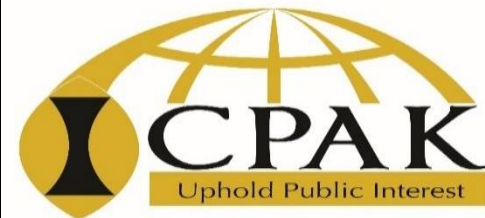


THE IPSAS SEMINAR

Overview/Guideline/Implementation in
Kenya – Reflecting on the 5year journey

Hilton Hotel, Nairobi 25th – 26th July 2019

Agenda of the Presentation



- Introduction
- International Public Sector Accounting Standards (IPSASs)
- IPSAS Implementation - World wide
- IPSAS Implementation - Kenya
- Lessons Learnt
- Overview of IPSAS updates

Introduction



- IPSAS adoption underpins **quality** and **credibility** of financial reporting and public confidence
- Revolutionary change over the last 8 years in how and when financial information is **communicated**
- Global financial crisis has further triggered questions
 - **Relevance** of the accountancy profession
 - **Quality** of auditing – effectiveness, professional judgment, professional skepticism
- Increased complexity in financial reporting and global business activity has increased users' need for more information

Accountants are Crucial

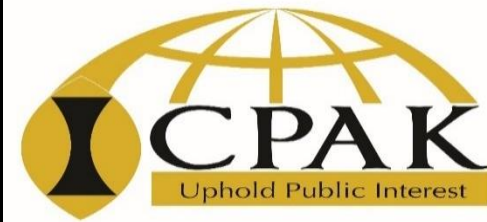


IFAC believes that the world needs a strong & vibrant accountancy profession of highly-trained ethical accountants to protect the public interest ...

- to promote economic activity & development
- that will lead to responsible & effective governments
- thus building overall confidence in the global financial system

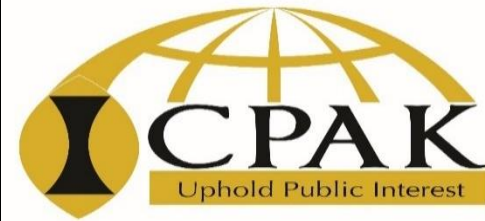


Important role of a professional Accountant



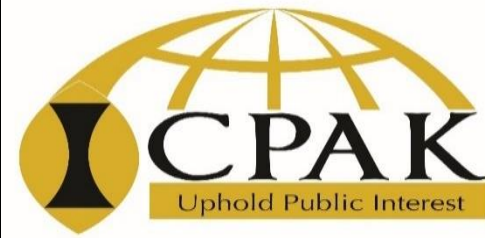
- The primary responsibility of the Professional Accountant is to protect and serve the public interest:
 - (a) Vibrant and competent professionals
 - (b) Highly trained & ethical
- Value of Professional accountants:
 - (a) Contribute to the economy and economic growth
 - (b) Ethical business behavior and reporting
 - (c) Confidence in the accounting profession

International Public Sector Accounting Standards (IPSASs)



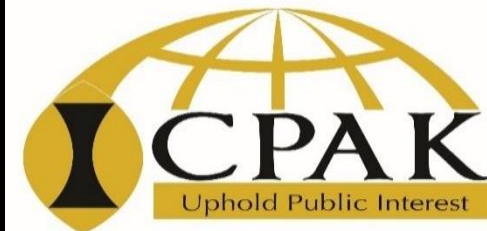
- IPSASs are a set of accounting standards issued by the IPSAS Board for use by public sector entities around the world in the preparation of financial statements.
- These standards are to be applied by central government, local government, and controlled entities with non-market activities.
- IPSASs are widely considered best accounting practice for public sector organizations, as they improve the quality of financial reporting .

International Public Sector Accounting Standards (IPSASs)



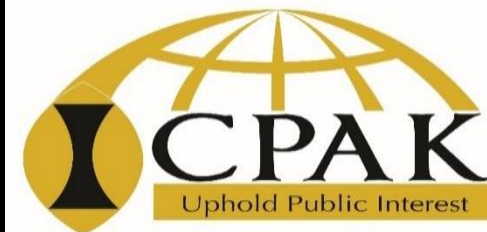
- There are two types of the IPSAS Standards.
 - ✓ The **cash IPSAS standard** allows for accounting of financial receipts, payments and balances under the cash basis of accounting.
 - ✓ **IPSAS Accrual Standards** focus on revenue, cost, liability and equity instead of cash flow only. Currently IPSAS accrual standards run to IPSAS 42 (issued January 31, 2019 Comments on the ED 67 are requested by 31 May 2019).
- IFRS – Applied by GBEs – Currently IFRS 17 (issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021)

List of IPSAS



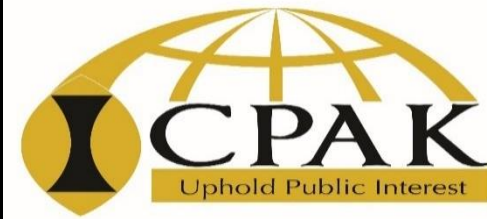
IPSAS	Titles	Basis
1	Presentation of Financial Statements	IAS 1
2	Cash Flow Statements	IAS 7
3	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8
4	The Effects of Changes in Foreign Exchange Rates	IAS 21
5	Borrowing Costs	IAS 23
6	Consolidated and Separate Financial Statements (superseded)	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



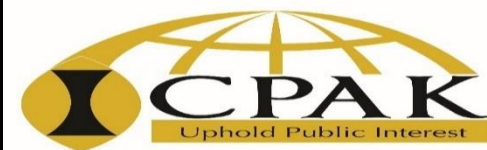
IPSAS	Titles	Basis
12	Inventories	IAS 2
13	Leases (IFRS 16 effective 1/1/2019)	IAS 17
14	Events after the Reporting Date	IAS 10
15	Financial Instruments: Disclosure and Presentation (superseded)	
16	Investment Property	IAS 40
17	Property, Plant and Equipment	IAS 16
18	Segment Reporting	IAS 14
19	Provisions, 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



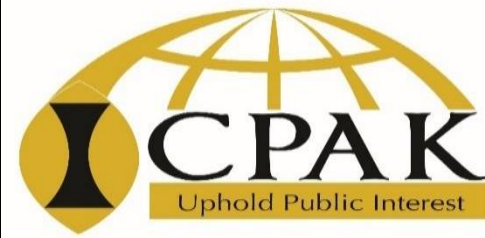
IPSAS	Titles	Basis
23	Revenue from Non-Exchange Transactions (Taxes and Transfers)	NA
24	Presentation of Budget Information in Financial Statements	NA
25	Employee Benefits (replaced by IPSAS 39)	IAS 19
26	Impairment of Cash-Generating Assets	IAS 36
27	Agriculture	IAS 41
28	Financial Instruments: Presentation	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



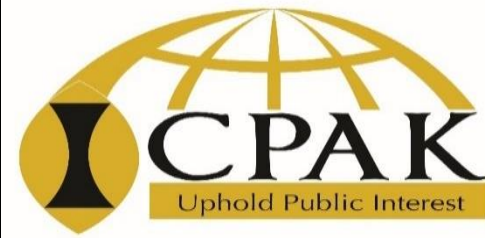
IPSAS	Titles	Basis
33	First-time Adoption of Accrual Basis IPSAS (effective 1/1/17)	NA
34	Separate Financial Statements (effective 1/1/17)	IAS 27
35	Consolidated Financial Statements (effective 1/1/17)	IFRS 10
36	Investments in Associates and Joint Ventures (effective 1/1/17)	IAS 28
37	Joint Arrangements (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
41	Financial instruments (issued August 2018 effective 1/2/2022) Replaces IPSAS 29	
	Cash-basis IPSAS (Stand alone)	
42	Social Benefits	N/A
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	

International Public Sector Accounting Standards (IPSASs)



- There are two approaches to adoption of IPSAS:
 1. Big bang Approach
 2. Phased approach
- Phased approach is more advisable where both adoption of IPSAS and consolidation of Government wide financial statements are done in phases.

International Public Sector Accounting Standards (IPSASs)

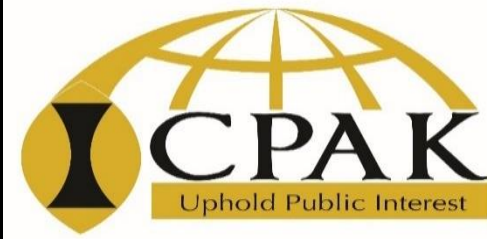


- Under the process of IPSAS adoption, it's important for the implementers to:
 1. Identify areas of priority- e.g. begin with voted entities.
 2. Identify control of the national government on other levels of government and government owned entities(Control as laid out in IPSAS 35)
 3. Piloting of IPSAS adoption could also be considered- Consider to apply simpler standards first before moving on to the complex ones.

IPSAS Implementation

Extent of IPSAS application in Government

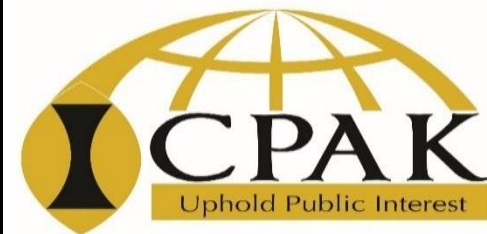
Public Sector Accounting – Rest of the World



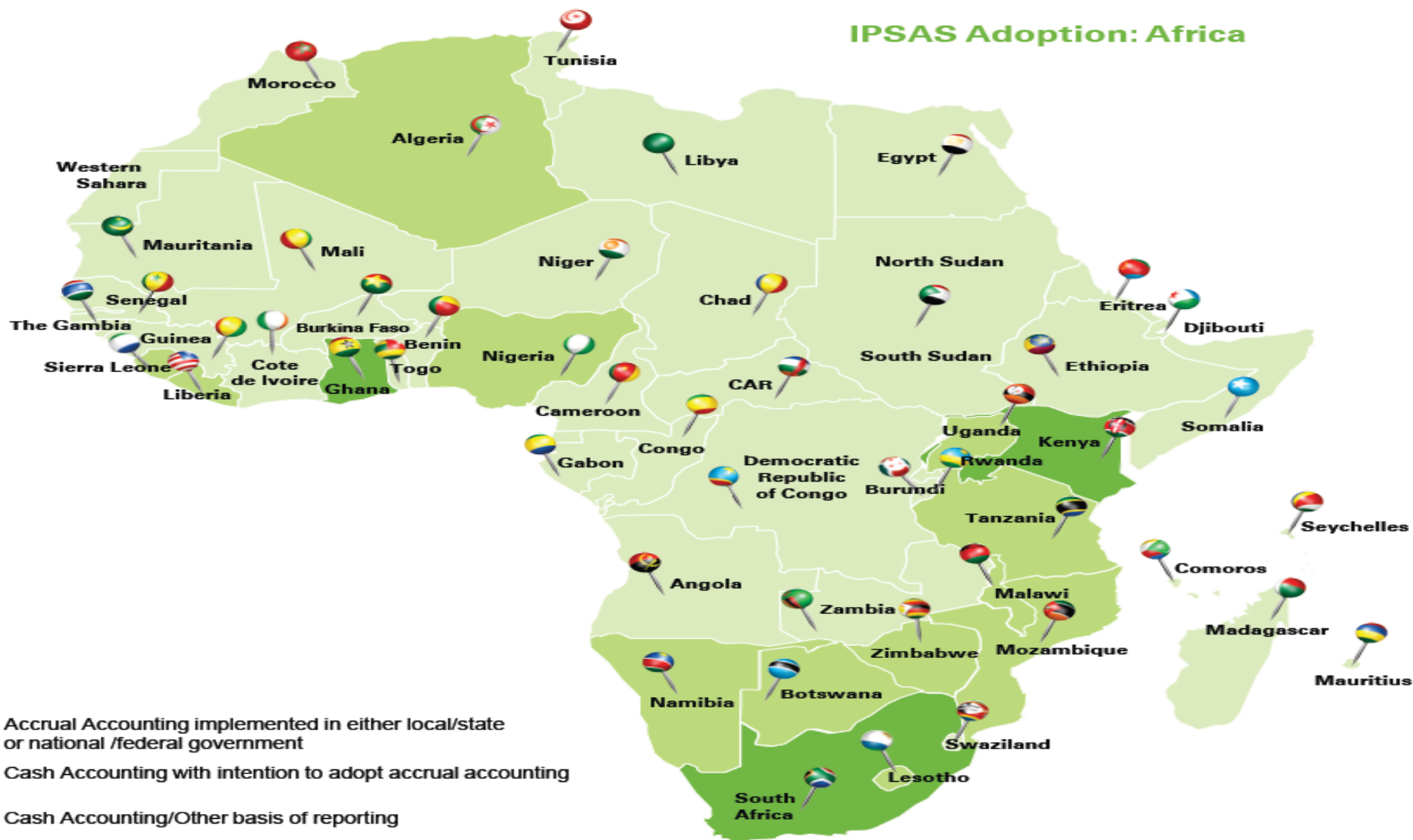
Countries that have implemented IPSAS or comparable standards around the World include:

- 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
- Good progress have been noted in Brazil, Chile, Indonesia, Israel, Korea, Malaysia and Philippines.
- **European Public Sector Standards (EPSAS)**

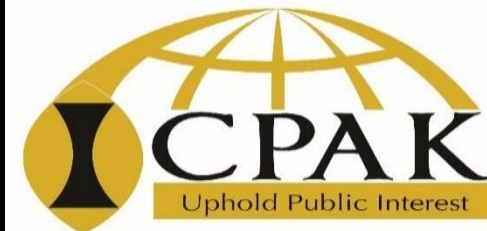
Public Sector Accounting in Africa



IPSAS Implementation – early 2010s

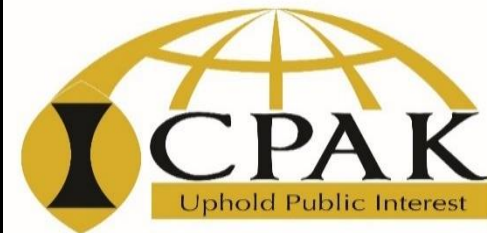


Public Sector Accounting in Africa



Country	Previously reported		December 2018 status		Forward looking
	Other national standards*	Intention to converge with IPSAS	Cash IPSAS/Similar basis	Accrual IPSAS/Similar basis	5 year plan announced
Botswana					X
Cameroon					X
Congo					
Democratic Republic of Congo					
Equatorial Guinea					
Gabon					X
Ghana					
Ivory Coast					X

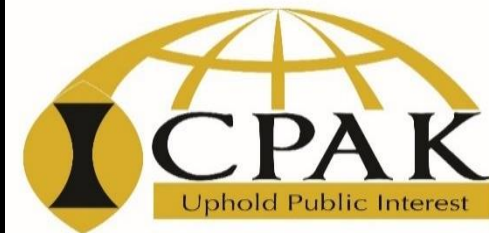
Public Sector Accounting in Africa



Country	Previously reported		December 2018 status	
	Other national standards*	Intention to converge with IPSAS	Cash IPSAS/Similar basis	Accrual IPSAS/Similar basis
Kenya				
Madagascar				
Malawi				
Mauritius				
Mozambique				
Namibia				
Nigeria				
Rwanda				
Senegal				

Forward looking
5 year plan announced
X
X
X
X

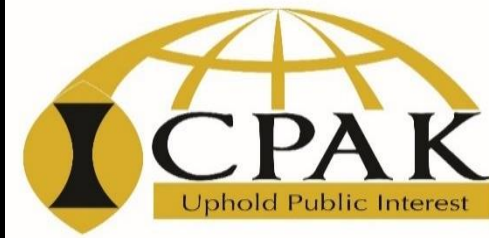
Public Sector Accounting in Africa



	Previously reported		December 2018 status	
Country	Other national standards*	Intention to converge with IPSAS	Cash IPSAS/Similar basis	Accrual IPSAS/Similar basis
Seychelles				
South Africa				
Tanzania				
Uganda				
Zambia				
Zimbabwe				

Forward looking
5 year plan announced
X
X
X
X

Public Sector Accounting in Africa



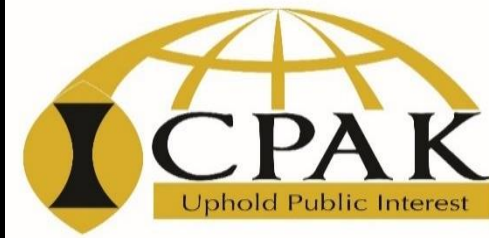
IPSAS Implementation-case of Kenya

- 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

IPSAS Implementation-case of Kenya

- 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 with directive and provides for the development of Standard Templates for ease of conformity and compliance

Public Sector Accounting in Africa



IPSAS Implementation-case of Kenya

- 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
- Capacity building - PSASB in conjunction with the National Treasury embarked on a series of workshops and on the job training program to the public sector accountants
- Engagement of key stakeholders such as KASNEB, ICPAK and Kenya School of Government (KSG) to include IPSAS trainings in their programs

IPSAS Implementation-case of Kenya

- Uniformity in reporting which has made audit by the office of the Auditor General easier and faster.
- Progressively closing the gaps in Cash Based IPSAS
- Originally all government MDAS were to migrate to accrual by **30/06/2017 now anticipated implementation over 3 years from July 2019 onwards – risk of modified approach**
- The Department of National Assets and Liabilities Management (NALM) established in the National Treasury - **Policy framework on assets and liabilities**
- Cabinet memorandum on moving from **cash to accrual** required
- Entities are required to **disclose** all assets and liabilities

Key observed challenges

Overview of challenges identified



1

Human Capital

Shortage in supply of qualified experienced accrual accounting calibre. Higher remuneration to retain such calibres



2

System Enablement, Fixed Assets and Funding

- Challenge for decentralized IT systems across
- Spread-out fixed assets
- absence of adequate government budget allocation.



3

Change Management

Hesitation from current employees to adopt the change



4

Adoption of Standard Accounting Framework

Direct adoption of global framework may not address all the needs of a government based on its activities, or culture.



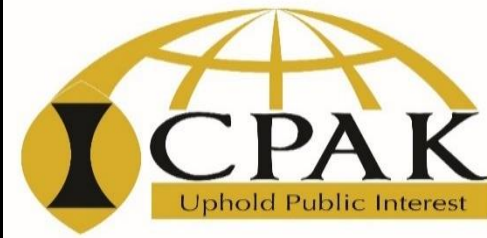
5

Project Management

Supervision across all governmental entities during the implementation.



Lessons Learnt



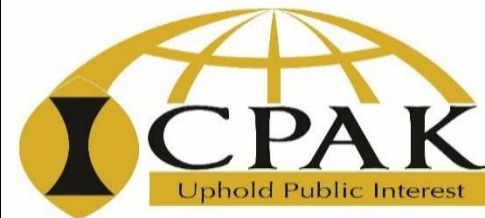
The following are some of the lessons learnt out of the experiences from African countries:

- Development of legal framework
- Adoption of appropriate financial information system
- Development of an asset register before full implementation is crucial
- Valuation of assets is a challenges world-over
- Implementation of processes and policies to deal with transactions undertaken after the initial adoption of the standards.
- Communication and change management
- Political will and support
- Capacity building

IPSAS Update

Courtesy of IPSASB

Current IPSASB work programme



2 IPSAS approved

- Financial Instruments – IPSAS 41
- Social Benefits - IPSAS 42
- plus 'Improvements to IPSAS'

3 Exposure Drafts

- Social Benefits (ED 63)
- Leases (ED 64)
- Collective & Individual Services & Emergency Relief (ED 67)
- plus 'Improvements to IPSAS' (EDs 65 & 66)

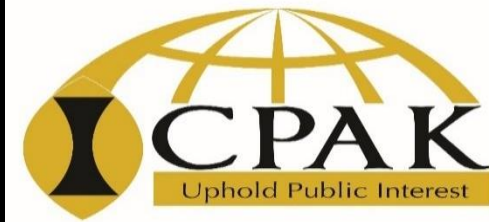
Consultation Paper

- 2019-23 Strategy and Work Plan

....and considerable work on:

- Revenue
- Grants and Transfers (Expense)
- Public Sector Measurement

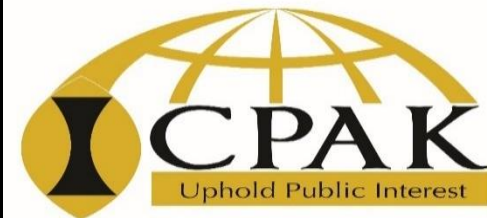
Delivering a challenging Work Plan: Strong progress during 2018



Project	Public sector specific	IFRS alignment
Non-Exchange Expenses -Collective and Individual Services (IPSAS 19 amends) - Grants and transfers	ED 67 ✓	✓
Revenue -IFRS 15 alignment (replacing IPSAS 9 & 11) - IPSAS 23 update -Grants and transfers (guidance location TBD)	✓ ✓ ✓	✓ ✓
Financial Instruments (Public Sector)	✓	IPSAS 41
Leases	✓	✓
Public Sector Measurement	✓	✓
Heritage	✓	
Infrastructure Assets	✓	

Courtesy of IPSASB

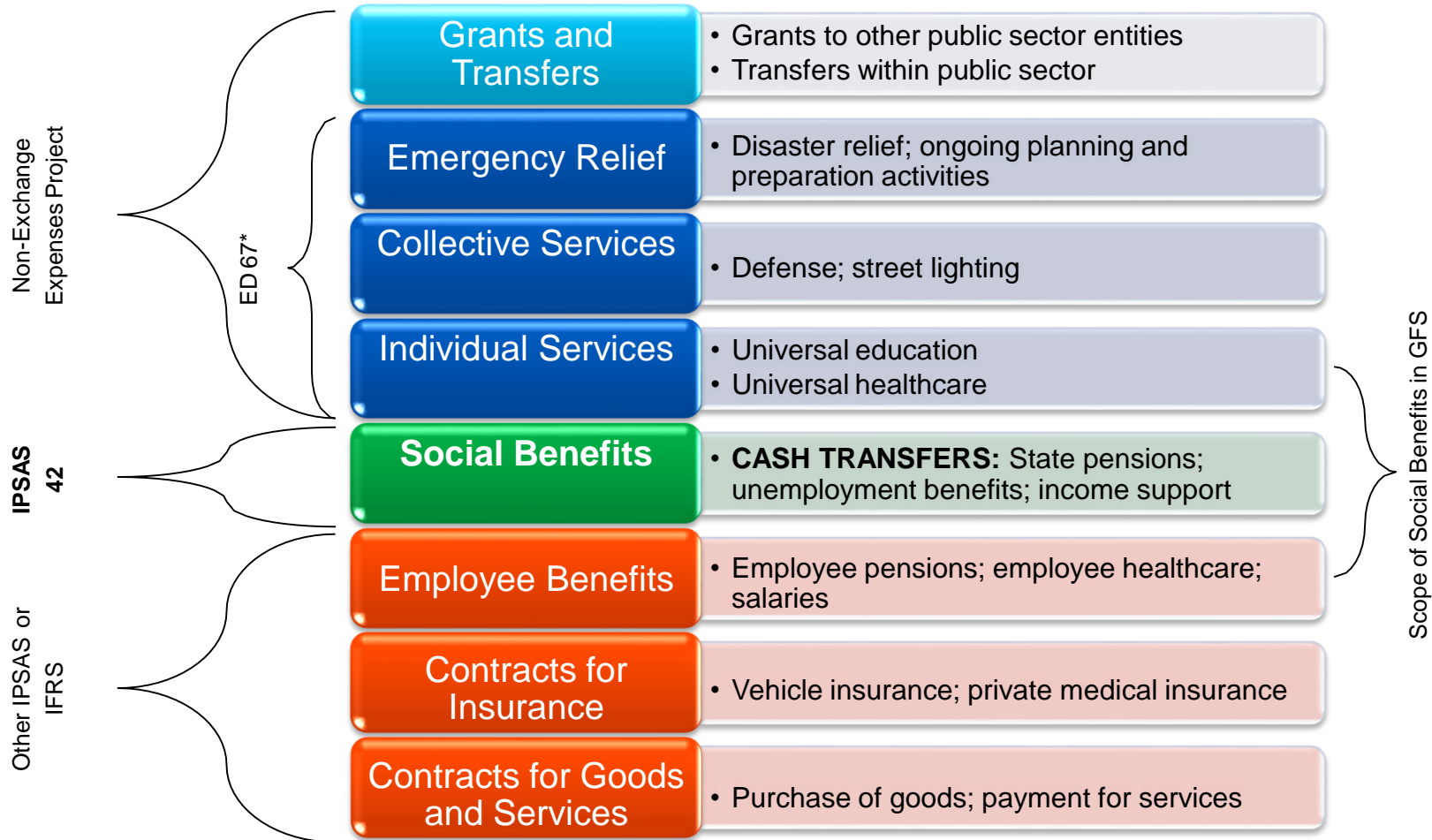
IPSASB work programme: December 2019 projected position



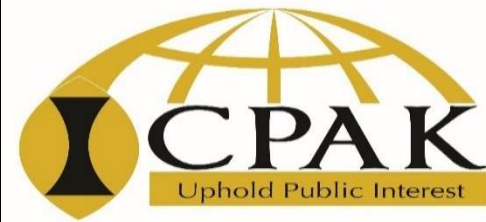
Project	Public sector specific	IFRS alignment
Non-Exchange Expenses -Collective and Individual Services (IPSAS 19 amends) - Grants and transfers	IPSAS ED	✓
Revenue -IFRS 15 alignment (replacing IPSAS 9 & 11) - IPSAS 23 update - Grants and transfers (guidance location TBD)	ED ED ??	✓ ✓
Financial Instruments (Public Sector)	ED	IPSAS 41
Leases	??	??
Public Sector Measurement	CP/ED	✓
Heritage	✓	
Infrastructure Assets	✓	

Courtesy of IPSASB

Scope of IPSAS 42 and ED 67

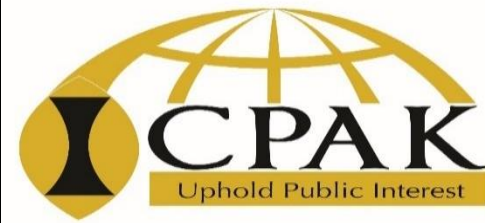


Points to note!!



- Steady flow of new standards and interpretations – IFRSs, IPSASs, IPPF (IIA), ISAs & ISQC
- Significant amendments of fundamental principles in different areas of accounting, such as recognition, measurement, presentation and disclosure.
- Changes have implications that go beyond matters of accounting, also potentially impacting the information systems of many entities – Cost and effort
- The challenge for preparers is to gain an understanding of what lies ahead.

Improving Financial Reporting Efficiencies



- Automation – standardized templates and customized checklists
- Software – utilizing commercially available products
- Planning – timeframe, list of deliverables, client meeting
- Risk based approach – in line with ISAs
- Staff training / supervision
- Regular and effective Communication

Thank You

