



# **FINANCIAL REPORTING FOR COUNTY GOVERNMENTS CONFERENCE**

Presentation by:

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HEAD OF FINANCIAL REPORTING UNIT

Friday ,11<sup>th</sup> March 2021

Uphold public interest



# FINANCIAL REPORTING FOR COUNTY GOVERNMENT & OTHER PUBLIC ENTITIES CONFERENCE

## EFFECTIVENESS OF FINANCIAL REPORTING STANDARDS

Presentation by:

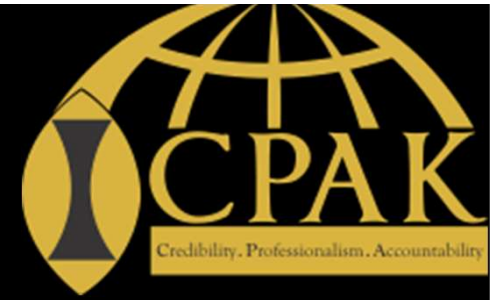
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Head of Financial Reporting Unit, Directorate of Accounting Services,  
National Treasury

Thursday, 11<sup>th</sup> March 2021

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# PRESENTATION OUTLINE



- 1) Introduction to financial reporting
- 2) Standards and guidelines in Kenya
- 3) Journey towards migration to accrual
- 4) Public Sector Institutional Diagram
- 5) Why IPSAS and IFRS
- 6) Factor for successful migration to IPSAS Accrual
- 7) Approaches for migration to cash basis
- 8) Challenges that hinder migration to Accrual basis
- 9) Recommended Practice Guideline
- 10) Quotable Quotes

# Introduction



- ❖ An **ACT** of Parliament to provide for the effective mgt. of public finances by the National & County Govt's and other public entities; the oversight responsibility of Parliament & County Assemblies; the different responsibilities of Govt. entities & other bodies, and for connected purposes.
- ❖ **Sec. 192 - 195** – Establishment of the PSASB, its composition, functions & mandate, vacation of office.
- ❖ Establishment of Financial Reporting Unit under the office of Director Accounting Services, National Treasury. The Unit is aimed at offering technical assistance to all public entities

# Standards and Guidelines

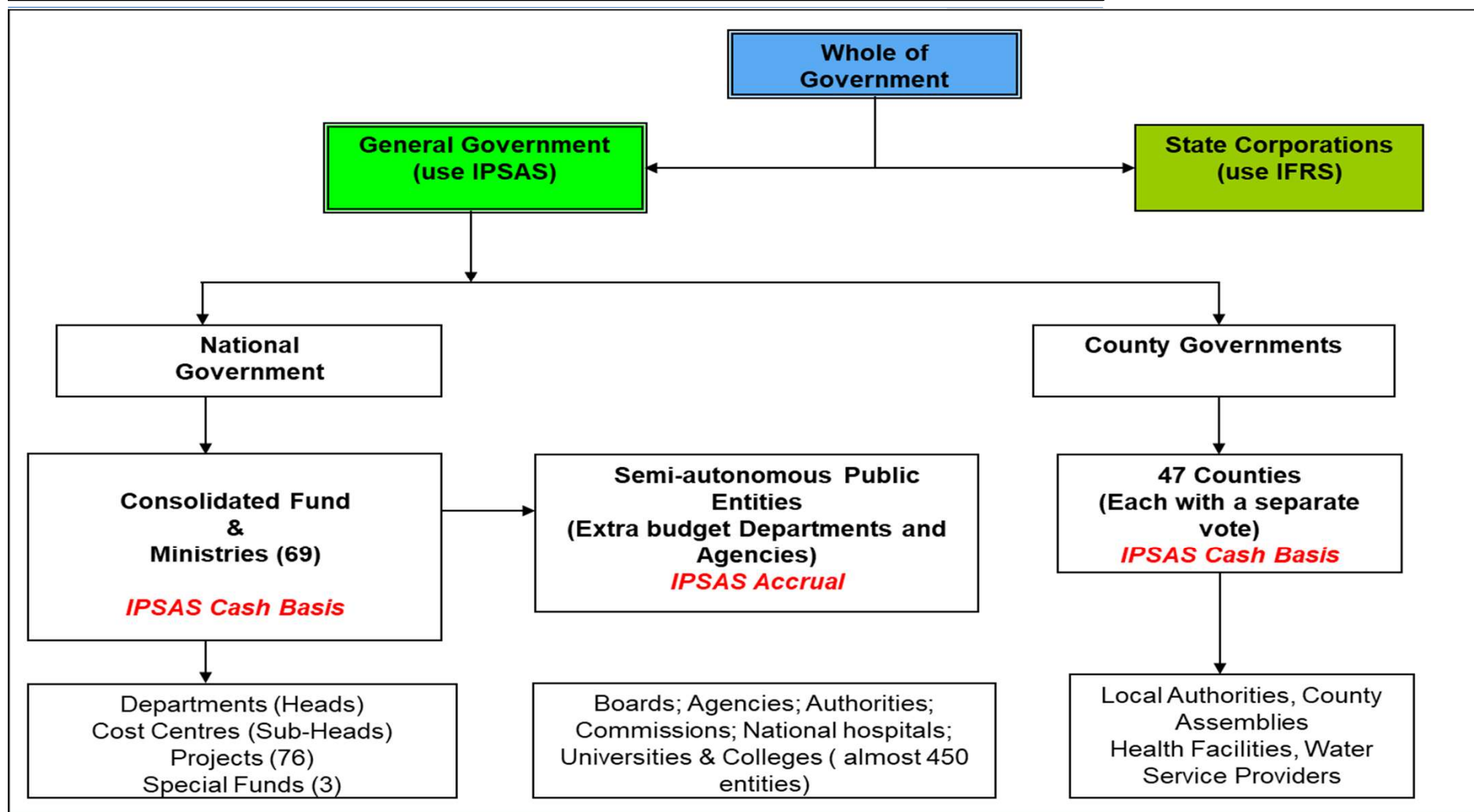


- ❖ The PSASB **ADOPTED** the financial reporting standards applicable to public sector entities as follows:
  - ▶ National Government and County Governments – IPSAS Cash basis of accounting;(Modified Cash basis)
  - ▶ Semi Autonomous Government Agencies & TVETs – IPSAS accrual; and
  - ▶ State Corporations (GBEs) – IFRS.
  
- ❖ The Standards became effective on 1<sup>st</sup> July 2014 and were communicated to the entities via Treasury Circular dated 1<sup>st</sup> July 2014 and subsequently gazetted on 8<sup>th</sup> August 2014.

# Journey toward Migration-IPSAS Accrual



# Public Sector Institutional Diagram



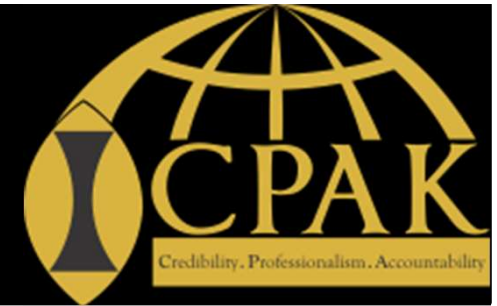
# Why IPSAS & IFRS?



- ✓ High quality, credible, internationally recognised standards
- ✓ Users have relevant, transparent information to make decisions and hold officials to account
- ✓ Ease of audit and audit trails
- ✓ Deal with public sector specific issues, e.g. concepts level, compliance with budget, non-exchange transactions
- ✓ Credible basis for reporting government financial statistics
- ✓ Facilitate government wide consolidation of Financial Statements
- ✓ Enhance global comparison of financial reports and surveys
- ✓ Enhance use of public resources and accountability
- ✓ Enhancement of financial disclosures
- ✓ Better management of expense (“delivery principle”)



# Factors For Successful for Accrual basis of reporting



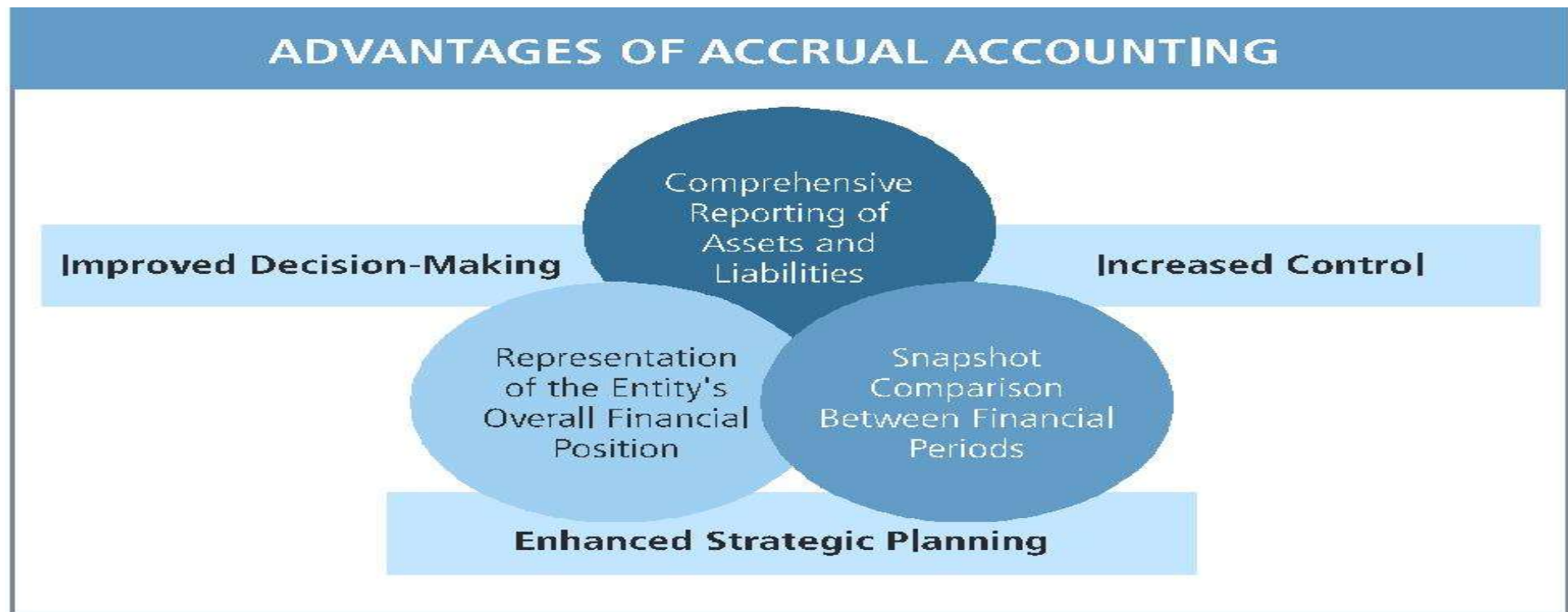
*The following **nine** components has been identified as key factors for successful migration to accrual accounting:*

- 1) Legal and Policy framework
- 2) Political commitment;
- 3) Commitment of core management & Steering Committee;
- 4) Assets and liabilities, guidelines and policies;
- 5) Systems , system infrastructure and technologies;
- 6) Stakeholder engagement;
- 7) Capacity Building and ;
- 8) Resource requirements
- 9) Effective project management road-map

# Advantages of Adopting IPSAS, Accrual



- ✓ The most significant change arising from IPSAS is the requirement for whole public sector to move from a cash basis to an accrual basis of accounting.
- ✓ The major advantages of accrual accounting are summarized in the following diagram:



# Approaches In Adoption Of Accrual basis of Reporting



❖ **Big bang** -Very rare and not recommended

❖ **Phased approach** –Preferred / Recommended

*The following is the most recommended steps;*

- 1. Identify priority** areas- e.g begin with voted entities (MDAs and later to County Governments.
- 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-Consider to **apply simpler standards first** before moving on to the complex

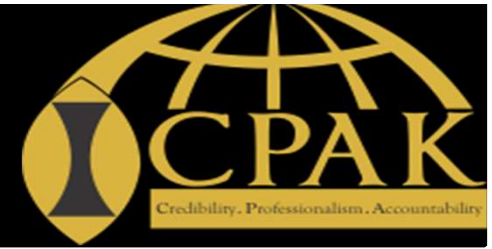
# Challenges for Migration to Accrual Accounting



The following are the key limitations that may affect migration from cash to IPSAS Accrual;

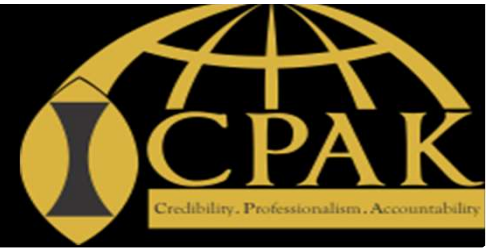
- 1) Lack of support by the Senior management and staff
- 2) Lack of Stakeholder backing
- 3) Complex Legislation processes
- 4) High costs of running the project
- 5) Lack of Politics support
- 6) Funding Constraints
- 7) Lack of adequate human resource experts
- 8) Fear of unknown, leading to resistance to change

# Updates on Improved IPSAS



- ❖ The International Public Sector Accounting Standards Board (IPSASB) introduced the following IPSAS ;
- ✓ **IPSAS 22**—Disclosure of financial information about the general government sector
- ✓ **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

# Recommended Practice Guidelines

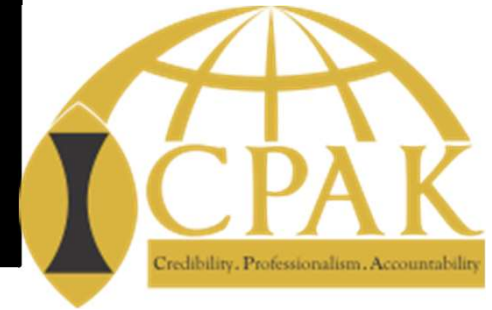


- ❖ The International Public Sector Accounting Standards Board (IPSASB) sometimes finds that topics it takes on to its agenda result in an output that is not possible to turn into an accounting standard.
- ❖ However, rather than lose the excellent thinking that has gone into considering the topic, the IPSASB captures it within a Recommended Practice Guideline (RPG).
- ❖ RPGs are pronouncements that provide guidance on the best available practice in reporting.

Currently there are three RPGs issued.

- ✓ RPG 1- Reporting on the Long-Term Sustainability of an Entity's Finance
- ✓ RPG 2 –Financial Statement Discussion and Analysis
- ✓ RPG 3 - Reporting Service performance Information


# DISCUSSIONS



## QUESTION AND ANSWER



# QUOTES OF THE DAY

A photograph of a herd of camels walking across a vast, sandy desert landscape. The camels are moving from the top left towards the bottom right, leaving a trail of sand behind them. The scene is captured in a wide-angle shot, emphasizing the vastness of the desert. The camels are in various stages of their stride, and their shadows are cast long and dark on the sand. The overall tone of the image is warm and golden, typical of a desert at sunrise or sunset.

**Followers will never know  
how hard the leader tries  
to create a path.  
Love your mentors,  
LEADERS. pray for them..**

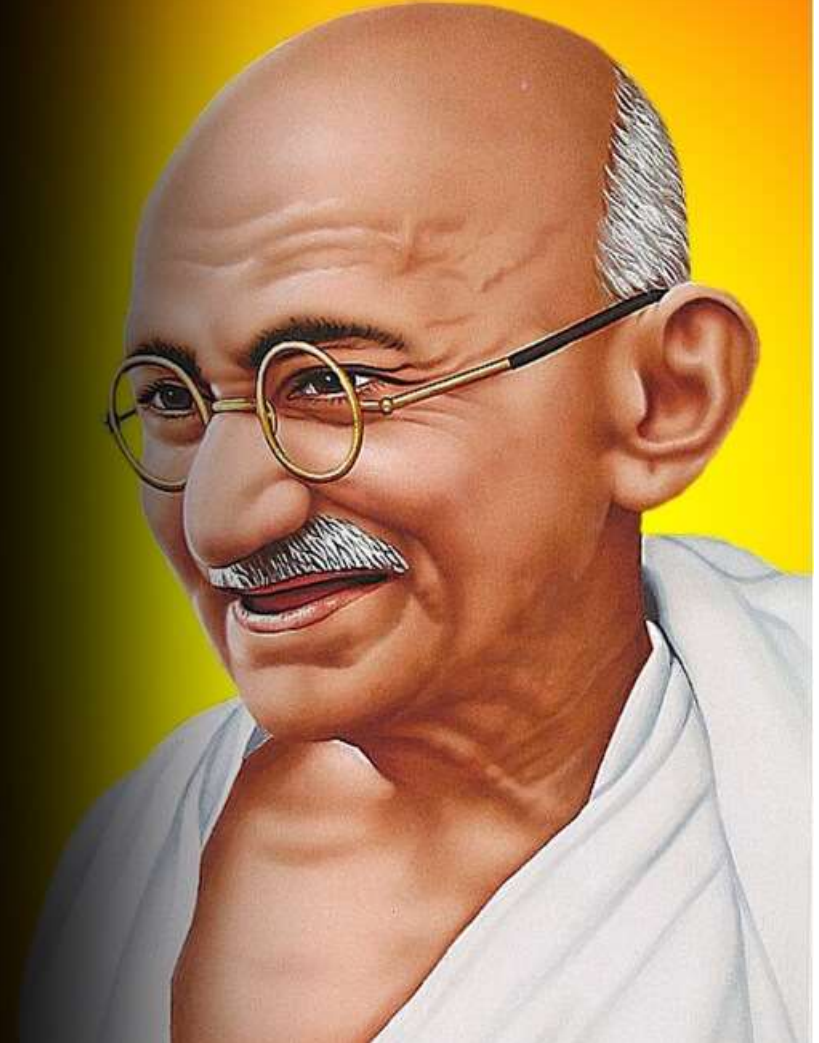


FINALLY;

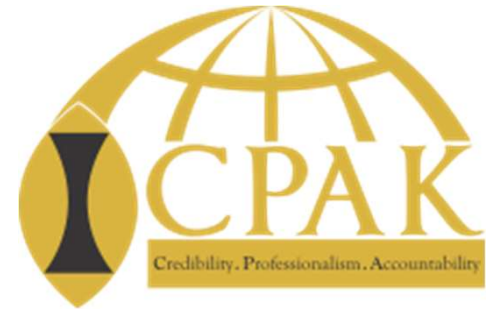


“The best way to find yourself is to lose yourself in the service of others.”

– Mahatma Gandhi



# CONTACTS



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