



Public Sector Accounting Standards Board

Annual Report on Board activities for the
period to 30th June 2016

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ACRONYMS

| | |
|-------|--|
| AGD | Accountant General's Department |
| CFSs | Consolidated Fund Services |
| CGs | County Governments |
| CoB | Controller of Budget |
| ESAAG | East and Southern Africa Accountants General |
| FiRe | Financial Reporting Excellence |
| GOE | Government Owned Enterprises Committee |
| GSC | Governance and Strategy Committee |
| IAC | Internal Audit Committee |
| ICPAK | Institute of Certified Public Accountants of Kenya |
| IAS | International Accounting Standards |
| IASB | International Accounting Standards Board |
| IFRS | International Financial Reporting Standards |
| IIA | Institute of Internal Auditors |
| IMF | International Monetary Fund |
| IPPF | International Professional Practice Framework |
| IPSAS | International Public Sector Accounting Standards |
| ISA | International Standards on Auditing |
| MBA | Masters of Business Administration |
| MDAs | Ministries, Departments and Agencies |
| NCG | National and County Governments Committee |
| OAG | Office of the Auditor General |
| PFM | Public Finance Management |
| PFMR | Public Finance Management Reforms |
| PSASB | Public Sector Accounting Standards Board |
| SCs | State Corporations |
| SAGAs | Semi Autonomous Government Agencies |

KEY ENTITY INFORMATION

Background information

The Public Sector Accounting Standards Board (PSASB) was established and constituted in accordance to sections 192 and 193 of the PFM Act, 2012 on 28th February 2014. At the Cabinet level, the Board is represented by the Cabinet Secretary to the National Treasury.

Principal Activities

The principal activities of the Board are to:

1. Set generally accepted accounting and financial system standards for the public sector.
2. Develop and pronounce generally accepted internal auditing standards.
3. Mainstreaming of best practices for good governance, internal controls and risk management in the public sector.

Registered Office

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Nairobi

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Central Bank of Kenya
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P.O. Box 60000
City Square 00200
Nairobi, Kenya

Principal Legal Advisor

The Attorney General
State Law Office
Harambee Avenue
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Auditor

Auditor General
Office of Auditor General
Anniversary Towers
P. O. Box 30084-00100
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Message from the Chairman of the Board



It is my honour to present the second annual report of the Public Sector Accounting Standards Board (PSASB) covering the financial year 2015/2016. The Board continues to record achievements in financial reporting and internal audit frameworks within the public sector. In this regard, I want to appreciate the role played the Board and Secretariat members towards realization of the Board's Mandate.

The financial year 2015/2016, the Board continues to register improvements in financial reporting as result of key interventions that include development of quarterly financial reporting tools, continued training and capacity building of public sector accountants and auditors, Board members and the Secretariat, and participation in the FiRe Award scheme among others.

To have been able to reach to this level of performance I wish to acknowledge the enormous support from the National Treasury, DANIDA through Public Finance Management Reforms (PFMR) and World Bank for providing funding. I also wish to thank ICPAK and IMF East-AFRITAC for providing technical support.

The Board has developed and approved a five (5) year strategic plan from 2015/2016 to 2020/2021 which will guide the Board towards the attainment of the Board's Vision, Mission and Core Values.

To ensure that the momentum created by the board since its formation in 2014 is sustained, the Board has lined up a number of initiatives that include: strengthening the Secretariat by way of filling up vacant positions once the structure is approved by relevant authorities; and laying the foundation to allow public sector entities currently reporting under cash basis to migrate to accrual basis of accounting. The migration to accrual is going to be involving as it will require improvements to the legal and policy framework, asset and liabilities policy, accounting system, training and capacity building, stakeholder engagement and resource mobilization.

Finally I thank all our stakeholders, the Board and Secretariat for their commitment and tireless effort towards the achievement of the goals and objectives of the Board and by extension for taking our country finance management reform agenda to greater heights.

A handwritten signature in blue ink, likely belonging to CPA Bernard Ndungu, MBS, the Chairman of the Public Sector Accounting Standards Board. The signature is stylized and appears to be written on a light blue background.

CPA Bernard Ndungu, MBS
Chairman: Public Sector Accounting Standards Board

Message from the head of Secretariat

It is my pleasure to present the Board's annual report for the period 2015/2016 which covers the activities performed during this period. The Board, in FY 2015/2016, carried out a number of initiatives which included improving and enhancing disclosures on the annual reporting templates, development of quarterly financial reports as well as sustained capacity building through training workshops at Kenya school of Government. A total of 1,800 accountants and internal auditors were trained during the months of July and August 2015 and January and February 2016.

During the period 2015/2016, the Board members and the Secretariat undertook benchmarking visits to learn and share experiences within the region and beyond. These visits included: the inaugural public sectors setters Forum in USA; the Government Accounting standards Board of USA; the Malaysia's Institute of certified Accountants; and the Accountant General Office at the Philippines Ministry of Finance.

In collaboration with the National Treasury consolidated financial were prepared for the financial year 2014/2015 during the months of July to October 2015.

The Board joined the FiRe Award scheme as a partner in promoting the financial reporting in the public sector entities alongside the private sector players where a total of 303 public sector entities participated in the award. A total of 12 public sector entities won awards in the 2016 in various categories. This marked the start of a milestone for the future events and the improvement it is going to contribute this journey.

During this period we witnessed the appointment of some Board members to International and local professional bodies to represent the Board which we appreciate as way of recognizing the role the board plays in the promotion of the international standards in Kenya's public sector. To this regards, our Chairman Mr. Bernard Ndungu was appointed to the Consultative Advisory Group (CAG) an international forum that provides advice to the international IPSAS Board that sits in the USA. Mr. Macklin Ogolla, one of our Board members was appointed to the ICPAK committee on public sector governance while Mr. David Gichana was appointed to the ICPAK's professional standards committee.

The Board in collaboration with the Internal Audit Department also developed Audit Committee Guidelines that were gazetted in April 2016 for implementation.

Despite the achievements enlisted above the Board was faced with the following challenges which include; limited capacity and technical expertise at the Secretariat; lack of Board communication strategy; and lack of an appropriate stakeholder engagement strategy.

As a way to overcoming these challenges, we shall be dedicating resources and effort to build on the existing foundation and scale up the implementation of standards to accrual accounting which requires concerted support by all the stakeholders. Lastly I take this opportunity to thank the Board, stakeholders and development partners for their cooperation, commitment and support in this journey.



CPA Patrick Abachi
Ag. Head of Secretariat: Public Sector Accounting Standards Board

Profile of Board Members



Bernard Ndungu - Chairman

He represents the National Treasury in the Board. Bernard holds a Bachelor of Commerce degree (finance option) from the University of Nairobi. He is also a Certified Public Accountant and a member of the Institute of Certified Public Accountants of Kenya (ICPAK). He is the Director General – Accounting services and Quality Assurance at the National Treasury.



Comm. Anne Elizabeth Owuor

She represents the Institute of Certified Public Accountants of Kenya. She is a holder of Masters of Business Administration (MBA) Finance from USA, Masters in Science in Audit Management & Consultancy University of Central England Birmingham, a Post Graduate Diploma in Audit Management & Consultancy – University of Central England Birmingham, Diploma in Board Competence & Board Practice from Oslo and Akershus University College of Applied Sciences in Norway. She is also a Certified Internal Auditor, Certified Risk Management and Assurance. She is currently pursuing a Doctorate in Philosophy from University of South Africa (UNISA). She is a Commissioner with the Salaries and Remuneration Commission.



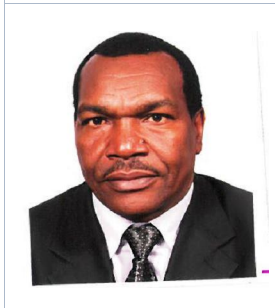
Esther Maiyo

She represents the Capital Markets Authority in the Board. She holds a Master of Business Administration degree and a Bachelor of Commerce. Esther is a Certified Public Accountant and a Certified Public Secretary of Kenya. She also holds a Certified Information Systems Auditor (CISA) designation. She works for the Capital Markets Authority where she has held various management positions in Internal Audit, Market Supervision, Financial Analysis, Accounting and Risk Management.



Sophie Moturi

She represents the Association of Professional Societies of East Africa (APSEA). She holds a Master of Banking and Finance degree from Moi University and a Bachelor of Commerce degree (Accounting) from the University of Nairobi. She is also a Certified Public Accountant and a member of (ICPAK). Sophie is a Director at Bomo Ltd and a Governing Council Member at the International Leadership University.



Lazarus Kimang'a

Represents the Institute of Certified Public Secretaries of Kenya (ICPSK) in the Board. He holds an MBA degree in Finance from the University of Nairobi and a Master of Commerce degree in International Business Management from Strathmore University. He also trained in Financial Management at Templeton College, University of Oxford. He is a Fellow Certified Secretary and Fellow Certified Public Accountant. He is Chairman of Registration Committee, Institute of Certified Investment and Financial Analysts.



Humphrey Ogola Wanyama

He represented the Office of the Auditor General (OAG) in the Board up to 10th February 2016. He holds a Bachelor of Commerce (Accounting option) degree and is a Certified Public Accountant of Kenya. He was then the Deputy Auditor General, in the Office of the Auditor General.



Macklin A. Ogolla

Mr. Ogolla represents the Office of the Controller of Budget (COB) in the Board. He holds an MBA degree from Moi University and a Bachelor of Science degree from the University of Nairobi. Mr. Ogolla is also a Certified Public Accountant and a member (ICPAK). He is the Director of Corporate Services at the office of the COB.



Charles Cheruiyot

He represents the Institute of Internal Auditors (IIA) in the Board. He holds an MBA degree and a Bachelor of Commerce degree both from the University of Nairobi. He is also a Certified Public Accountant and a Certified Internal Auditor. He is a member of the Institute of Certified Public Accountants of Kenya. He is the Chief Internal Auditor at Kenya Power & Lighting Company Ltd.



David Gichana

He represents the Office of the Auditor General (OAG) in the Board with effect from 10th February 2016. He holds an MBA degree and a Bachelor of Commerce degree both from the University of Nairobi. He is also a Certified Public Accountant and a Certified Internal Auditor. He is a member of the Institute of Certified Public Accountants of Kenya. He is a Deputy Auditor General at the Office of the Auditor General.



Patrick Abachi- Acting Head of Secretariat and Secretary to the Board

Mr. Abachi is the Acting Head of PSASB secretariat and also the secretary to the Board. He holds a Bachelor of Commerce degree and is currently pursuing an MBA from Kenyatta University. He is a Certified Public Accountant and a council member at the Cooperative University of Kenya. Mr. Abachi also chairs Boards of Management of various Secondary Schools. He is a career civil servant spanning over 30 years of service in various Ministries and State Departments.

The Board Secretariat

The Board is supported in its functions by a full time Secretariat which has been set up pursuant to Section 193 (5) of the PFM Act, 2012. The Secretariat provides administrative and technical support to the Board in the execution of its mandate and functions.

The Secretariat is formed by members who are full time employees of the institutions they represent and is hosted at the National Treasury for the time being. During the period 1 July 2015 to 30 June 2016, the Secretariat played an instrumental role to ensure implementation of the Board's mandate. This was achieved through effective and efficient allocation of resources.

The composition of the Secretariat was as follows:

Technical Staff

| | Name | Position | Department |
|---|-------------------|-------------------------|---|
| 1 | Patrick Abachi | Head of the Secretariat | Accountant General Department |
| 2 | Mary Wanyonyi | Secretariat member | Accountant General Department(left in June 2016) |
| 3 | Beatrice Gathirwa | Secretariat member | Government Investments and Public Enterprises |
| 4 | Cheryl Majiwa | Secretariat member | Government Investments and Public Enterprises |
| 5 | Daniel Nyaga | Secretariat member | Internal Audit Department |
| 6 | Faith Waithera | Secretariat member | Internal Audit Department |
| 7 | Paul Chege | Secretariat member | Technical Consultant |
| 8 | Georgina Muchai | Secretariat member | Institute of Certified Public Accountants of Kenya. |
| 9 | Billy Mathu | Secretariat member | Accountant General Department |

Support staff

| | Name | Position | Department |
|---|----------------|--------------------|-------------------------------|
| 1 | Irene Ndung'u | Secretariat member | Accountant General Department |
| 2 | Diana Ng'ang'a | Secretariat member | Accountant General Department |
| 3 | Rose Wanja | Secretariat member | Accountant General Department |

Corporate Governance

The Board was gazetted on 28th February 2014 pursuant to Sections 192 to 195 of the Public Finance Management Act, 2012. Various committees of the Board were constituted in May 2014.

Composition of the Board

The PSASB consists of representatives from nine institutions and serve on a part time basis. These institutions are: The National Treasury, Controller of Budget, Intergovernmental Budget and Economic Council, the Auditor General, Institute of Certified Public Accountants of Kenya, the Association of Professional Societies of East Africa, Capital Markets Authority, Institute of Internal Auditors and the Institute of Certified Public Secretaries of Kenya.

These members are nominated by their institutions and gazetted by the Cabinet Secretary, National Treasury. The chairman to the Board is appointed by the Cabinet Secretary from among the nominated members. A summary of the members and their nominating institutions is as follows:

| No. | Member | Nominating Institution |
|-----|--------------------------|--|
| 1 | Bernard Ndungu- Chairman | The National Treasury |
| 2 | Macklin Ogolla | Office of the Controller of Budget |
| 3 | David Gichana | Office of the Auditor General |
| 4 | Anne E Owuor | Institute of Certified Public Accountants of Kenya |
| 5 | Sophie Moturi | Association of Professional Societies of East Africa |
| 6 | Esther Maiyo | Capital Markets Authority |
| 7 | Charles Cheruiyot | Institute of Internal Auditors |
| 8 | Lazarus Kimang'a | Institute of Certified Public Secretaries of Kenya |

The Intergovernmental Budget and Economic Council (IBEC) was not represented in the Board during the period.

Board diversity

The Board is constituted by members who have experience in accountancy, auditing, corporate governance and management. The Board's mandate is to prescribe accounting and internal audit standards for all state organs and public entities and therefore the members are required to have technical knowledge in accountancy and /or audit. The biographies of the Board members are disclosed on pages 7 and 8 of this report. The Board has achieved 1/3 gender balance since it has three female members out of nine.

Roles and Responsibilities of directors

The roles and responsibilities of members are outlined in section 194 of the PFM Act, 2012. These roles and responsibilities are detailed in the Board's five year strategic plan (2015/2016- 2020/2021) and in the Board's annual work plans.

Board composition and Committees

The following table represents the Board composition and its committees. There are four committees of the Board and each member is appointed to two committees. Each committee has a total of four members. The table below shows the chairs and members of each committee of the Board.

| Ref | Members | Full Board | Governance and Strategy (GSC) | National and County Governments (NCG) | Government Owned Enterprises (GOE) | Internal Audit committee (IAC) |
|-----|---|------------|-------------------------------|---------------------------------------|------------------------------------|--------------------------------|
| 1 | Bernard Ndungu | √* | | | | |
| 2 | Macklin Ogolla | √ | √ | √ | | |
| 3 | Sophie Moturi | √ | √ | | √* | |
| 4 | Humphrey Wanyama (up to 10 th February 2016) | √ | | √ | √ | |
| 5 | David Gichana (with effect from 10 th February 2016) | √ | | √ | √ | |
| 6 | Esther Maiyo | √ | | | √ | √* |
| 7 | Lazarus Kimanga | √ | √* | | | √ |
| 8 | Anne Owour | √ | | √* | | √ |
| 9 | Charles Cheruiyot | √ | √ | | | √ |

*Chairman of the Board/Committee

Board attendance

Best practice requires that every Board member attends a minimum of 75% of all Board meetings. Below is an extract from the attendance register for the Board meetings held in the period from 1 July 2015 to 30 June 2016:

| No | Members | 6 th Aug.2015 | 15 th Dec.2015 | 7 th June2016 | % |
|----|-------------------|--------------------------|---------------------------|--------------------------|-----|
| 1 | Bernard Ndungu | √ | √ | √ | 100 |
| 2 | Macklin Ogolla | √ | √ | √ | 100 |
| 3 | Sophie Moturi | √ | √ | √ | 100 |
| 4 | Humphrey Wanyama | - | √ | n/a | 50 |
| 5 | David Gichana* | n/a | n/a | - | - |
| 6 | Esther Maiyo | √ | √ | √ | 100 |
| 7 | Lazarus Kimang'a | √ | √ | √ | 100 |
| 8 | Anne Owour | √ | √ | √ | 100 |
| 9 | Charles Cheruiyot | √ | √ | √ | 100 |

- ❖ David Gichana was appointed on 10th February 2016 to replace Mr. Humphrey Wanyama, both representing the Office of the Auditor General, following Mr. Wanyama's retirement from the OAG.
- ❖ There were three Special Board Meetings which were held on the 8th September 2015, 21st October 2015 and 25th February 2016. The meetings were held to arrange for the 2015 FiRe award event, the ESAAG conference held in March 2016 and approve the quarterly.

Below is a summary of the general functions and members' attendance of each of the committee of the Board:

- i. **Governance and Strategy Committee:** This Committee deals with promotion of good governance, enhancing capacity, and giving strategic direction to the Board and Secretariat.

| Members | 23 rd July 2015 | 8 th Dec 2015 | 2 nd June 2016 |
|-------------------|----------------------------|--------------------------|---------------------------|
| Lazarus Kimang'a* | √ | √ | √ |
| Sophie Moturi | √ | - | √ |
| Bernard Ndungu | √ | √ | √ |
| Macklin Ogolla | - | √ | √ |
| Charles Cheruiyot | √ | √ | √ |

*Chairperson to the committee

- ii. **National and County Committee:** The NCG committee deals with financial reporting matters and capacity building for National Government Ministries Departments and Agencies (MDAs) and County Governments (CGs).

| Members | 17 th July 2015 | 25 th Nov 2015 | 17 th May 2015 |
|------------------|----------------------------|---------------------------|---------------------------|
| Anne E. Owuor* | √ | √ | - |
| Humphrey Wanyama | √ | √ | √ |
| Macklin Ogolla | √ | √ | |
| Bernard Ndungu** | √ | - | √ |
| Sophie Moturi** | - | √ | - |
| David Gichana*** | n/a | n/a | √ |

*Chairperson to the committee

** Mr. Bernard Ndungu and Mrs. Sophie Moturi attended by invitation to discuss on areas of specialisation.

*** David Gichana replaced Humphrey Ogolla in the NCG committee following his appointment on 10th February 2016.

- iii. **Government Owned Enterprises Committee:** GOE deals with financial reporting matters and capacity building for State Corporations (SCs) and Semi-Autonomous Government Agencies (SAGAs) in public sector.

| Members | 14 th July 2015 | 23 rd Nov 2015 | 19 th May 2016 |
|-------------------|----------------------------|---------------------------|---------------------------|
| Sophie Moturi* | √ | √ | √ |
| Humphrey Wanyama | √ | √ | n/a |
| David Gichana** | n/a | n/a | √ |
| Esther Maiyo | √ | √ | √ |
| Bernard Ndungu*** | - | - | √ |

*Chairperson to the committee

** David Gichana replaced Humphrey Ogolla in the NCG committee following his appointment on 10th February 2016.

*** Mr. Bernard Ndungu attended by invitation to discuss on area of specialisation.

- iv. **Internal Audit committee:** The IAC committee advises the Board on internal audit matters and capacity building within the area of internal audit in the public sector.

| Members | 28 th July 2015 | 18 th Nov 2015 | 14 th Dec 2015 | 13 th Jan 2016 | 26 th May 2016 |
|-------------------|----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Esther Maiyo* | √ | √ | √ | √ | √ |
| Anne E. Owuor | √ | √ | √ | √ | √ |
| Charles Cheruiyot | √ | - | √ | √ | √ |
| Lazarus Kimang'a | √ | √ | √ | √ | √ |
| Bernard Ndungu** | n/a | n/a | n/a | n/a | √ |
| Alfayo Mogaka*** | n/a | n/a | n/a | n/a | √ |

*Chairperson to the committee

*** Mr. Bernard Ndungu attended by invitation to discuss on area of specialisation.

*** Alfayo Mogaka is a co-opted member to the Internal Audit Committee. He is the Internal Auditor General at the National Treasury.

Term of Board members

The term of the Board is outlined under the amended provision of PFM Act, 2012 section 193(4). Members except ex-officio members shall be appointed by the Cabinet Secretary National Treasury, and serve for a term of not more than three (3) years renewable once for a further term of three years. In doing so, the appointment is staggered to ensure succession planning.

Compliance to laws and other legal requirements

PSASB as a responsible corporate citizen is alive to tenets of the Constitution of Kenya and is fully compliant with the provisions of the PFM Act, 2012 under which the Board is established. The Board also ensures compliance to the PFM Act, 2012 by public sector entities through sensitization and training.

Board remuneration

As per PFM Act, 2012 Section 195(2), the remuneration payable to members of the Board including allowances and per diem is determined by the Salaries and Remuneration Commission and Public Service Commission.

Conflict of interest and Declaration of interest

The Board members have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Organisation. All transactions with all parties, directors or their related parties are carried out at arm's length. Board members are obligated to disclose to the board any real or potential conflict of interest, which comes to his/her attention whether direct or indirect. During every Board meeting, an agenda item exists which requires members to make a declaration of any interest they may have in the business to be discussed.

1 Executive summary

1.1 Background

The Public Sector Accounting Standards Board (PSASB) is a statutory, standard setting body established under the Sections 192 to 195 of the Public Financial Management Act, 2012. The Board is mandated to provide frameworks and set generally accepted standards for the development and management of accounting and financial systems by all state organs and public entities.

The Board was established as part of PFM reforms in Kenya. The reforms are part of a wider global recognition of the necessity to improve financial management and the quality of financial information among public and private sector organizations.

The mandate and functions of the PSASB are established pursuant to Sections 192 to 195 of the Public Financial Management Act, 2012. The purpose or mandate of the Board can be summarised as being to:

- Set generally accepted accounting and financial system standards for the public sector.
- Develop and pronounce generally accepted internal auditing standards.
- Mainstreaming of best practices for good governance, internal controls and risk management in the public sector.

The PSASB is therefore established as the ‘de facto’ and only authorised setter of financial accounting and internal audit standards for the public sector in Kenya.

The Board is a representative entity and consists of nominees from the following representing entities:

- i. National Treasury
- ii. Office of the Controller of Budget
- iii. Intergovernmental Budget and Economic Council
- iv. Office of the Auditor-General
- v. Institute of Certified Public Accountants of Kenya
- vi. Association of Professional Societies of East Africa
- vii. Capital Markets Authority
- viii. Institute of Internal Auditors
- ix. Institute of Certified Public Secretaries of Kenya

The Board is supported in its functions by a full time Secretariat. The Secretariat provides administrative and technical support to the Board in the execution of its mandate and functions.

1.2 Vision, mission and core values of the Board

1.2.1 Vision of the Board

To enhance quality and reliability of financial information to safeguard the public interest through transparent and accountable financial reporting.

1.2.2 Mission of the Board

To promote sound financial reporting and internal auditing standards for transparency and accountability in the Public Sector

1.2.3 Core values of the Board

PSASB's core values are as follows:

- i. Integrity
- ii. Objectivity
- iii. Transparency
- iv. Thought leadership
- v. Consultative
- vi. Team work
- vii. Professionalism

1.3 Overview of work plan for FY 2015/2016

The following is a summary of the work plan for FY 2015/2016:

| Activity No. | Description of activity | Expected Output(s) | Status of activities to date | Comment |
|--------------|---|-----------------------------|------------------------------|--|
| 1 | Development and approval of the Annual Work Plan | Annual Workplan | Completed | Approved on 6th August 2016 |
| 2 | Prepare Annual Report for FY 2014/2015 | Annual report for 2014/2015 | Completed | Approved on 7th June 2016 |
| 3 | Performance Evaluation for the Board and Board members of FY 2014/2015 | Board member appraisals | Not completed | Activity to be carried out in FY 2016/2017 |
| 4 | Develop and launch Board Strategic Plan | Strategic Plan | Partially completed | Strategic plan approved. However, the plan is yet to be published and launched. |
| 5 | Conduct education programs, stakeholder consultation and public awareness | Trained public sector staff | Completed | In 2015/ 2016, the Board in collaboration with the National Treasury organised two trainings each for the MDAs, the State Corporations and SAGAs and the County Governments. |
| 6 | Stakeholder | Fliers, | Partially | The Board held conferences |

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| Activity No. | Description of activity | Expected Output(s) | Status of activities to date | Comment |
|--------------|---|--|------------------------------|--|
| | engagement and public awareness | banners, website and conferences with stakeholders | completed | with the public sector accountants , ICPAK and ESAAG. Fliers, banners and website were yet to be prosured as at the end of the year. This activity has been planned for the FY 2016/2017. |
| 7 | FiRe Awards | FiRe award evaluation and award ceremony | Completed | The 2016 FiRe Award ceremony was held on 28th October 2016 and awards given to both private and public sector in the various categories. |
| 8 | Update financial recording tools and guidelines | Quarterly reporting templates Reporting templates for specialised institutions Updated reporting templates | Completed | Approved on 25th February 2016.Effective date for quarterly templates was 1 July 2016. Approved on 18th August 2016. Templates updated and uploaded onto the National Treasury's website in May 2016 |
| 9 | Develop Internal Audit guidelines on IPPF | Internal Audit guidelines | Partially completed | Although the guidelines are yet to be developed , internal audit manuals for the County and National Governments were prepared. This activity has been planned to be carried out in 2016/2017 |
| 10 | Roadmap towards accrual basis of accounting | Road map to accrual Hiring a consultant | Partially completed | The Board engaged with key stakeholders such as ICPAK and technical consultants from IMF East AFRITAC on the roadmap to accrual basis of accounting. |
| 11 | Benchmarking and training for the Board and secretariat members | Benchmarking and training reports and training materials | Completed | The Board members and the Secretariat |

1.4 Achievements of the Board in 2015/2016

1.4.1 Development of annual and quarterly financial reporting tools

The Board developed reporting templates for IPSAS Cash, Accrual and IFRS to guide entities in their first time adoption of IPSAS and IFRS. To enhance disclosures and implement changes in the standards, the Board through the secretariat reviewed all the reporting templates during the financial year. The following reviewed reporting tools were approved by the Board on 17th June 2016.

- 1) Annual IPSAS Cash reporting template
- 2) Annual IPSAS Accrual reporting template
- 3) Annual IFRS reporting template
- 4) Annual reporting template for projects.

On February 25th 2016, the Board approved the quarterly reporting templates for use by public sector entities with effect from 1st July 2016. The Board, in conjunction with the National Treasury, also trained the preparers of the financial statements on the application of the following templates and the requirements of quarterly reporting as required by the PFM Act.

1. Quarterly reporting template IPSAS Cash standard for MDAs
2. Quarterly illustrative financial statements Cash IPSAS standard for MDAs
3. Quarterly reporting template IPSAS cash standard for projects
4. Quarterly illustrative financial statements IPSAS cash standard for projects
5. Quarterly reporting template IPSAS accrual for SAGAs
6. Quarterly illustrative financial statements IPSAS accrual for SAGAs
7. Quarterly reporting template IFRS for State Corporations
8. Quarterly illustrative financial statements IFRS for State Corporations
9. Quarterly reporting template IPSAS cash for County Executive
10. Quarterly illustrative financial statements IPSAS cash for County Executive
11. Quarterly reporting template IPSAS cash for County Assembly
12. Quarterly illustrative financial statements IPSAS cash for County Assembly
13. Receivers of Revenue annual reporting template
14. Reporting templates for specialized institutions such as banks, insurance companies and pension funds
15. Public Debt reporting template

The IPSAS cash standard annual reporting templates were automated in IFMIS to make it easy for the entities to prepare financial statements using IFMIS.

1.4.2 Training and capacity building of public sector accountants

The Board in its strides to improve capacity collaborated with the National Treasury to offer training programmes for the public sector accountants at the Kenya School of Government. The following training workshops were conducted in FY 2015/2016.

1. Training workshop for the preparation of financial statements for SCs and SAGAs in conducted in August, 2015.
2. Lessons learnt workshop for Ministries, Departments and Agencies and Development Projects held in November, 2015
3. Lessons learnt workshop for County Governments in November, 2015
4. Lessons learnt workshop for SCs and SAGAs in January, 2016.
5. Training workshop on the preparation of financial statements and in year reporting for MDAs held in May, 2016
6. Training workshop on the preparation of financial statements and in year reporting for County Governments held on in June 2016.
7. Training workshop on the preparation of financial statements and in year reporting for SCs and SAGAs held in June 2016.

These training programs target the Heads of Accounting Units, Directors of Finance accountants, revenue officers and financial reporting officers. In the year 2015/2016, 200 accountants from MDAs and Development projects, 250 accountants from County Governments and 600 accountants from SCs and SAGAs were trained respectively.

The aim of these training workshops is to develop the accounting profession and financial reporting in the public sector. Progressively, the discussions at the training workshops are increasingly becoming technical and the Board has taken note that the accountants are growing in their profession.

1.4.3 Training and capacity building for the Board and the Secretariat

Members of the Board and the Secretariat have been sponsored to attend training conferences both locally and internationally to improve their technical competence. A number of benchmarking visits have also been conducted for learning and experience sharing. Resources obtained from the trainings and conferences are shared out to other members after training attendance. The Board has benefitted immensely from such workshops.

During the year, the members attended the following training workshops and conferences:

1. Public Sector Standard Setters Forum in USA in March, 2016
2. ESAAG annual workshop in Kenya in March, 2016
3. ICGFM 30th Annual International Conference USA in May, 2016
4. Training on IPSAS accrual adoption by IMF East AFRITAC at KSG Nairobi in May 2016.

Benchmarking visits were made to the United States of America, Malaysia and the Philippines. Members were able to meet the Malaysian Accounting Standards Board members and interact with the Government Accounting Manual of the Philippines. In March 2016, members who attended the Public Sector Standard Forum in the USA also met the Accountant General and the members of Government Accounting Standards Board (GASB).

1. USA - March 2016
2. Malaysia - April, 2016
3. Philippines - May, 2016



(From left: Mr. Patrick Abachi- Ag. Head of PSASB Secretariat, Mr. Bernard Ndungu-Chair of PSASB and Mrs. Anne E. Owuor a member of PSASB attending the Public Sector Standard Setters Forum in USA in March 2016.)



(Members and Secretariat of PSASB making a presentation to the Malaysian Accounting Standards Board during a benchmarking visit in April 2016)

1.4.4 Consolidation of Government wide financial statements

The Board in collaboration with the National Treasury has been able to prepare and submit Government consolidated financial statements to the Auditor General for Audit as required by the PFM Act. The consolidated financial statements for 2015/2016 were prepared under four defragmented sets due to the use of different accounting bases used that is, cash basis and accrual basis of accounting. The four consolidated sets are as follows:

| Ref | Financial statements | Basis of accounting | Number of entities consolidated | Details |
|-----|---|-----------------------------|--|--|
| 1 | Consolidated financial statements for the MDAs and Development projects | Cash basis of accounting | 51 MDAs 4 CFSs 78 Development Projects | This set of financial statements consolidates the voted entities and the development projects. |
| 2 | Consolidated State Corporations, Semi-Autonomous Government Agencies and Public Funds | Accrual basis of accounting | 361 State Corporations and SAGAs | Consolidates all the State corporations, Semi-Autonomous Government Agencies and Public Funds established by an Act of parliament or a |
| 3 | County Governments Consolidated Financial Statements | Cash basis of accounting | 47 County Governments | Consolidates all the financial information from all County Executive and County Assemblies in each County. |
| 4 | Consolidated Fund financial statements | Cash basis of accounting | The exchequer account, 12 RoRs, 3 special funds and 400 special deposit accounts | Consolidates the National Exchequer account, Receivers of Revenue and Special Deposit Accounts. |

The Auditor General reviewed the 2014/2015 MDAs consolidated financial statements and highlighted areas of improvement. IMF EAST AFRITAC

The IMF and the Office of the Auditor General have reviewed the 2014/2015 MDAs consolidated financial statements and given their comments. Although the opinion from the OAG was a disclaimer, the Board is encouraged by the strides so far made.

1.4.5 Partnership in FiRe Award Scheme.

The Board is a key partner in the FiRe award Scheme. Through this partnership, public sector entities have been able to participate in the scheme alongside their private counterparts in the year 2015 and 2016. In the FY2015/2016 a total of 270 public sector entities participated in the award. The Institute of Certified Public Accountants of Kenya provides feedback to the participating entities to highlight areas of weaknesses. A total of 12 public sector entities won awards in 2016 in the IFRS, IPSAS accrual and IPSAS cash categories. This is as a result of the Board's insistent campaign to the entities on the need to participate in the awards. Specifically, the Board has carried out the following activities:

- i. The Board sponsored the FiRe award event in October, 2015 and became a promoter in 2016 alongside ICPAK, CMA and NSE.
- ii. The Board championed training at Maanzoni Lodge in Machakos for public sector accountants to be trained as evaluators who would later carry out the evaluation exercise for the public sector entities.
- iii. The Board in collaboration with the ICPAK has championed for IPSAS training programmes to be included in its annual training calendar.

1.4.6 Representation in local and international forums

International representation

In the international arena, the Chair of the Board, Mr. Bernard Ndungu is a member of the International Public Sector Accounting Standards Board Consultative Forum.

Local representation

PSASB is represented in various ICPAK committees by its members and members of the secretariat. These committees are:

| Ref | Committee | Details | Representative(s) |
|------------|--|---|-----------------------------------|
| 1 | Professional Standards Committee | Promote the accounting profession and accounting standards in Kenya | David Gichana, Georgina Muchai |
| 2 | Member Services Committee | To oversee the development and professional growth of members | Jona Wala |
| 3 | Public Policy and Governance Committee | Promote governance and accountability | Macklin Ogolla |

Members of the PSASB are able to contribute to the development of accounting standards and the accounting profession through representation in the various local and international bodies. In so doing, the Board is also able to make a contribution as it executes its mandate.

1.4.7 2015 ESAAG Conference

The East and Southern African Association of Accountants-General (ESAAG) was established in 1995 in Arusha, Tanzania, with the following objectives:

- To establish cooperation between countries in the region in the area of government accounting;
- To provide a forum for participants to review and discuss comparative experiences; and
- To encourage the development of government accounting personnel and trainers through the implementation of regional program of attachment and production of a number of comparative case studies.

The PSASB was a key partner in collaboration with the Directorate of Accounting Services and the National Treasury in organising the 23rd ESAAG conference that was held at KICC, Nairobi in March 2015.

The Board was involved in funding and logistics to ensure the success of the event. Close to 1,000 participants attended the conference from the 14 member countries in Eastern and Southern Africa. This was a great milestone in bringing the accounting professions together to discuss developing trends in the profession and in particular the adoption of accrual accounting by member countries.

1.4.8 Audit committee guidelines

The Board in collaboration with the Internal Audit Department developed the audit committee guidelines which were gazetted on 15th April 2016. Soon after, public sector entities were advised to recruit members of the audit committees for their institutions. So far a good number of County Governments and MDAs have audit committees in place.

1.4.9 Creating awareness for the Board

In the recent past, the Board members have been participating in the training workshops organised for Accounting officers and accountants at the Kenya School of Government by facilitating presentations, closing and opening the workshops as a way of increasing awareness of its mandate. In addition, the acting Head of Secretariat facilitated a session at ICPAK training workshop on PFM in November 2016. The Board has also published an article in the Accountant Journal of ICPAK titled '**A Journey towards Transforming Financial Reporting in The Public Sector, Each Entity At A Time.**

1.5 Summary of key challenges during the period

The success achieved has been met amidst challenges. These challenges arise from internal weaknesses and external threats which may contribute to delays while the Board is working towards achieving its mandate.

Some of the main challenges are as highlighted below:

1.5.1 Limited technical expertise at the Secretariat

There is limited technical expertise in terms of skills and numbers within the Board's secretariat. Lack of technical expertise may affect the Board's mandate of setting generally accepted accounting standards and internal auditing standards.

1.5.2 Board Communication Strategy

The PSASB is working towards developing a Communication strategy. It has been quite difficult for the Board to communicate its decisions to its stakeholders especially the preparers of the financial statements in the absence of a communication strategy and a website. Currently Board approved templates are hosted at the National Treasury's website.

1.5.3 Stakeholder engagement

The Board has had little engagement with key stakeholders such as the legislature and executive arms of the Government, International Standard setting bodies, preparers of the financial statements and other key local stakeholders. Such engagement is important in order for the Board to gain a buy in and prompt implementation of its decisions.

1.5.4 Formation of a fully fledged Secretariat

The PFM Act, 2012 states that the National Treasury will provide a secretariat for the Board. This is in cases interpreted to mean that the Board cannot recruit staff members outside the National Treasury. To overcome this challenge, the Board is working with the PSC to set up an organisational structure and a salary structure to enable the Board to attract technical staff with the requisite skills that will play an instrumental role in executing the mandate of the Board.

1.6 Overview of budget performance

1.6.1 Source of funding

During the period to 30th June 2016, the Board funded its operations through a combination of government budgetary allocation and donor funding. The main donors were the World Bank through the Trust Fund under Devolution Support project and DANIDA through the Kenya Governance Support Programme.

The budget allocation for the period to June 2015 was as follows:

| Ref | | Allocation during the year | Actual Spent |
|-----|--------------------|----------------------------|--------------------|
| 1 | GoK funding | 123,000,000 | 104,472,659 |
| 2 | Danida funding | 100,000,000 | 79,131,552 |
| 3 | World Bank funding | 50,000,000 | 43,754,426 |
| | Total | 273,000,000 | 227,358,637 |

1.6.2 Budget performance

Out of the Kshs 273,000,000 funding available to the Board as outlined above, a total of Kshs 227,358,637 was utilized. The Board therefore, achieved an 83% utilization of the allocated budget.

The available funding was utilized to fund the following key activities:

| Ref | Activities | Budget | Actual |
|-----|---|--------------------|--------------------|
| 1 | Capacity Building for Public Entities- MDAs and SAGAs | 128,000,000 | 98,914,440 |
| 2 | Capacity Building- County Governments | 45,000,000 | 43,754,426 |
| 3 | Allowances for Board Members | 8,000,000 | 5,328,800 |
| 4 | Sponsorship for FiRe awards | 10,000,000 | 8,200,000 |
| 5 | Support activities to the Board | 42,000,000 | 33,160,971 |
| 6 | ESAAG | 40,000,000 | 38,000,000 |
| | Total | 273,000,000 | 227,358,637 |

2 Detailed status report per Activity

2.1 Activity 1: Development and approval of the Annual Work Plan Background and description of the activity

The Board draws an annual work plan each year. This work plan is prepared in line with the Board's five year strategic plan, the vision, mission, core values and the mandate to the Board. Once the work plan is drawn, it is presented in all the committee meetings for discussion before final approval by the Board.

2.1.1 Status of the Activity

Completed

| Ref | Sub-Activity | Responsible | Timing |
|-----|---|--------------------|--|
| 1 | Preparation and approval of the work plan The secretariat prepares the annual work plan and presents it to the various committees for discussion and later presents it to the Board for approval. | Secretariat/ Board | Approved on 6 th August 2015. |
| 2 | Review and Monitoring of the work plan The work plan is reviewed on a quarterly basis to ensure that the activities envisioned at the beginning of the year are on course. Where necessary, the plan is amended to reflect the changes arising from different factors at the time of the review. | Secretariat/ Board | Done quarterly. |

2.1.2 Planned activity going forward

The Board will continue to develop and monitor its activities through the annual work plans. The annual work plans will assist the Board to meet its strategic plan objectives and therefore contribute to meeting the Board's mandate.

2.2 Activity 2: Prepare Annual Report for FY 2014/2015

2.2.1 Background and description of the activity

The Board is supposed to prepare annual report for the each financial year. The Government fiscal year commences every 1st July to 30th June. The Board commenced its operations in February 28th 2014. Annual report for FY 2014/2015 therefore covered 16 month from 28th February 2014 to 30 June 2015.

The annual report for 2014/2015 details the activities carried out by the Board in the period, budget execution report and emerging issues to be taken up as Board activities in the subsequent year.

2.2.2 Status of the Activity

Completed

2.2.3 Detailed activities and progress to date

The PSASB annual report was prepared in April 2016 and approved on 7th June 2016.

| Ref | Sub-Activity | Responsible | Timing |
|-----|--|------------------------------|------------|
| 1 | Collection of input from each committee Each of the secretaries to the committees collected and collated information on activities undertaken by the Board Committees in the period for inclusion in the final annual report. | Secretaries of the Committee | March 2016 |
| 2 | Compilation of the annual report Once all the information was obtained, the Secretariat compiled the annual report and ensured all information was factual. | Secretariat | April 2016 |
| 3 | Approval, adoption and publishing of the annual report The Board discussed, approved and adopted the annual report on 7th June 2016. The annual report is expected to be published and publicized by 30th June 2017. | Board/ Secretariat | June 2017 |

2.3 Activity 3: Performance Evaluation for the Board and Board members of FY 2014/2015

2.3.1 Background and description of the activity

Good corporate governance requires that Board performance evaluation be done for the members of the Board and the Board as a whole. Public sector Semi Autonomous Government Agencies (SAGAs) are required to liaise with the State Corporations Advisory Committee (SCAC) to ensure that Board evaluation exercise is carried every year. During the year, the Board was not able to obtain a date for the evaluation exercise owing to the limited capacity at SCAC.

2.3.2 Status of the Activity

Not completed. The activity will be carried out in the year 2016/2017 and will cover Board evaluation for members from inception.

2.4 Activity 4: Develop and launch Board Strategic Plan

2.4.1 Description of the activity

Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue this strategy. It also extends to control mechanisms for guiding the implementation of the strategy.

The Board's strategic plan runs for five (5) years from 2015/2016 to 2020/2021. During the year, the Board developed and approved the strategic plan. The plan outlines the key activities to be carried out by the Board for the next five years in line with the Board's mandate as outlined in the PFM Act, 2012. In the plan, adequate resources have been allocated to the activities to ensure that the strategic plan is met. A detailed work plan for the five years has been included.

The strategic plan is also geared towards the attainment of the Board's vision, mission and core values.

2.4.2 Status of the Activity

Partially completed

2.4.3 Detailed activities and progress to date

The following sub-activities culminated in the approval of the financial reporting tools:

| Ref | Sub-Activity | Responsible | Timing |
|------------|---|--------------------|---|
| 1 | Develop the strategic plan The Board hired a consultant to work together with the secretariat and develop a five year strategic plan. The process commenced in | Secretariat | The strategic was completed and presented to the Board on 22 nd December 2015. |

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| Ref | Sub-Activity | Responsible | Timing |
|-----|--|-----------------------|---|
| | <p>July 2015 and completed in December 2015. The strategic plan was developed in line with the Board's mandates as outlined in section 194 of the PFM Act.</p> | | |
| 2 | <p>Validate the strategic plan</p> <p>The Board thereafter validated and approved the strategic plan. During approval, the members ensured that the plan is in line with its mandate and has highlighted priority areas as envisioned by the members.</p> | Board | <p>The Strategic Plan was approved on 22nd December 2015</p> |
| 3 | <p>Launch</p> <p>In financial year 2015/2016, the Board did not formally launch the strategic plan. However, having been approved by the members, the plan was adopted as a formal Board document to be referred to when preparing and assessing work plans for each year.</p> | Board | <p>This activity has been planned for the year 2016/2017. The strategic plan will also be published and publicised.</p> |
| 4 | <p>Implement</p> <p>Although not launched the strategic plan is being implemented. Annual work plans are developed and monitored based on the strategic plan.</p> | Secretariat/ Board | <p>This activity is on - going.</p> |

2.5 Activity 5: Conduct education programs, stakeholder consultation and public awareness

2.5.1 Description of the activity

The Public Sector Accounting Standards Board's principal mandate is to set generally accepted accounting and auditing standards. This requires the Board to carry out extensive training for public sector accountants and auditors. In carrying out its activities, the Board interacts with various stakeholders who include preparers / implementers of the standards, users of the financial statements, accounting and auditing professional bodies, policy makers among others. There is need for Board to engage all stakeholders to gain their buy in and support the Board in its mandate.

The Board is a relatively new organisation and there is therefore a need to create public awareness to the general public and specifically within the public sector.

2.5.2 Status of the Activity

Partially completed

2.5.3 Summary on the progress to date

| Ref | Sub-Activity | Responsible | Timing |
|-----|---|-----------------------|--|
| 1 | <p>Training of public sector finance and audit officers</p> <p>Trainings were conducted during the year for Public sector accountants drawn from the National Government Ministries, Departments and Agencies, State Corporations and SAGAs and County Governments.</p> <p>The training programmes were geared at improving financial reporting within the public sector through application of the prescribed accounting standards and formats by the Board.</p> | Board/ Secretariat | <p>Bi- annual training workshops were in the year held for the MDAs, County Governments and State Corporations, SAGAs and public funds.</p> <p>These trainings were held in the months of May, June, November and December 2016.</p> |
| 2 | <p>Training of Audit Committee members of Boards</p> <p>Audit Committee guidelines were gazzeted on 15th April 2016.</p> <p>National and County Government entities are required to recruit audit committees to oversee the internal audit function in these entities.</p> | Board | This activity has been planned for FY 2016/2017. |

| Ref | Sub-Activity | Responsible | Timing |
|-----|--|-------------|--|
| | During the year ended 30 June 2016, audit committee members for National and County Government entities were yet to be recruited and therefore could not be trained. | | |
| 3 | <p>County Governments visits</p> <p>County Governments are relatively new entities that came into being in the year 2013 following the enactment of the new constitution in 2010. There is need to ensure that sound financial reporting structures are instituted in their formative stage. For this reason, the Board had planned to visit County Governments to create awareness of its mandate in financial reporting and auditing and to meet the governors in order to gain a buy in. However, this activity is yet to be carried out.</p> | Board | This activity has been planned for FY 2017/2018. |

2.5.4 Planned activity going forward

The Board has planned to train Audit Committee members in both the National and County Government entities once recruited. The members will be trained on the audit committee guidelines with respect to their roles, responsibilities and interaction with the entity staff members. The Board will also undertake to visit a sample of County Governments in the year 2017/2018 once new governments have been elected in August 2017.

2.6 Activity 6: Communication strategy and awareness

2.6.1 Description of the activity

The Board's mandate is to set generally accepted accounting and auditing standards for the public sector. In order for the standards to be applied and complied with by the public sector entities, there is need for an effective communication strategy. The Board also needs to create awareness of the standards and the emerging trends in the public sector accounting and auditing.

2.6.2 Status of the Activity

Partially completed

2.6.3 Summary on the progress to date

| Ref | Sub-Activity | Responsible | Timing/ Action |
|-----|---|--------------------|---|
| 1 | Procurement of banners, fliers, pens, note books e.t.c | Secretariat | The procurement of the promotional materials was yet to be done at the end of year 2015/2016. This activity has been planned for 2017/2018. |
| 2 | Print media supplementary | Secretariat | The Board was able to publish an article in the ICPAK's Accountant Journal on the transformation of financial reporting in the public sector. |
| 3 | Development of a website and communication strategy for the Board | Secretariat/ Board | The Board intends to engage a communication specialist in order to ensure effective communication to its stakeholders. However, due to other competing needs, the activities of developing a website and hiring a communication specialist were not achieved in the year 2015/2016. The Board has been using the National Treasury's website |

| Ref | Sub-Activity | Responsible | Timing/ Action |
|-----|--|--------------------|--|
| | | | to host the prescribed reporting templates, communication circulars and training materials. This has proved to be a very effective form of communication. |
| 4 | Hold regular conferences with key stakeholders | Secretariat/ Board | <p>In FY2015/2016, the Board engaged in the following activities:</p> <ol style="list-style-type: none"> 1. Partnered with ICPAK as a sponsor in the 2015 FiRe award scheme. 2. Trained at ICPAK seminars particularly on public finance management. 3. Invited ICPAK and ICPSK facilitators to train at the workshops organised for public sector accountants. |

2.6.4 Planned activity going forward

The activity is pegged on the gazettment of the Board's secretariat as a separate entity. This process is underway and is expected to be concluded in June 2017. Once gazetted as a separate entity, the Board will be able to develop its own website and develop a communication policy. This activity is planned for 2017/2018.

2.7 Activity 7: FiRe Awards

2.7.1 Description of the activity

The Financial Reporting (FiRe) Award is the most prestigious and coveted Award in East Africa for financial reporting. The Award is presented annually, during a colourful, gala evening hosted by the joint promoters; the Public Sector Accounting Standards Board (PSASB), the Capital Markets Authority (CMA) Kenya, the Nairobi Securities Exchange (NSE) and the Institute of Certified Public Accountants of Kenya (ICPAK). The Award is aimed at promoting integrated reporting through enhancing accountability, transparency and integrity in compliance with appropriate financial reporting framework and other disclosures on governance, social and environmental reporting by private, public and other entities domiciled in East Africa.

In the 2015 FiRE awards, the PSASB had not acquired the promoter status but supported the event through sponsorship. However, public sector entities participated in the award and were able to be recognised through various categories.

2.7.2 Status of the Activity

Completed

2.7.3 Summary on the progress to date

| Ref | Sub-Activity | Responsible | Timing |
|-----|-----------------------|-------------|---|
| 1 | Launch | Board | The Board held a series of meetings with ICPAK to agree on the categories under which the public sector entities would be awarded, to review award checklists and organise training for evaluators. These discussions were culminated by a joint press conference on 7 th July 2015 by all promoters to launch and accept submissions for the FiRe awards. |
| 2 | Evaluation of entries | Secretariat | The Board in conjunction with ICPAK trained |

| Ref | Sub-Activity | Responsible | Timing |
|-----|----------------------------------|--------------------|--|
| | | | <p>evaluators of the FiRe award entries at the Maanzoni Lodge in September 2015. The evaluators were engaged to evaluate the public sector entities to be considered for awards in various categories.</p> <p>A total of 215 entries were recorded from both public and private sectors.</p> |
| 3 | Event conference and gala dinner | Secretariat/ ICPAK | Successful entities in Financial Reporting Excellence were awarded in a colourful ceremony held on 23 rd October 2015. |

2.7.4 Planned activity going forward

The PSASB will continue to be a promoter of the FiRe award in conjunction with ICPAK, CMA and NSE. In addition, more evaluators from the public sector will be trained so as to ensure that as they evaluate their peers, they will also be learning in the process. In the year 2016 FiRE awards, a total of 305 entities from the public sector participated in the event. This indicates an increase by 50% from the year 2015 event. The Board intends to make the event a learning and improvement process where entities are given feedback on areas of improvement. This, together with other activities carried out by the Board, will increase compliance with the prescribed accounting standards.

2.8 Activity 8: Development and update financial recording tools and guidelines

2.8.1 Description of the activity

The PFM Act Section 194(d) requires PSASB to prescribe formats for financial statements and reporting by all state organs and public entities. Due to changes in accounting standards and the financial reporting environment, the financial reporting tools are revised from time to time and uploaded onto the National Treasury's website. The PSASB then communicates these changes to the preparers of the financial statements through circulars, guidelines and (or) through the regular training workshops organised by the Board.

2.8.2 Status of the Activity

This is an ongoing process.

2.8.3 Summary on the progress to date

The following is a brief on the activities carried out during the subject period details of which are covered in the section that ensue.

| Ref | Sub-Activity | Responsible | Timing |
|------------|---|--------------------|--|
| 1 | Develop and approve quarterly reporting templates for whole of public sector as required by the PFM Act, 2012 | Board | The Board approved the quarterly reporting templates on 25 th February 2016 for application effective 1 July 2016. The communication was done through a circular signed by the Cabinet Secretary, National Treasury and the financial reporting templates were uploaded onto the National Treasury's website to ensure availability to the users. |
| 2 | Develop and approve of reporting templates for specialised institutions | Board | The Board approved the templates for specialised institutions i.e. banks, insurance companies and |

| Ref | Sub-Activity | Responsible | Timing |
|-----|---------------------------|--------------------|--|
| | | | pensions on 6 th August 2016. The application date for the templates was for the year ended 31 December 2016. |
| 3 | Re-issue of updated tools | Board/ Secretariat | During the year, all the templates were updated based on gaps identified while conducting quality reviews of financial statements for the year ended 30 June 2015. These templates were approved by the Board and uploaded onto the National Treasury's website. |

2.8.4 Planned activity going forward

In the 2016/2017 and 2017/2018 work plans, the Board, pursuant to its mandate, has planned to develop reporting templates for the following public sector entities to enable a wider coverage of the public sector entities as mandated by the PFM Act, 2012:

- i. Primary schools;
- ii. Secondary schools;
- iii. Tertiary Institutions;
- iv. Hospitals; and
- v. Health Centres.

2.9 Activity 9: Develop Internal Audit Guidelines

2.9.1 Description of the activity

On 8th August 2014, the Board prescribed the International Professional Practice Framework (IPPF) for application by the Public Sector Internal Audit Function. Following this prescription, there was need to develop guidelines for the application of IPPF.

2.9.2 Status of the Activity

Refer to section 2.9.3.

2.9.3 Summary on the progress to date

The following is a brief on the activities carried out during the subject period details of which are covered in the section that ensue.

| Ref | Sub-Activity | Responsible | Timing |
|-----|---|--------------------|--|
| 1 | <p>Develop</p> <p>The Board hired an internal audit consultant to among other Terms of Reference, develop the internal audit guidelines to guide in the application of the IPPF.</p> <p>During his consultancy, it was noted that the IIA has got very elaborate guidelines on IPPF application and therefore, developing other guidelines would result to a duplication of efforts by the PSASB.</p> <p>In its place, the Board directed that the audit manuals be updated to improve the internal audit function given the changing audit environment.</p> | Board/ Secretariat | The manuals were updated but are however to be re-issued to the public sector internal audit function. |
| 2 | <p>Gazette</p> <p>This activity was aimed at gazetting the IPPF guidelines</p> | Board/ Secretariat | N/A. Given the change in approach, the guidelines would not have been gazetted. |
| 3 | <p>Capacity build</p> <p>This activity was aimed at training the internal auditors on the IPPF guidelines</p> | Board/ Secretariat | The Board did not manage to organise any training for the public sector auditors. However |

| Ref | Sub-Activity | Responsible | Timing |
|-----|--------------|-------------|--|
| | | | in the year 2016/2017, several training programs have been lined up. |

2.9.4 Planned activity going forward

The Board has planned to carry out the following activities with regards to the internal audit function:

1. Train the public sector auditors on the IPPF and the related guidelines
2. Train the Audit committees on the audit committee guidelines
3. Liaise with the IIA Kenya Chapter to ensure public sector internal auditors register as members of IIA and are benefitting from the professional development.
4. Finalise the updated audit manuals and re- issue the same for application in the public sector.
5. Ensure that IIA is included in the training programs of the PSASB and vice versa.

2.10 Activity 10: Roadmap towards accrual basis of accounting

2.10.1 Description of the activity

MDAs and County Government Entities currently apply the IPSAS Cash basis of accounting. The IPSAS cash standard is a transitional standard and is aimed at creating sound systems before adoption of accrual accounting. There are numerous benefits under the accrual accounting as opposed to cash accounting. These benefits include the recognition of all revenues, expenses, assets and liabilities which are aimed to better represent the government's financial performance and financial position at a given point in time.

2.10.2 Status of the Activity

Not completed.

2.10.3 Summary on the progress to date

The following is a brief on the activities carried out during the subject period details of which are covered in the section that ensue.

| Ref | Sub-Activity | Responsible | Timing |
|-----|--|-------------|---|
| 1 | <p>Consultation with key stakeholders</p> <p>Migration from cash accounting by MDAs and County Governments Entities to accrual accounting requires consultations with the preparers of the financial statements, users, professional bodies among others.</p> <p>Other key stakeholders include the cabinet and the parliament in order to gain a buy in from the top management on the migration.</p> | Board | The Board will engage the cabinet in the FY 2016/2017 through a cabinet paper to gain the cabinet's buy in. |
| 2 | <p>Hiring a consultant</p> <p>In order to make the migration process a successful one, the process needs to be thought through and practically carried out. In doing so, the Board had planned to hire a consultant to draw the roadmap to full adoption of accrual accounting</p> | Board | Activity is based on activity 1 above. |

2.10.4 Planned activity going forward

The Board has planned to carry out the following activities with relation to adoption of accrual accounting:

1. Present a cabinet memo recommending the adoption of accrual accounting due to the benefits it has over cash accounting.
2. Develop and an asset and liabilities policy.
3. Ensure the public sector entities are able to identify and account for all their assets.
4. Develop an asset valuation policy.
5. Conduct awareness training and capacity building for public sector accountants on accrual accounting.
6. Gazette the application date and roadmap to full adoption of accrual accounting.

2.11 Activity 11: Benchmarking and training for the Board and secretariat members

2.11.1 Description of the activity

Training and capacity building is a key activity for the PSASB. The members and the secretariat are sponsored to attend trainings and workshops locally and internationally. These forums are geared towards equipping the members and secretariat with technical, administrative, governance and soft skills which are useful as the Board executes its mandate. The Board has benefited immensely by taking the members to training workshops and conferences as evidenced by the improvement of the Board's operations over the years.

2.11.2 Status of the Activity

The following is a brief on the activities carried out during the subject period details of which are covered in the section that ensue.

2.11.3 Summary on the progress to date

| Ref | Sub-Activity | Responsible | Timing |
|------------|----------------------------------|-----------------------|--|
| 1 | Attendance of Seminars/Workshops | Board/ Secretariat | <p>The Board and Secretariat members were able to attend, participate or facilitate at the following workshops:</p> <ul style="list-style-type: none"> a) Public Sector Standards Setters Forum in March 2016 b) ESAAG 2016 in March 2016 c) IMF East Africa Training on roadmap to accrual adoption by Government in May 2016 d) ICGFM 30th Annual International Conference in May 2016 e) Institute of Internal Auditors conference in June 2016. <p>Members of the Secretariat are also involved in training at the forums organised for public sector accountants at the KSG and forums organised by ICPAK.</p> |

| Ref | Sub-Activity | Responsible | Timing |
|-----|---------------------|-----------------------|--|
| 2 | Benchmarking visits | Board/ Secretariat | The Board and secretariat members were able to attend benchmarking visits to the USA, Malaysia and Philippines. All materials obtained from the visits were shared to other members and also safely stored for future references. Lessons learnt from Malaysia will assist the Board in the process to accrual adoption while those learnt in Philippines have been useful in preparing templates for schools. |

2.11.4 Planned activity going forward

The PSASB will continue sponsoring the members and secretariat to training forums both locally and internationally.

3 Way forward

3.1 Strengthening structures of the Board and Secretariat

The Secretariat to the Public Sector Accounting Standards Board is constituted by National Treasury staff in line with Section 193(5) of the PFM Act, 2012. The members of staff seconded to the Secretariat are National Treasury employees who have other duties besides the technical and administrative support they offer the PSASB.

There is need therefore to establish a Secretariat as an independent organisation from the National Treasury. This will ensure that its staff members are fully dedicated to their tasks and therefore better contribute to the achievement of the Boards mandate.

During the year, the Public Service Commission (PSC) in collaboration with the PSASB Secretariat developed A Board Organisational and Salary Structure. The structure defines the roles of the departments envisioned, job description for each position and the salary structure for each of the roles.

The Board's Organisational and Salary Structure was submitted to the Salaries and Remuneration Commission (SRC) seeking its approval of the PSASB's salary structure.

3.2 Transition from cash to accrual based reporting

In an effort to enable the public sector to improve its financial management, the Board is considering moving towards accrual-based accounting for MDAs and County Governments that are currently using cash based IPSAS.

Adopting accrual accounting in the public sector enhances transparency and accountability especially on information relating to Government assets and liabilities. As a result, decision makers would be able to make more informed decisions.

In order to successfully migrate to accrual accounting, the Board has laid out six key elements that will guide this process. These elements include:

- **Legal and policy framework-** The current legal and policy framework needs to be assessed and considerations made as to whether the framework adequately supports accrual accounting. The PFM Act, 2012 gives the PSASB the mandate to set generally accepted and accounting standards. To prepare ground for accrual accounting adoption and to gain a buy in from top leadership, the Board is in the process of preparing a Cabinet Memo. Subsequently the Board will gazette accrual adoption including the process and the effective dates through the Cabinet Secretary, National Treasury. Other attendant issues such as the budgeting process will also be considered.
- **Assets and liabilities-** Accrual accounting requires the recognition, measurement and presentation of assets and liabilities in an entity's financial statements. To arrive at a complete record of government assets and liabilities, the Board notes that there is need to develop an assets and liabilities policy, have an inventory of government assets and liabilities, institute a tagging system and prescribe an asset valuation policy. In carrying out these activities, the Board will benchmark with other countries that have succeeded in doing so and also apply the applicable accounting standards and best practices.
- **Accounting systems-** The Government uses the Integrated Financial Management Information System (IFMIS) as the transactional and financial reporting system. Currently, the system supports cash based accounting and therefore some of its modules such as the asset module have not been activated.

The Board will therefore liaise with the National Treasury to ensure that IFMIS is configured to support accrual accounting. In addition, there is need to explore integration of IFMIS with other Government systems such as KRA's I-Tax system, the debt system, pension system among others in order to make it easy for entities to transact and prepare their accrual based financial statements.

- **Stakeholder engagement-** The PSASB recognizes that there are stakeholders at the policy level such as the Cabinet, Public Accounts Committee and Public Investment Committee which are Parliament committees dealing with finance matters, the Council of Governors among others. There are stakeholders at technical level that include the Accounting Officers, preparers of the financial statements, other accounting and auditing professional bodies such as ICPAK and IIA and users of the financial statements. For a smooth transition to accrual, the Board needs to develop a communication strategy and create awareness to all its stakeholders and the general public.
- **Training and capacity building-** There is need to train the public sector accountants on accrual accounting through training workshops and on the job training. The Board will develop the training content, training materials and curriculum development. The Board will also partner with other professional and academic organisations to ensure that government accrual accounting forms part of their curriculum and continuous professional development(CPD)
- **Resource allocation-** Migration to accrual requires a lot of resources for systems enhancement, training and capacity building, stakeholder engagement among others. The Board will source for and allocate sufficient funds for the migration to accrual.

3.4 Review of financial reporting and internal auditing systems

Financial reporting

There is a need for the Board to be kept apprised on the level and extent of compliance on the prescribed accounting standards. This will serve to inform the Board of the areas that require further capacity building.

To achieve this, the Board intends to identify existing gaps and put in place measure to address them. This shall be done using the following means:

- i. Analysing the OAG reports to identify common gaps relating to compliance to prescribed standards.
- ii. Engaging a consultant to carry out a gap analysis in FY 2015/2016.
- iii. Partnering with ICPAK to improve on the FiRe evaluation criteria to ensure that it highlights capacity gaps in compliance to prescribed standards

Internal auditing systems

The Board is in the process of hiring internal audit consultants to create capacity for the National Government and County Government internal auditors for two years commencing 1 July 2017. The consultants will carry out a diagnostic study to review existing Internal Audit reporting structures in all entities and make recommendations on how the existing reporting structures can be optimized. They will also review the skills gap, mix and staff numbers in audit departments to form the basis for capacity building. This will be done in order to strengthen internal controls and risk management within public sector entities. Audit committee members recruited by the National and County Government entities will be trained to ensure they execute their mandate in line with the audit committee guidelines.

4 Overview of 2016/2017 work plan

| | Task /Objective | Responsibility | 2016/2017 | | | |
|-----------|--|----------------|--------------------------------|----------------------------------|-------------------------------|----------------------------|
| | | | Quarter 1: July-September 2016 | Quarter 2: October-December 2016 | Quarter 3: January-March 2017 | Quarter 4: April-June 2017 |
| 1. | Develop the Annual Work Plan | | | | | |
| | (a) Preparation and approval | GSC | | | | |
| | (b) Monitoring and review | ALL | | | | |
| 2. | Prepare Annual Report | | | | | |
| | (a) Collection of input from each committee | GSC | | | | |
| | (b) Compilation of the annual report | GSC | | | | |
| | (c) Approval and adoption of the annual report | FULL BOARD | | | | |
| 3. | Performance Evaluation of FY 2014/2015 | GSC | | | | |
| 4. | Develop and launch Board Strategic Plan | | | | | |
| | (a) Develop | GSC | | | | |
| | (b) Validate | FULL BOARD | | | | |
| | (c) Launch | FULL BOARD | | | | |
| | (d) Implement | FULL BOARD | | | | |
| 5. | conduct education programs, stakeholder consultation and public awareness | ALL | | | | |
| | (a) Training of Public sector officers | NCG, GOE, IAC | Accountants | Auditors | Accountants | |
| | (b) Training of Audit Committee members of Boards | IAC | | | | |
| | (c) Training of IAC members | IAC | | | | |
| | (d) County Governments visits | ALL | | | | |
| 6 | Stakeholder engagement and public awareness | | | | | |
| | (a) Procurement of banners, fliers, pens, note books e.t.c | SECRETARIAT | | | | |
| | (b) Print media supplementary | GSC | | Strategic plan | Article & Journals | Article & Journal |
| | (c) Development of a website and communication strategy for the Board | GSC | | | | |
| | (d) Hold regular conferences with key stakeholders | ALL | | | | |
| 7 | FiRe Awards | | | | | |

| | Task /Objective | Responsibility | 2016/2017 | | | |
|------------|--|----------------|--------------------------------|----------------------------------|-------------------------------|----------------------------|
| | | | Quarter 1: July-September 2016 | Quarter 2: October-December 2016 | Quarter 3: January-March 2017 | Quarter 4: April-June 2017 |
| | (a) Launch | GSC | | | | |
| | (b) Evaluation of entries | NCG. GOE | | | | |
| | (c) Event conference and gala dinner | FULL BOARD | | | | |
| 9. | Update financial recording tools and guidelines | GOE & NCG | | | | |
| | (a) Automation of reporting templates | | | | | |
| | (b) Re-issue of updated tools | | | | | |
| 10. | Internal Audit guidelines | | | | | |
| | (a) Developing | IAC | | | | |
| | (b) Gazette | FULL BOARD | | | | |
| | (c) Capacity building | IAC | | | | |
| 11. | Roadmap towards accrual basis of accounting | | | | | |
| | (a) Consultation with key stakeholders | ALL | | | | |
| | (b) Hiring a consultant | ALL | | | | |
| 12. | Benchmarking and training for the Board and secretariat members | | | | | |
| | a) Attendance of Seminars/Workshops | ALL | | | | |
| | b) Benchmarking visits | ALL | | | | |