



International Public Sector Accounting Standards (IPSAS) Workshop

Nakuru

Theme: Increasing Accountability Through Quality Public Sector Accounting

Developments in Public Sector Accounting

Friday, 12 April 2019

Learning Outcome

- At the end of this session, delegates should:-
 - α Explain the Public sector accounting developments and appreciate the stage of IPSAS implementation across the globe and in Kenya
 - α Understand the public sector accounting requirements
 - α Describe the differences and similarities between IPSAS and IFRS
 - α Understand the conceptual framework and key accounting principles
 - α Understand the key principles of IPSAS 42

Introduction

- Chapter 12 Section 201 of the constitution – principles shall guide all aspects of public finance in the Republic:
 - there shall be openness and accountability, including public participation in financial matters;
 - the public finance system shall promote an equitable society, and in particular:
 - the burden of taxation shall be shared fairly;
 - revenue raised nationally shall be shared equitably among national and county governments; and
 - Expenditure shall promote the equitable development of the country, including by making special provision for marginalised groups and areas;
 - the burdens and benefits of the use of resources and public borrowing shall be shared equitably between present and future generations;
 - public money shall be used in a prudent and responsible way; and
 - financial management shall be responsible, and fiscal reporting shall be clear.
 - expenditure shall promote the equitable development of the country, including by making special provision for marginalised groups and areas;
 - the burdens and benefits of the use of resources and public borrowing shall be shared equitably between present and future generations;
 - public money shall be used in a prudent and responsible way; and
 - financial management shall be responsible, and fiscal reporting shall be clear.

Scope & Authority

- IPSAS are designed to guide the **preparation** and **presentation** of general purpose financial statements of public sector entities.
- Public sector entities include national (central), regional and local governments, and their component entities such as departments, agencies, boards, commissions et cetera.
- **IPSAS do not apply to Government Business Enterprises (GBE).**

Government Business Enterprise

- Government Business Enterprise means an entity that has **all the following characteristics**:
 - a) Is an entity with the **power to contract** in its own name;
 - b) Has been assigned the **financial and operational authority** to carry on a business;
 - c) Sells goods and services, in the normal course of its business, to other entities **at a profit or full cost recovery**;
 - d) Is **not reliant** on **continuing** government funding to be a going concern (other than purchases of outputs at arm's length); and
 - e) Is controlled by a **public sector entity**.

Legal Framework –PFM Act

- **Sec. 192 -195** –Establishment of the PSASB, its composition, functions, vacation of office & remuneration.
- **Section 192** of PFM Act - establishment a Public Sector Accounting standards Board which shall perform the functions set out in this part.
- **Section 193(1)** The Composition of the Board. The Accounting Standards Board consist of a representative of each of the following bodies who shall serve on a part-time basis
 - a. the National Treasury
 - b. the Controller of Budget
 - c. the Intergovernmental Budget and Economic Council
 - d. the Auditor General
 - e. the Institute of Certified Public Accountants of Kenya;
 - f. the Association of Professional Societies of East Africa;
 - g. the Capital Markets Authority;
 - h. the Institute of Internal Auditors; and
 - i. the Institute of Certified Public Secretaries of Kenya.

Legal Framework - Function

- Section 194 (1) of PFM Act provide that the Public Sector Accounting Standard Board shall **provide the frameworks** and set **generally accepted standards** for the development and management of accounting and financial systems by all state organs and public entities and shall particularly perform the following functions:

Legal Framework – Function (continued)

- a. Set generally accepted accounting and financial standards;
- b. Prescribe the minimum standards of maintenance of proper books of accounts for all levels of Government;
- c. Prescribe internal audit procedures which comply with this Act;
- d. Prescribe formats for financial statements and reporting by all state organs and public entities
- e. Publish and publicize the accounting and financial standards and any directives and guidelines prescribed by the Board;
- f. In consultation with the Cabinet Secretary on the effective dates of implementation of these standards, Gazette the dates for application of the standards and guidelines; and
- g. Perform any other functions related to advancing financial and accounting systems management and reporting in the public sector.

The Board Committees

- The Board has set up 4 committees to assist in the Execution of the mandate:
 - i. Government Owned Enterprises Committee
 - ii. National and County Government Committee
 - iii. Internal Audit Committee
 - iv. Governance and Strategy Committee
- The National Treasury supports the Board through appointed officers to form the Secretariat to support the work of the committees and the Board
- The committees assist in fast tracking the implementation of the new reporting framework.

Adoption of IPSAS

- PSASB adopted the financial reporting standards applicable to public sector entities as follows:
 - National Government and County Governments –Cash basis IPSAS;
 - Semi Autonomous Government Agencies – IPSAS accrual; and
 - State Corporations (commercial public sector entities) – IFRS.
- The PSASB adopted International Professional Practice Framework (IPPF) for Internal Auditing Standards
- The PSASB through a Gazette notice No. 1554 dated 8th August 2014, signed by the Cabinet Secretary on 8 July 2014, adopted IPSAS and IFRS for use by public sector entities.
- The Standards became effective on **1st July 2014** and were communicated to the entities via Treasury Circular dated **1st July 2014** and subsequently gazette notice 5440 on **1st August 2014**.

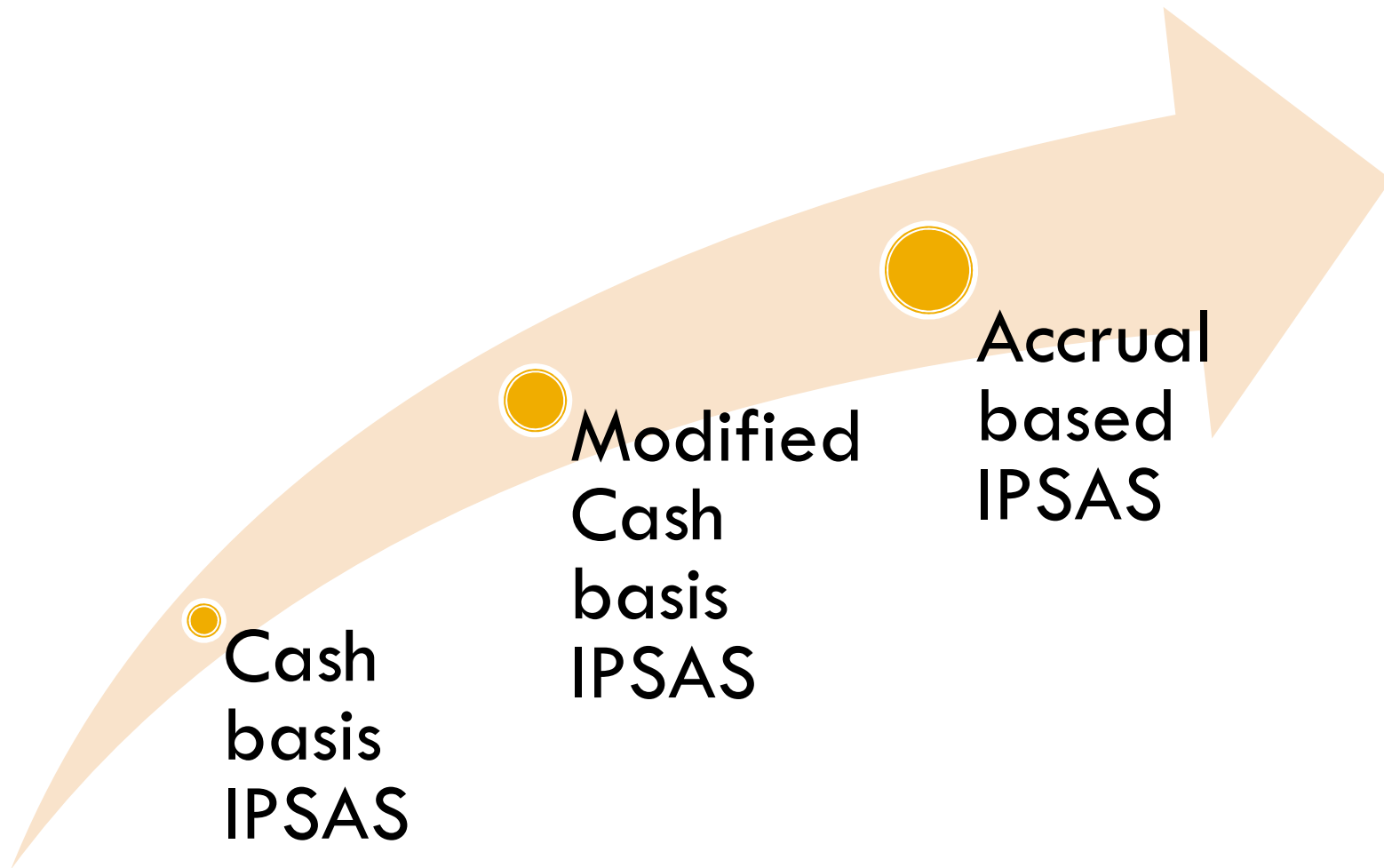
Implementation in Kenya

- All public sector entities were required to prepare their 2013/2014 Financial Statements based on the issued standards and guidelines
- Training on the new standards carried out in Aug/Sep 2014
- Technical Assistance provided by the National Treasury in the preparation of FS for the year 2013/2014
- Consolidation of the FS for the entire public sector carried out in Oct. 2014 by the National Treasury
- Audit of submitted FS for all public sector entities 2014/2015 to be concluded

Adoption across the globe

- Countries that are already applying full accrual accounting standards and applying accounting standards that are broadly consistent with IPSAS requirements include:
 - Australia
 - Canada
 - New Zealand
 - United Kingdom
 - United States of America

Cash Basis Vs Accrual basis



Cash Basis Vs Accrual basis(Cont..)

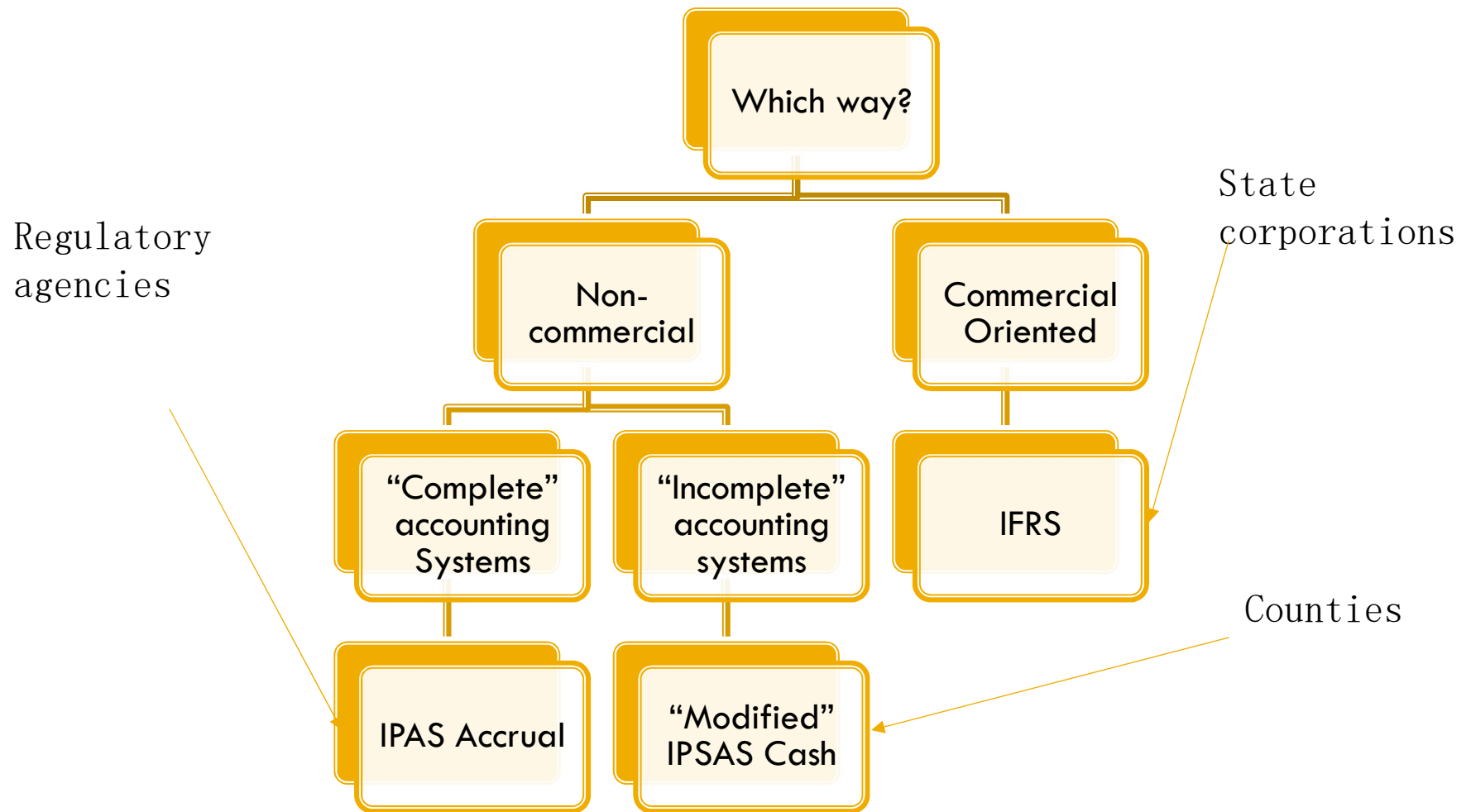
CASH BASIS

- A basis of accounting that recognises transactions and other events **when cash is received or paid.**
- Measures financial results for a period as the **difference between cash received and cash paid.**

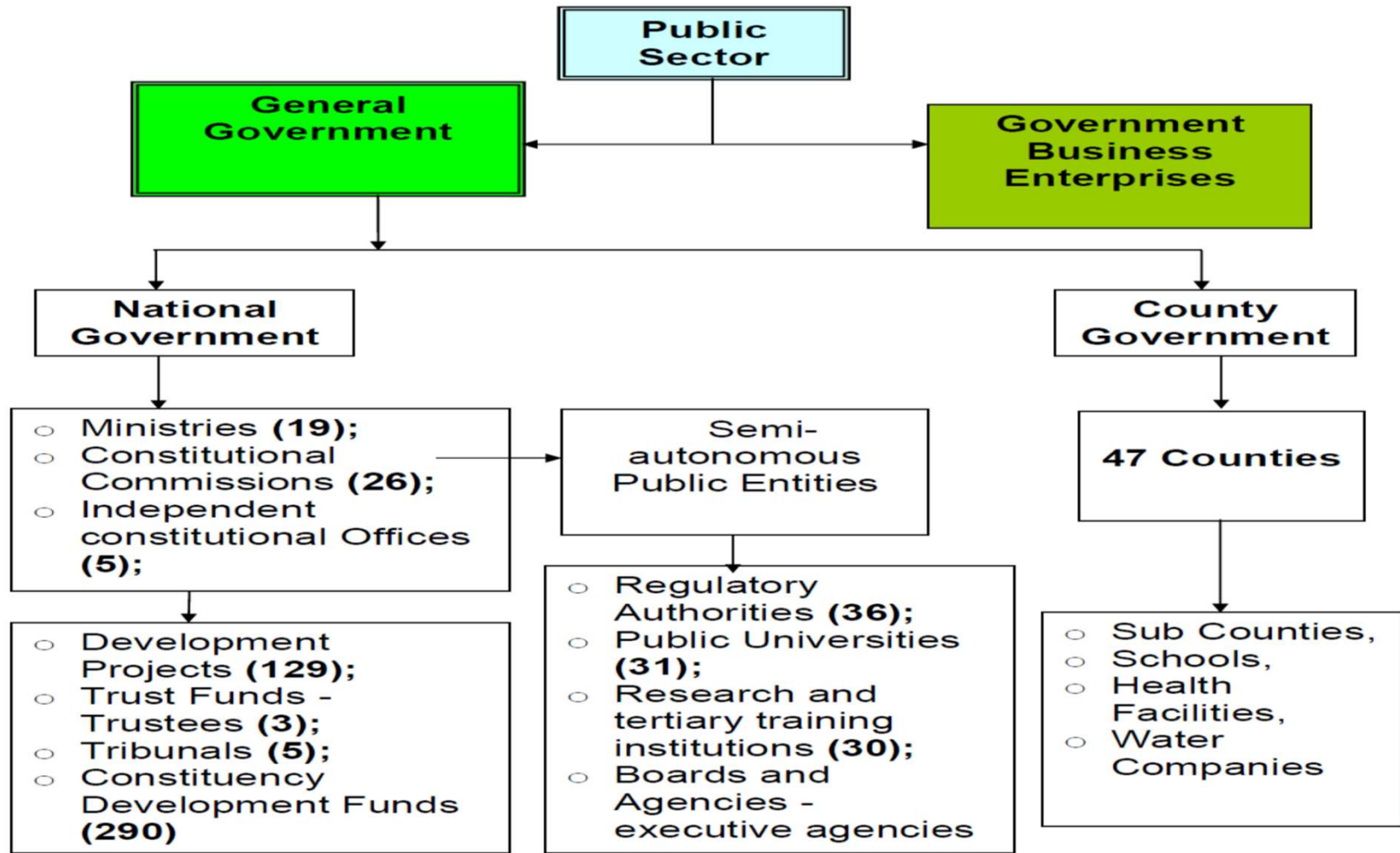
ACCRUAL BASIS

- 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, the transactions and events are **recorded in the accounting records** and recognised in the financial statements **of the periods to which they relate.**
- The elements recognised under accrual accounting are **assets, liabilities, net assets, revenue and expenses.**

Which way???



Public Sector at a Glance



Key achievements of PSASB

- Consolidation carried out for the first time. The report provides a broad picture of the National Government financial position
- Entities are using the standards pronounced by the PSASB
- Financial statements including consolidated FS for the entire public sector were submitted to Auditor General within statutory deadline.

Key Achievements of PSASB

- ❑ **Operations of the Board:** The Board constituted the secretariat and also approved the Committees TORs to facilitate smooth running of operations. Board members have also attended meetings consistently.
- ❑ **Applicable accounting , auditing and reporting standards:** IPSAS, IFRS and IPPF approved in the first year of Board operations. Retrospective application encouraged for the year ended 30th June 2014. Standards have now been applied for the last three years.
- ❑ **Capacity Building.** The Board in conjunction with the National Treasury has been able to train over 5,000 accountants from the public sector. Trainings have been conducted through on job technical assistance and workshops. The Board has organised 20 training workshops for the public sector accountants and auditors over the last three years.

Key Achievements of PSASB

- ❑ **Development of reporting tools / illustrative financial statements.** The Board developed financial reporting templates to be used as a guide by all public sector entities reporting under the different frameworks . IPSAS cash annual templates have also been automated in IFMIS to make it easier for Ministries, Departments and Agencies as well as County Governments to prepare financial reports. Quarterly reporting templates were also approved by the Board for application from 1 July 2016.
- ❑ **Consolidation of Government wide financial statements.** The first set of government wide consolidated financial statements was prepared and submitted to the Auditor General by 31 October 2014. FY 2015 financial statements were prepared and submitted by 31st October 2015, while the FY 15/16 consolidated accounts were consolidated and submitted on 31st October 2016. The Auditor General has audited the consolidated set for the MDAs and has issued his opinion.

Key Achievements of PSASB

- ❑ **Compliance to the adopted accounting standards.** Assessment by the Board indicates that all public sector entities have embraced and applied the gazetted standards in preparation of financial statements for the last three years.
- ❑ **Promoter of the Fire Award Scheme.** This has enhanced the quality of financial statements prepared by public sector entities as well as visibility of the public sector. Public sector entities participated in the award for the first time in 2015 and also participated in 2016 FiRE award event. Entities were awarded within the IPSAS cash and IPSAS accrual and IFRS categories. Public sector entities were 305 out of 399 entities that participated in 2016. 12 public sector entities managed to scoop awards.

Key Achievements of PSASB

- ❑ **Training and capacity building for the Board and secretariat:** The Board and the secretariat have over the last three years been sponsored to 18 conferences/ workshops locally and internationally to enhance their technical skills and capabilities.
- ❑ **Representation in local and international forums:** The Board is represented in ICPAK committees. The Chair of the Board is also a member of IPSASB consultative Forum and the Standard Setters Forum.
- ❑ **Creating awareness of its mandate:** This has been done through training facilitation in various forums, writing publication articles, holding consultative meetings with key stakeholders.

Key Achievements of PSASB

- ❑ **Internal audit guidelines:** As per PFM Act, public sector entities are supposed to have an audit committee. The Board in conjunction with the National Treasury provided guidelines for audit which were gazetted in April 2016. This move will enhance the internal audit function in the public sector.

Other achievements.....

- ❑ Adoption of Reporting frameworks that better respond to the specialised needs of the public sector.
- ❑ Financial reports produced respond to the management and those charged with governance needs for information to improve their decision making process.
- ❑ Greater accountability to the general public

PSASB Strategic Direction

- **Gap analysis** on the current status of IPSAS compliance
- **Improvements to the reporting templates** including their automation in IFMIS and other accounting systems
- **Intensified trainings** to enhance compliance
- **Emphasis is on comprehensive disclosures** in readiness for full adoption of IPSAS accrual
- **Drawing of a roadmap** towards a progressive and full adoption of IPSAS
- **Accrual for County Governments**
- **Quarterly government consolidation** as per the requirement of the Section 18 of PFM Act

Challenges

- As expected, entities had **difficulties in complying** with international standards adopted by the PSASB
- Human resource **capacity constraints**—comprehensive change management, training and capacity building programme required
- Financial statements for National Government entities exclude liabilities and physical assets
- Suspense accounts, misstated and unsupported balances in the FS. **Clean up on-going and taskforce appointed by PAC to spearhead**
- Progressively closing the gaps in Cash Based IPSAS

IPSASB Conceptual Framework

- The IPSASB (the Board) approved The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities at the IPSASB's in September 2014 and its publication on 31 October 2014
- The framework is developed to facilitate the implementation of the IPSAS and to enhance the consistency of practice.

Role of the Framework

- The Framework established the **concepts** that are to be applied in developing IPSAS Standards and **Recommended Practice Guidelines** (RPGs) applicable to the preparation and presentation of General Purpose Financial Reports (GPFRs) for public sector entities.
- **Provides guidance when IPSAS does not** e.g. IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets* excludes provisions related to social benefits in non-exchange transactions from its scope. **The framework provides guidance on this**
- The Framework addresses **key public sector characteristics** in its approach to financial statements elements such as:
 - needs for high-quality financial reporting information for both accountability and decision-making purposes;
 - the presentation of financial reports, while focusing on service recipients (e.g. Citizens) and resource providers; and
 - the measurement of assets and liabilities.

Authority of the Framework

- The framework was developed as a guidance on the development of IPSAS standards; and
- It does not override the requirements of IPSAS and RPG's, rather it provides guidance in dealing with financial reporting issues not dealt with by IPSASs or RPGs.

Applicability of the Framework

- It applies largely to public sector entities that apply IPSAS such as the following:
 - National Government
 - Provincial/State Government
 - Local Government
 - Government ministries, departments, programs, boards, commissions, agencies
 - Public sector social security funds, trusts
 - International non governmental organisations – AU, UN, World Bank

IPSASB Conceptual Framework

- The *Framework* sets out underlying concepts on IPSASs financial reporting:
 - the objective of general purpose financial reporting
 - qualitative characteristics
 - elements of financial statements
 - recognition
 - measurement
 - presentation and disclosure

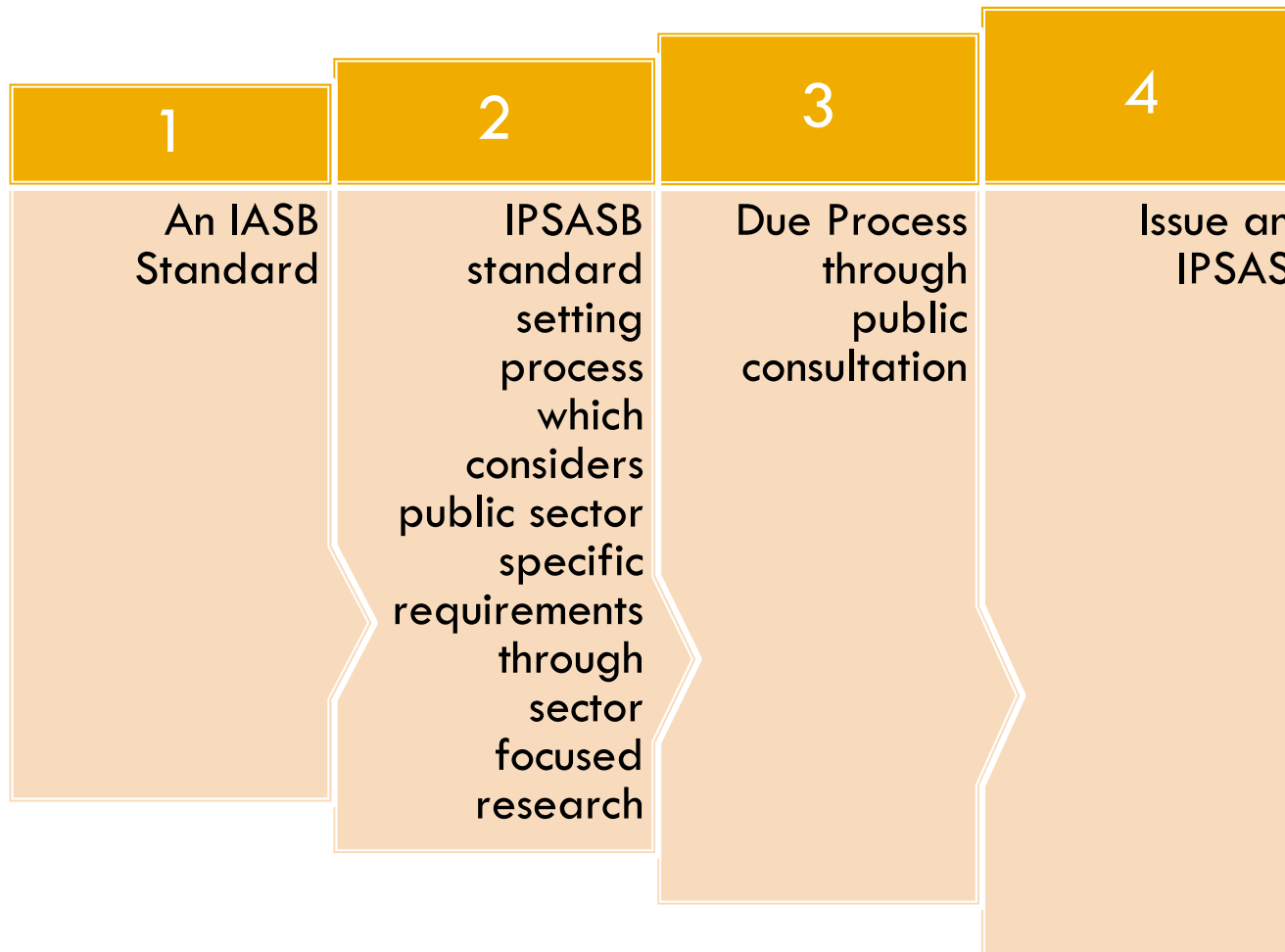
IPSASB Conceptual Framework (continued)

- a cohesive understanding of IPSASs – *Framework* facilitates consistent and logical formulation of IPSASs.
- a basis for judgement in applying IPSASs - – *Framework* established the concepts that underlie the estimates, judgements and models on which IPSASs financial statements are based.
- a basis for continuously updating IPSASs knowledge and IPSASs competencies.

IPSASB Conceptual Framework (continued)

- Does the *Framework* help me apply IPSASs?
- Yes, the Framework is in IPSAS 3:
 - i. Preparers use the *Framework* to make the judgements that are necessary to apply IPSASs
 - ii. Auditors and regulators assess those judgements
 - iii. Investors, lenders and others consider those judgements when using IPSAS financial information to inform their decisions

IPSAS Vs IFRS



Similarities

- Most IPSAS Standards are derived from IFRSs hence incorporate many concepts already in IFRSs
 - Allows for direct or indirect cash flow
 - Provides for cash flows from operating, investing and financing
 - Changes in accounting estimates are treated currently and prospectively
 - Changes in accounting policy are accounted for retrospectively
 - Correction of errors are accounted for retrospectively

Differences(IPSAS vs IFRS)

	IPSAS	IFRS
Issuer	IPSASB	IASB
Scope	IPSAS applies to International organizations Public sectors National government Local government Other government agencies and commissions	IFRS applies to Government Business Entities Private sectors
Basis of accounting	IPSAS allows Accrual Basis; or Cash Basis	IFRS strictly uses Accrual basis
IAS 1 /IPSAS 1	Surplus/deficit	Profit/loss

Differences(IPSAS vs IFRS)

	IPSAS	IFRS
Issuer	IPSASB	IASB
Recognition	Introduces the concept of “service potential”	Only focuses on “economic benefit”
	Exchange vs non-exchange transactions	Only exchange transaction
	Reporting of budget information (IPSAS 24)	Not required
	impairment considerations for non-cash-generating assets (service potential)	Does not exist

WHATS UP?



IPSAS 42 :SOCIAL BENEFITS

Project Objective:

- To define social benefits, and determine when expenses and liabilities for social benefits are recognized and how they are measured.

Approval:

- The International Public Sector Accounting Standards Board (IPSASB) approved IPSAS 42, Social Benefits in December 2018. It was issued in January 2019

IPSAS 42: SOCIAL BENEFITS

Project History:

- The IPSASB initiated a project on social benefits in 2002, and issued the Invitation to Comment, Accounting for Social Policies of Government in 2004.
- Subsequently, in 2008 the IPSASB issued Exposure Draft (ED) 34, Social Benefits: Disclosure of Cash Transfers to Individuals or Households, and a Consultation Paper (CP), Social Benefits: Issues in Recognition and Measurement.
- The IPSASB did not reach a consensus on when a present obligation arises for social benefits within the scope of the CP, and decided to defer further work on this topic until the completion of the Conceptual Framework (which was issued in 2014).

IPAS 42: SOCIAL BENEFITS

- Meanwhile, in 2013, the IPSASB published Recommended Practice Guideline (RPG) 1, Reporting on the Long-Term Sustainability of an Entity's Finances.
- This reflected the IPSASB's view that the financial statements cannot satisfy all of a user's information needs on social benefits.
- Further information about the long-term fiscal sustainability of those social benefit schemes is required.
- The IPSASB issued a further CP, Recognition and Measurement of Social Benefits, in July 2015, followed by ED 63, Social Benefits (issued in October 2017).
- IPSAS 42 is based on ED 63, but responds to comments received to that consultation.

IPSAS 42: SOCIAL BENEFITS

Why the IPSASB Undertook this Project

- The purpose of the IPSASB's project on social benefits is to establish requirements for defining, recognizing and measuring social benefits.

NOTE: As well as social benefits, governments also provide services, for example healthcare and defense. Such services are outside the scope of social benefits.

Definitions

IPSAS 42 defines social benefits and social risks :

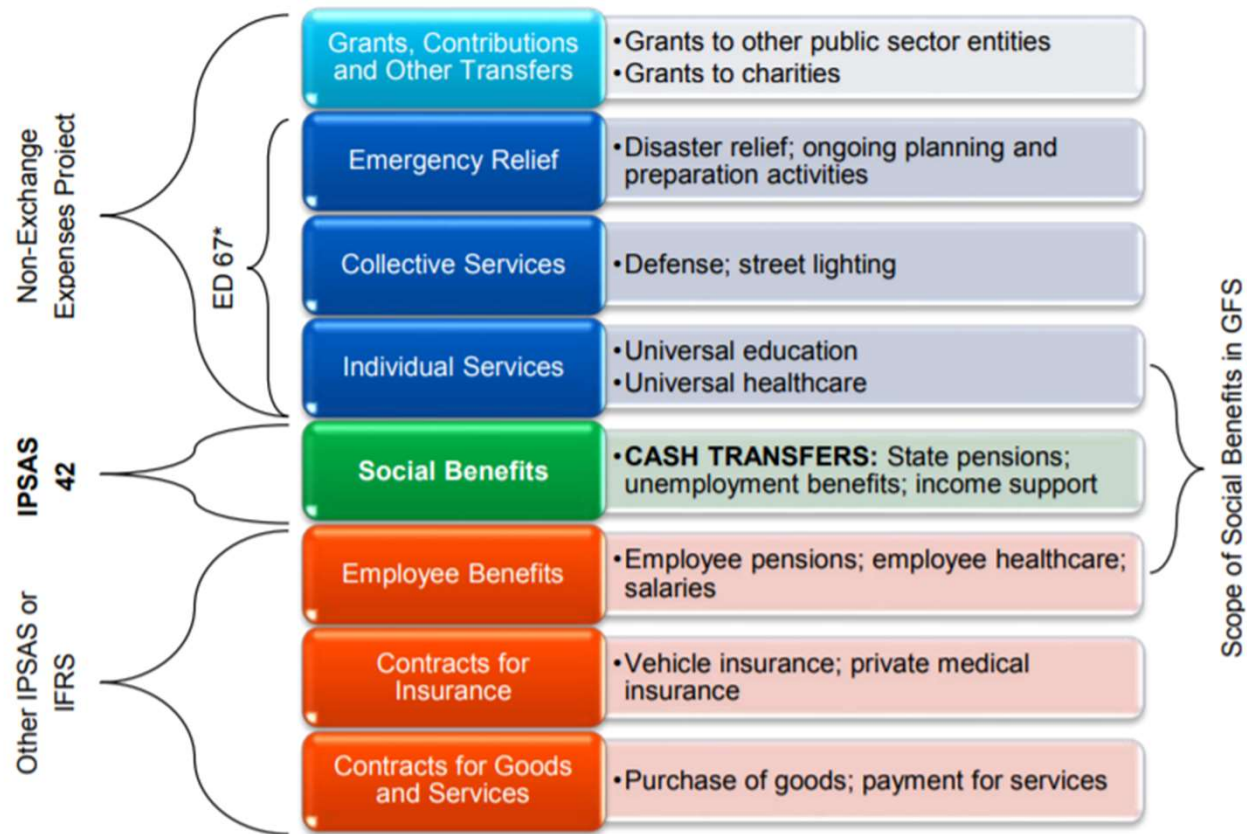
Social benefits are cash transfers provided to:

- (a) Specific individuals and/or households who meet eligibility criteria;
- (b) Mitigate the effect of social risks; and
- (c) Address the needs of society as a whole.

Social risks are events or circumstances that:

- (a) Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and
- (b) May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

Scope of IPSAS 42



SCOPE

- The figure illustrates the scope of IPSAS 42 and the boundaries between social benefits and other transactions, with examples.
- Where a transaction is outside the scope of IPSAS 42, the figure indicates how IPSAS will address the transaction.
- For many governments, alignment with Government Finance Statistics (GFS) is important.
- The Figure illustrates those transactions within the GFS scope of social benefits. Transactions within the scope of ED 67, issued alongside IPSAS 42, are separately identified (within the nonexchange expenses project).

General Approach: Recognition

- The General Approach in IPSAS 42 includes a single recognition point for all social benefits. Under the General Approach, a liability for a social benefit is recognized when the eligibility criteria to receive the next social benefit have been satisfied.
- The General Approach does not include requirements for social contributions (revenue received in relation to a social benefit scheme). Social contributions are accounted for in accordance with IPSAS 23, Revenue from Non-Exchange Transactions (Taxes and Transfers).

Recognition Examples

Examples of when a beneficiary may first satisfy all the eligibility criteria for the provision of the next social benefit include:

- Reaching retirement age (in the case of a retirement pension);
- The death of a partner (in the case of a survivor benefit);
- Becoming unemployed (in the case of an unemployment benefit without a waiting period);
- Being unemployed for a specified period (in the case of an unemployment benefit with a waiting period).

General Approach: Measurement

- Under the General Approach, expenses are measured at an amount equivalent to the amount of the liability.
- The liability for a social benefit scheme is measured at the best estimate of the costs that the entity will incur in fulfilling the present obligations represented by the liability

General Approach: Disclosure

The General Approach requires entities to disclose information that:

- (a) Explains the characteristics of its social benefit schemes; and
- (b) Explains the demographic, economic and other external factors that may affect its social benefit schemes

Disclosures

Other Disclosure Requirements

- The total expenditure on social benefits recognized in the statement of financial performance, analyzed by social benefit scheme.
- A description of any significant amendments to the social benefit schemes made during the reporting period, along with a description of the expected effect of the amendments.
- **Amendments to a social benefit scheme include:**
 - Changes to the level of social benefits provided; and
 - Changes to the eligibility criteria, including the individuals and/or households covered by the social benefit scheme.
- If a social benefit scheme satisfies the criteria to permit the use of the insurance approach, a statement to that effect.

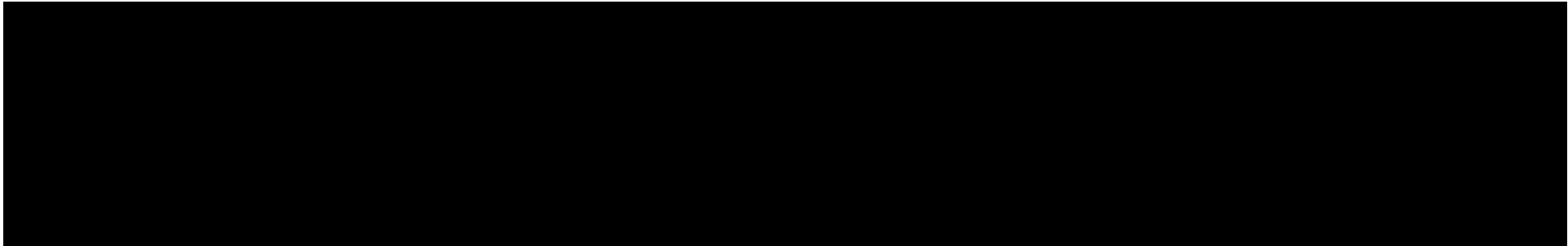
Effective Date

The effective date of IPSAS 42 is January 1, 2022, with earlier adoption encouraged.

- *Governments and other public sector entities that provide social benefits, individual services and collective services will, therefore, be able to introduce new accounting policies for these transactions at the same time. This responds to concerns raised by stakeholders commenting on the proposals in ED 63.*

Interactive Session





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