

- ❖ IPSAS IN KENYA- REFLECTING ON THE 5 YEAR JOURNEY
- ❖ OVERVIEW OF DEVELOPMENTS IN IPSAS - IPSAS 42

Presentation by:

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Objectives



- ❖ ***On completion of the training delegates are expected to understand;***
 - ❖ Changes/developments related to IPSAS
 - ❖ 5 yr journey with IPSASs in Kenya.
 - ❖ Overview of IPSAS 42.

Introduction



- ❖ As the world recovers from the effects of the global economic crisis, citizens are becoming more intrusive in Government reporting. This has seen most governments undertaking initiatives that were previously a preserve of the private sector world-wide. Such initiatives are geared towards enhanced accountability and transparency.

Introduction-IPSAS



- ❖ Accounting standards which establish guidelines on how economic transactions and events should be reported in financial statements.

IPSAS Implementation Globally



Countries that have implemented IPSAS include:

- ❖ **New Zealand:** adopted IPSAS in 2014 – with some exceptions; previously IFRS
- ❖ **Switzerland and Austria:** introduced IPSAS –with some exceptions
- ❖ **UK and Australia** adopted IFRS – with some enhancements
- ❖ **USA** follows national standards that are broadly consistent with IPSAS

IPSAS Implementation Globally



❖ Good progress have been noted in

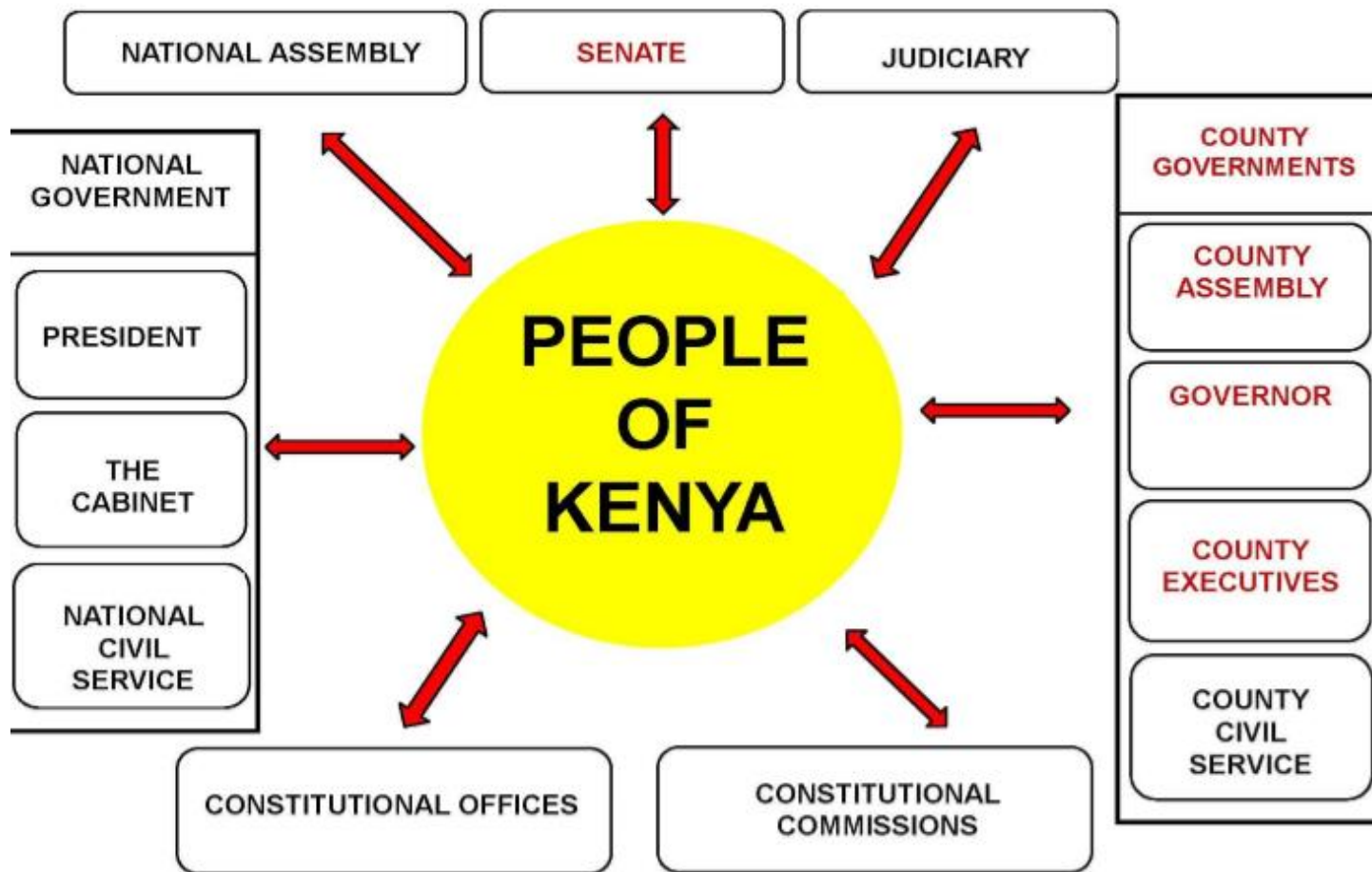
- ❖ Brazil,
- ❖ Chile,
- ❖ Indonesia,
- ❖ Israel,
- ❖ Korea,
- ❖ Malaysia,
- ❖ Philippines,
- ❖ South Africa,
- ❖ Nigeria,
- ❖ Ghana,
- ❖ Rwanda,
- ❖ Tanzania and
- ❖ Kenya.

Developments in Financial Reporting in Kenya

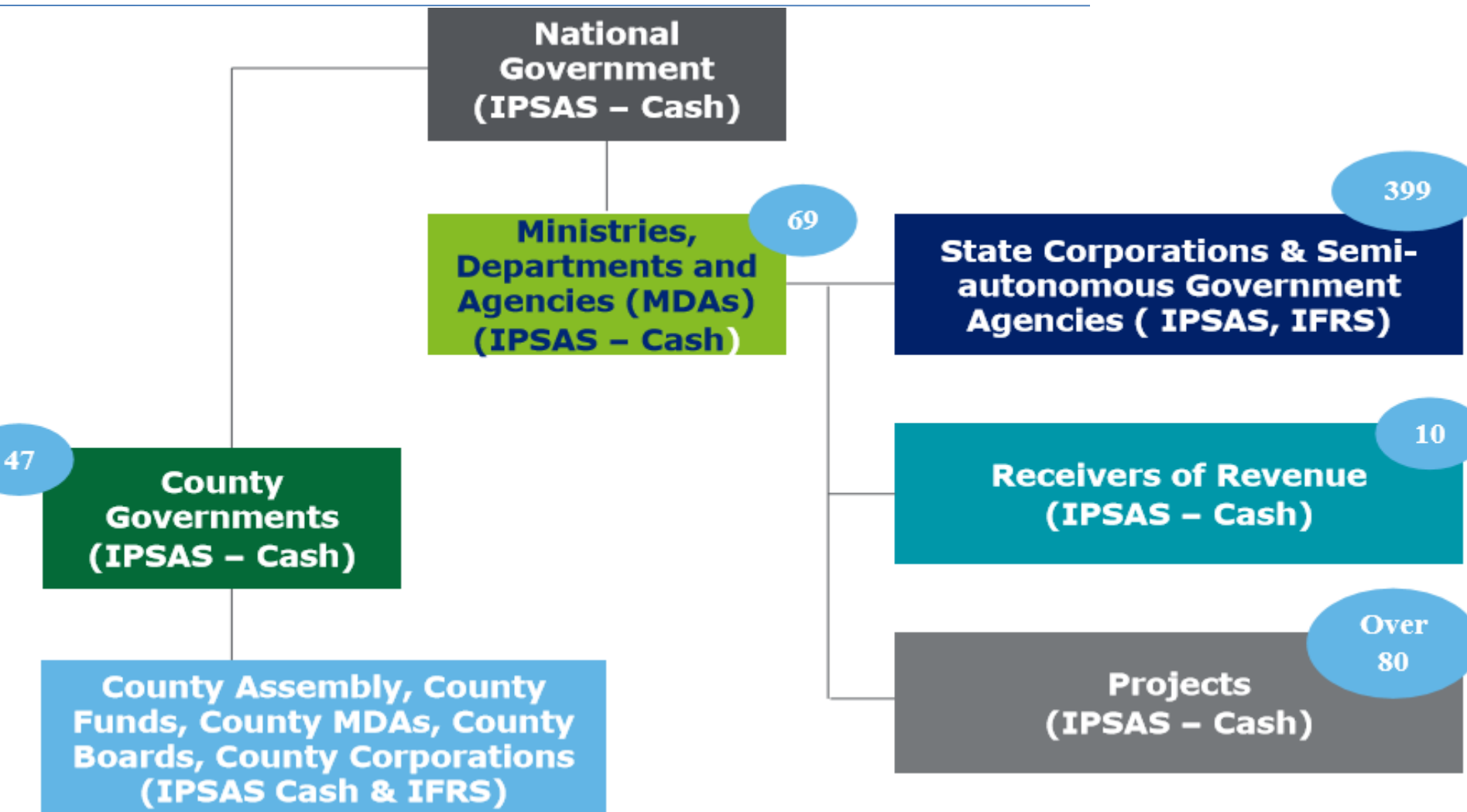


- ❖ GOK has embraced and implemented developments in Public Financial Management. Such changes have been witnessed in:
 - ❖ Macro-fiscal policymaking,
 - ❖ Budgeting,
 - ❖ Treasury management & Budget execution,
 - ❖ Accounting & reporting and oversight institutions.

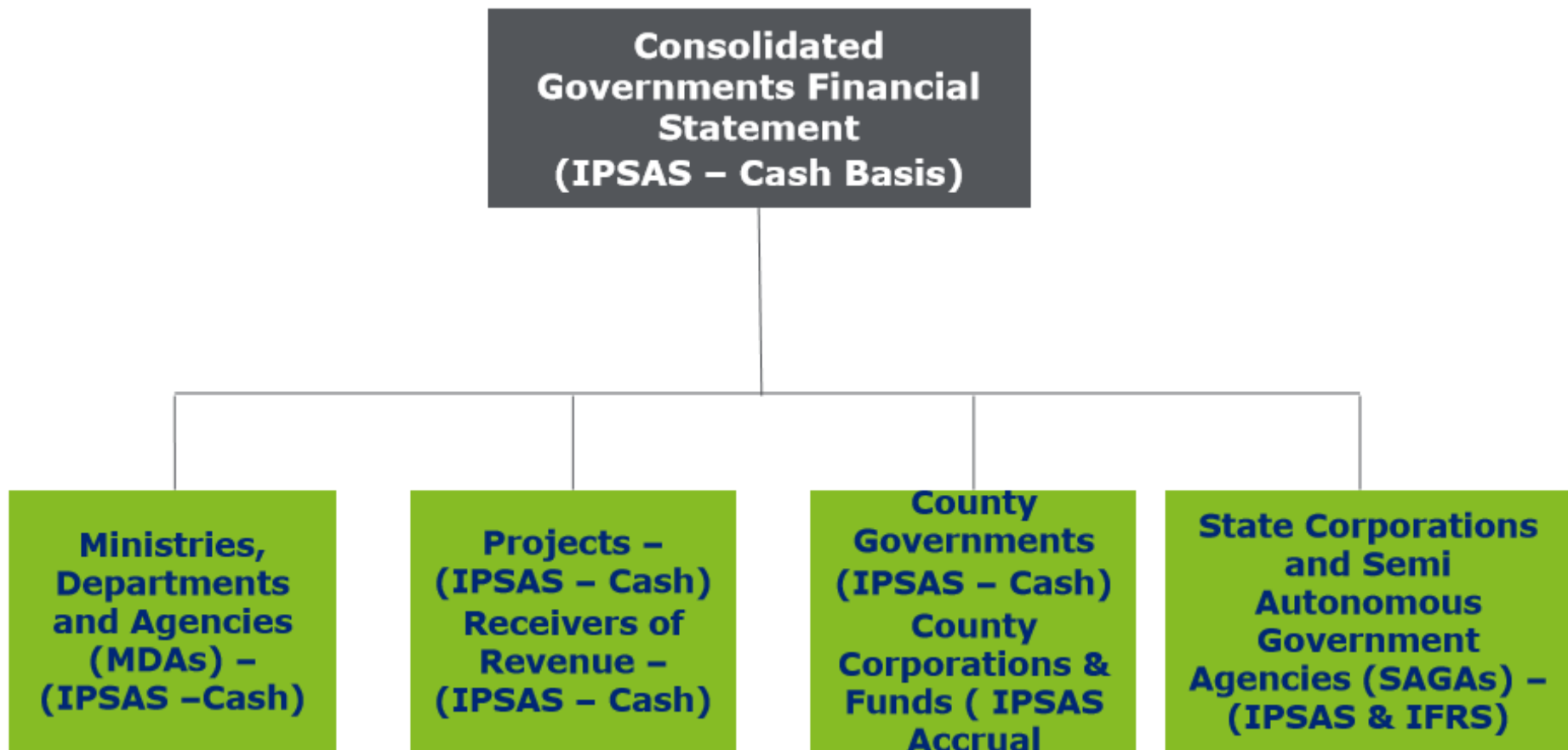
Kenya's system of devolved government



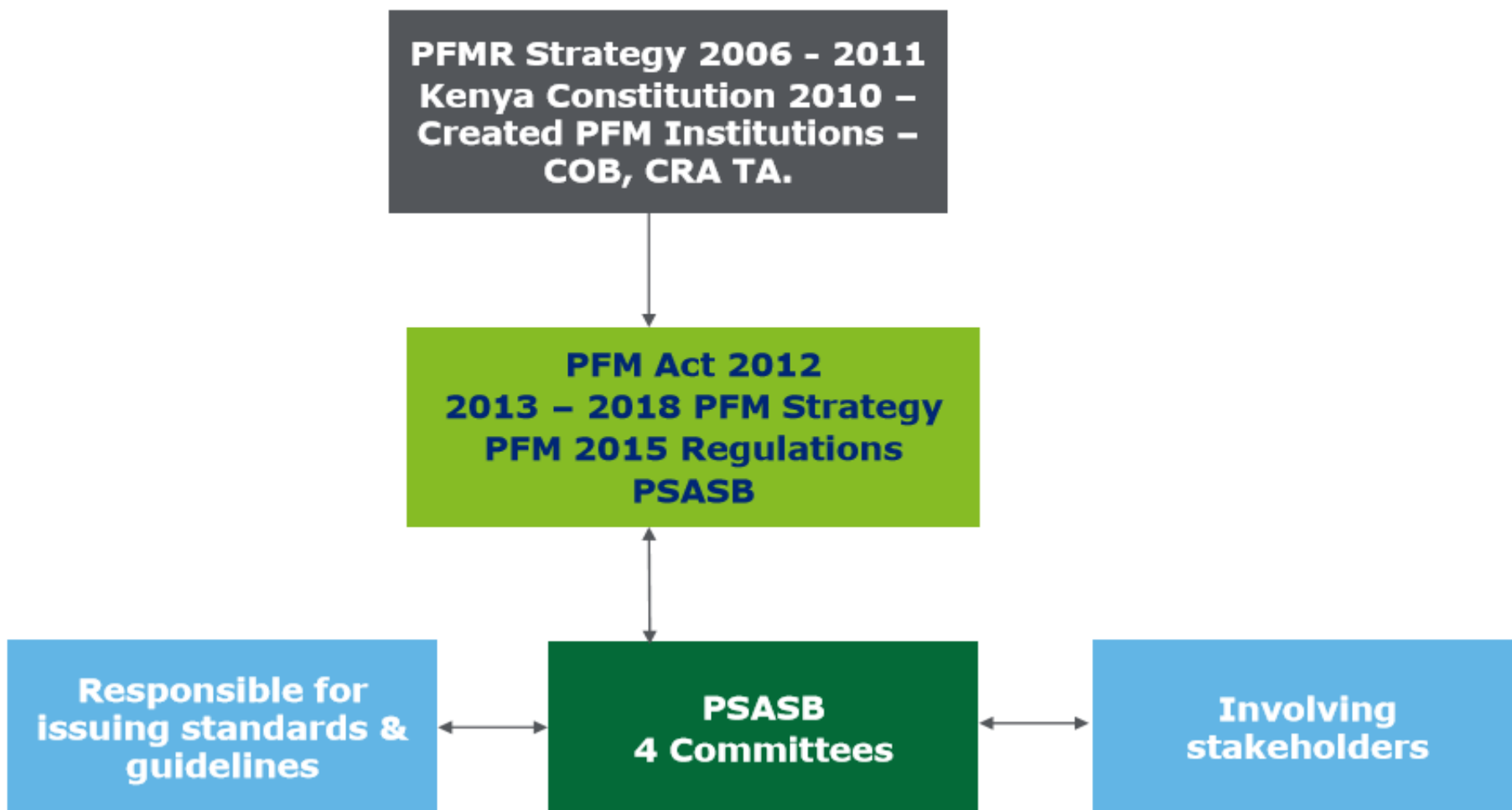
Government of Kenya structure



Government of Kenya consolidated structure



IPSAS in Kenya- Reflecting on the 5 year journey



The big 5 year journey



PFM Act, 2012

The Public Sector Accounting Standards Board

Adoption of IPSAS

Implementation

IPSAS in Kenya- Reflecting on the 5 year journey



The PFM Act, 2012

- ❖ Section 192 – Establishment of the Public Sector Accounting Standards Board
- ❖ Section 193 – Composition of the Board
- ❖ Section 194 – Functions of the Board

IPSAS in Kenya- Reflecting on the 5 year journey



What have we done in Kenya?

- ❖ The 2010 Constitution
- ❖ Public Finance Management Act 2012
- ❖ Institutional Framework – The National Assembly;
- ❖ The County Assemblies; The National Treasury (Directorate of Accounting Services);
- ❖ Public Accounts Committee;
- ❖ Public Investments Committee;

IPSAS in Kenya- Reflecting on the 5 year journey..cont'd



What have we done in Kenya?

- ❖• The Anti-Corruption Authority; Office of Auditor General; Public Sector Accounting Standards Board;
- ❖• The Institute of Certified Public Accountants of Kenya (ICPAK); Ministries/Government Departments;
- ❖• Commissioner of Revenue Allocation; and Controller of Budget.

IPSAS in Kenya- Reflecting on the 5 year journey..cont'd



What have we done in Kenya?

❖ PSASB

- ❖ • PSASB was established as part of PFM reforms in Kenya following the promulgation of the new Constitution in 2010 and the subsequent enactment of the PFM Act in 2012.
- ❖ • The PSASB is a statutory, standard setting body established under the Sections 192 to 195 of the Public Financial Management Act, 2012.
- ❖ • The PSASB through a Gazette notice No. 1554 dated 8th August 2014, signed by the Cabinet Secretary on 8 July 2014, adopted IPSAS & IFRS for use by public sector entities.
- ❖ • Retrospective application for the year ended June 2014 was encouraged by PSASB.

IPSAS in Kenya- Reflecting on the 5 year journey..cont'd



What have we done in Kenya?

- ❖ • The use of IFRS and IPSAS was therefore formally adopted and applied for the first year in the year ending 30th June 2014.
- ❖ • FY 2016/2017 is the 4th year of implementation of the standards that were gazetted by PSASB in Yr 2014.

IPSAS in Kenya- Reflecting on the 5 year journey..cont'd



- ❖ • The Board constitutes representatives from different stakeholders as follows:
 - Chair representing the National Treasury - AG
 - Representative from the Controller of Budget
 - Representative from the Office of Auditor General
 - Representative from the Institute of Certified Public Accountants of Kenya (ICPAK)
 - Representative from the Association of Professional Societies of East Africa
 - Representative from the Capital Markets Authority
 - Representative from the Institute of Internal Auditors
 - Representative from the Institute of Certified Public Secretaries of Kenya

IPSAS in Kenya- Reflecting on the 5 year Journey..cont'd



Effective date was 1st July, 2014 through a Treasury circular.

- ❖ • The National and County Government and their respective entities to apply IPSAS cash based.
- ❖ • The Regulatory and other non-commercial entities shall apply IPSAS Accrual based standards.
- ❖ • The State and County Corporations carrying out commercial activities shall apply IFRS.

- ❖ **The National Treasury, the PSASB and Kenya Accountants and Secretaries Examination Board (KASNEB) and ICPAK have gone further and included Public Finance and Taxation papers in both professional and Technician level of Accountant courses.**

Preparation of IPSAS standards



- ❖ Specifically for the public sector, but largely based on International Financial Reporting Standards (IFRS)
- ❖ Prepared and adopted by an independent board (IPSASB), part of the International Federation of Accountants (IFAC)
- ❖ **Transparent development process:** ipsas publication, public comment, Exposure draft, and revision. **WHICH WAY?**

IPSAS
publication

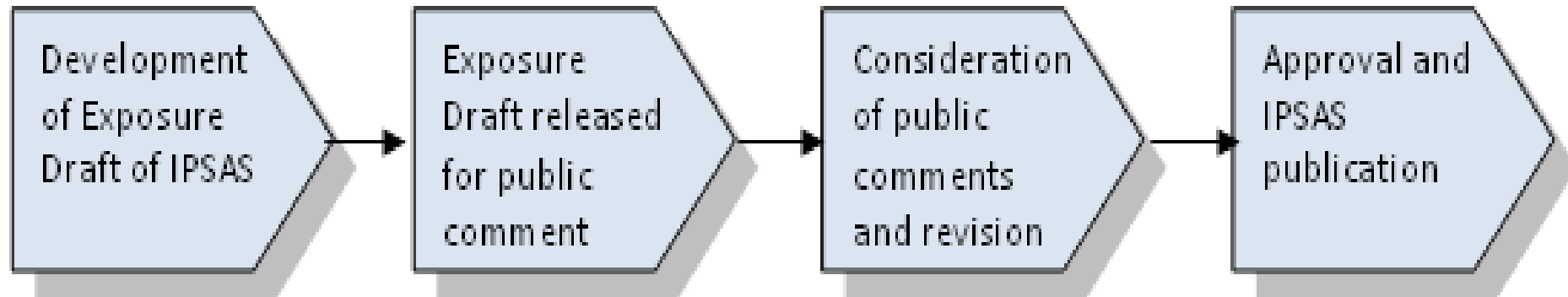
Public
comment and
revision

Public
comment

Exposure
draft

Preparation of IPSAS standards

❖ Transparent development process:



International Public Sector Accounting Standards (IPSAS)



❖ How many IPSAS-accrual issued
to date?

Most Recent Changes Related To IPSAS



- ❖ IPSAS 33 — First-time Adoption of Accrual Basis IPSASs
- ❖ IPSAS 34 — Separate Financial Statements
- ❖ IPSAS 35 — Consolidated Financial Statements
- ❖ IPSAS 36 — Investments in Associates and Joint Ventures
- ❖ IPSAS 37 — Joint Arrangements
- ❖ IPSAS 38 — Disclosure of Interests in Other Entities
- ❖ IPSAS 39 — Employee Benefits
- ❖ IPSAS 40 — Public Sector Combinations
- ❖ IPSAS 41 — Financial Instruments.
- ❖ IPSAS 42 — Social Benefits

IPSAS 33 — First-time Adoption of Accrual Basis IPSASs



Effective date: Annual periods beginning on or after 1 January 2017. Earlier application permitted.

Objective: To provide guidance to a first-time adopter that prepares and presents financial statements following the adoption of accrual basis IPSASs.

Summary;

An entity will present its first IPSAS financial statements when it can make an explicit and unreserved statement of compliance with accrual basis IPSASs.

IPSAS 34 — Separate Financial Statements



Effective date; Annual periods beginning on or after 1 January 2017. Earlier application permitted – but only if IPSAS 35, IPSAS 36, IPSAS 37, and IPSAS 38 are applied from the same date.

Objective; To prescribe how to account for investments in controlled entities, joint ventures and associates in separate financial statements.

IPSAS 35 — Consolidated Financial Statements



Effective date; Annual periods beginning on or after 1 January 2017. Earlier application permitted – but only if IPSAS 34, IPSAS 36, IPSAS 37, and IPSAS 38 are applied from the same date. IPSAS 34-38 will supersede IPSAS 6-8.

Objective; To establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities

IPSAS 36 — Investments in Associates and Joint Ventures



Effective date; Annual periods beginning on or after 1 January 2017. Earlier application permitted – but only if IPSAS 34, IPSAS 35, IPSAS 37, and IPSAS 38 are applied from the same date.

Objective; To prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

IPSAS 37 — Joint Arrangements



Effective date; Annual periods beginning on or after 1 January 2017. Earlier application permitted – but only if IPSAS 34, IPSAS 35, IPSAS 36, and IPSAS 38 are applied from the same date.

Objective; To introduce new accounting requirements for joint arrangements, replacing IPSAS 8 Interests in Joint Ventures. The option to apply the proportional consolidation method when accounting for jointly controlled entities is removed. Additionally, IPSAS 37 eliminates jointly controlled assets to now only differentiate between joint operations and joint ventures.

IPSAS 38 — Disclosure of Interests in Other Entities



Effective date; Annual periods beginning on or after 1 January 2017. Earlier application permitted – but only if IPSAS 34, IPSAS 35, IPSAS 36, and IPSAS 37 are applied from the same date.

Objective; To require information to be disclosed in an entity's financial statements that will enable users of those statements to evaluate the nature of, and risks associated with, the entity's interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated, and the effects of those interests on its financial position, financial performance and cash flows.

IPSAS 39 — Employee Benefits



Effective date; Annual periods beginning on or after 1 January 2018. Earlier application encouraged. IPSAS 39 supersedes IPSAS 25.

Objective; To prescribe the accounting and disclosure for employee benefits, including short-term benefits; pensions; post-employment life insurance and medical benefits; termination benefits, and other long-term employee benefits.

except for share-based transactions and employee retirement benefit plans.

IPSAS 40- Public Sector Combinations



Effective date; Annual periods beginning on or after 1 January 2019,

Objective; To establish requirements for classifying, recognizing and measuring public sector combinations.

IPSAS 41- Financial Instruments



Effective date; Annual periods beginning on or after 1 January 2022, with earlier application encouraged. IPSAS 41 substantially improves the relevance of information for financial assets and financial liabilities. It will replace IPSAS 29, *Financial Instruments: Recognition and Measurement*, and improves that Standard's requirements by introducing:

- ❖ Simplified classification and measurement requirements for financial assets;
- ❖ A forward looking impairment model; and
- ❖ A flexible hedge accounting model.

IPSAS 42- Social Benefits



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

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

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.

IPSAS 42- Social Benefits-Scope



IPSAS 42- Social Benefits; Definitions



1.Social benefits -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.

2.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.

IPSAS 42- Social Benefits;



Example one

Employees of Province A are entitled, under the terms of their employment contracts, to retirement benefits once they reach the age of 65. The employees are required to contribute a percentage of their salary while they are employed. The retirement benefits provided *are based on the final salary of the employees*, and their length of service.

Example Two

Government B pays a minimum state retirement pension *to all citizens and residents who have reached* the retirement age of 65. The state retirement pension is governed by legislation. Individuals are required to make contributions during their working life, based on their salary. However, the state retirement pension pays the same amount to each retiree regardless of the contributions made

IPSAS 42- Social Benefits;



Example Three

Government C provides basic healthcare services to all its citizens, and to other individuals who meet residency requirements. The *healthcare services are provided* free at the point of delivery.

Example Four

State Government D *pays disability* pensions to individuals who have a permanent disability that prevents them from working, regardless of their age. A disability pension is only payable after a medical examiner certifies that the disability is permanent, and that the disability will prevent the individual affected from undertaking paid employment. The level of disability pension is dependent on the individual, and is intended to cover basic needs and to allow the individual *to pay for an appropriate level of care*.

IPSAS 42- Social Benefits; Measurement



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.

IPSAS 42- Social Benefits; Measurement



Measurement of Expense

- ❖ An entity recognizes an expense for a social benefit scheme, measured **at the amount of the next payment following satisfaction of the eligibility criteria**; discounting of the expense will not be required for most social benefits.
- ❖ Where the entity makes a social benefit payment prior to all eligibility criteria for the next payment being satisfied, **it measures the payment in advance** (or expense recognized where the payment is irrecoverable) at the amount of the cash transferred.

IPSAS 42- Social Benefits; Measurement



Measurement of Liability

Under IPSAS 42, the liability is measured at the best estimate of the costs that the entity will incur in fulfilling the present obligations represented by the liability.

In this context, “costs” means the social benefit payments to be made

IPSAS 42- Social Benefits; Disclosures



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

IPSAS 42- Social Benefits; Other Disclosure Requirements



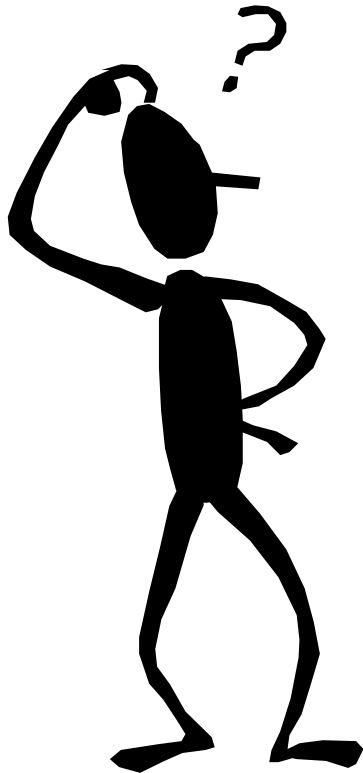
- ❖ The total expenditure on social benefits recognized in the statement of financial performance, analyzed by social benefit scheme.
- ❖ A description of any significant amendments to the social benefit schemes made during the reporting period, along with a description of the expected effect of the amendments. Amendments to a social benefit scheme include:

IPSAS 42- Social Benefits; Other Disclosure Requirements....



- 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.

ANY QUESTIONS, COMMENTS...





THANK YOU

