



THE PFM & IPSAS CONFERENCE

TOPIC :MIGRATION TO ACCRUAL ACCOUNTING

PRESENTED BY;

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Uphold public interest

Presentation Outline

- ✓ Introduction to financial reporting
- ✓ Standards and guidelines in Kenya
- ✓ Steps towards migration to accrual
- ✓ Public Sector Institutional table
- ✓ Public Sector Reporting Entities
- ✓ Why IPSAS Accrual
- ✓ Where are we as Kenya ?
- ✓ Are we ready to migrate ?
- ✓ Factor for successful migration to IPSAS Accrual
- ✓ Approaches for migration to cash basis
- ✓ Challenges that hinder migration to Accrual basis
- ✓ Updates of IPSAS
- ✓ Recommended Practice Guideline
- ✓ **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 1st July 2014 and were communicated to the entities via Treasury Circular dated 1st July 2014 and subsequently gazetted on 8th August 2014.
- ❖ Financial reporting templates are regularly updated.

Steps toward Migration-IPSAS Accrual



PFM Act, 2012 & Regulations 2015

The Public Sector Accounting Standards Board

Standards and Guidelines

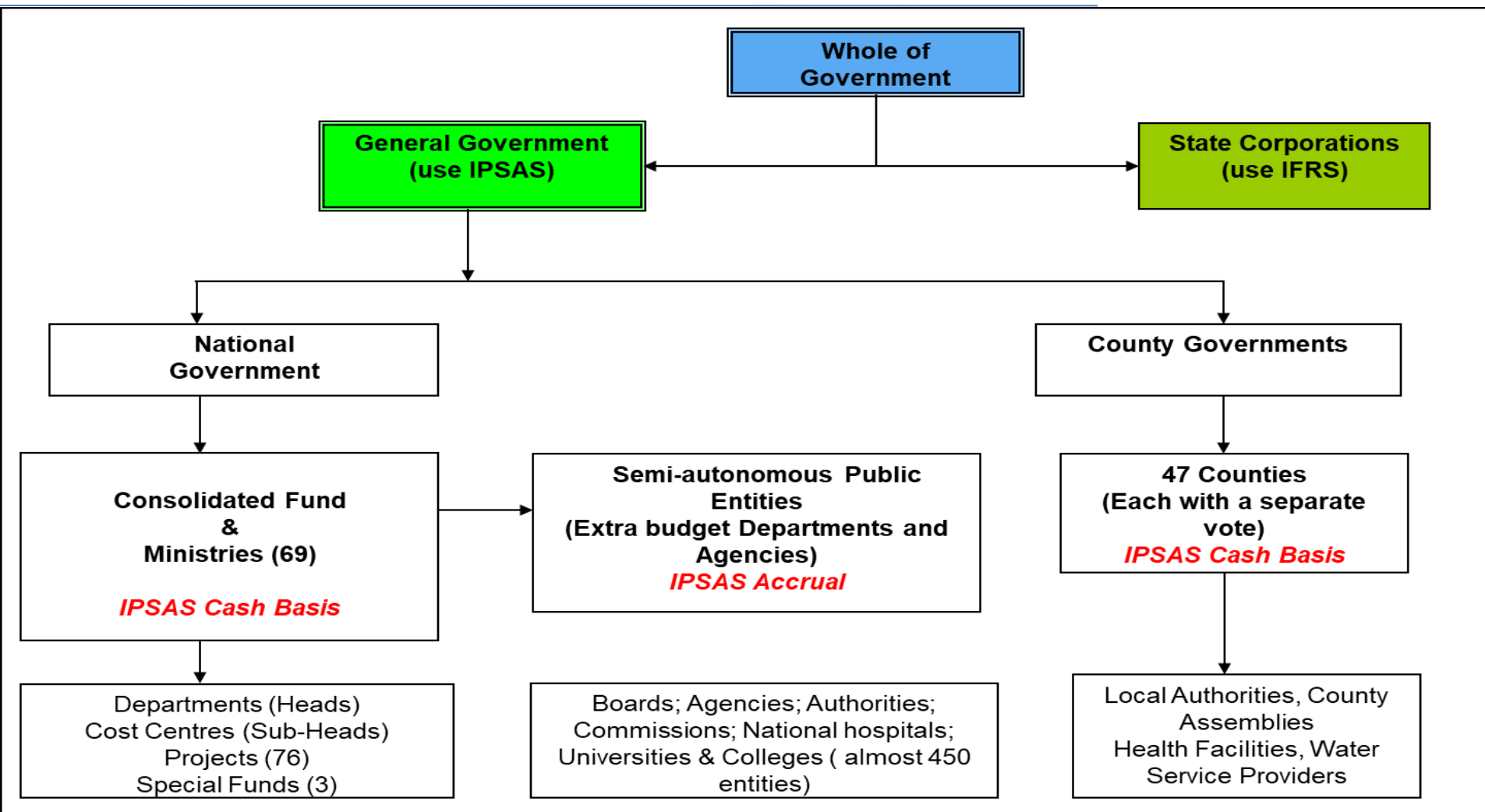
Implementation and Audit

Feedback, Review & Next Steps current framework

Setting up of roadmap, infrastructure and Support from stakeholders

Setting up Steering & Technical committee and roll out the project

Public Sector Institutional Framework



Public Sector Reporting Entities



| ENTITIES | No. | Applicable Standard |
|---------------------------------|-------------|---------------------|
| Consolidated Funds Services | 4 | IPSAS Cash |
| MDAs`, | 65 | IPSAS Cash |
| Development Projects | 208 | IPSAS Cash |
| County Government- Executive | 47 | IPSAS Cash |
| County Government- Assemblies | 47 | IPSAS Cash |
| County Corporations | 126 | IPSAS Accrual |
| Sate Corporations & SAGAs | 472 | IPSAS & IFRS |
| Water Companies | 81 | IFRS |
| Total Reporting Entities | 1050 | |

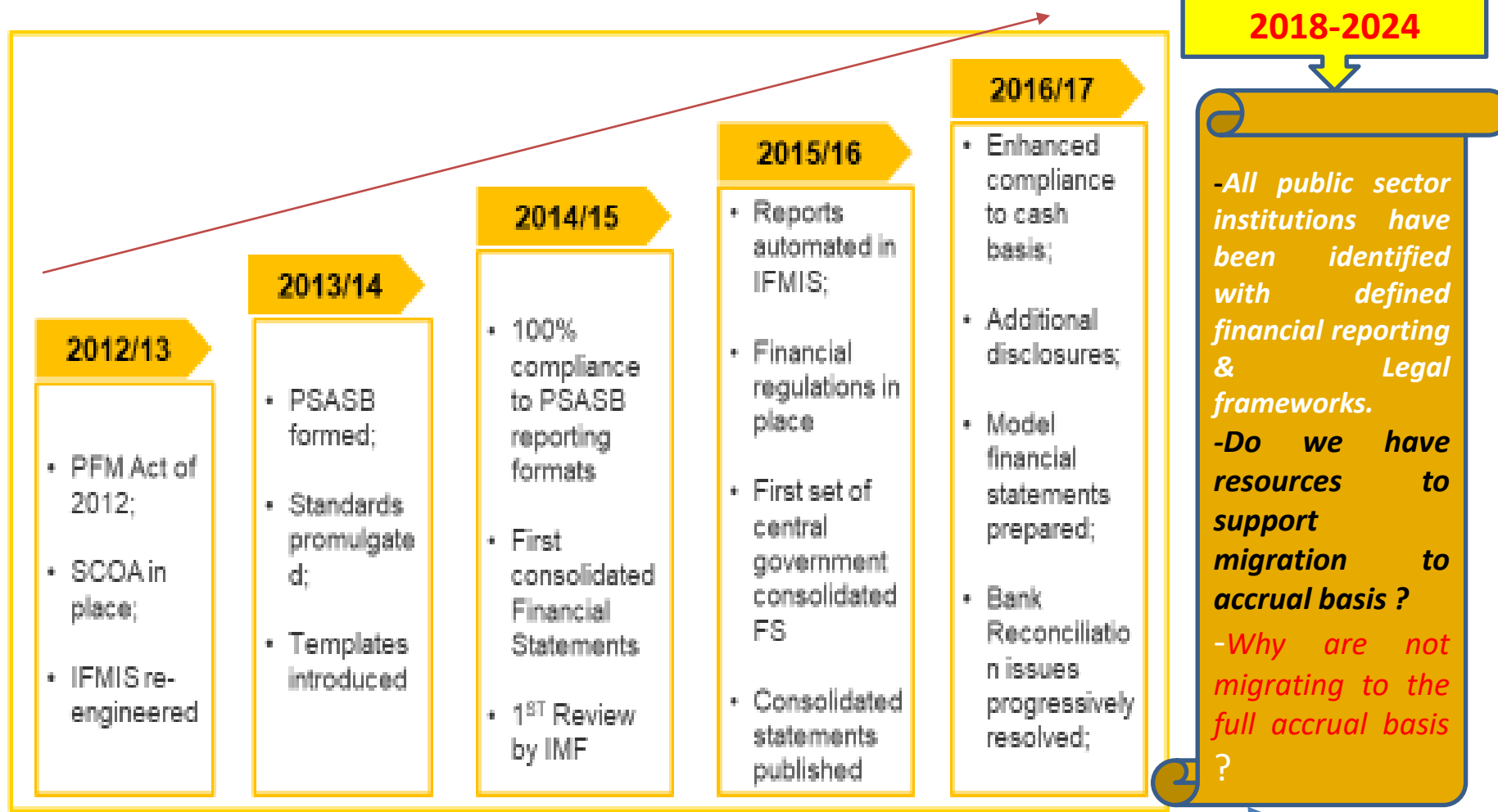


Why IPSAS ACCRUAL BASIS



- ✓ 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”)

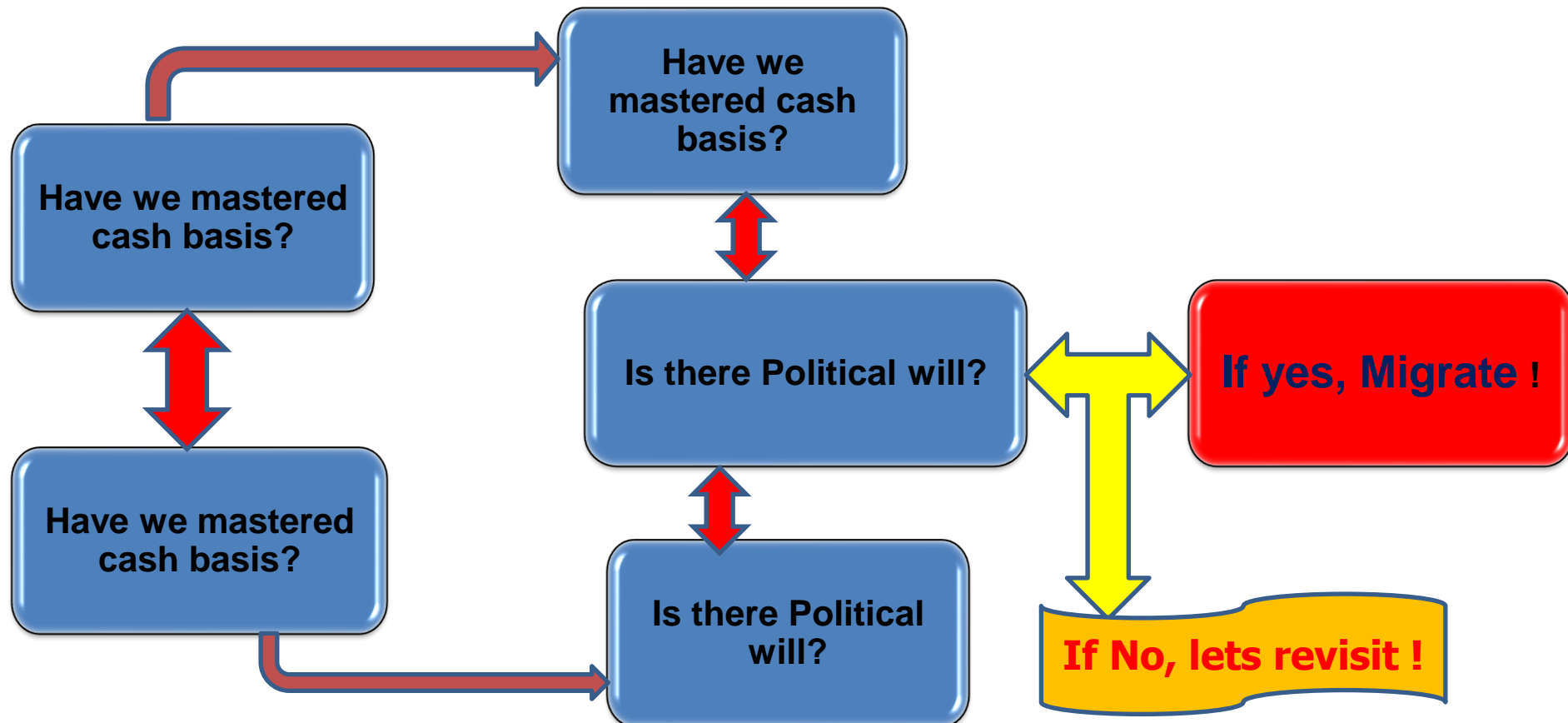
IN KENYA WHERE ARE WE ?



Are we ready for full Accrual ?



The following are key the fundamental questions to respond to before initiating migrating fully to accrual basis ;



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:

ADVANTAGES OF ACCRUAL ACCOUNTING



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

DO WE UNDERSTAND & APPLY RPGS` ?




- ❖ 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

QUESTION AND ANSWER

QUOTES OF THE DAY

A herd of wildebeest is running across a dry, dusty plain. The lead wildebeest is in the foreground, running towards the right, leaving a trail of dust behind it. The rest of the herd follows in a line, also leaving a trail of dust. The background is a vast, open plain under a clear sky.

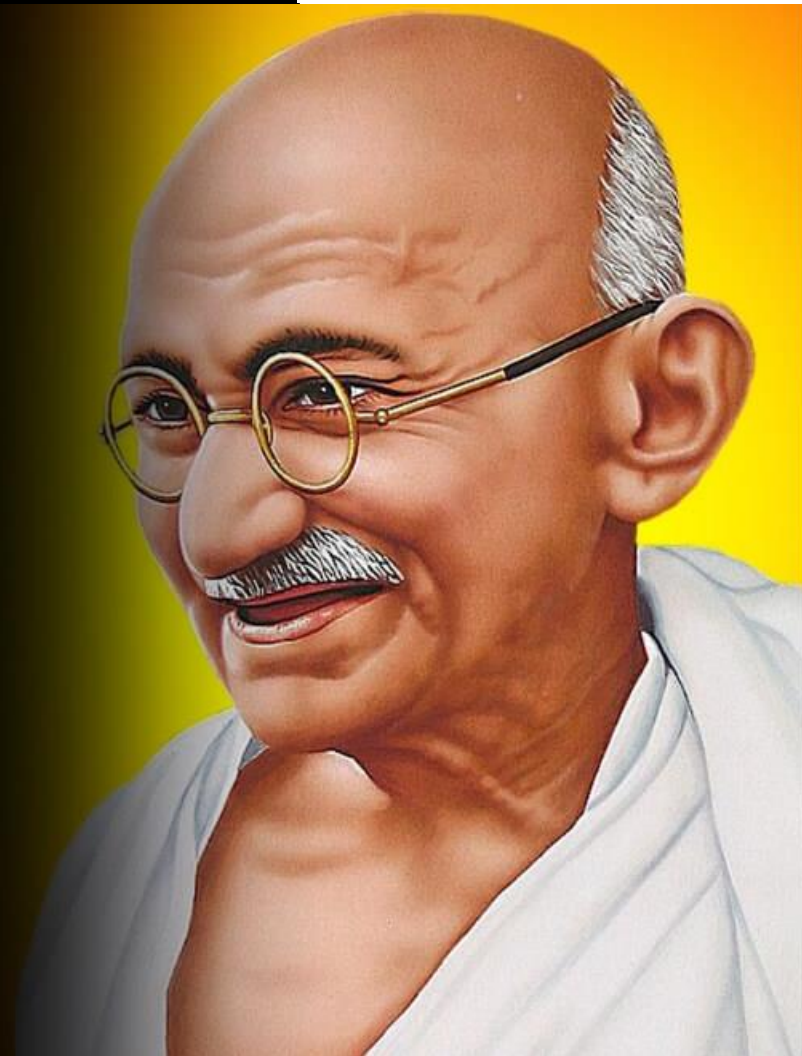
**Followers will never know
how hard the leader tries
to create a path.
Love your mentors,
LEADERS. pray for them..**

FINALLY;



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

– Mahatma Gandhi



CONTACTS



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