

# PREPARATION AND PRESENTATION OF PUBLIC SECTOR FINANCIAL STATEMENTS

## APPLICATION OF IPSAS (CASH/ACCRUAL)

CPA MUMO

Credibility .

Professionalism

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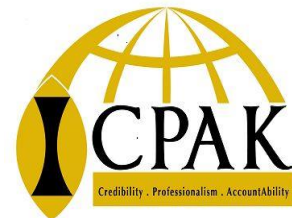
AccountAbility

# Presentation Outline



- ☐ Legal foundation –Constitution & PFM Act
- ☐ Why IPSAS
- ☐ PSASB Guidelines

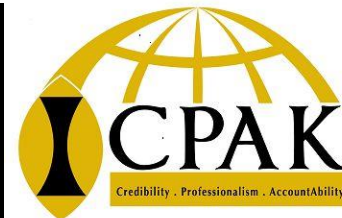
# Legal Foundation



- The constitution of Kenya (Chapter 12) provides the foundational and overarching framework for public financial management
- **Article 226(1)(a)** exclusively provides that an Act of Parliament shall provide for the keeping of financial records and the auditing of accounts of all governments and other public entities, and prescribe other measures for securing efficient and transparent fiscal management
- The PFM Act (2012) creates the PSASB and mandates it to provide frameworks and set generally accepted standards for development and management of accounting and financial systems by all state organs and public entities
- Section 81(3) and 83(2)(b) requires Accounting officers of National Government entities prepare annual and quarterly financial reports according to standards prescribed by PSASB

- Section 164(1) and 166(1) of the PFM Act requires Accounting officers of a County Government entity prepare annual and quarterly financial reports according to standards prescribed by PSASB
- Sections 82 and 165 provides for similar requirements for receivers of revenues for both National and County Government entities respectively
- In 2015/16, the CS for the National Treasury issued circulars to all Accounting officers to comply with the same and provides Standard Templates for ease of conformity and compliance

# Purpose of adopting IPSAS



- To conform to high quality, credible, internationally recognized standards
- To provide users public sector financial reports with relevant and transparent information to make decisions and hold officials to account
- Standardize financial reporting to ease of audit
- Provides a consistent and objective approach to deal with public sector specific issues, e.g. concepts level, compliance with budget, non-exchange transactions
- Offers a platform for credible basis for reporting statistics
- Facilitates government wide consolidation of Financial Statements

# IPSAS Adoption & Road map



- ❑ The PSASB **adopted** the financial reporting standards applicable to public sector entities as follows:
  - National & County Governments –IPSAS Cash basis of accounting;
  - Semi Autonomous Government Agencies (SAGAs) – IPSAS accrual; and
  - State Corporations (Commercial) – IFRS

# Application –General purpose accounts



- General purpose accounts are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs
- Users of general purpose accounts include
  - ✓ Tax payers and rate payers
  - ✓ Members of the legislature
  - ✓ Creditors
  - ✓ Suppliers
  - ✓ The media, and employees

# Complete set of financial statements



- Statement of financial position
- Statement of financial performance
- A statement of changes of net assets/equity
- Statement of cash flows
- Statements of appropriation/ comparative budgets (if applicable)
- Notes to the financial statements - comprising of a summary of significant accounting policies and other explanatory notes.



# The Guidelines (PSASB)



**To comply with IPSAS (Cash/Accrual), the PSASB has provided that all public sector entities provide the information in their financial reports in the standard formats/templates provided**

# Titles page



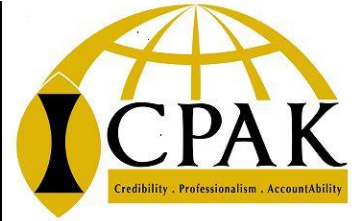
- Name of entity whose reports and financial statements are being presented
- Clearly define the financial period for which the financial statements are being presented
- A declaration to the fact that the reports are presented in accordance of either cash or accrual method under IPSAS

# I: Key entity information



- Background information –establishment/creation and who is responsible for policy and strategic direction of the entity
- Principal activities/mission –for SAGAS (accrual basis)
- Key management –defines organs responsible for the entities management e.g. board, council etc
- Fiduciary management – key personnel who held office during the year being reported
- Fiduciary oversight arrangements e.g. audit and finance committees activities, parliamentary committees activities, development partners oversight activities and any other oversight activities
- Physical address for the entity headquarters
- Entity contacts
- Entity bankers
- Independent auditors, and
- Principal legal advisor

## II: Reports –Cash based method



- A forward by the CS/CEC
- Include the following at minimum
  - ✓ Summary of budget performance against actual
  - ✓ Key achievements for the entity
  - ✓ Emerging issues related to entity
  - ✓ Implementation challenges and recommended way forward

## II: Reports –Accrual based method



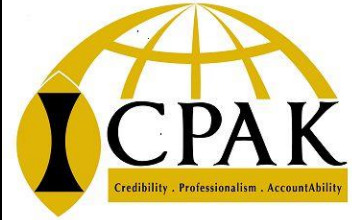
- List of Board of Directors
- Management Team
- Chairman's statement
- Report of CEO
- Corporate governance statement
- Corporate social responsibility statement
- Report of the directors

# III: Statement of Entity Management /Directors Responsibilities



- ❑ At a minimum, the statement MUST provide:
  - A declaration of the accounting officer's responsibility for the entity financial statements
  - A declaration that the accounts present a true and fair view of the entity's state of affairs for and as at the end of the year under review
  - Responsibilities include:
    - ✓ Maintain adequate & effective financial management arrangements
    - ✓ Maintain proper records & accurate disclosures
    - ✓ Design, implement and maintain internal controls
    - ✓ Safeguards assets of the entity
    - ✓ Selects and applies appropriate accounting policies, and
    - ✓ Making reasonable accounting estimates

# IV: Report of Independent Auditors



- ❑ At a minimum, it presents:
  - A declaration that the auditor has audited the listed accompanying financial statements
  - Assignment of the management's responsibility
  - A declaration of the auditors responsibility as solely to render an opinion
  - The auditor's opinion on the audited accounts. The shall be one of the four:
    - ✓ Unqualified opinion
    - ✓ Qualified opinion
    - ✓ A disclaimer opinion
    - ✓ Adverse opinion

# V: Statement of Receipts & Payments – Cash Basis



- This captures the sources of receipts & payments for the entity
- Summarizes the surpluses or deficit for the year



# VI: Statement of Assets/Financial position



- ❑ Presents a summary of:
  - Assets of the entity for cash basis method
  - Financial position of the entity for accrual basis method

## VII: Statement of changes in Net Assets (Accrual method)



- Presents the changes in the assets of the entity for those reporting under the accrual method

# Statement of Cash flows



- Presents the cash flows of the entity for the accounting period under review

# VIII: Summary statement of Appropriation Recurrent & Development



- Presents the appropriations/budgetary allocations combined under Cash basis method
- Also presents summary statement of appropriation for recurrent and development separately

## VIII: Statement of comparisons of Budget and Actual amounts



- Presents comparative budgets for the entity for the financial period under review

# IX: Significant Accounting Policies and Notes to the accounts



- Highlights the principal accounting policies used in preparation of the accounts
- Provides detailed notes to the accounts

**And Finally.....**

