

# **Public Finance Management Workshop**

## **IPSAS UPDATES**

**CPA Andrew Rori**

**City Blue Hotel & Suites, Mombasa 9th – 10th August, 2018**

- 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
- Sec. 192 of PFMA 2012 establishes 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
- **Gazette Notice No 5440** - all Accounting officers to comply and provides for the development of Standard Templates for ease of conformity and compliance

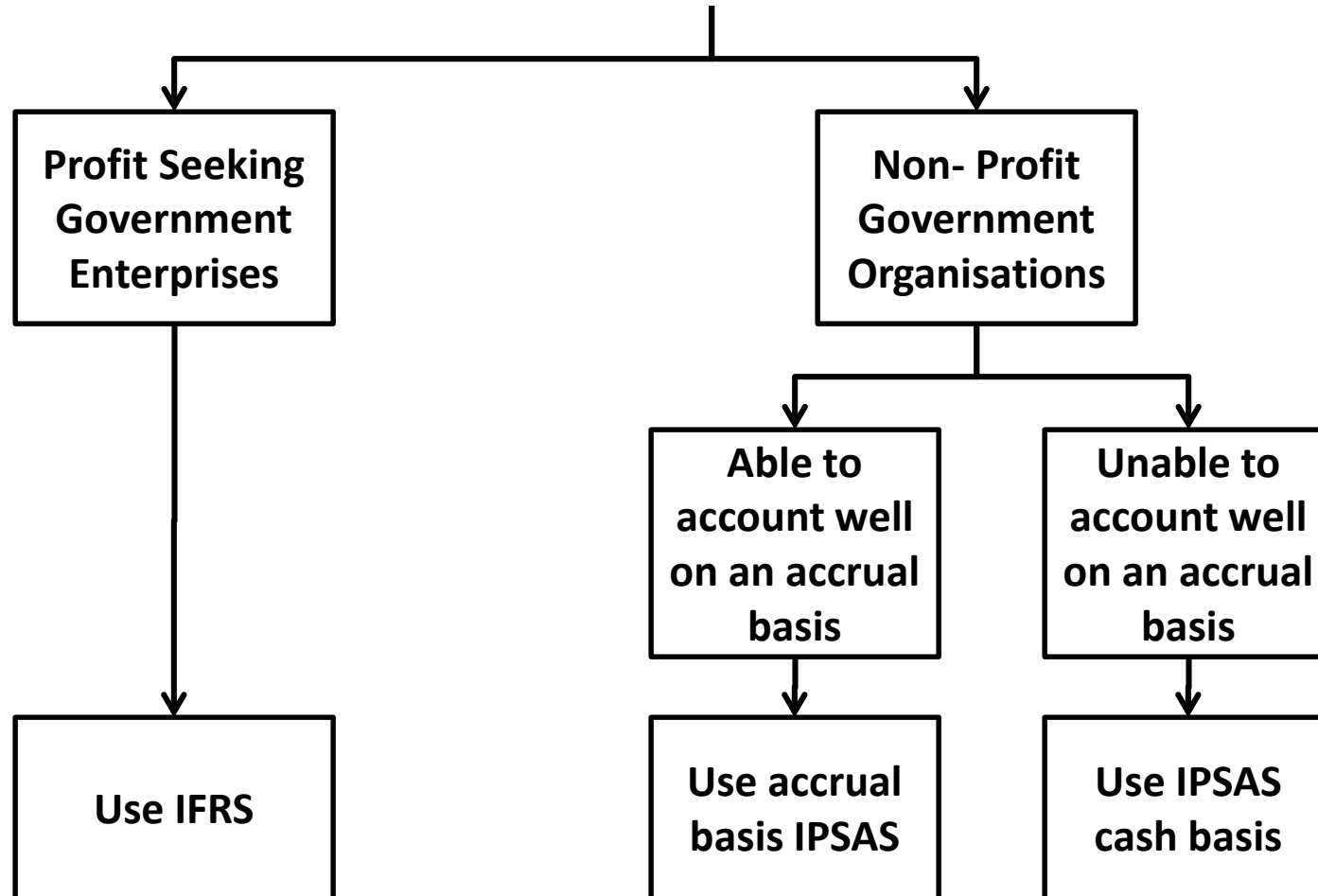
# Purpose of adopting IPSAS



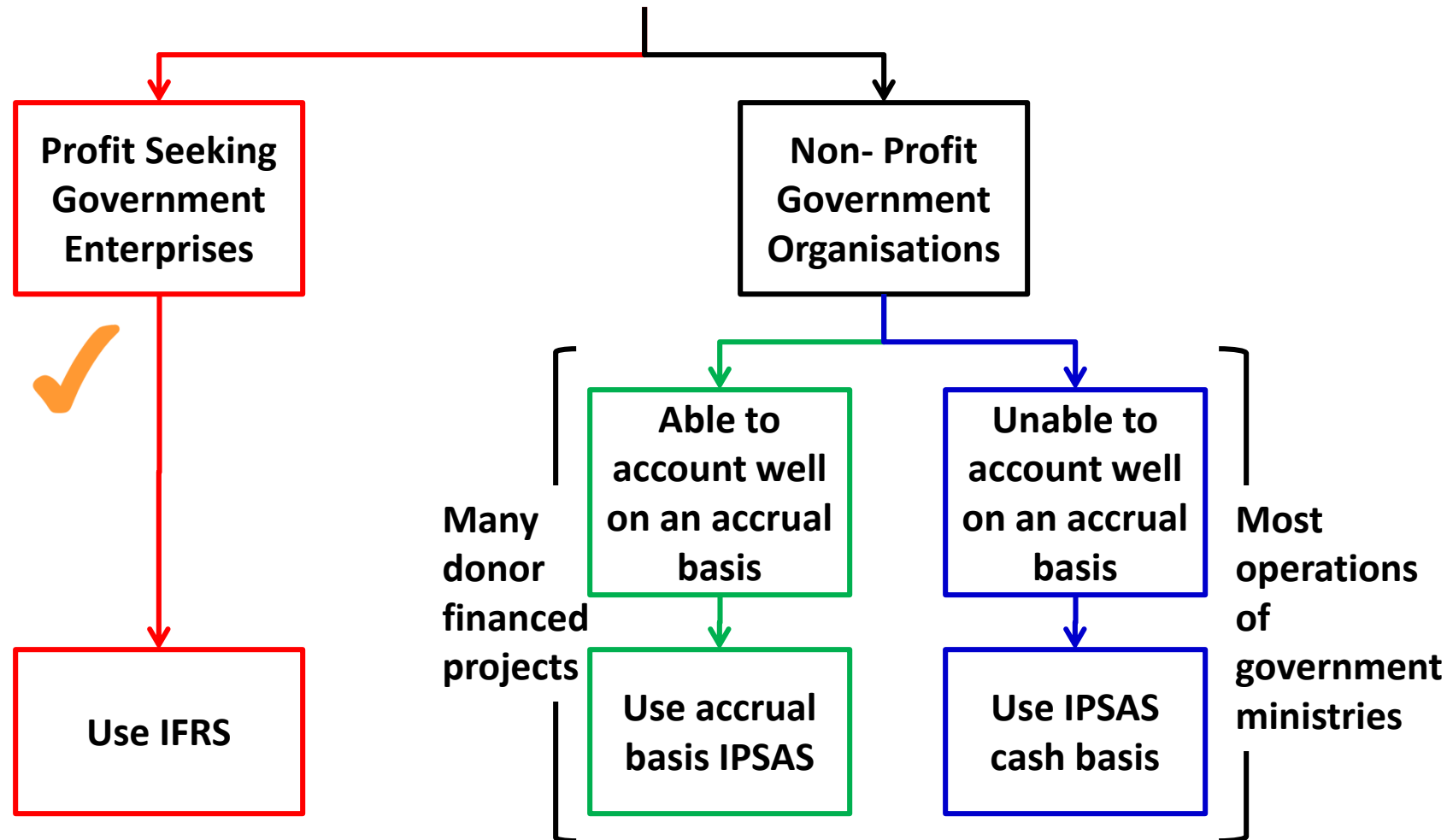
- To conform to high quality, credible, internationally recognized standards
- To provide users public sector financial reports with relevant and transparent information to make decisions and hold officials to account
- Standardize financial reporting to ease of audit
- Provides a consistent and objective 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

- **Accruals basis standards**
  - IPSAS has no interpretations
  - Accruals basis IPSAS requires compliance with all relevant standards
  
- **Single comprehensive cash basis standard**
  - Statement of cash receipts and payments
  - Disclosure of cash receipts/payments collected/made by others on behalf of the entity
  - Other disclosures e.g. budget and foreign assistance
  
- Countries may adopt the cash basis as a first step towards transitioning to full accruals basis IPSAS

# Which standards should Governments use for their general purpose financial statements?



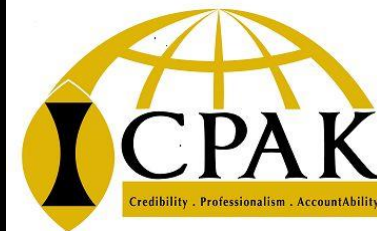
# Which standards should Governments use for their general purpose financial statements?



- ❑ 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



# List of IPSAS



IPSAS	Titles	Basis
1	Presentation of Financial Statements	IAS 1
2	Cash Flow Statements	IAS 7
3	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8
4	The Effects of Changes in Foreign Exchange Rates	IAS 21
5	Borrowing Costs	IAS 23
6	Consolidated and Separate Financial Statements (superseded)	IAS 27
7	Investments in Associates (superseded)	IAS 28
8	Interests in Joint Ventures (superseded)	IAS 31
9	Revenue from Exchange Transactions ( IFRS 15 effective 1/1/2018)	IAS 18
10	Financial Reporting in Hyperinflationary Economies	IAS 29
11	Construction Contracts ( IFRS 15 effective 1/1/2018)	IAS 11

# List of IPSAS

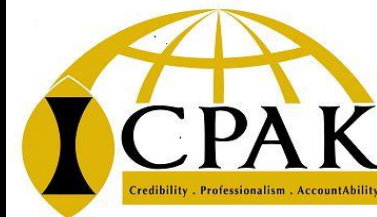


IPSAS	Titles	Basis
12	Inventories	IAS 2
13	Leases ( IFRS 16 effective 1/1/2019)	IAS 17
14	Events after the Reporting Date	IAS 10
15	Financial Instruments: Disclosure and Presentation (superseded)	
16	Investment Property	IAS 40
17	Property, Plant and Equipment	IAS 16
18	Segment Reporting	IAS 14
19	Provisions, Contingent Liabilities and Contingent Assets	IAS 37
20	Related Party Disclosures	IAS 24
21	Impairment of Non-Cash Generating Assets	NA
22	Disclosure of Financial Information about the General Government Sector	NA

# List of IPSAS

IPSAS	Titles	Basis
23	Revenue from Non-Exchange Transactions (Taxes and Transfers)	NA
24	Presentation of Budget Information in Financial Statements	NA
25	Employee Benefits (to be replaced by IPSAS 39)	IAS 19
26	Impairment of Cash-Generating Assets	IAS 36
27	Agriculture	IAS 41
28	Financial Instruments: Presentation	IAS 32
29	Financial Instruments: Recognition and Measurement	IAS 39
30	Financial Instruments: Disclosures	IFRS 7
31	Intangible Assets	IAS 38
32	Service Concession Arrangements: Grantor	IFRIC 12

# List of IPSAS



IPSAS	Titles	Basis
33	First-time Adoption of Accrual Basis IPSAS (effective 1/1/17)	NA
34	Separate Financial Statements (effective 1/1/17)	IAS 27
35	Consolidated Financial Statements (effective 1/1/17)	IFRS 10
36	Investments in Associates and Joint Ventures (effective 1/1/17)	IAS 28
37	Joint Arrangements (effective 1/1/17)	IFRS 11
38	Disclosures of Interest in Other Entities (effective 1/1/17)	IFRS 12
39	Employee Benefits (effective 1/1/18)	IAS 19
40	Public Sector Combinations (effective 1/1/19)	IFRS 3
	<b>Cash-basis IPSAS ( Stand alone)</b>	
RPG 1	Reporting on the Long-Term Sustainability of an Entity's Finances	
RPG 2	Financial Statement Discussion and Analysis	
RPG 3	Reporting Service Performance Information	

# Extent of International Public Sector Accounting Standards application in Government - Africa



# Cash Basis IPSAS



This Standard comprises two parts ( I & II ):

- **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.

It defines the cash basis of accounting, establishes requirements for the disclosure of information in the financial statements and supporting notes, and deals with other specific reporting issues.

- **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.

# Cash Basis IPSAS



- **Mandatory**
  - Consolidated Statement of Cash Receipts and Payments
  - Statement of Comparison of Budget and actual amounts
  - Notes to Financial Statements
  
- **Voluntary**
  - Statement of Cash Assets and Fund Balances
  - Statement of Outstanding Invoices (Liabilities)
  - Statement of Unjustified Advances and Loans
  - Non-financial assets disclosure notes
  - Statement of Contingent Liabilities

# Accrual Based IPSAS



## **A complete set of financial statements comprises:**

- (a) A statement of financial position;
- (b) A statement of financial performance;
- (c) A statement of changes in net assets/equity;
- (d) A cash flow statement;
- (e) When the entity makes publicly available its approved budget, a comparison of budget and actual amounts either as a separate additional financial statement or as a budget column in the financial statements; and
- (f) Notes, comprising 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

[Annual Reporting Template for MDAs Updated for June 2018.doc](#)

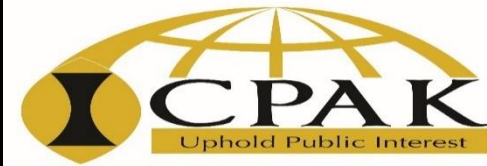
[IPSAS Accrual template for SC SAGAs 2017-2018 - Revised.docx](#)

# Audit Opinion



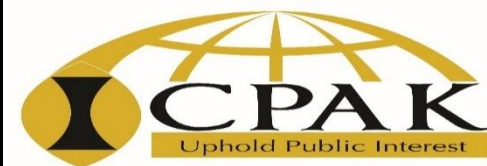
Audit Opinion	Comment
<b>1. Unqualified</b> 'The accounts give a true and fair view'	<ul style="list-style-type: none"><li>• A 'clean' opinion – this is the opinion everyone wants to see</li><li>• May Contain Emphasis of Matters</li><li>• May Contain Other Matters</li></ul>
<b>2. Qualified Opinion</b> Except for..., the financial Statements are fairly presented	There are specific material misstatements, such as an incorrect accounting policy, debtors which are not recoverable, an undisclosed fraud or insider loan.
<b>3. Adverse Opinion</b> The Financial Statements are not fairly stated	There are so many fundamental misstatements in the accounts that they are completely wrong and misleading
<b>4. Disclaimer of Opinion</b> 'I am not able to express an opinion	There are so many missing documents or explanations that we do not have enough information to form an opinion

# Key Differences Between IPSAS & IFRS



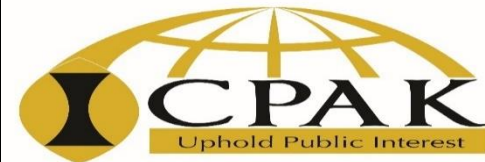
Issue	IPSAS	IFRS
<b>Audience</b>	Governments and public sector entities	Primarily private sector
<b>Issuer</b>	IPSASB of IFAC	IASB of IFAC
<b>Revenue</b>	Public sector entities derive revenues from exchange or non-exchange transactions (e.g. grants and donations)	Non-exchange revenue is not existent in the IFRS framework

# Key Differences Between IPSAS & IFRS



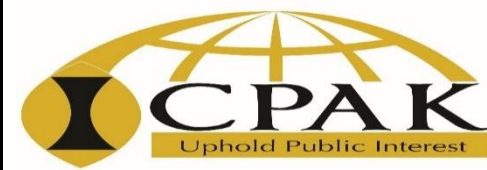
Issue	IPSAS	IFRS
<b>Assets</b>	Public sector specific heritage assets e.g.. monuments, conservation areas	Does not consider heritage assets
<b>Budgets versus actual performance</b>	Requires as part of the statements a comparison of actual financial performance versus approved budget.	Not applicable
<b>Disclosure requirements for general government sector (GGS)</b>	IPSAS prescribe disclosure requirements for governments that elect to present information about the GGS in their consolidated financial	Not applicable

# Key Differences Between IPSAS & IFRS



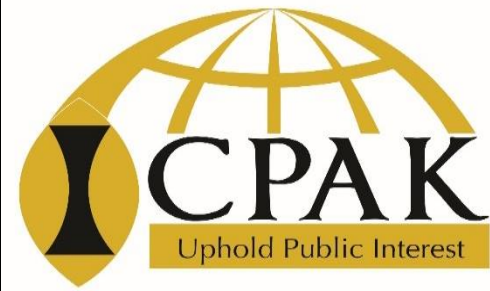
Issue	IPSAS	IFRS
<b>Income tax</b>	IPSAS presumes that entities that operate within the public sector are generally exempt from income taxes (If liable to tax, refer to IFRS (IAS 12 Income Taxes) for guidance	Entities subject to income tax
<b>Consolidations and interests in associates and joint ventures</b>	IPSAS is based on IAS 27 Separate Financial Statements, IAS 28 Investments in Associates and Interest in Joint Ventures for determination of control for consolidation purposes.	Relies on IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosures of Interests in Other Entities for determination of control.

# Key Differences Between IPSAS & IFRS



Issue	IPSAS	IFRS
<b>Impairment of non-cash-generating asset</b>	IPSAS 21 caters specifically for impairment considerations for non-cash-generating assets.	IFRS assumes that all assets will be cash-generating
<b>Elimination of private sector specific concepts</b>	IPSAS excludes guidance that are private sector-specific e.g. EPS and refers reporting entities back to IFRS if and when applicable.	IFRS provides principles for certain economic phenomena that are irrelevant to the operations of a public sector entity, such as accounting for share-based payments and earnings per share disclosures

# Conclusion



- Discussion
- Questions?

