FINANCIAL REPORTING WORKSHOP

STATUS UPDATE – IFRSs, IPSAS and IR

Presentation by:

CPA Boniface L'Souza, ACIM, CFIP

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IFRS Adoption in Kenya

IFRSs are developed by the International Accounting Standards Board (est, 2001) to harmonize the reporting across firms globally.

In Kenya adoption of IFRSs is spearheaded by ICPAK as well as bodies like CMA, CBK, IRA and NSE that encourage firms under them to adopt IFRSs besides the industry specific prudential guidelines.

Status Update

- Kenya has adopted IFRSs and IFRS for SME Standard
- The application of the IFRS standards covers all domestic and foreign firms in Kenya whose securities are publicly traded, including their consolidated statements.
- Companies whose securities are not publicly traded may choose to use IFRSs or IFRS for SME Standard.
- The auditors are required to state whether the financial statements have been prepared in conformity to the IFRSs

Status Update

ICPAK has designated certain entities as being publicly accountable. Those entities cannot use the IFRS for SMEs Standard. They must use full IFRS Standards. Publicly accountable entities include, but are not limited to:

- Entities whose debt or equity instruments are traded in a public market, or are in the process of issuing such instruments for trading in a public market.
- Entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.
- Public organisations that are owned in whole or in part by the State or that are otherwise controlled directly or indirectly by the State.
- Private organisations in which the State has a non-controlling equity interest

Regulatory Status

Requirements to use IFRS Standards are incorporated into Regulations issued by various governmental regulatory bodies, including

- The Central Bank of Kenya's prudential guidelines
- Regulatory guidelines issued by the Insurance Regulatory Authority of Kenya (IRA),
- The Capital Markets Authority of Kenya (CMA)
- The Retirement Benefits Authority
- IFRS Standards are required by the Nairobi Securities Exchange (NSE) listing rules

IPSAS

- 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.

IPSAS

- The standards were gazetted by PSASB for use by public sector entities in 2014
- Retrospective application for the year ended June 2014 was encouraged by PSASB.
- The use of IFRS and IPSAS in Kenya was therefore formally adopted and applied for the first year in the year ending 30 th June 2014.

Standards 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.

IPSAS Cash

Compulsory

- Consolidated Statement of Cash Receipts and Payments
- Statement of Comparison of Budget and Actual amounts
- Notes to financial statements
- *Cash flow statement

Optional

- Statement of Cash Assets and Fund Balances
- Notes to financial statements
- Statement of Outstanding Invoices (Liabilities)
- Statement of Unjustified Advances and Loans
- Non-financial assets disclosure notes
- Statement of Contingent Liabilities

Challenges

- **Technical capacity-**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.
- Uptake of financial reporting standards has been hampered by challenges arising from teething problems under the devolved governments.

Source - IPSASB

Integrated Reporting (IR)

- The purpose of integrated reporting is to bring together information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context it operates within.
- The International Integrated Reporting Council (IIRC) has spearheaded the development and adoption of integrated reporting with the aim of creating an external reporting format to meet the complex and connected needs of today's stakeholders.

Integrated Reporting (IR)

- An integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term.
- The IIRC defines IR as a way to report "value creation for the organisation and for others," recognizing that "value created by an organisation over time manifests itself in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs."

Integrated Reporting (IR)

The elements of an integrated report include:

- Organisational overview and external environment.
- Governance structure
- Business model
- Risks and opportunities
- Strategy and resources allocation
- Performance
- Outlook
- Basis of presentation

Integrated Reporting (IR)

- In Kenya IR has been adopted by some of the large corporations like Safaricom, KCB, Equity Bank, Standard Chartered Bank.
- IIRC is currently pushing for the adoption of the IR globally to further enhance comparability.

Interactive Session