers Service Commission
 - National Police Service Commission
 - IEBC