



**8TH ANNUAL PUBLIC SECTOR
ACCOUNTANTS CONFERENCE
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The effectiveness of financial reporting standards



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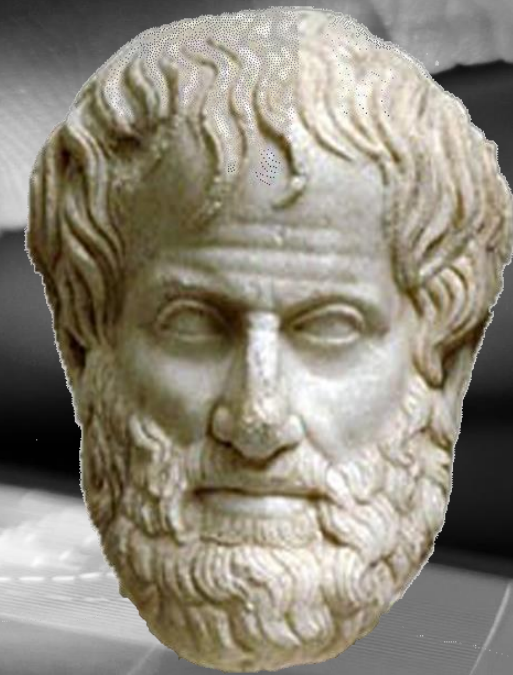
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Session Outline



- Transitioning from IPSAS Cash to IPSAS Accrual.
- Assets and liabilities policy and its implication on Accrual Accounting.
- Accounting measurement and disclosure; and
- IPSAS improvements – updates.

“To prevent the exchequer from being defrauded, let all public money be delivered out openly in the face of the whole city and let copies of the accounts be deposited in the different wards, tribes and divisions.”



Aristotle
384–322 BC

Transitioning from IPSAS Cash to IPSAS Accrual

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Managing Change



The Changing financial environment



- Underpins **quality** and **credibility** of financial reporting and public confidence
- Revolutionary change over the past decade in how and when financial information is **communicated**
- Strict and consistent commitment to set standards to safeguard public resources and satisfy accountability requirements.
- This could be achieved by adherence to the National Treasury and PSASB's guidance on financial reporting and use of the resources provided by the NT and PSASB for the same.

The Changing financial environment



The reforms journey



"Failing to plan is planning to fail"

Legal Foundation

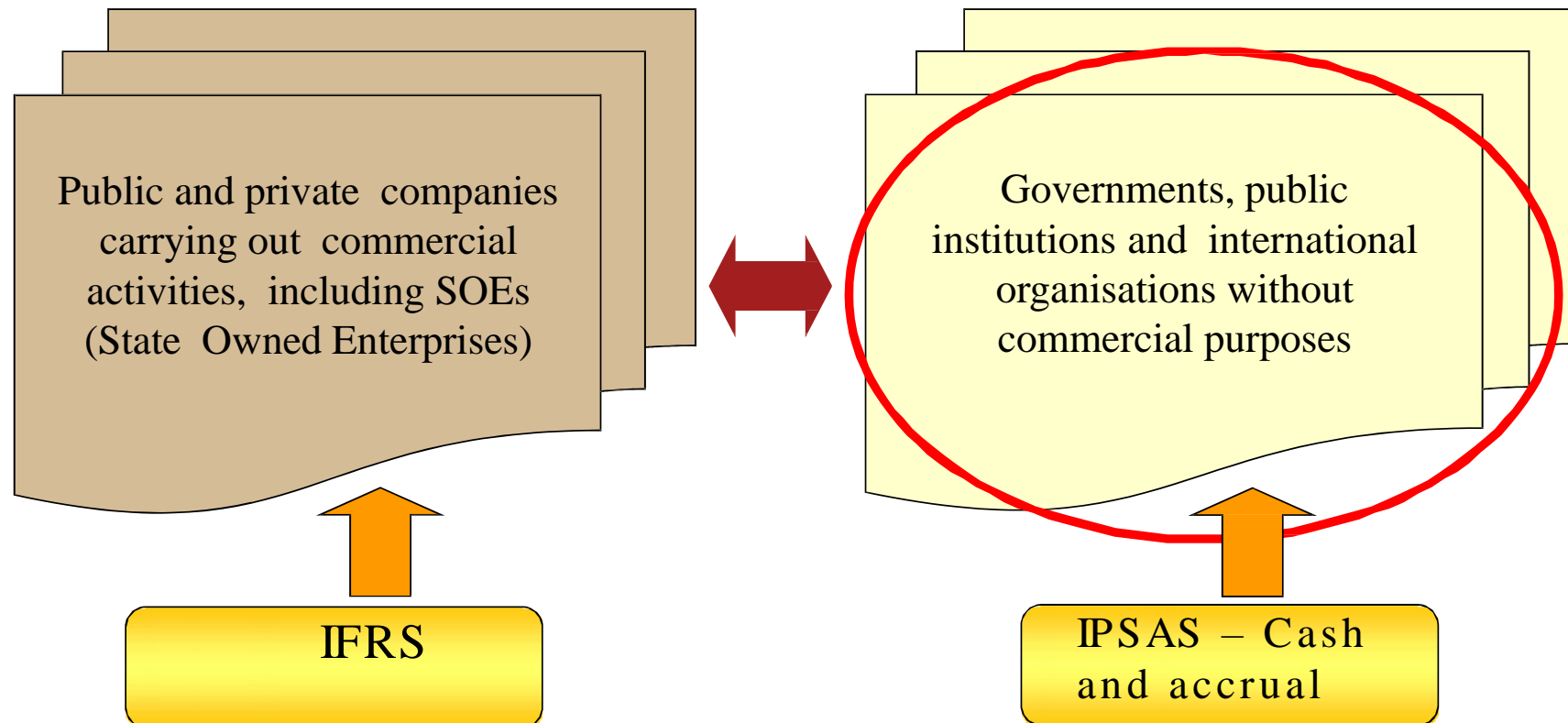


- The constitution of Kenya (Chapter 12) provides the foundational and overarching framework for public financial management
- **Article 226(1)(a)** exclusively provides that an Act of Parliament shall provide for the **keeping of financial records and the auditing of accounts** of all governments and 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
- Gazette Notice No 5440 of 8th July, 2014 – **adoption of reporting standards.**

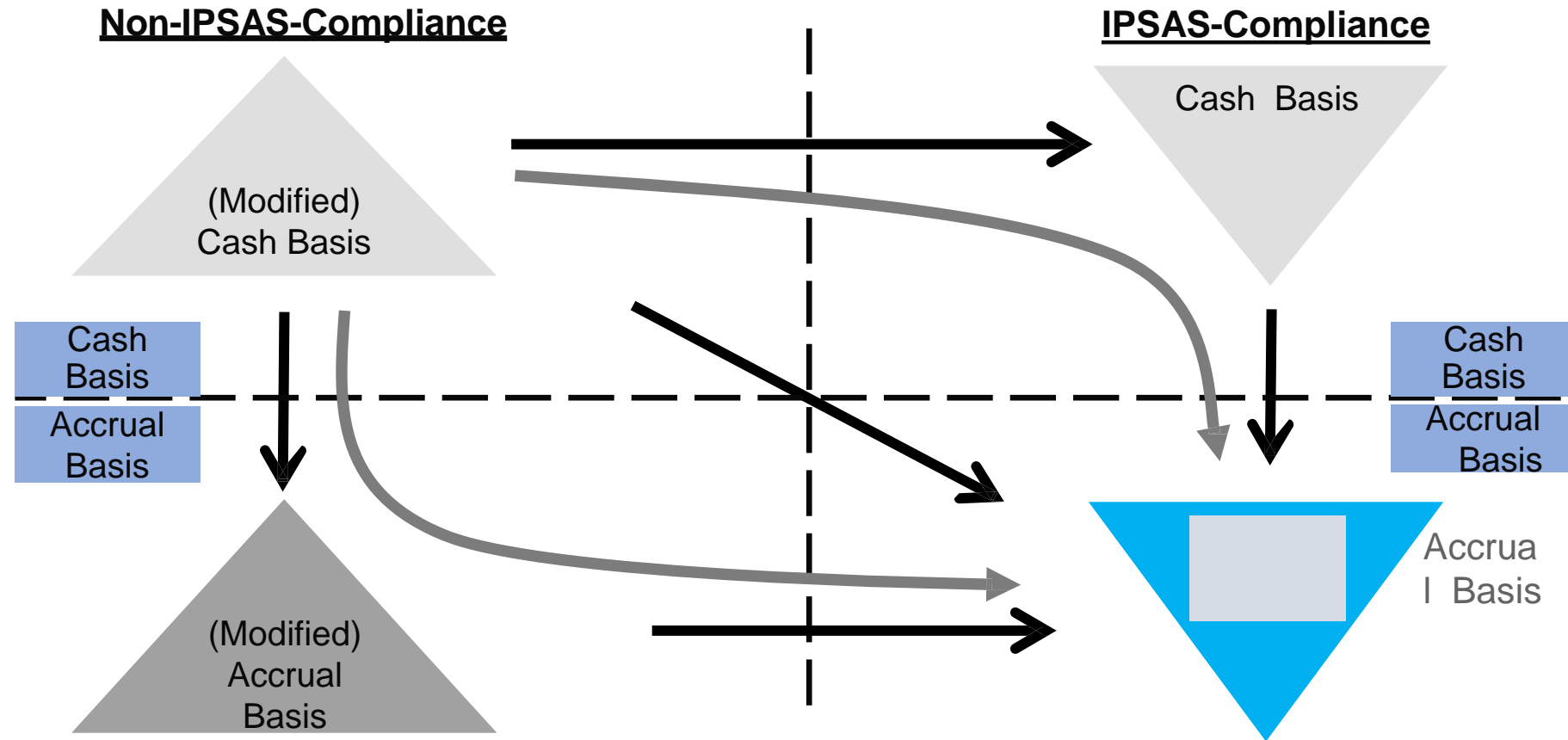
International Public Sector Accounting Standards (IPSASs)



The International Public Sector Accounting Standards (IPSAS) constitute the international accounting framework for public sector entities.



International Public Sector Accounting Standards (IPSASs)



Different types of transition to accruals IPSASs

International Public Sector Accounting Standards (IPSASs)



Transition/adoption of accrual accounting standards

- The three C's: “Compromises that need to be done on a basis of Consensus, outlined in a Cookbook.”
- Government accounting principles are not sufficient for preparing financial statements
- Therefore, it is essential to have guidelines for the preparation of especially first set of accounts
 - ▶ Clear guidance on the scope of assets and liabilities to be included in the opening balance sheet is needed
 - ▶ Also clustering of assets and liabilities according to their materiality for the off balance sheet possible
 - ▶ Providing relief for measurement => measurement hierarchy

IPSASB's guidance for IPSAS adoption



- ▶ Study 14, *Transition to the Accrual Basis*
 - ▶ Guidance for governments and government entities
 - ▶ Practically oriented («How to do it»)
 - ▶ Includes suggestions on project management
 - ▶ Non-authoritative (not an IPSAS)
- ▶ IPSAS 33, *First Time Adoption of Accrual Basis IPSASs*

IPSASB's guidance for IPSAS adoption



- ▶ IPSAS 33 Allows three years to recognise and/or measure specific assets, liabilities and revenues:
- ▶ Sufficient time to develop reliable models for recognising and measuring assets and liabilities
- ▶ Concessions related to certain aspects of consolidation
- ▶ IPSAS 33 addresses:
- ▶ what to do when reliable historical cost information is not available
- ▶ presentation of comparative information in transitional financial statements.

Assets and liabilities policy and its implication on Accrual Accounting

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Asset Management Dilemma



The Government has for years owned assets and incurred liabilities but there has been no standardized policy or system to record the existence of assets immediately they are procured and liabilities when they are incurred.

- No adequate guidelines have been documented to provide guidance on planning, acquisition, operation and maintenance, disposal as well as recording and reporting on assets.
- No adequate guidelines on the identification, securing tenure, recording and reporting on liabilities.
- Different approaches adopted to assets and liabilities based on whether entities are using accrual or cash basis of accounting.

Asset Management Dilemma



- Asset and liabilities management not aligned to, and integrated with, entities strategic, corporate and financial planning, in the public sector.
- No adequate measures to define assets and liabilities
 - what is it?
 - who owns it?
 - who has it?
 - where is it?
 - how did we get it?
 - what does it do?
 - how big/much is it?
 - what is the value?
 - who wants it?
 - who knows about it?

Asset and liability Management Guidelines



- Issued pursuant to section 139(3) of the Public Finance Management (National Government) Regulations (2015) that require the National Treasury to provide Guidelines on Assets Management – July 2020
 - to address the asset and liability management dilemma for public sector entities
 - provide direction on assets and liabilities management irrespective of the basis of accounting adopted

Aims of the guidelines



- Promoting accountability on assets and liabilities management;
- Effective management and safeguard of public assets;
- the standardization in all public sector entities of:
 - identification, acquisition, maintenance, disposal of, valuation/revaluation, recording and disclosure of assets in the public sector.
 - identification and disclosure of liabilities in the public sector.
 - assets and liabilities data management reporting.
- Proper authorisation of acquisition and disposal of assets; and
- Accurate and timely information and reporting to facilitate decision making
- Consolidation and maintaining an updated inventories of assets and liabilities for both national and county levels of government.

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Compliance and Disclosure of assets and liabilities in financial statements



- National Treasury, among other responsibilities will monitor assets and liabilities management systems in the public sector and generate reports and give recommendations to accounting officers.
- Accounting officers shall ensure compliance with the Guidelines
- Disclosure/ reporting requirements of assets and liabilities in the financial statements of public sector entities shall be guided by the reporting templates prescribed by PSASB.
- The guidelines applies to entities using IPSAS Cash, IPSAS Accrual and IFRS.

Accounting measurement and disclosure

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Classification



- The Guidelines have broadly classified assets as either non-financial or financial:
 - non-financial assets, which comprise physical and intangible assets; and
 - financial assets which comprise all other assets.
- Accounting for non-financial assets are detailed in relevant IPSAS and IFRS for each category of assets in addition to other requirements that could be prescribed by the Cabinet Secretary, PSASB and other mandated body.
- Public entities are guided to apply accounting standards as currently approved by the PSASB

Non – Financial Assets



- Non - financial asset is an item that has its value determined by physical and tangible characteristic for example stores, equipment, land, buildings, animals, inventory, stock, natural resources like wildlife, intellectual rights vested in the state or proprietary rights. Non-financial assets include:
 - tangible/ fixed assets such as land, buildings, infrastructure, plant and equipment, transport assets, biological assets and, heritage and cultural assets;
 - intangible assets including IT software systems and intellectual property; and
 - inventories and other stocks held by public sector entities.

Financial Assets



- Financial assets refer to assets that arise from contractual agreements on future cash flows or from owning equity instruments of another entity. Examples of financial asset are:
 - Cash and bank
 - Equity instruments of other entities held by the entity (for example, shares).
 - A contractual right to receive cash or another financial asset from another entity (i.e. receivables).
 - A contractual right to exchange financial assets or financial liabilities with another entity under conditions that are potentially favorable to the entity (for example derivatives)

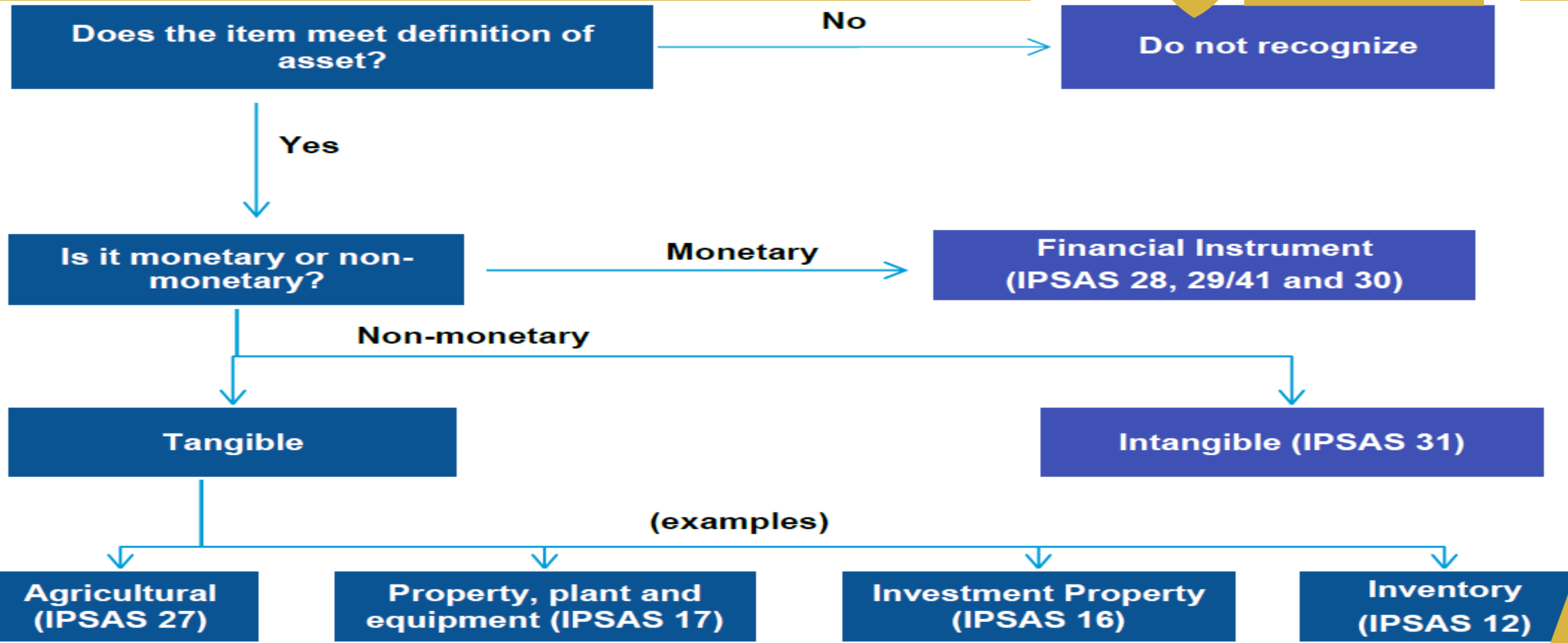
Categories of assets and liabilities in the guidelines



	Non- financial assets	Financial assets	Liabilities
1	Land	Investments	Loans payable/ borrowings
2	Building and building improvements	Loans receivable	Long term employee benefits
3	Investment property	Accounts receivable	Accounts payable
4	Intangible assets	Other receivables	Accruals
5	Heritage assets	Cash and cash equivalents	Provisions
6	Inventories	Contingent assets	Contingent liabilities
7	Road infrastructure		Other liabilities
8	Railway infrastructure		
9	Other infrastructure		
10	Motor vehicles and other transport assets		
11	Computers and other ICT equipment		
12	Furniture, fittings and equipment		
13	Plant & Machinery		
14	Biological assets		
15	Subsoil assets		

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IPSAS Implication



Recognition



- The cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if:
 - It is probable that future service potential or economic benefits associated with the item will flow to the entity; and
 - The cost or fair value of the item can be measured reliably.

Acquisition and measurement



An item of PPE can be acquired as follows:

1. Purchased (Normal terms such as credit or cash payment or exchanged with another asset – trade in)
2. Constructed (especially for buildings and other major plant and machinery)
3. Received as a donation.

End of period measurement



At the end of the financial period, an item of PPE should be measured at either:

1. Cost model - property, plant, and equipment is carried at its cost, less any accumulated depreciation and any accumulated impairment losses.

or

2. Revaluation model - property, plant, and equipment is carried at a revalued amount, being its fair value less any subsequent accumulated depreciation, and subsequent accumulated impairment losses.

Policy Implications

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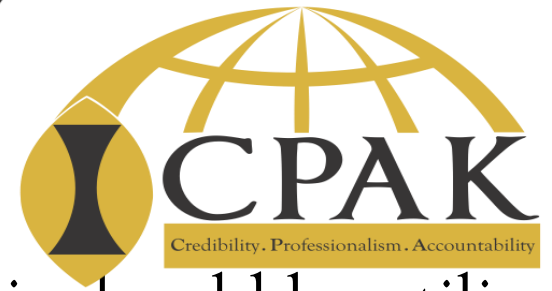


Identification and recording of non-financial assets



- A public sector entity shall identify all non-financial assets under their ownership and those held under finance leases.
- The Accounting Officer shall prepare registers of all non-financial assets using the approved formats.
- Where an asset does not have ownership documents due to various reasons, the Accounting Officer shall gazette the said assets. In the absence of objection from any party, the gazette notice shall serve as the document of ownership document.

Valuation



- Where information on the cost price of assets is available, this should be utilised. Where cost information is not available a value of Kshs 1.00 should be applied for the initial recognition. This will ensure that the asset is captured on the register, which will then represent a complete list of assets on hand, for management purposes.
- National Treasury, in conjunction with other stakeholders, shall provide policy direction on standard values which would then be applied to these older assets listed at Kshs 1. 00.
- Where an entity that has been using cash basis of accounting and has carried out valuations of its assets in the last 3 years, it could adopt those valuations for purposes of maintaining its asset registers.
- Revaluations of assets shall only be carried out with the approval of the National Treasury and shall be conducted by the Government valuer.

Accounting for non financial assets



- A public sector entity that adopts accrual accounting for the first time in accordance with International Accounting Standards shall initially recognize non-financial assets at cost or fair value. For assets that were acquired at no cost, or for a nominal cost, cost shall be taken to the asset's fair value as at the date of acquisition.
- The public sector entity shall recognise the effect of the initial recognition of non-financial assets as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which accrual accounting is first adopted in accordance with IPSAS or IAS.
- For entities that have already adopted accrual accounting, the Accounting Officer shall review the capitalization thresholds, useful lives/ depreciation rates as well as depreciation methods used and ensure alignment with these guidelines. Any variations shall be treated as changes in accounting estimates in the financial records and, treated in accordance with IAS 8 and IPSAS 3 - Accounting Policies, Changes in Accounting Estimates and Errors.

Accounting for financial assets



- ❑ Determination of opening balances of financial assets and liabilities involves a thorough examination of all records available. Each public sector entity needs to:
 - compile an aggregate list of all records for financial assets and liabilities;
 - check that the amounts recorded are correct;
 - check that the items are legally enforceable;
 - Ensure that the recorded amounts are complete to include all financial assets and liabilities;
 - assess the likelihood of recovering receivables – check that contact details for individuals or entities are correct and assess whether the individuals or entity has the ability to pay the amount owed;
 - where a write-off, write-down or waiver of financial assets and liabilities is proposed, the Accounting Officer needs to carry out any procedures required before such action, document the recommended action, record details of any approval obtained and update the financial records.
- ❑ The entire process needs to be thoroughly documented to enable opening balances to be established and to provide an audit trail.

And Finally.....

Asset management is more complex in the public sector than the
private sector ...

... public bodies are driven by policy for
common good





Thank You

