

THE PUBLIC SECTOR ACCOUNTING
STANDARDS BOARD
PSASB



TAILBACKS AND PROGRESS IN IMPLEMENTATION OF IPSAS IN PUBLIC SECTOR

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**Public Sector Audit Conference at the Sarova White Sands
Mombasa- 12-14th October**

Presentation Overview



1. Background

Kenya adopted International Accounting Standards (IAS) in 2000 through the Institute of Certified Public Accountants of Kenya (ICPAK).

These standards were however largely used by the private sector. Public Sector relied largely on accounting principles which were not standard across the sector.

In 2008, the then Minister of Local Government issued a directive that all Local Authorities to adopt International Public Sector Accounting Standards (IPSAS). However, there was no clear mechanism to implement the same.

1. Background

Some public sector entities adopted IFRS while others summarised the Government Chart of Accounts.

This non-uniformity made it difficult for the Auditor General to audit public sector entities as it was not clear what constituted annual financial statements.

This necessitated the harmonisation of reporting in the public sector.

2. Setting up the Public Sector Accounting Standards Board

- The Public Sector Accounting Standards Board (PSASB) was established as part of PFM reforms in Kenya following the promulgation of the new Constitution in 2010 and the subsequent enactment of the Public Finance Management (PFM) Act in 2012.
- The PSASB is a statutory, standard setting body established under the Sections 192 to 195 of the Public Financial Management Act, 2012.

2. Setting up the Public Sector Accounting Standards Board

- The Mandate of the Board is to:
 - ✓ Set generally accepted accounting and financial system standards for the public sector.
 - ✓ Develop and pronounce generally accepted internal auditing standards.
 - ✓ Mainstreaming of best practices for good governance, internal controls and risk management in the public sector.

The Board is the only standard setter of Accounting and Auditing Standards for the Public Sector in Kenya.

2. Setting up the Public Sector Accounting Standards Board

- The Board is a representative entity and consists of nominees from:
 - ❖ National Treasury;
 - ❖ The Controller of Budget;
 - ❖ the Intergovernmental Budget and Economic Council;
 - ❖ the Auditor General;
 - ❖ the Institute of Public Certified Accountants;
 - ❖ the Association of Professional Societies of East Africa;
 - ❖ the Capital Markets Authority ;
 - ❖ the Institute of Internal Auditors and ;
 - ❖ the Institute of Certified Public Secretaries of Kenya

2. Setting up the Public Sector Accounting Standards Board

- The Board is supported in its functions by a full time Secretariat which provides administrative and technical support in execution of its mandate and functions.
- The Secretariat was established within the Directorate of Accounting Services at the National Treasury. Staff were seconded from a number of National Treasury Departments including the Directorate of Accounting Services (DAS), Directorate of Portfolio Management and Internal Audit. Additionally, technical staff were also seconded to the Secretariat from ICPAK.
- The secretariat provides, technical and administrative support to the Board.

3. Adopting Accounting and Auditing Standards for the Public sector.

- The PSASB through a Gazette notice No. 1554 dated 8th August 2014, signed by the Cabinet Secretary on 8 July 2014, adopted IPSAS and IFRS for use by public sector entities.
- Retrospective application for the year ended June 2014 was encouraged by PSASB.
- The use of IFRS and IPSAS was therefore formally adopted and applied for the first year in the year ending 30 th June 2014.
- FY 2015/2016 is the third year of implementation of the standards that were gazetted by PSASB in 2014.

3. Adopting Accounting and Auditing Standards for the Public sector.

The following standards were adopted:

- The National and County governments and their respective entities apply International Public Sector Accounting Standards (IPSAS) Cash based standard.
- The Semi-Autonomous National County and Government Agencies apply IPSAS Accrual based standards issued by International Public Sector Accounting Standards Board (IPSAB).
- The State and County Corporations carrying out commercial activities apply International Financial Reporting Standards (IFRS) while regulatory and non-commercial State and County Corporations are to apply IPSAS Accrual.
- International Professional Practice Framework (IPPF) for Internal Auditing Standards.

4. Key achievements to date

- ❑ **Uniformity of Accounting Standards** used for financial reporting in the public sector. This has resulted to more efficient audits by the OAG and comparability of performance of entities within the public sector.
- ❑ **Capacity Building.** The Board in conjunction with the National Treasury has been able to train over 5,000 accountants from the public sector. Trainings have been conducted through on job technical assistance and workshops.

4. Key achievements to date

- ❑ **Development of reporting tools / illustrative financial statements.** The Board developed financial reporting templates to be used as a guide by all public sector entities reporting under the different frameworks . IPSAS cash annual templates have also been automated in IFMIS to make it easier for Ministries, Departments and Agencies as well as County Governments to prepare financial reports. Quarterly reporting templates have also been issued by the Board for application from 1 July 2016.
- ❑ **Consolidation of Government wide financial statements.** The first set of government wide consolidated financial statements was prepared and submitted to the Auditor General by 31 October 2014. FY 2015 financial statements were also prepared and submitted in good time. The National Treasury, is in the process of finalising the consolidated financial statements for FY 2016.

4. Key achievements to date

- ❑ **Compliance to the adopted accounting standards.** Assessment by the Board indicates that all public sector entities have embraced and applied the gazetted standards in preparation of financial statements for the last three years.
- ❑ **Partnership with the Fire Award Scheme.** This has enhanced the quality of financial statements prepared by public sector entities as well as visibility of the public sector. Public sector entities participated in the award for the first time in 2015 and will also participate in this year's FiRE award scheme. Entities will be awarded within the IPSAS cash and IPSAS accrual and IFRS categories.

4. Key achievements to date

- ❑ Improved relationship with stakeholders such as ICPAK, CMA IIA and ICPSK.
- ❑ Improved relationships with other oversight authorities such as the CoB and the Office of the Auditor General.
- ❑ Improved reliability of financial statements from the public sector entities

4. Key achievements to date

- ❑ Adoption of Reporting frameworks that better respond to the specialised needs of the public sector.
- ❑ Financial reports produced respond to the management and those charged with governance needs for information to improve their decision making process.
- ❑ Greater accountability to the general public

5. Challenges/ Tailbacks

- ✓ Historical background of significant challenges in quality and timeliness of reporting and internal audit.
- ✓ Technical capacity- IPSAS is a relatively new concept in Kenya. There is a shortage of technical expertise from public sector which is the implementer of IPSAS and private sector which largely uses IFRS.
- ✓ Varying levels of financial reporting capability and preparedness to prepare financial reports. Whereas some entities are struggling, others are far ahead.

5. Challenges/ Tailbacks

- ✓ New Governance structure at the County level with corresponding new PFM requirements. Uptake of financial reporting standards has been hampered by challenges arising from teething problems under the devolved governments.
- ✓ Board communication strategy- The Board is working to improve its communication strategy to its stakeholders on its roles, mandate and activities.

6. Way forward

The Board has made significant trends in the past three years. We recognise that there is much more to be done to improve financial reporting within the country to be at par with other governments and the private sector. As a way forward, the Board has outlined in its strategic plan to carry the following activities:

6. Way forward

- Adoption of IPSAS accrual for the general government entities- The Board is in the process of developing a roadmap to adopt IPSAS accrual for the National Government and County Governments which are currently using IPSAS cash, which is a transitional standard.
- Training and capacity development- In order to have technical resources in the country, the Board intends to develop a training calendar, a training curriculum and training materials for IPSAS and IFRS implementation in the public sector.

6. Way forward

- Collaboration with key stakeholders- The Board seeks to continually engage key stakeholders who include the executive and legislative organs in order to gain a buy in and compliance to its requirements. In addition, users and preparers of the financial statements will be engaged in the board decisions.
- Collaboration with other international standard setting bodies such as IPSASB and IFAC to enhance its technical capacity. The Board will also enhance good relations with other professional bodies in the country.

6. Way forward

- The Board will work closely with the National Treasury to ensure the Government accounting system, IFMIS, is activated with all modules that support accrual accounting.
- The development of the Board's communication policy and strategy is underway. This will improve the way the Board communicates to its stakeholders about its decisions and new developments in the financial reporting and internal audit environment.
- Increase of coverage of public sector institution which include schools, the CDF ,hospitals and health facilities.

6. Conclusion

The Board has been encouraged by the strides made in the last three years. There is increasing recognition that use of accrual accounting and especially IPSAS for the public sector improves reliability, completeness, transparency and comparability of financial statements. These qualities ultimately improve the economic decisions made by individual entities and the government. The Public Sector Accounting Standards Board is committed to be an agent of change and reforms in financial reporting for the public sector.

6. Conclusion

‘ the state is the single largest public interest entity in every country. Just as a board of directors of a private company is accountable to shareholders, governments should be accountable to parliament and its citizens. And to do that you need to be transparent and produce accrual accounts based on the highest quality standards’

Patrice Schumesch, PWC Partner

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