

IPSAS IN KENYA AND OVERVIEW OF THE DEVELOPMENT OF IPSAS 42

Presentation by:

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Presentation Outline



- ❑ Background
- ❑ Milestones and Challenges of IPSAS adoption
- ❑ Way forward?
- ❑ IPSAS 42 scope and definitions
- ❑ General approach
- ❑ Insurance approach

Background



- ❑ IPSASB is concerned with accounting and financial reporting needs of governments and their related agencies
- ❑ PSASB is responsible for issuance of the IPSAS
- ❑ Kenya adopted International Accounting Standards in 2000 when ICPAK dropped the use of Kenya Accounting Standards (KAS)
- ❑ The standards (IAS) were mainly useful to the private enterprises

Background Cont'd



- ❑ The Public enterprises relied on the accounting principles which were not uniform across the government sectors
- ❑ In 2008, the local authorities then were directed by the minister to adopt IPSAS, this was however without any clear plan of implementation
- ❑ The Public Finance Management Act of 2012, sec 192 establishes the Public Sector Accounting Standards Board (PSAB).
- ❑ The PSAB then adopted IFRS and IPSAS for public sector entities

IPSAS Adoption Milestones



- ☐ Development of financial reporting templates by the IPSASB for all government entities
- ☐ Capacity building for the OAG on IPSAS
- ☐ Partnership with ICPAK and other stakeholders to create FIRE awards to enhance public awareness
- ☐ Enhanced budget on PFMR budget to ensure implementation of scheduled activities
- ☐ Collaboration with KASNEB to include IPSAS and PFM in CPA training
- ☐ Inclusion of non-mandatory disclosures such as fixed assets and pending bills in the reporting templates
- ☐ Consolidated financial statements for the government

Challenges in IPSAS Adoption



- ❑ Inadequate funding to the regulator implementing IPSAS (PSASB) – research, training, consultancies
- ❑ Multiple regulations relating to the preparation of financial statements
- ❑ Weak legislative framework
- ❑ IPSAS not fully accepted by key stakeholders such as parliament, development partners, NGOs
- ❑ Inadequate training of public sector accountants on IPSAS
- ❑ Low level of technology

Way forward?



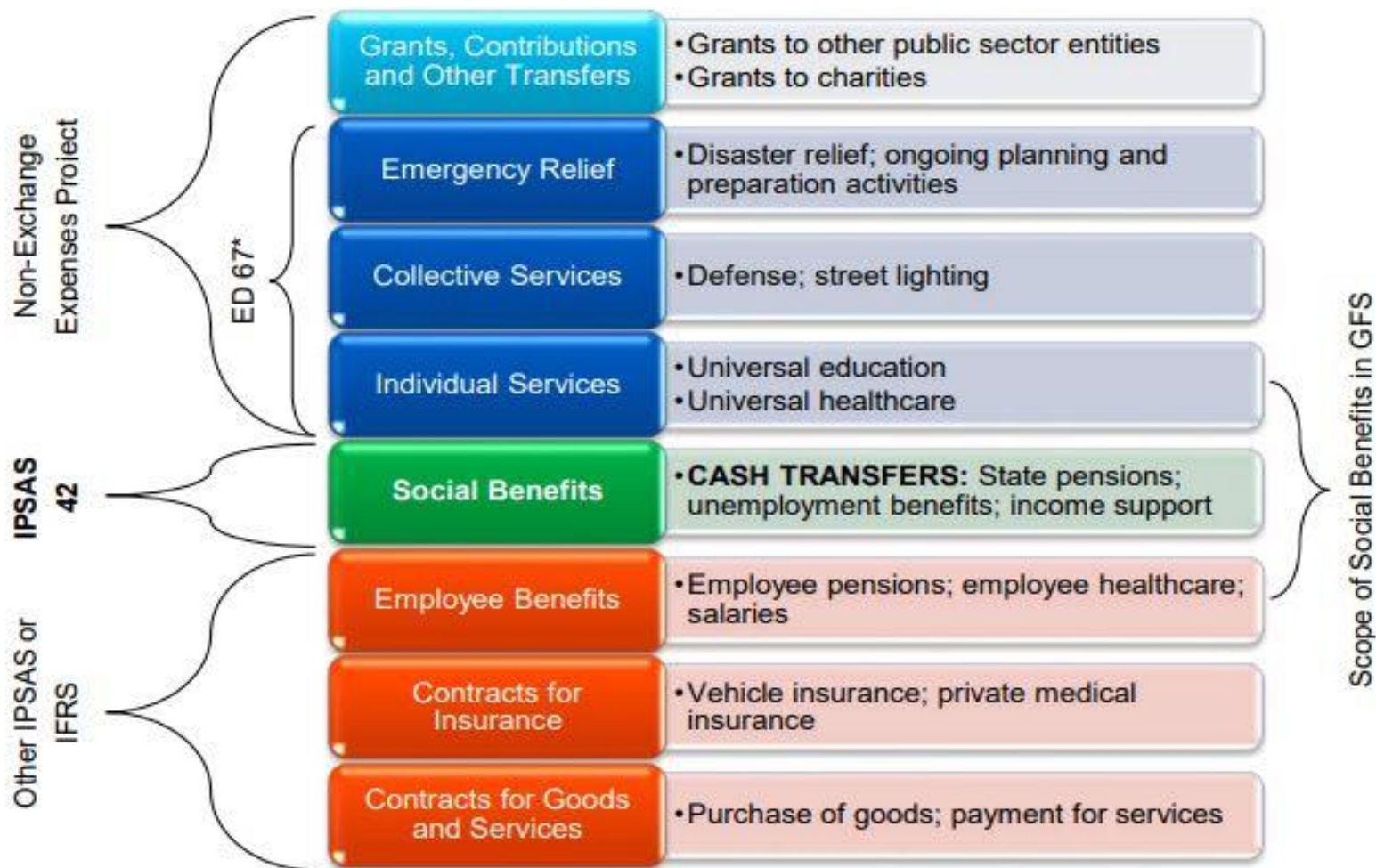
- ☐ What should be done to ensure that the objectives of IPSAS adoption are achieved?

IPSAS 42: SOCIAL BENEFITS



- ❑ IPSAS 42 on Social Benefits was issued in January 2019 after it was approved in December 2018
- ❑ The objective is to define social benefits and determine when expenses and liabilities for social benefits are recognized and how it they are measured
- ❑ Provision of social benefits to the public is the main objective of governments and therefore forms a significant part of their expenditure budgets

SCOPE OF IPSAS 42



Scope Cont'd



- ❑ IPSAS 42 scope only covers cash transfers, other transactions outside the scope of the standard should be addressed by the other IPSAS/IFRS as may be relevant or the non-exchange expenses (ED 67) as per the diagram above

Definitions



- ❑ IPSAS 42 defined **social benefits** as cash transfers provided to:
 - ✓ Provided to households/individuals meeting an eligibility criteria
 - ✓ Mitigate the effect of social risks
 - ✓ Address the needs of the society as a whole
- ❑ **Social risks** are events/circumstances that:
 - ✓ Relate to individual/households eg health, poverty, unemployment
 - ✓ May adversely affect the welfare of individual or households

Recognition of Social Benefits



- ❑ IPSAS 42 recognizes a liability as a present obligation for an outflow of resources arising from a past event
- ❑ Under the general approach, the past event that gives rise to a liability is the satisfaction of all the eligibility criteria for the next benefit
- ❑ The satisfaction eligibility criteria for each social benefit payment is a separate past event
- ❑ The general approach in IPSAS 42 does not include requirements for social contributions which are accounted for as per IPSAS 23: Revenue from non exchange transactions

Recognition Cont'd



- ❑ The following are the examples of when a beneficiary may first satisfy all eligibility criteria for provision of the next social benefit:
 - ✓ Reaching the age of retirement (for retirement pension)
 - ✓ Death of a partner (survivor benefit)
 - ✓ When the beneficiary becomes unemployed (for unemployment benefit without a waiting period)
 - ✓ Being unemployed for a specific period (unemployment benefit with a waiting period)

Measurement



- ❑ Under the General Approach, **expenses** are measured at an amount equivalent to the amount of the liability (having satisfied the eligibility criteria).
- ❑ 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.
- ❑ The costs above are only for the cash transfers it excludes, administrative costs and bank charges
- ❑ The liability is reduced as social benefits payments are made being short term no discounting is done

General Approach Disclosures



- ❑ Under the general approach entities should disclose information that:
- ✓ Explains the characteristics of the social benefit schemes such as nature of benefits provided, key features of the scheme like legal framework and how the scheme is funded
- ✓ Explains the demographic, economic and other external factors that may affect its social benefit schemes
- ✓ Other disclosures include total expenditure on social benefit recognized in the financial statement, any changes made to the scheme during the year and their effects and if the scheme meets the criteria permitting the use of insurance approach a statement to that effect must be made

Insurance Approach



- ❑ IPSAS 42 permits entities to use the insurance approach where:
 - ✓ The social benefit scheme is intended to be fully funded from contributions; and
 - ✓ There is evidence that the entity manages the scheme in the same way as an issuer of insurance contracts
- ❑ IPSAS 42 does not include requirements for the insurance approach, but directs entities to apply relevant international or national accounting standards by analogy.

Insurance Approach Disclosures



- ❑ Where an entity chooses to apply the insurance approach as permitted by IPSAS 42 the following disclosures must be made:
- ❑ The basis for determining that the insurance approach is appropriate;
- ❑ Information required by the international or national accounting standard dealing with insurance contracts;
- ❑ Information about the characteristics of its social benefit schemes; and
- ❑ A description of any significant amendments to the social benefit scheme made during the reporting period.

Effective Date



Effective Date Cont'd



- ❑ The effective date of IPSAS 42 is January 1, 2022, with earlier adoption encouraged.
- ❑ By this time IPSAB expects to finalize amendments included in ED 67, Collective and Individual Services and Emergency Relief (Amendments to IPSAS 19) to have the same effective date.
- ❑ Public entities and governments can develop the above accounting policies at the same time
- ❑ Project history (it started in 2002)

<http://www.ipsasb.org/projects/social-benefits>

Q&A



❑ Any comments, questions, feedback.....

END



Thank you.....

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