

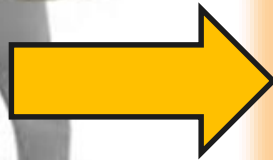
ANNUAL IFRS & IPSAS WEEK

Key IFRS & IPSAS Disclosure Requirements

Presentation by:

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Thursday 7th September, 2017

Focus



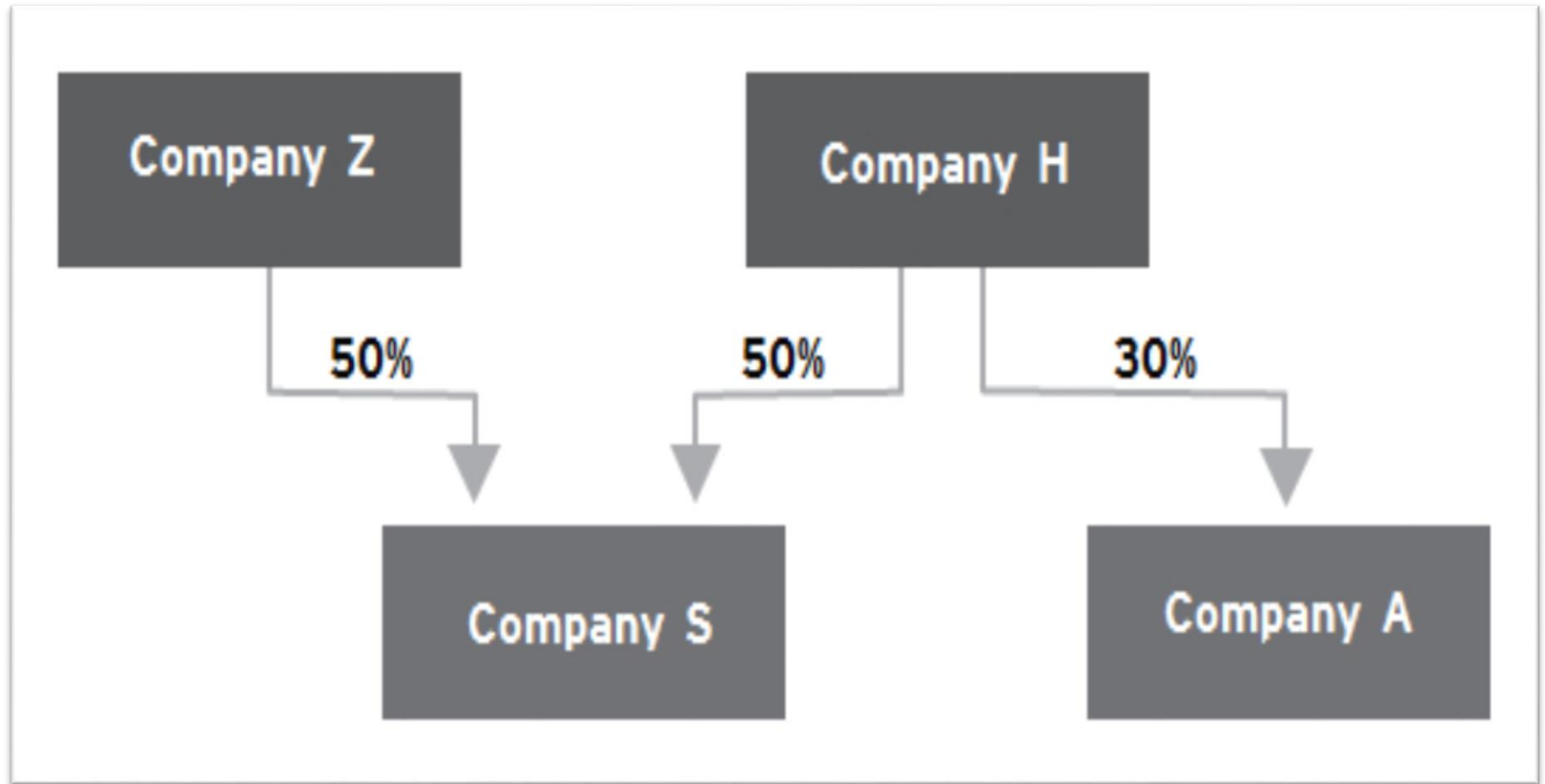
Related Parties - IAS 24 & IPSAS 20



Risk Management - IFRS 7 & IPSAS 30

Related Parties

IAS 24 & IPSAS 20



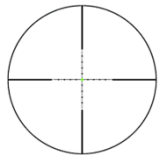
Session Outlook



Objectives



Definitions



Scope



Requirements

Conclusion



Objectives



- ❖ To ensure that financial statements disclose the **existence** of related-party relationships and **transactions** between the entity and its related parties.
- ❖ The existence of these relationships may have an effect on the entity's numbers.



Definitions



Related Party - person or entity that is related to the reporting entity

- a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control of the reporting entity;
 - (ii) has significant influence over the reporting entity; or
 - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- ❖ Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include: Children, spouse(s) and other dependents of that person or that person's spouse



Definitions...





Definitions...



- b) An entity is related to a reporting entity if any of the following conditions applies:
- (i) The entity and the reporting entity are members of the same group
 - (ii) One entity is an associate or joint venture of the other entity
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity



Definitions...



- (v) The entity is a post-employment benefit plan for the employees of either the reporting entity or an entity related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity



Definitions...



Related Party Transaction;

-A related party transaction is a transfer of resources, services, or obligations between related parties, regardless of whether a price is charged

Examples; -

- ☐ Purchase or transfer/ sale of goods
- ☐ Purchase or transfer/ sale of property and other assets
- ☐ Rendering or receiving services
- ☐ Agency arrangements
- ☐ Leases
- ☐ Transfers of research and development
- ☐ Transfers under license arrangements
- ☐ Provision of guarantees and collateral

Need for Disclosure of Related Party Transactions



Headlines of scandals involving related party transactions eg Enron

A true and fair view of the entity's affairs may not be given unless full disclosure is made;

Need to comply with statutory requirements e.g. Kenya Companies Acts, CMA

Nature of Related Party Transactions



- ❖ Those entered into in the ordinary course of business.
It is usual for members of a group to trade with each other. These deserve no special audit attention. The auditor must however ensure that they actually arise in the ordinary course of business at arms length.
- ❖ Those not engaged into in the ordinary course of business or which may involve misleading presentation of the accounts or fraud on the company, its members or creditors. This is where problems may arise and where scandals have generally occurred, world over.

Nature of Related Party Transactions...



Looking after your interest!



Scope of IFRS 24 & IPSAS 20



- ❖ IPSAS 20 applies to ALL public sector entities that prepare and present financial statements under the accrual basis of accounting.
- ❖ **Exclusion** is given to Government Business Entities (GBEs)
- ❖ IFRS 24, In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.
- ❖ IPSAS has borrowed heavily from IFRS; definitions, interpretation, and disclosure requirements

Disclosure Requirements



Relationships between parents and subsidiaries

Regardless of whether there have been transactions between a parent and a subsidiary, an entity must disclose the name of its parent or the ultimate controlling party.

Management personnel compensation

- (a) Short-term employee benefits;
- (b) Post-employment benefits;
- (c) Other long-term benefits;
- (d) Termination benefits; and
- (e) Share-based payments.

Disclosure Requirements...



Sh6.6m

^ 6.8%

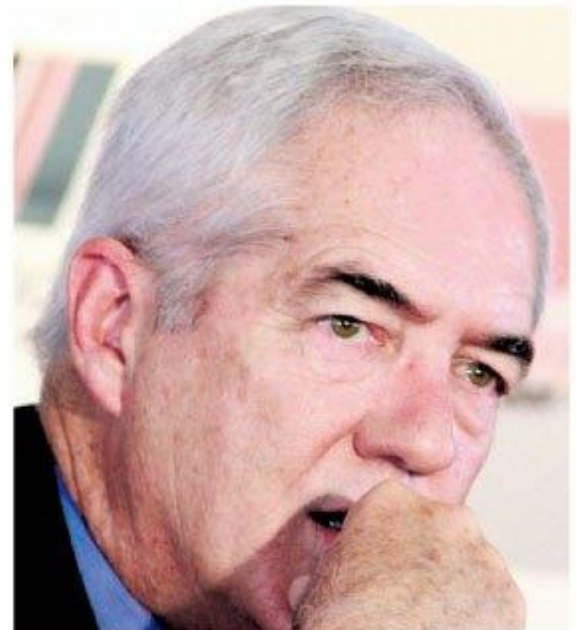
DAVID OHANA, Kenol Kobil limited MD -FILE



Sh3.3m

^ 18.1%

MUGO KIBATI, Sanlam Kenya GCEO -FILE



Sh2.1m

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ALLAN WALMSLEY, Sameer Africa, MD -FILE

■ MONTHLY PAY ■ % INCREASE

Disclosure Requirements...



- ❖ Amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity shall be disclosed
- ❖ These shall be made separately for each of the following categories:
 - ➡ (a) the parent;
 - ➡ (b) entities with joint control of/ significant influence over entity;
 - ➡ (c) subsidiaries;
 - ➡ (d) associates;
 - ➡ (e) joint ventures in which the entity is a joint venturer;
 - ➡ (f) key management personnel of the entity or its parent; and
 - ➡ (g) other related parties.

Disclosure Requirements...



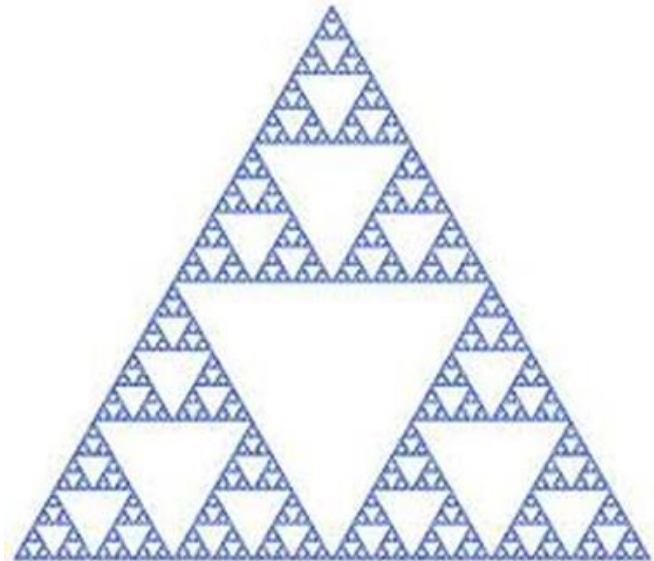
❑ Related party transactions.

- ❖ Disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.
- ❖ These disclosure would be made separately for each category of related parties and would include: [IAS 24.18-19]
 - the amount of the transactions
 - the amount of outstanding balances, including terms and conditions and guarantees
 - provisions for doubtful debts related to the amount of outstanding balances
 - expense recognised during the period in respect of bad or doubtful debts due from related parties

Disclosure Requirements...



Items of a similar nature may be disclosed in aggregate except when separate disclosure is necessary to provide relevant and reliable information for decision making and accountability purposes.



Disclosure Requirements...



Government Related entities

A reporting entity is exempt from the disclosure requirements of in relation to related party transactions and outstanding balances, including commitments, with:

- (a) a government that has control or joint control of, or significant influence over, the reporting entity; and
 - (b) another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.
- Disclose the name of the government and relationship
 - Disclose nature and amount of each individually significant transaction
 - Other transactions that are collectively, but not individually significant and a qualitative or quantitative indication of their extent.

Disclosure Requirements...



❖ Extract - Centum Group Related Parties

Subsidiaries			
Company	Country of Inc	Company	Country of Inc
Athena Properties Limited	Kenya	GenAfrica Asset Managers Ltd	Kenya
Rasimu Limited	Kenya	Centum Business Solutions Ltd	Kenya
Centum BVI Limited	British Virgin Islands	King Beverage Limited	Kenya
Pearl Marina Estates	Uganda	Almasi Beverages Limited	Kenya
Two Rivers Development	Kenya	Bakki Holdco Limited - owns 67.56% stake in Sidian Bank	Kenya
Uhuru Heights Limited	Kenya	Vipingo Development Ltd	Kenya
Centum Exotics Limited	Mauritius	Vipingo Estates Limited	Kenya
Centum Development Ltd	Mauritius	Greenblade Growers Ltd	Kenya
Nabo Capital Limited	Kenya	Shefa Holdings Limited	Mauritius
Investpool Holdings Limited	Mauritius	Mwaya Investment Co Ltd	Mauritius

Disclosure Requirements...



❖ Extract - Centum Group Related Parties...

<u>Associates</u>		<u>Joint Ventures</u>	
<u>Company</u>	<u>Country of Inc</u>	<u>Company</u>	<u>Country of Inc</u>
KWAL Holdings Limited	Kenya	Two Rivers Lifestyle Center Limited	Mauritius
Nairobi Bottlers Limited	Kenya	Broll Kenya Limited	Kenya
Longhorn Publishers Limited	Kenya	Amu Power Limited	Kenya
UAP Financial Services Limited	Uganda		
Platcorp Holdings Limited	Mauritius	Others Related Parties	
Akiira Geothermal Limited	Kenya	Directors	
Two Rivers Lifestyle Center Limited	Mauritius	Key Management	
Broll Kenya Limited	Kenya		
Amu Power Limited	Kenya		

Disclosure Requirements...



❖ Extract - Centum Group Related Parties...

Note on Related Party Transactions – FY 2016

Centum Investment Company Limited is the ultimate Parent of the Group. The Group transacts with companies related to it by virtue of common shareholding and also by virtue of common directors.

The following transactions were carried out with related parties:

i. Purchase of Goods and Services

- ☐ Office rent (paid to entity controlled by a director)
- ☐ Management fees paid to a subsidiary
- ☐ Asset management fees paid to a subsidiary
- ☐ Insurance premiums (paid to an associate)

Disclosure Requirements...



❖ Extract - Centum Group Related Parties...

Note on Related Party Transactions – FY 2016...

ii. Interest income

Interest income earned on deposits placed with a subsidiary

iii. Key Management Compensation

iv. Directors' remuneration

v. Outstanding related party balances

Amounts due to subsidiaries

Amounts from to subsidiaries

Conclusion



Related Party Transactions can affect the financial statements of a reporting entity hence the need to disclose them as a part of corporate governance as well compliance with the IFRS and/or IPSAS

Risk Management IFRS 7 & IPSAS 30



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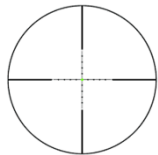
Session Outlook



Objectives



Definitions



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Objectives



- ❖ IPSAS has borrowed heavily from IFRS in most of its requirements for presentation, recognition measurement, and disclosure requirements.
- ❖ The main objective for IFRS 7 & IPSAS 30 is to mainly enable users of the financial statements evaluate;
 - (a) The significance of financial instruments for the entity's financial position and performance; and
 - (b) The nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks.



Definitions



❖ Financial instruments-

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Scope



- ❖ IFRS 7 & IPSAS 30 applies to ALL entities and to ALL types of financial instruments except;
 - Interest in subsidiaries, associates or joint ventures accounted for under IFRS 10/ IPSAS 35
 - Employers' rights and obligations arising from employee benefit plans, under IAS 19/ IPSAS 25
 - Insurance contracts under IFRS 4
 - Financial instruments, contracts and obligations under share-based payment transactions - IFRS 2/ IPSAS 12
 - Instruments that are required to be classified as equity instruments in accordance IAS 32/ IPSAS 28

Scope...



- ❖ Applies to recognised and unrecognized financial instruments.

Recognised financial instruments include financial assets and financial liabilities that are within the scope of IFRS 9/ IPSAS 29.

Unrecognized financial instruments include some financial instruments that, although outside the scope of IFRS 9/ IPSAS 29, are within the scope of IFRS 7/ IPSAS 30

- ❖ This IFRS applies to contracts to buy or sell a non-financial item that are within the scope of IFRS 9

Scope...



- ❖ The credit risk disclosure requirements apply to those rights that IFRS 15 *Revenue from Contracts with Customers* specifies are accounted for in accordance with IFRS 9 for the purposes of recognising impairment gains or losses unless specified otherwise

Risk Management Disclosures



- ❖ An entity shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed to at the end of the reporting period.

Risk Management Disclosures...



- ❖ Are there entities that have RISK FREE businesses?
- ❖ Are there strategies that can eliminate ALL risks?

Risk Management Disclosures...



- ❖ The disclosures required focus on the risks that arise from financial instruments and how they have been managed.
- ❖ These risks typically include, but are not limited to, credit risk, liquidity risk and market risk.

- ★ **Credit Risk** - the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation
- ★ **Liquidity Risk** - the risk that an entity will have difficulties in paying its financial liabilities
- ★ **Market Risk** - the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects *interest rate risk*, *currency risk* and other *price risks*.

Risk Management Disclosures...



- ❖ Providing qualitative disclosures in the context of quantitative disclosures enables users to link related disclosures and hence form an overall picture of the nature and extent of risks arising from financial instruments.
- ❖ The interaction between qualitative and quantitative disclosures contributes to disclosure of information in a way that better enables users to evaluate an entity's exposure to risks.

Risk Management Disclosures...



Qualitative Disclosures

- ❑ For each type of risk arising from financial instruments, an entity shall disclose:
 - (a) the **exposures** to risk and how they arise;
 - (b) its objectives, policies and processes for **managing** the risk and the methods used to measure the risk; and
 - (c) any **changes** in (a) or (b) from the previous period.

Risk Management Disclosures...



Quantitative Disclosures

- ☐ For each type of risk arising from financial instruments, an entity shall disclose:
 - (a) summary quantitative data about its exposure to that risk at the end of the reporting period; based on the information provided internally to key management personnel of the entity
 - (b) concentrations of risk.
- ☐ If the quantitative data disclosed as at the end of the reporting period are unrepresentative of an entity's exposure to risk during the period, an entity shall provide further information that is representative.

Risk Management Disclosures...



Credit Risk

An entity shall disclose by class of financial instrument:

- (a) The amount that best represents its maximum exposure to credit risk at the end of the reporting period without taking account of any collateral held or other credit enhancements
- (b) In respect of the amount disclosed in (a), a description of collateral held as security and other credit enhancements;
- (c) Information about the credit quality of financial assets that are neither past due nor impaired; and
- (d) The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated.

Risk Management Disclosures...



Liquidity Risk

An entity shall disclose:

- (a) A maturity analysis for non-derivative financial liabilities (including issued financial guarantee contracts) that shows the remaining contractual maturities.
- (b) A maturity analysis for derivative financial liabilities. The maturity analysis shall include the remaining contractual maturities for those derivative financial liabilities for which contractual maturities are essential for an understanding of the timing of the cash flows.
- (c) A description of how it manages the liquidity risk inherent in (a) and (b).

Risk Management Disclosures...



Market Risk

Sensitivity Analysis

If an entity does not prepare a sensitivity analysis, it shall disclose:

- (a) A sensitivity analysis for each type of market risk to which the entity is exposed to at the end of the reporting period, showing how surplus or deficit and net assets/equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date;
- (b) The methods and assumptions used in preparing the sensitivity analysis
- (c) Changes from the previous period in the methods and assumptions used, and the reasons for such changes.

Risk Management Disclosures...



Market Risk...

Sensitivity Analysis...

If an entity prepares a sensitivity analysis, such as value-at-risk, that reflects interdependencies between risk variables (e.g., interest rates and exchange rates) and uses it to manage financial risks, it may use that sensitivity analysis in place of the analysis specified in circumstances that such analysis lacks.

Risk Management Disclosures...



Market Risk...

Sensitivity Analysis...

The entity shall also disclose;

- (a) An explanation of the method used in preparing such a sensitivity analysis, and of the main parameters and assumptions underlying the data provided; and
- (b) An explanation of the objective of the method used and of limitations that may result in the information not fully reflecting the fair value of the assets and liabilities involved.

Risk Management Disclosures...



Market Risk...

Sensitivity Analysis...

When the sensitivity analyses disclosed unrepresentative of a risk inherent in a financial instrument (e.g., because the year-end exposure does not reflect the exposure during the year), the entity shall disclose that fact and the reason it believes the sensitivity analyses are unrepresentative.



**Thank
you !**

The End



Q & A

