

IPSAS 1: Presentation of Financial Statements

Presentation by:

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Contents



- ❖ ***On completion of the training delegates are expected to understand;***
 - ❖ IPSAS 1: Presentation of Financial Statements
 - ❖ Gaps identified from the FiRe Award 2018;
 - ❖ Changes made by PSASB in the 2018 illustrative financial statements; - Related guidance that impact presentation of financial statements

Introduction



Effective date

Annual periods beginning on or after January 1, 2008.

Objective

To set out the manner in which general-purpose financial statements shall be prepared under the accrual basis of accounting, including guidance for their structure and the minimum requirements for content.

IPSAS 1 Summary (Accrual Basis)



Fundamental principles underlying the preparation of financial statements include; **going-concern assumption**, **consistency of presentation** and **classification**, **accrual basis of accounting**, and **aggregation and materiality**.

A complete set of financial statements comprises:

- ❖ Statement of financial position
- ❖ Statement of financial performance
- ❖ Statement of changes in net assets/equity
- ❖ Cash flow statement
- ❖ A comparison of budget and accrual amounts
- ❖ Notes.

Statement of Financial Position



PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 20X2

(in thousands of currency units)

	20X2	20X1
ASSETS		
Current assets:		
Cash and cash equivalents	₹	₹
Receivables	₹	₹
Inventories	₹	₹
Prepayments	₹	₹
Other current assets	₹	₹
	<u>₹</u>	<u>₹</u>
Non-current assets:		
Receivables	₹	₹
Investments in associates	₹	₹
Other financial assets	₹	₹
Infrastructure, plant and equipment	₹	₹
Land and buildings	₹	₹
Intangible assets	₹	₹
Other non-financial assets	₹	₹
	<u>₹</u>	<u>₹</u>
Total assets	<u>₹</u>	<u>₹</u>
LIABILITIES		
Current liabilities:		
Payables	₹	₹
Short-term borrowings	₹	₹
Current portion of long-term borrowings	₹	₹
Short-term provisions	₹	₹
Employee benefits	₹	₹
Superannuation	₹	₹
	<u>₹</u>	<u>₹</u>
Non-current liabilities:		
Payables	₹	₹
Long-term borrowings	₹	₹
Long-term provisions	₹	₹
Employee benefits	₹	₹
Superannuation	₹	₹
	<u>₹</u>	<u>₹</u>
Total liabilities	<u>₹</u>	<u>₹</u>
Net assets	<u>₹</u>	<u>₹</u>
NET ASSETS/EQUITY		
Capital contributed by:		
Other government entities	₹	₹
Reserves	₹	₹
Accumulated surpluses/(deficits)	₹	₹
	<u>₹</u>	<u>₹</u>
Minority interest	₹	₹
Total net assets/equity	<u>₹</u>	<u>₹</u>

Statement of Financial performance



PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED DECEMBER 31, 20X2

(Illustrating the Classification of Expenses by Function)
(in thousands of currency units)

	20X2	20X1
Revenue		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Total revenue	<u>X</u>	<u>X</u>
Expenses		
General public services	∞	∞
Defense	∞	∞
Public order and safety	∞	∞
Education	∞	∞
Health	∞	∞
Social protection	∞	∞
Housing and community amenities	∞	∞
Recreational, cultural and religion	∞	∞
Economic affairs	∞	∞
Environmental protection	∞	∞
Other expenses	∞	∞
Finance costs	∞	∞
Total expenses	<u>∞</u>	<u>∞</u>
Share of surplus of associates*	<u>X</u>	<u>X</u>
Surplus/(deficit) for the period	<u>X</u>	<u>X</u>
Attributable to:		
Owners of the controlling entity	X	X
Minority interests	X	X

Statement of Changes in Equity

PUBLIC SECTOR ENTITY – STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED DECEMBER 31, 20X2

(Illustrating the Classification of Expenses by Function)
(in thousands of currency units)

	20X2	20X1
Revenue		
Taxes	X	X
Fees, fines, penalties and licenses	X	X
Revenue from exchange transactions	X	X
Transfers from other government entities	X	X
Other revenue	X	X
Total revenue	<u>X</u>	<u>X</u>
Expenses		
General public services	∞	∞
Defense	∞	∞
Public order and safety	∞	∞
Education	∞	∞
Health	∞	∞
Social protection	∞	∞
Housing and community amenities	∞	∞
Recreational, cultural and religion	∞	∞
Economic affairs	∞	∞
Environmental protection	∞	∞
Other expenses	∞	∞
Finance costs	∞	∞
Total expenses	<u>∞</u>	<u>∞</u>
Share of surplus of associates*	<u>X</u>	<u>X</u>
Surplus/(deficit) for the period	<u>X</u>	<u>X</u>
Attributable to:		
Owners of the controlling entity	X	X
Minority interests	X	X

Notes



The notes shall:

- (a) Present information about the basis of preparation of the financial statements and the specific accounting policies used;
- (b) Disclose the information required by IPSASs that is not presented on the face of the statement of financial position, statement financial performance, statement of changes in net assets/equity or cash flow statement; and
- (c) Provide additional information that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity or cash flow statement, but that is relevant to an understanding of any of them.

Disclosure of Accounting Policies



An entity shall disclose in the summary of significant accounting policies:

- (a) The measurement basis (or bases) used in preparing the financial statements;
- (b) The extent to which the entity has applied any transitional provisions in any IPSAS; and
- (c) The other accounting policies used that are relevant to an understanding of the financial statements

Cash based Reports- Summary



A complete set of financial statements on cashed based comprises:

- ❖ Statement of Receipts And Payments
- ❖ Statement of Financial Assets
- ❖ Statement of Cashflow
- ❖ Statement of Comparison of Budget & Actual Amounts:
Recurrent And Development Combined
- ❖ Statement of Comparison of Budget & Actual Amounts:
Recurrent
- ❖ Statement of Comparison of Budget & Actual Amounts:
Development
- ❖ Budget Execution By Programmes And Sub-programmes

Cashed based Reports- Summary



A complete set of financial statements on cashed based comprises:

❖ NOTES TO THE FINANCIAL STATEMENTS:

- ❖ TRANSFERS FROM THE COUNTY TREASURY/EXCHEQUER RELEASES
- ❖ PROCEEDS FROM SALE OF ASSETS
- ❖ OTHER RECEIPTS
- ❖ COMPENSATION OF EMPLOYEES
- ❖ USE OF GOODS AND SERVICES
- ❖ SUBSIDIES
- ❖ TRANSFERS TO OTHER GOVERNMENT ENTITIES
- ❖ OTHER GRANTS AND TRANSFERS
- ❖ SOCIAL SECURITY BENEFITS
- ❖ ACQUISITION OF ASSETS
- ❖ FINANCE COSTS
- ❖ OTHER PAYMENTS
- ❖ 13A BANK ACCOUNTS
- ❖ 13B CASH IN HAND
- ❖ ACCOUNTS RECEIVABLE
- ❖ ACCOUNTS PAYABLES

FiRe Award 2018



- ❖ The 5th year of public sector evaluation
- ❖ Evaluators were drawn from both the public and private sector evaluators who have been involved in the Evaluation for at least three years.
- ❖ A total of 504 annual reports and audited financial statements of public sector entities were received and evaluated.

FiRe Award 2018; CRITERIA



Compliance with IFRS/IPSAS & Other Technical Pronouncements.....	70
Report of the Independent Auditor	30
Clarity of Notes, including Significant Accounting Policies	10
Compliance with Reporting Requirements of the PFM Act or any other regulatory requirements.....	30
Board & Management reports.....	10
Presentation of performance data.....	10
Design, layout & visual appearance of the annual report including typeface.....	05
Governance Report	30
Social Responsibilities & Environmental Reporting.....	05
Total Marks Awarded	200

FiRe Award 2018; IPSAS CASH



- ❖ Based on IPSAS Cash (Handbook 2014) Standard:-
 - ❑ Part I of the evaluation tool was mandatory and entities were penalised for non-compliance (deduction of marks).
 - ❑ Part II of the evaluation tool (except for cash flows) is based on encouraged disclosures and entities are awarded/penalised marks, subject to a maximum of 30% of the applicable marks).
- ❖ Scoring - deduction of marks for non-compliance noted in the course of evaluation.
- ❖ Applicable to Ministries/state departments, their projects and a number of Independent and Constitutional Offices.

FiRe Award 2018; IPSAS CASH



Improvement noted from 2017:

- General improvement in **formatting of financial statements**, including deletion of unnecessary tables.
- **Cross referencing** –
- **Customising of significant accounting policies** as opposed to boiler plate policies.
- **Explanation for variances** in actual and budgeted amounts included by majority of entities.

FiRe Award 2018;

IPSAS CASH; KEY FINDINGS IPSAS CASH



- ❖ Failure to present an **explanation of whether changes between the original and final** budget are as a consequence of re-allocations within the budget against the actual (IPSAS 1.9.23).
- ❖ Failure to give **information about the assets and liabilities of the entity.**
- ❖ Some reports failed to disclose the date when the financial statements were authorized for issue and who gave that authorization; and whether another body has the power to amend the financial statements after issuance.
- ❖ Huge **lag between the date of approval of financial statements** (30 September 2017) and **the opinion date** was evident in most entities.
- ❖ Some entities failed to ensure that the relevant statements and other information in the annual reports and financial statements are signed by those charged with governance (IPSAS 1.4.5).
- ❖ Most entities failed to present an **explanation of whether changes between the original and final budget are a consequence of reallocations** within the budget and the actual (IPSAS 1.9.23).
- ❖ Some entities failed to present a **comparison of the budget amounts** subject to the requirements of paragraph 1.9.17.

FiRe Award 2018;

IPSAS CASH; KEY FINDINGS IPSAS CASH



- ❖ A number of entities had items that would qualify as **“extra ordinary”** either due to terms used. Entities should identify and separately disclose the nature and amount of each extraordinary item (IPSAS 2.1.6).
- ❖ Correction **of prior period errors was just a lump sum figure** with no explanation in either the previous year or current period with explanation as to how it arose (IPSAS 1.5.1).
- ❖ **Variances between the closing cash and cash equivalents** in the statement of cash flows of previous year and brought forward in the statement of cash flow of current year – balancing figure – was evident in some entities.
- ❖ **No disclosures of any restrictions on cash balances** in most entities annual reports and audited financial statements.
- ❖ Few entities provided **disclosures on undrawn borrowings and grants available to fund future operations.**
- ❖ **No disclosure of any amounts of external assistance** cancelled or returned by entities – projects

- ❖ Based on IPSAS Accrual Standard effective on or after January 2014 (IPSAS Handbook (2014)).
- ❖ Scoring - deduction of marks for non-compliance noted in the course of evaluation.
- ❖ Applicable to semi autonomous government agencies, non-commercial state corporations and some independent and constitutional offices.

FiRe Award 2018; IPSAS ACCRUAL;



Improvement noted from 2017:

- ❖ Cross referencing
- ❖ Attempt to customise significant accounting policies as opposed to boiler plate policies.
- ❖ Increase of entities' explanation for variances in actual and budgeted amounts.
- ❖ improvement in formatting of financial statements, including deletion of unnecessary tables.
- ❖ Attempts to explain variances between final budgets and the actuals on comparable basis.

FiRe Award 2018; IPSAS ACCRUAL;KEY FINDINGS



Annual Reports and Financial Statements

- ❖ **Cross referencing items** in the primary financial statements to the relevant notes not properly done among some public sector entities (1.128)
- ❖ Most entities opted to use **the indirect method of cash flow** presentation as opposed to the **direct method** which is encouraged by the standard (2.27)

Direct Method Cash Flow Statement (paragraph 27(a))

Public Sector Entity—Consolidated Cash Flow Statement for Year Ended December 31 20X2 (In Thousands of Currency Units)

	20X2	20X1
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts		
Taxation	X	X
Sales of goods and services	X	X
Grants	X	X
Interest received	X	X
Other receipts	X	X
Payments		
Employee costs	(X)	(X)
Superannuation	(X)	(X)
Suppliers	(X)	(X)
Interest paid	(X)	(X)
Other payments	(X)	(X)
Net cash flows from operating activities	X	X

FiRe Award 2018; IPSAS ACCRUAL;KEY FINDINGS ...



Annual Reports and Financial Statements

- ❖ **Fair presentation and statement of compliance** - financial statements should not be described as complying with IPSASs unless they unreservedly comply with all the requirements of IPSASs (1.28)
- ❖ **Discloser of the relevant accounting policies** used in the preparation of the financial statements (1:132)
- ❖ **Discloser information about the judgements and key assumptions** (1:137, 140).
- ❖ **Use of boiler plate accounting policies** - most entities failed to tailor the accounting policies to their entities but instead focused on generic policies as provided in the illustrative financial statements.
- ❖ **Failure to disclose new and amendments to standards** issues but not yet effective, while few included but date when the entity intends to adopt **but failed to provide the impact** of adoption on the entities financial statements when they become effective (3:35)

Annual Reports and Financial Statements

- ❖ Management failed to make an assessment of the entity's ability to continue as **a going concern** (1:138).
- ❖ **Limited disclosures on the nature of related party transaction** and balances as well as terms of settlement etc.
- ❖ **Several entities failed to disclose the number of individuals**, determined on a full time equivalent basis, receiving remuneration within the category of key management personnel and within each major class (20:34)

Annual Reports and Financial Statements

- ❖ Non provision of **qualitative and quantitative disclosure** of risks such as credit risk, liquidity risk and market risk and policies on how to manage such risks (30:40-41).
- ❖ Failure to include **explanations on the variances between final budget and the actual amounts**; others included explanations which were mostly “irrelevant” e.g. – 30% variance attributed to low absorption” (24:14).
- ❖ Failure to present an **explanation of whether changes between the original and final budget are a consequence of reallocations** within the budget, or of other factors (IPSAS 24:29).

FiRe Award 2018; IPSAS ACCRUAL; CHALLENGES



1. Late submission of annual reports and financial statements
2. Basis of modification and the entire audit process – some reasons for qualification can be addressed within the management letters because they have no bearing on the “true and fair view.”
3. Most public sector financial statements are “ugly” and not interesting to review.
4. Lack of conformity and compliance to the financial reporting standards by entities.

FiRe Award 2018; **RECOMMENDATIONS**



- ❖ **Increased training of preparers**
- ❖ **More disclosures and notes** to enable transparency and understanding of the financial position of an entity
- ❖ **Proper record keeping** to be in place which includes keeping records to avoid disclaimers
- ❖ **Governance reporting** to be improved and be in line **with Mwongozo**
- ❖ **Advance payments and imprests to staff remaining uncollected for a long duration**
- ❖ Entities reporting under IPSAS Cash to commence planning o how to transition to IPSAS Accrual as per IPSAS 33
- ❖ Incompletion of projects and underutilization or over utilization of resources
- ❖ Fraudulent activities by accounting officers and others leading to failure to account for public resources and misuse
- ❖ Failure to address audit issues raised by the Auditor General in the previous year therefore hampering improvement

FiRe Award 2018;

WINNERS PUBLIC SECTOR CATEGORY



	RANKING	ENTITY
IPSASs Accruals	Winner	Competition Authority
	1st Runner Up	Kenya Roads Board
	2nd Runner Up	Energy Regulatory Commission
Independent Offices & Constitutional Commissions Reporting under IPSAS CASH	Winner	Office of the Controller of Budget
	1st Runner Up	Independent Policing Oversight Authority
	2nd Runner Up	Public Service Commission
State Corporations and Semi Autonomous Government Agencies(SAGAs) under IFRS	Winner	Kenya Deposit Insurance Corporation
	1st Runner Up	Kenya Electricity Generating Company Limited (Kengen)
	2nd Runner Up	Jomo Kenyatta Foundation
MINISTRIES DEPARTMENT AND AGENCIES	Winner	State Department for Maritime and Shipping Affairs
	1st Runner Up	State Department for Petroleum
	2nd Runner Up	The Presidency

FiRe Award 2018; WINNERS PUBLIC SECTOR CATEGORY



	RANKING	ENTITY
Promoter Recognition for Constituency Development Fund Financial Statements	Winner	Kipkelion West Constituency
Promoter Recognition for Most improved Public Sector Entity	Winner	Kenya National Commission for Human Rights
Microfinance	Winner	Faulu Microfinance Bank Limited
	1st Runner Up	Caritas Microfinance Bank Limited
Overall Winner Fire Award 2018	Winner	Sameer Africa PLC

FiRe Award 2018; WINNERS PUBLIC SECTOR CATEGORY



Tanzania	Winner	CRDB PLC
Kenya	Winner	Sameer Africa PLC
Uganda	Winner	Umeme

FiRe Award 2018; **RECOMMENDATIONS**



PFM ACT-REFER TO PFM ACT

- ❖ Failure to submit financial statements and annual report to the Auditor General not later than 3 months after the end of the FY (4 months for county governments)
- ❖ Failure to prepare financial statements in the standards prescribed by the Public Sector Accounting Standards Board (compliance with IFRS or IPSAS)
- ❖ Failure to include signature of the accounting officer
- ❖ Failure to include a statement of the entity's debt which is outstanding at the end of the financial year
- ❖ Present a statement of the entity's assets and liabilities as at the end of the financial year (period) in respect of the recurrent vote, development vote and funds and deposits in the financial statement

FiRe Award 2018; **RECOMMENDATIONS**



PFM ACT-REFER TO PFM ACT

- ❖ Failure to include a statement of the national government entity's performance against predetermined objectives in the financial statements.
- ❖ Failure to include a statement on follow up on implementation of the recommendations of the Auditor General (Independent auditor) in the annual Report and financial statements in the annexure
- ❖ Failure to include Analysis of pending accounts payable, staff payable and any other pending payables

FiRe Award 2018; **AUDIT OPINION**



- ❖ Few entities had an unqualified opinion (74)
- ❖ Several had qualified, adverse or disclaimer (112)

FiRe Award 2018; AUDIT OPINION



	Unqualified	Qualified	Adverse	Disclaimer
State Corporations	74	112	8	10
Funds	0	3	1	1
Semi Autonomous Government Agencies	8	5	0	0
Independent Offices And Constitutional Offices	12	3	0	0
Mda's Projects	10	4	0	1
Ministries	15	30	12	1
Constituencies	15	66	24	12

FiRe Award 2018; Changes made by PSASB



- 2.2.1 **Removal of the auditor's sample report:** Following feedback from the Office of the Auditor General, it was noted that a number of entities are maintaining the generic audit report in addition to the auditor's certificate. In order to provide clarity of financial statements to users, the generic auditor's report has been removed.
- 2.2.2 **Related parties and related parties transactions:** The note on disclosure of related parties has been enhanced to define related parties under each of the specific reporting entities in order to provide guidance to preparers of financial statements.
- 2.2.3 **New and revised standards applicable for FY 2017/2018:** Included in the IPSAS Accrual and IFRS templates are the new and revised standards applicable for the reporting period. This section is intended to ensure that relevant information is presented with regards to changes in the accounting policies.

FiRe Award 2018; Changes made by PSASB



2.2.4 **Reporting of exchequer as per County Revenue Allocation Act:**

The County Executive and County Consolidated templates have been updated to ensure exchequer is reported as per CARA and therefore easy to reconcile the same to disbursements from exchequer. This information should be populated within annex 1 of the financial statements.

2.2.5 **Other amendments:** Other amendments include elaborate details under corporate governance, more elaborate notes to the financial statements, detailed significant accounting policies and inclusion of disclosure notes to the financial statements that had previously not been included before.

All changes made in the templates have been clearly explained in the revised templates and are easy to follow.

FiRe Award 2018; Changes made by PSASB



2.3 Effective date

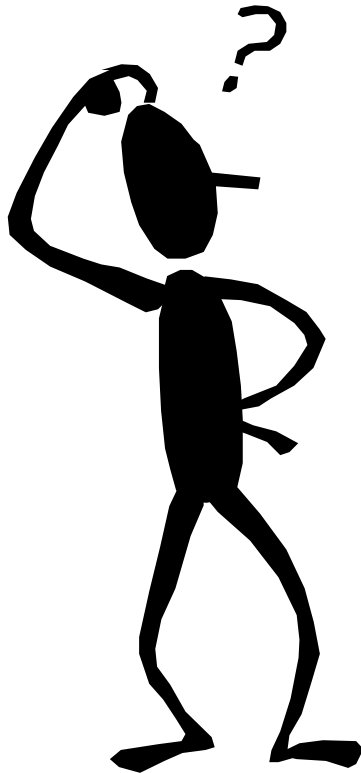
Entities are required to apply the revised templates for annual reporting. It is expected that the financial statements for the year ended 30th June 2018 will be prepared in accordance with the revised templates.

2.3 Access to the revised annual financial reporting templates

The revised annual financial reporting templates can be downloaded from the National Treasury website (www.treasury.go.ke).

Should you require any clarification, you may contact the Head of Secretariat, Public Sector Accounting Standards Board on patrick.abachi@treasury.go.ke or psasbsecretariat@gmail.com.

ANY QUESTIONS, COMMENTS...





THANKYOU

