Technical Newsletter

ICPAK
Credibility. Professionalism. Accountability

About the INSTITUTE

The Institute of Certified Public Accountants of Kenya (ICPAK) is the professional organisation that regulates the activities of all Certified Public Accountants (the CPAs (K)) in Kenya. It was established in 1978 by the Accountants Act. Since then, ICPAK has been dedicated to the development and regulation of the accountancy profession in Kenya to enhance its contribution and that of its members to national economic growth and development. In 2008, a new Accountants Act was enacted to replace the 1978 Accountants Act to consider the various developments that had shaped the accounting profession in Kenya, and globally.

In line with The Accountants Act, one of the key functions of the Institute is to promote standards of professional competence and practice amongst members. As a member of The International Federation of Accountants (IFAC), the Institute ensures compliance to all the statements of member obligations and as such promoting compliance to standards within the practice of members and the country at large. The Institute participates actively in the standards setting process by actively commenting on exposure drafts thus contributing to setting high quality international standards that enhance the competence of professional accountants while strengthening the worldwide accountancy profession and contributing to strengthened public trust.

Preface

Keeping up with the most recent changes, initiatives, and standards is crucial for individuals and companies alike in the constantly changing world of global accounting standards and practices. Looking more closely at the highlights for first quarter of 2024, we see that a lot has changed and progressed, influencing how financial reporting and assurance are carried out. Highlights for the first quarter of 2024 show a determined effort to improve the standard, applicability, and dependability of assurance and financial reporting procedures, which in turn promotes confidence in the international financial system. These advances highlight the continued dedication of standard-setting bodies, industry stakeholders, and regulatory agencies to maintaining the highest levels of integrity and professionalism in accounting.

Highlights for QUARTER 1 2024

AMENDMENTS TO IAS 1 - CLASSIFICATION OF LIABILITIES AS CURRENT OR NON-CURRENT

With the implementation of the two modifications to IAS 1 in 2024, for a liability to be categorized as non-current, a firm must have the right to defer settlement of the liability for at least twelve months after the reporting period. The right must be substantial, remain in effect at the conclusion of the reporting period, and have no bearing on how the obligation is classified considering the possibility that the corporation would use the right. Covenants that a business must abide by, by the end of the reporting period or before will have an impact on whether a right of that kind still exists at that time.

IFRS 18 - PRESENTATION AND DISCLOSURE IN FINANCIAL STATEMENTS (New Standard to replace IAS 1)

The International Accounting Standards Board (IASB) has issued IFRS 18 as a replacement for IAS 1 and is effective from January 1, 2027. The new standard addresses gaps in the IAS 1 standard, such as income and expense classification, subtotal presentation, and grouping information. It aims to ensure comparability, transparency, and increased utility for investors.

The IFRS 18 standard introduces three changes to the financial reporting process. The first is the introduction of new subtotals in the income statement, requiring organizations to present operating profit or loss, profit or loss before financing, income taxes, and profit or loss. The second change is the identification of management-defined performance measures (MPMs) and their disclosure in notes to the financial statements. The third change is the introduction of consistent principles for grouping and labeling items. Organizations must disclose specified expenses in depreciation, amortization, employee benefits, impairment losses, inventory write-downs, and reversals, and make limited changes to the cash-flow statement under IFRS 18.

The standard requires retrospective application for annual reporting periods. Reconciliations for each line item in the statement of profit or loss must be disclosed, showing how their restated amount reconciles with previous financial statements. For first-time application, specific requirements are included for totals and subtotals. Additionally, venture capital organizations can change to measuring investments at fair value through profit or loss when applying IFRS 18 for the first time.

AMENDMENTS TO IFRS 16 - LEASE LIABILITY IN A SALE AND LEASE BACK

By integrating the subsequent measurement requirements for lease liabilities unrelated to a sale and leaseback transaction to lease liabilities arising from a leaseback, a seller-lessee is obligated by the amendments to IFRS 16 to recognize no amount of gain or loss related to the right of use that it retains.

INTERNATIONAL STANDARD ON AUDITING OF LESS COMPLEX ENTITIES (LCE)

The International Standard on Auditing of Less Complex Entities (ISA for LCE) was issued in December 2023, marking a significant milestone for the accountancy profession, particularly for accountants and auditors working with smaller and less complex businesses. The new standard is tailored to meet the specific audit needs of these entities, which play a vital role in the world's economy. The International Standards on Auditing for Less Complex Entities is applicable to users of financial statements, owners, management, and those charged with governance, preparers of financial statements, legislative or regulatory authorities, professional accountancy organizations, academics, regulators, and audit oversight bodies.

It is a standalone global auditing standard built on the foundation of the International Standards on Auditing (ISAs) and aims to provide reasonable assurance for eligible audits. The International Standards on Auditing for Less Complex Entities can be used for audits of group financial statements when component auditors are not involved or in limited circumstances, but listed entities or those with a public interest characteristic are excluded from using it.

INTERNATIONAL FINANCIAL REPORTING STANDARDS S1 & S2

The Institute of Certified Public Accountants of Kenya (ICPAK) together with key stakeholders announced the adoption of International Financial Reporting Standards (IFRS) S1 and S2 in Kenya, aiming to guide enterprises in monitoring, managing, and disclosing their sustainability impacts and climate risks. IFRS S1 emphasizes materiality, completeness, reliability, and comparability in reporting sustainability information, enhancing its usefulness and credibility. IFRS S2 provides detailed guidance on reporting greenhouse gas emissions, water usage, biodiversity conservation, and other key environmental indicators. The implementation of IFRS S1 and S2 empowers businesses to embrace sustainability as a core aspect of their operations, driving positive impacts for society and the environment while safeguarding long-term financial performance. These standards promote transparency, accountability, and trust among stakeholders.

The International Sustainability Standards Board (ISSB) has initiated engagement with jurisdictions and companies to support the adoption of IFRS S1 and S2 since June 2023. This includes forming a Transition Implementation Group to assist companies applying the standards and launching capacity-building initiatives. The ISSB is also working with jurisdictions requiring incremental disclosures and Global Reporting Initiative (GRI) to ensure effective reporting when combined with other reporting standards. Locally, ICPAK is collaborating with industry players, regulators, and development partners to ensure compliance with the new standards. A Multi Stakeholder Sustainability and Climate Change Reporting Committee has been established to develop an implementation roadmap for the new standard.

IFRS S1 and IFRS S2 are effective for annual reporting periods beginning on or after 1 January 2024.However, jurisdictions must first endorse the standards in order for them to become effective, and they may choose a later effective date. The standards have been adopted with the intention to stagger the mandatory reporting for different entities. The detailed roadmap for each sector will be discussed in the National Steering Committee and an adoption guideline issued.

Owing to the diverse reporting capabilities and data integrity requirements for organizations in different sectors in Kenya, it is recommended that the adoption of IFRS Sustainability disclosure standards would be a phased approach with full application of the mandatory reporting for reporting entities from the 2027 reporting year onwards. The adoption would thus be phased and would factor in the early adopters, voluntary adopters and government & government organizations.

INTERNATIONAL STANDARDS ON SUSTAINABILITY ASSURANCE 5000-GENERAL REQUIREMENTS FOR SUSTAINABILITY ASSURANCE ENGAGEMENTS

The comprehensive standard ISSA 5000 contains guidelines and supporting documentation for each step of a sustainability assurance project. It enhances trust and confidence in financial as well as non-financial reporting and is largely dependent on external assurance. A first worldwide sustainability assurance standard has been developed by the International Auditing and Assurance Standards Board with the aim of boosting the trust and confidence that investors, regulators, and other stakeholders have in sustainability information.

A comprehensive, stand-alone standard appropriate for any sustainability assurance engagement will be provided by the proposed International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements. It will be applicable to sustainability data prepared under various frameworks, including the recently adopted IFRS Sustainability Disclosure Standards S1 and S2, and reported on any topic related to sustainability. Because the proposed standard is profession-neutral, assurance practitioners who aren't accountants or professionals in the field can utilize it as well.

ISSA 5000, which will act as the basis for assurance and address both limited and reasonable assurance, is currently being developed by the International Auditing and Assurance Standards Board (IAASB). International Independence Standards are part of the International Code of Ethics for Professional Accountants, which was issued by the International Ethics Standards Board for Accountants. A quality management system that is at least as stringent as the IAASB's quality management requirements is the proposed International Standard on Sustainability. Proposed ISSA 5000 is another standard based on concepts; it is more focused on principles or outcomes than on procedures or processes. This allows the assurance practitioner to use their professional judgment to plan and execute the assurance engagement. The final standard will be issued before the end of 2024.

INTERNATIONAL FINANCIAL REPORTING FOR NON-PROFIT ORGANIZATION (IFR4NPO)

A once-in-a-generation chance to revolutionize the financial reporting environment and establish a far stronger basis for the non-profit sector to exhibit its responsibility and win over the confidence of its numerous stakeholders is presented by the International Financial Reporting for Non-Profit Organization initiative.

The goal of IFR4NPO is to create the first Finan-

cial Reporting guidelines for non-profit organizations (NPOs) that will be applicable internationally. This will improve the consistency and clarity of NPO financial reporting, boosting the not-for-profit industry's reputation and fostering global confidence. When it comes to preparing their annual audited accounts, NGOs and other non-profit organizations are not guided by any international norms. Although a few nations have their own NPO regulations, these vary from one jurisdiction to another. International norms for corporations do not cover every demand of stakeholders in non-profit organizations, such as grant accounting. The guidance will take into consideration accounting concerns as well as narrative reports that accompany financial statements and apply to the sector-specific elements of the yearly general purpose financial reports.

The guidelines are still at the Exposure Draft (ED) stage with ED 3 expected to be released in May 2024.

IFRS TAXONOMY

A defined collection of electronic codes or tags known as the IFRS Taxonomy is used to annotate financial data in line with International Financial Reporting Standards (IFRS). Its goal is to make it easier for financial data from different organizations and jurisdictions to be analyzed and compared by facilitating the electronic interchange of financial data in a standard and structured format. The International Financial Reporting Standards Foundation (IFRS Foundation) is responsible for creating and updating the IFRS Taxonomy. It offers a standard language for submitting financial data in a machine-readable manner, which software programs can use for a range of functions including financial reporting, regulatory compliance, and analysis.

Balance sheets, income statements, cash flow statements, and notes to financial statements are only a few of the many components that make up the taxonomy's extensive collection of components covering many facets of financial reporting. These components stand in for many terms and objects that are commonly encountered in financial reports, including equity, revenues, expenses, assets, and liabilities.

Companies can prepare their financial statements in an international standard-compliant structured format by using the IFRS Taxonomy. This facilitates access to, analysis of, and comparison of financial data among various organizations and jurisdictions for investors, analysts, regulators, and other stakeholders. Additionally, it encourages financial reporting that is transparent, consistent, and comparable, which eventually improves the accuracy and dependability of financial data. All things considered, the IFRS Taxonomy is essential for encouraging the use of international accounting standards and making it easier for financial information to be electronically exchanged in a globalized company context.

For further enquiries on financial reporting, adoption of standards and other related technical matters please reach out to the Standards & Technical Services Directorate and the Professional Standards Committee of ICPAK on technicalservices@icpak.com or through ceo@icpak.com