

Adopting and implementation of International Public Sector Accounting Standards (IPSAS) in Kenya



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There is increasing demand for public accountability and transparency by all stakeholders in the Public Sector in Kenya. Frequent revelations during the Public Accounts Committee (PAC) hearing on the Auditor General's reports raises issues of financial accountability and transparency.

In the past, financial reporting by the Kenya Government has largely been seen to be inadequate. The government ministries/bodies do not provide understandable financial reports, and on the contrary, the reports have been complex, confusing and voluminous. It doesn't help that the basis of preparation of government financial reports; Government Financial Regulations and Procedures date back to 1989.

The preparation of transparent and understandable financial statements is an important way for Government departments/bodies to demonstrate their accountability to the citizens who fund them through taxes and as well to development partners who often contribute to the development activities of Government.

International Public Sector Accounting Standards (IPSAS) are a set of high quality, independently developed accounting standards aimed at meeting the financial reporting needs of the Public Sector. IPSAS are developed by the International Public Sector Accounting Standard Board (IPSASB) which is an arm of the International Federation of Accountants (IFAC); the global organization for the accounting profession founded in 1977. IFAC currently has 157 member bodies

drawn from 122 countries. It represents 2.5 million accountants around the world, employed in public practice, industry and commerce, government and academia.

The term Public Sector in this perspective refers to Central Government (Ministries and their Departments), Regional/Local Government (Local Authorities) and related Governmental entities (e.g. Agencies, Boards and Commissions).

For the purpose of adoption and implementation of IPSAS, Public Sector definition does not include Government Business Enterprises (GBEs); which should adopt or have adopted International Financial Reporting Standards (IFRS). This is because, GBEs are in many ways similar to commercial enterprises and operate with an aim of meeting their costs and making a return on investments. GBEs as well rely on funds generated from their own operations rather than from national budgetary allocations.

Transition to IPSAS as an accounting framework is designed to improve the quality and consistency of financial reporting, enhance transparency and accountability, facilitate better decision making and financial management and good governance in our entire Public Sector.

The above reform in financial reporting will mean that the Government will now be able to produce a consolidated set of general purpose financial statements

– It will be interesting and encouraging to see a set of Government of Kenya’s consolidated financial statements just like we usually have financial statements from any company listed on the Nairobi Stock Exchange!

This transformational process is however not without challenges

Adoption and implementation of IPSAS is not a requirement for the Government or any of its entities, it is a best practice issue, IPSASB or even IFAC cannot enforce compliance. The success of IPSAS adoption and implementation in Kenya will therefore only depend on the efforts of various stakeholders who support the improvement of financial management and reporting in the public sector.

Related to the above is the fact that the Financial Management Act 2004 which is in use today as a basis of preparation of Government’s financial statements and as well the Government Financial Regulations and procedures 1989, do not mention IPSAS neither prescribe it as a basis of financial statements preparation. A legal framework will therefore require to be crafted which will prescribe IPSAS as a basis of preparation of Government financial statements; it is from here that the implementation process will commence.

The number of qualified accountants in Kenya has increased tremendously over the years in both the private and public sector. However the IPSAS is a new concept which is not understood by many. The Government as the leading user of these standards will therefore require to undertake massive capacity building to enlighten its accountants on IPSAS. This is going to be a challenge both in terms of capacity building costs and the required change management issues from the traditional cash accounting to a more business like accounting under accrual basis IPSAS.

With the adoption and implementation of IPSAS, the financial information management system of the Government will require to be upgraded to cope with the financial data requirements of these standards. The current Integrated Financial Management System (IFMIS) in use by the Government for financial management will therefore require to be evaluated for adequacy with the adoption of the new accounting standards. Capacity building will likewise require to be undertaken in this area to ensure that it does not become an implementation drawback.

The adoption of this new financial reporting framework will herald significant changes to the systems and process of financial reporting by the government. This may come with new formats and financial reporting



templates requirements of the various government entities. It will require Government accountants in various ministries to adopt changes from the usual, routine reporting structure. People generally resist change and therefore change management processes require to be incorporated to the adoption and implementation roadmap.

It is notable that some progress has been made towards IPSAS adoption in Kenya; the Office of the Accountant General has issued a circular requiring the Government’s donor funded projects to prepare their financial reports on the basis of IPSAS. The Ministry of Local Government through the Kenya Local Government Reform Programme has also prepared an IPSAS based financial reporting template to be adopted by all the 175 local authorities in the preparation of their financial reports. It is also significant to note that we have a Kenyan board member of the International Public Sector Accounting Standards Board (IPSASB) who is the only representative from Africa.

The main challenge therefore remains that; for an all embracing IPSAS adoption and implementation, the Financial Management Act or any other legal framework for the preparation of Government’s financial statements will have to be revised in order to entrench IPSAS basis in the financial management law. This adoption by the Government will lead to a wave of clear modernization of financial reporting by the public sector. It is definite that all qualifying organizations will follow suite.

The stakeholders to this New Public Management initiative will need to be spearheaded by the Department of Government Accounts at the Ministry of Finance and the Institute of Certified Public Accounts of Kenya (ICPAK). It will also be essential for the Kenya National Audit Office (KENAO) to provide the Auditor’s perspective to the adoption and implementation process.

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