

Status update on IFRSs, IPSASs and Integrated Reporting in Kenya

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Financial Reporting Workshop

IFRS Overview



Why IFRSs?

The International Accounting Standards Board was established in 2001 to develop IFRS (international Financial Reporting Standards). It replaced the IASC (1973-2000) which previously used to issues IASs.

IFRSs have been adopted gradually in Kenya with ICPAK supporting and overseeing the implementation of the Standards.

The Capital Markets Authority (CMA) as well as the Nairobi Stock Exchange (NSE) have assisted in ensuring that entities under their purview adopt IFRSs including their own prudential guidelines especially for the financial services sector.

IPSASs Overview



Why IPSASs?

IPSASs are issued by IPSASB (International Public Sector Accounting Standards Board), an independent organ of IFAC (International Federation of Accountants) established in 1987 initially as a committee.

The IPSASB adopts a due process for the development of IPSAS that provides the opportunity for comment by interested parties including auditors, preparers (including finance ministries), standard setters, and individuals.

IPSAS aims to improve the quality of general purpose financial reporting by public sector entities, leading to better informed assessments of the resource allocation decisions made by governments, thereby increasing transparency and accountability.

IPSASs Overview-contd



Kenya is a member of ESAAG (East and Southern African Association of Accountants General). The aims of ESAAG member states include the adoption of the Cash-basis IPSAS.

National government and County governments in Kenya are using cash basis to account. This came into force after 2014 gazettelement of the PSASB on 8th July 2014 to allow use of IPSAS & IFRS for use in public sector entities.

IPSAS has two standards- Accrual based IPSAS and Cash based IPSAS

IPSAS Board does not recommend reporting of general purpose financial statements on a modified cash or modified accrual basis

Introduction to IPSASs Accrual



This is 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, transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate.

The elements recognized under accrual accounting are assets, liabilities, net assets, revenue and expenses

There is a close relationship between accrual basis IPSASs and IFRSs, this is due to the fact that accrual basis IPSASs are largely hinged on the principles of IFRSs

The requirements of those standards to a large extent apply to public sector just as they apply to private sector entities. Indeed they also address issues unique to public sector reporting not covered in the IFRSs.

Introduction to IPSASs Accrual— Contd....



The objective of drawing from IFRS is to ensure greater comparability between private sector and public sector reporting when dealing with similar types of transactions in reporting.

It is instructive to note that IFRSs are developed primarily for profit-oriented entities while IPSASs apply to public sector entities whose priority is provision of social services and goods as well as public welfare.

Accrual basis IPSASs however do not apply to Government Business Enterprises (GBEs) which fully apply IFRSs.

At the moment we have 40 IPSASs even though IPSAS 15 (Financial Instruments – disclosure & presentation) and 23 (Employee benefits) have been superseded by (28/30) & 39 respectively. So in actual sense we have 38 IPSASs

Introduction to IPSASs Accrual— Contd....



The Public Sector Accounting Standards Board (PSASB) in Kenya is charged with overseeing implementation of Public Sector Accounting and Auditing Standards in Kenya. It owes its creation to sections 192-195 of the PFM Act 2012.

This board is representative and includes, National Treasury, COB, Intergovernmental budget and Economic Council, OAG, ICPAK, ICPSK, CMA, Institute of Internal Auditors & Association of professional societies in East Africa

ICPAK and PSASB have partnered to ensure compliance and excellence in financial reporting in the Kenyan Public Sector by supporting FIRE awards.

Introduction to IPSASs Cash basis



IPSAS Cash Basis

A basis of accounting that recognizes transactions and other events when cash is received or paid. It also measures financial results for a period as the difference between cash received and cash paid.

The standard has two parts:

Part 1 is mandatory

- . It sets out the requirements which are applicable to all entities preparing general purpose financial statements under the cash basis of accounting.

‘The requirements in this part of the Standard must be complied with by entities which claim to be reporting in accordance with the International Public Sector Accounting Standard Financial Reporting Under the Cash Basis of Accounting.’

Introduction to IPSASs Cash basis- Contd...



Part 2 is not mandatory.

It identifies additional accounting policies and disclosures that an entity is encouraged to adopt to enhance its financial accountability and the transparency of its financial statements. It includes explanations of alternative methods of presenting certain information.'

Integrated Reporting



Integrated Reporting.

This is a concise communication about how an entity's strategy, performance, governance and prospects lead to the creation of value over the short, medium and long term.

These guidelines and reporting framework have been developed and issued by International Integrated Reporting Council(IIRC) which is a worldwide coalition of regulators, investors, standard setters, companies accounting professionals and NGOs.

IIRC was formed in August 2010.

The key concern of the coalition is to promote communication about **value creation** as the next step in **corporate reporting**.

Integrated Reporting-contd..



The objects of Integrated Reporting.

IIRC's mission is to establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors.

The IIRC's vision is to align capital allocation and corporate behavior to wider goals of financial stability and sustainable development through the cycle of integrated reporting and thinking.

Over the last 3 years the IIRC has moved from creation of framework to development of early adoption by reporting entities around the globe. Going forward the focus shifts to early adoption of this reporting framework.

Integrated Reporting-contd..



Fundamental Concepts

- a. **Value Creation** for the organization and others
- b. **The capitals**(financial, manufactured, human, Social, Intellectual& natural)
The 6 capitals
- c. Value Creation process

Guiding principles

- a. Conciseness
- b. Reliability and completeness
- c. Consistency and comparability
- d. Strategic focus and orientation
- e. Connectivity of information
- f. Stakeholder relationships
- g. Materiality

Integrated Reporting-contd..



Content Elements

- a. Organizational overview and external environment
- b. Governance
- c. Business model
- d. Risks and Opportunities
- e. Strategy and resource allocation
- f. Performance
- g. Outlook
- h. Basis of preparation

Integrated Reporting-contd..

Integrated Reporting in Kenya.

Some entities that have adopted Integrated Reporting in Kenya are:-

1. Safaricom Limited
2. Kenya Commercial Bank
3. Barclays Bank of Kenya
4. Standard Chartered Bank
5. Equity Bank

It is hoped that in the near future many entities will take up the IR Framework, including those in the SME sector.

Integrated Reporting-contd..



In other news on Integrated reporting

South Africa is the only Country in the world with legislation requiring integrated reporting for all listed firms.

Worldwide we have over 1,600 firms that have adopted integrated reporting.

As corporate reporting evolves and adoption of integrated reporting grows, Accountants will need to develop new skills.

Interactive Session



END-Thank you all!

