

CPA Centre, 8<sup>th</sup> Floor  
Thika Road, Ruaraka  
P.O. Box 30007 - 00100  
Nairobi, Kenya  
[www.psasb.go.ke](http://www.psasb.go.ke)

---

**PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (PSASB)**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED  
JUNE 30, 2018**

---

**Prepared in accordance with the Accrual Basis of Accounting Method under the International Public Sector Accounting Standards (IPSAS)**

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

---

Table of Contents	Page
KEY BOARD INFORMATION AND MANAGEMENT.....	ii
THE BOARD OF DIRECTORS.....	vi
MANAGEMENT TEAM.....	x
CHAIRMAN'S STATEMENT.....	xii
REPORT OF THE Ag. HEAD, PSASB SECRETARIAT.....	xiv
REVIEW OF PSASB'S PERFORMANCE FOR FY 2017/2018.....	xvi
CORPORATE GOVERNANCE STATEMENT.....	xxv
MANAGEMENT DISCUSSION AND ANALYSIS.....	xxx
REPORT OF THE DIRECTORS.....	xxxiii
STATEMENT OF DIRECTORS'S RESPONSIBILITIES.....	xxxiv
REPORT OF THE INDEPENDENT AUDITORS ON THE <i>BOARD (specify Board name)</i> .....	Error! Bookmark not defined
FOR THE YEAR ENDED 30 <sup>th</sup> JUNE 2018.....	4
STATEMENT OF FINANCIAL POSITION.....	5
AS AT 30 JUNE 2018.....	5
STATEMENT OF CHANGES IN NET ASSETS.....	6
FOR THE YEAR ENDED 30 JUNE 2018.....	6
STATEMENT OF CASH FLOWS.....	7
FOR THE YEAR ENDED 30 JUNE 2018.....	7
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS.....	8
FOR THE YEAR ENDED 30 JUNE 2018.....	8
NOTES TO THE FINANCIAL STATEMENTS.....	10
APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS.....	30
APPENDIX II: PROJECTS IMPLEMENTED BY THE BOARD.....	31
APPENDIX III: INTER-ENTITY TRANSFERS.....	32
APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES.....	33

## **KEY BOARD INFORMATION AND MANAGEMENT**

### **(a) Background information**

The Public Sector Accounting Standards Board (PSASB) was established and constituted in accordance to sections 192 and 193 of the Public Finance Management (PFM) Act, 2012 on 28<sup>th</sup> February 2014. At the Cabinet level, the Board is represented by the Cabinet Secretary to the National Treasury. The Board is a representative organisation with nominees from the following institutions:

- i. The 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 Secretaries

### **Vision Statement**

**“Safeguarding public interest through setting reliable and quality financial and internal auditing standards”**

### **Mission Statement**

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

### **Core Values**

- 1. Integrity:** Honest, ethical, and forthright behaviour in relationships with all stakeholders.
- 2. Objectivity:** Impartial decisions informed by credible research and thorough deliberations, including due consideration of the views of all stakeholders and the work of other standards setters.
- 3. Transparency:** An open process that encourages and values public participation in setting Public Sector standards.
- 4. Thought leadership:** Centre of excellence in Public Sector standard setting
- 5. Consultative:** inclusivity and engaging all stakeholders
- 6. Team work:** Our teams work in close collaboration with each other.
- 7. Professionalism:** Recognizing that we must uphold professional accounting and internal audit conduct and ethics in all our activities.

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

---

**(b) Principal Activities**

The principal activities of the Board as provided by PFM Act, 2012 section 194 (1) are to:

- (a) Set generally accepted accounting and financial system standards;
- (b) Prescribe the minimum standards of maintenance of proper books of account for all levels of Government;
- (c) Prescribe internal audit procedures which comply with the Act;
- (d) Prescribe format for financial statements and reporting by all state organs and public entities;
- (e) Publish and publicize the accounting and financial standards and any directives and guidelines prescribed by the Board;
- (f) In consultation with the Cabinet Secretary on the effective dates of implementation of the standards, Gazette the dates for application of the standards and guidelines; and
- (g) Perform any other functions related to advancing financial and accounting systems management and reporting in the public sector.

**(c) Key Management**

PSASB's day-to-day management is under the following key organs:

- Board of Directors;
- Accounting Officer who is the Acting Head of the Secretariat; and
- Seconded staff to the Secretariat from various institutions.

**(d) Fiduciary Management**

The key management personnel who held office during the financial year ended 30<sup>th</sup> June 2018 and who had direct fiduciary responsibility were:

No.	Designation	Name
1.	Ag. Head of the Secretariat	Mr. Patrick Abachi
2.	Head of Finance	Billy Mathu
3.	Head of Procurement	Martin Atemo
4.	Technical Department	Georgina Muchai
5.	Technical Department	Paul Chege
6.	Human Resource	Johannes Waraya
7.	Administrative Assistant	Irene Ndung'u

**Fiduciary Oversight Arrangements**

**The Governance and Strategic Committee of the Board**

The Governance and Strategy Committee of the Board is responsible for the Board's achievement of its strategic objectives and ensures that annual work plans are implemented. The Committee is also responsible to ensure that the organisation's budget and procurement plan are in line with the strategic plan and the Board's mandate as outlined in the law. This committee is also responsible for managing the organisation's risk, ensuring compliance to all

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

---

applicable laws and regulations and spearheading good governance practices within the Board members and the Secretariat.

**Internal Audit Committee**

In addition to its main mandate which is to develop and promote internal audit standards and risk management for use in public sector, the Internal Audit Committee is responsible to monitor the Board's internal control environment and provide advise on areas of improvement. The Committee oversees the operations of the Board to ensure that set policies and procedures are adhered to.

**Internal Audit Function**

The Board's internal audit function is supported by seconded members of staff from the National Treasury. Periodic audit is done on the Board's operations ensuring that these operations are carried out in line with the organization's policies and procedures.

**(e) Board Headquarters**

CPA Centre  
Thika Road  
P.O Box 3887- 00100  
Nairobi

**(f) Board Contacts**

Telephone: (254) 020 2511557, 757924842  
E-mail: [info@psasb.go.ke](mailto:info@psasb.go.ke)  
Website: [www.psasb.go.ke](http://www.psasb.go.ke)

**(g) Board Bankers**

Cooperative Bank of Kenya  
Parliament Road  
P.O. Box 60000  
City Square 00200  
Nairobi, Kenya

**(h) Independent Auditors**

Auditor General  
Kenya National Audit Office  
Anniversary Towers, University Way  
P.O. Box 30084  
GOP 00100  
Nairobi, Kenya

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

---

**(i) Principal Legal Adviser**

The Attorney General  
State Law Office  
Harambee Avenue  
P.O. Box 40112  
City Square 00200  
Nairobi, Kenya

**Public Sector Accounting Standards Board (PSASB)  
Annual Report and Financial Statements  
For the year ended June 30, 2018**

---

**THE BOARD OF DIRECTORS**




BOARD MEMBER	PROFILE
	<p><b>Bernard Ndungu, MBS – Chairman</b></p> <p>He represents the National Treasury in the Board. Bernard holds a Bachelor of Commerce degree (finance option) from the University of Nairobi. He is currently pursuing Master’s degree in Public Finance Management at the University of London. 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 of Accounting Services and Quality Assurance at the National Treasury and the Administrator of the Equalization Fund. He is also a Member of the Consultative Advisory Group (CAG) of the IPSAS Board and the immediate former chair of the ESAAG. He represents the Cabinet Secretary/National Treasury in various boards.</p>
	<p><b>Comm. Anne Elizabeth Owuor, EBS</b></p> <p>She represents the Institute of Certified Public Accountants of Kenya in the Board. She is a holder of Master’s degree in Business Administration (MBA) Finance from USA, Masters in Science in Audit Management &amp; Consultancy University of Central England Birmingham, a Post Graduate Diploma in Audit Management &amp; Consultancy of University of Central England Birmingham, Diploma in Board Competence &amp; 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. Anne is the Chair to the National and County Governments (NCG) Committee of the Board.</p>

**Public Sector Accounting Standards Board (PSASB)  
Annual Report and Financial Statements  
For the year ended June 30, 2018**



BOARD MEMBER	PROFILE
	<p><b>Esther Maiyo</b></p> <p>She represents the Capital Markets Authority in the Board. She holds a Master’s degree in Business Administration and a Bachelor of Commerce degree. 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. Esther is the Chair of the Internal Audit (IAC) Committee of the Board</p>
	<p><b>Sophie Moturi</b></p> <p>She represents the Association of Professional Societies of East Africa (APSEA) in the Board. She holds a Master’s degree in Banking and Finance 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. Sophie is the Chair of Government Owned Enterprises (GOE) Committee of the Board</p>
	<p><b>Lazarus Kimang’a</b></p> <p>He represents the Institute of Certified Secretaries. He holds an MBA degree from the University of Nairobi and MCom from Strathmore University. He also trained in Financial Management at Templeton College, University of Oxford. He is a Fellow Certified Public Accountant (FCPA) and Fellow Certified Secretary (FCS). He is also a Certified Investment and Financial Analyst (CIFA). He is Company Secretary of WAICA Re. He is also Chairman of the Registration Committee of ICIFA. Lazarus is the Chair of the Governance and Strategy Committee (GSC) of the Board.</p>



**Public Sector Accounting Standards Board (PSASB)  
Annual Report and Financial Statements  
For the year ended June 30, 2018**

BOARD MEMBER	PROFILE
	<p><b>Macklin A. Ogolla</b></p> <p>Mr. Ogolla represents the Office of the Controller of Budget (OCOB) 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 Controller of Budget (COB).</p>
	<p><b>Charles Cheruiyot</b></p> <p>He represents the Institute of Internal Auditors (IIA) in the Board. He holds an MBA degree and a Bachelor of Commerce degree both of 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 General Manager Internal Auditor at Kenya Power &amp; Lighting Company Ltd.</p>
	<p><b>David Gichana</b></p> <p>He represents the Office of the Auditor General (OAG) in the Board. He holds an MBA degree and a Bachelor of Commerce degree both of 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.</p>

**Public Sector Accounting Standards Board (PSASB)  
Annual Report and Financial Statements  
For the year ended June 30, 2018**

BOARD MEMBER	PROFILE
	<p><b>Simon Mundu</b></p> <p>He represents the Inter- Governmental Budget and Economic Council in the Board with effect from 21<sup>st</sup> February 2017. He holds an MBA of the University of Nairobi and a Bachelor of Commerce from the same University. He has immense experience in accounting and audit. Simon was the County Executive Committee responsible for Finance until August 2017. He is a Certified Public Accountant and a member of ICPAK.</p>
	<p><b>Patrick Abachi- Acting Head of Secretariat and Secretary to the Board</b></p> <p>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 degree at 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.</p>

In accordance with section 193(6) the PFM Act 2012, the Board have co-opted the following members to their various committees in order to provide technical advice to members in their areas of expertise and to provide seamless working relationship between the Board and the National Treasury:

Name	Committee of the Board	Designation
Mr. Jona Wala	National and County Government Committee	Ag. Director, Accounting Services, National Treasury
Mr. Kennedy Ondieki	Government Owned Enterprises Committee	Director, Government Investments and Public Enterprises, National Treasury
Mr. Alfayo Mogaka	Internal Audit Committee	Internal Auditor General
Mr. Patrick Abachi	Governance & Strategy Committee	Ag.Head, PSASB Secretariat

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

---

**MANAGEMENT TEAM**

The Board is supported in its functions by a 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. During the period from 1<sup>st</sup> July 2017 to 30<sup>th</sup> June 2018, 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 during the year was as follows:-

**Technical Staff**

No.	Name	Department
1	Patrick Abachi ó Ag. Head, PSASB	Accounting Services Department, National Treasury
2	Beatrice Gathirwa	Government Investments and Public Enterprises, National Treasury
3	Cheryl Majiwa	Government Investments and Public Enterprises, National Treasury
4	Daniel Nyaga	Internal Audit Department, National Treasury
5	Faith Waithera	Internal Audit Department, National Treasury
6	Martin Atemo	Supply Chain Management, National Treasury
7	Johannes Waraya	Human Resources Department, National Treasury
8	Paul Chege	Technical Consultant
9	Georgina Muchai	Technical Consultant
10	Billy Mathu	Accounting Services Department, National Treasury

**Support staff**

No.	Name	Department
1	Irene Ndungũ	Accounting Services Department, National Treasury
2	Diana Ngangã	Accounting Services Department, National Treasury
3	Rose Wanja	Accounting Services Department, National Treasury

**Public Sector Accounting Standards Board (PSASB)  
Annual Report and Financial Statements  
For the year ended June 30, 2018**

---



Members of the Board and Secretariat at a Board retreat in Naivasha on 30<sup>th</sup> January 2018.

***Seated, starting from the left:*** Patrick Abachi, Esther Maiyo, Simon Mundu, Anne Owuor, Bernard Ndungu, David Gichana, Lazarus Kimang'a, Sophie Moturi, Macklin Ogolla

***Standing, starting from the left:*** Joanes Waraya, Faith Waithira, Diana Nga'nga, Paul Chege, Martin Atemo, Rose Wanja, Collin Ngesa, Irene Ndungu, Billy Mathu, Cheryl Majiwa, Georgina Muchai

**Public Sector Accounting Standards Board (PSASB)  
Annual Report and Financial Statements  
For the year ended June 30, 2018**

---

**CHAIRMAN'S STATEMENT**



It is my privilege to present to you the Public Sector Accounting Standard Board's 4<sup>th</sup> Annual Report and Financial Statements. This is the first time for the Board to prepare and present financial statements for audit to the Office of the Auditor General. Previously, the Board was operating as a department under the National Treasury since its establishment in 2014 and therefore its financial performance was being audited alongside National Treasury's financial statements.

It is my pleasure to report that the Board has in the past 12 months transitioned seamlessly from a department within the National Treasury to a Semi- Autonomous Government Agency (SAGA). This transition period has been characterised by detaching the Board's operations such as procurement, accounting and management from the National Treasury. In order to complete the transition process, the Board has in FY 2018/2019 moved its physical location from the National Treasury to CPA Centre along Thika Road and is in the process of hiring staff members to enhance its capacity to deliver on its mandate.

In 2014, the Board set out on a strategic journey to improve the quality of financial reporting and internal audit standards within the Kenyan Public Sector. This journey has been characterised by prescribing accounting and internal auditing standards for the public sector, intense capacity building programs, development of financial reporting templates, engagement with key stakeholders and awareness creation. In the process of executing its mandate, the Board has continued to develop and improve financial reporting templates, training and capacity building, staff and board members technical training, engagement with key stakeholders among other activities.

During the year, the Board signed Memorandums of Understanding (MoUs) with various professional bodies so as to create synergies in improving financial reporting, accounting, governance and internal auditing in the public sector. The professional firms involved were the Institute of Certified Public Accountants of Kenya (ICPAK), Institute of Certified Secretaries (ICS), Institute of Certified Investment and Financial Analysts (ICIFA), Institute of Internal Auditors (IIA) and the Kenya Accountants and Secretaries Examination Board (KASNEB). The Board wishes to extend the stakeholder relationship to the professional procurement and Human Resource bodies in the future.

In 2014, the Board prescribed accounting and auditing framework for public sector entities. These frameworks include the International Public Sector Accounting Standards (IPSAS), the International Financial Reporting Standards (IFRSs) and the International Professional Practice Framework (IPPF) for financial reporting and internal auditing respectively. Improvement to the quality of financial statements prepared by public sector entities can be attributed to the prescribed reporting frameworks.

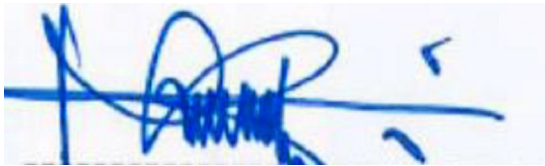
**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

---

Encouraged by this stride, the Board has laid down a number of activities to prepare the National and County Government Entities to migrate from cash to accrual accounting. These activities include; identification and valuation of public assets and liabilities, strengthening internal audit function within the public sector, sensitisation and capacity building of preparers of financial statements, review of the government accounting system (IFMIS) chart of accounts to accommodate accrual accounting among others. All these activities are on going through various consultancies being overseen by the National Treasury and the Public Sector Accounting Standards Board. Once all the preparatory activities are successfully completed the Board will roll out the applicable date for accrual migration in accordance to the law and its mandate.

Going forward, the Board will continue to carry out its mandate as set out in the PFM Act, 2012, its strategic plan (2015/2016- 2020/2021) and its annual work plans. In FY 2019, the Board will conduct a medium term review of the strategic plan to ensure that it stays on course in the five year strategic period.

I would like to thank the Board members and the management of the Public Sector Accounting Standards Board who, through their unwavering commitment, have led to the achievement of the Board's mandate in the past year. I also offer my gratitude to our stakeholders and look forward to collaborating with you towards achievement of the Board's mandate.

A handwritten signature in blue ink, appearing to be 'Bernard Ndungu', written over a horizontal line.

**CPA Bernard Ndungu, MBS**  
**Chair: Public Sector Accounting Standards Board**

**Public Sector Accounting Standards Board (PSASB)  
Annual Report and Financial Statements  
For the year ended June 30, 2018**

---

**REPORT OF THE Ag. HEAD, PSASB SECRETARIAT**



It is with great pleasure to present the Annual Report and Financial Statements for Public Sector Accounting Standards Board for the year ended 30<sup>th</sup> June 2018. Since its establishment, the PSASB has continued to execute its mandate of setting generally acceptable accounting and internal auditing standards for the Kenyan public sector.

The Board has a five year strategy (2015/2016- 2020/2021) from which it draws its annual work plans. During the financial year 2017/2018, PSASB was able to achieve the plans it had set in its work plan. This was achieved through the commitment of the Board and Secretariat members who showed great commitment towards achieving the Board's mandate.

The Board undertook a number of activities in executing its mandate as contained in the PFM Act, 2012 which included:

- Update of financial reporting templates for use by all public sector entities;
- Promoting adoption and application of applicable accounting and auditing standards;
- Stakeholder engagement and sensitisation;
- Capacity building of public sector accountants and internal auditors;
- Capacity building of secretariat staff and members of PSASB; and
- Monitoring compliance of the prescribed accounting and internal audit

PSASB has continued to expose board members and technical members of staff to technical courses and attendance to IPSASB's meetings in order to gain insight in the standard setting process and ensure they are kept abreast with the developments the standard setting environment including new standards and pronouncements.

In order to carry out its mandate effectively, the Board received a total of Kshs 113,000,000 as transfers from the National Treasury. These transfers were 100% of the Board's budget for the financial year ended 30<sup>th</sup> June 2018. As at the end of the period, no payroll costs had been incurred since the Secretariat is comprised of seconded staff from a number of institutions including the National Treasury. The transfers from the National Treasury enabled the Board to carry out its mandate, purchase fixed assets including a motor vehicle and computers, conduct training, stakeholder engagement, FiRe Award partnership amongst other activities.

In the coming periods, PSASB requires more funding from the National Treasury to enable it to recruit and maintain highly qualified staff and carry out post implementation reviews for the prescribed standards. PSASB has adopted IPSASs and has continued to influence the international

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

---

standard setting process through participation in IPSASB's meetings, consultative groups and commenting on any pronouncements issued in form of consultation papers and exposure drafts.

The Board developed and approved a number of policies and internal organisational manuals that govern the operations of the PSASB in the year to ensure the establishment of sound internal controls that are consistent with best practice. The PSASB strives to set a good example on application of accounting and internal audit standards as well as exercise good governance.

A detailed analysis of PSASB's activities for the year ended 30<sup>th</sup> June 2018 is included in the next section.

I would like to express my gratitude to the members of the Board for their leadership and guidance during the year. I also extend my thanks to the secretariat team who, without their dedication, PSASB would not have been able to achieve its work plan and strategic objectives. I look forward to the great and dedicated team work.



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



**Public Sector Accounting Standards Board (PSASB)  
Annual Report and Financial Statements  
For the year ended June 30, 2018**

---

**REVIEW OF PSASB’S PERFORMACE FOR FY 2017/2018**

**A. PERFORMACE AGAINST THE STRATEGIC OBJECTIVES**

PSASB has four strategic pillars and objectives within its Strategic Plan for the FY 2015/16-2020/2021. These strategic pillars are as follows:

1. **Pillar 1:** Standard setting dissemination and monitoring
2. **Pillar 2:** Stakeholder Engagement
3. **Pillar 3:** Legal and institutional frameworks
4. **Pillar 4:** Capacity building

PSASB develops its annual work plans based on the above four pillars. Assessment of the Board’s performance against its annual work plan is done on a quarterly basis. The PSASB achieved its performance targets set for the 2017/2018 period for its five strategic pillars, as indicated in the diagram below:

<b>Strategic Pillar</b>	<b>Activities</b>	<b>Measurable indicator/ Output</b>
<b>Pillar 1:</b> Standard setting dissemination and monitoring	1. Transition from Cash to Accrual based reporting for National and County Governments	As at the end of the year, consultancies on development of assets and liabilities as well the update of the standard chart of accounts had commenced. These consultancies are key to transition to accrual accounting.
	2. Update financial recording tools and guidelines	All financial reporting templates for FY 2017/2018 were updated by 30 <sup>th</sup> June 2018 and uploaded on the National Treasury’s website for use by public sector entities.
	3. Develop a template for public funds for County Governments	PSASB developed a template for public funds for county governments. The approved template was uploaded on the National Treasury’s website.
	4. Monitoring compliance with Accounting Standards	Audited financial statements for government entities for the year ended 30 <sup>th</sup> June 2017, were evaluated for the Financial Reporting Excellence Award 2018. All participating entities were given feedback on areas of improvement to enable full compliance with applicable standards
	5. Strengthening Internal Audit Standards	PSASB purchased the IPPF standards to share with key stakeholders

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

Strategic Pillar	Activities	Measurable indicator/ Output
	<p>6. Promotion and dissemination of Financial Reporting Standards</p>	<p>PSASB also entered into an MoU with the Institute of Internal Auditors and one of the areas of collaboration is on strengthening internal audit standards in the public sector.</p> <p>The National Treasury engaged consultants to strengthen internal audit standards in the public sector. PSASB is monitoring the progress and outcome of the consultancy.</p> <p>Public sector accountants were trained on new and applicable accounting standards and improvements during the bi- annual training programs organised by the National Treasury at the Kenya School of Government.</p>
	<p>7. Carry out research and development to support best practice standard adoption, dissemination and monitoring</p>	<p>During the financial year 2017/2018, the Board responded to six (6) pronouncements in form of exposure drafts and consultation papers issued by the IPSASB.</p> <p>The chair of the Board is a member of the Consultative Advisory Group to the IPSASB.</p> <p>Members of the Board and the Secretariat attended two (2) IPSASB meetings.</p>
<p><b>Pillar 2: Stakeholder Engagement</b></p>	<p>1. Collaboration with key stakeholders</p> <p>2. Procurement of promotional materials and stationery</p> <p>3. Print media supplementary</p>	<p>During the year, PSASB entered into MoUs with professional bodies on areas of collaboration. These bodies include ICPAK, ICS, ICIFA, IIA and KASNEB.</p> <p>PSASB purchased bags, pens and notebooks which were shared with stakeholders during various forums</p> <p>PSASB published annual reports for the financial years 2014/2015, 2016/2017, and 2017/2018 and the strategic plan 2015/2016-2020/2021. These documents have been shared with key stakeholders at various forums.</p>

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

Strategic Pillar	Activities	Measurable indicator/ Output
	4. Develop a communication strategy for the Board	PSASB is yet to develop a communication strategy. The activity has been scheduled for FY 2018/2019
	5. Develop the board's website	As at 30 <sup>th</sup> June 2018, the Board's website <a href="http://www.pasb.go.ke">www.pasb.go.ke</a> was operational.
	6. Hold regular consultative meetings with the stakeholders	Regular meetings were held with professional bodies while developing MoUs on areas of collaboration
<b>Pillar 3:</b> Legal and institutional frameworks	1. Develop an annual work plan	Annual work plan developed in line with the strategic plan
	2. Strengthening the structure of the Board and the Secretariat	PSASB is yet to recruit staff members in line with the approved structure. However, the National Treasury in line with section 193(5) seconded more staff in relation to human resource and procurement functions.
	3. Evaluation of Board and members	This activity was done in the month of September 2017 and completed in February 2018. Board and individual results were shared with the members and discussed.
<b>Pillar 4:</b> Capacity Building	1. Training of Audit Committees	Activity rescheduled to FY 2018/2019 owing to lack of numbers.
	2. Training and capacity building of public sector accountants	In collaboration with the National Treasury, held training forums for accountants from MDAs, SCs and SAGAs and County Governments.
	3. Training and capacity building for Board and the secretariat	Board members and secretariat staff attended a number of training programs on the areas of expertise in order to improve their skills and enhance achievement of the Board's mandate.

**Public Sector Accounting Standards Board (PSASB)  
Annual Report and Financial Statements  
For the year ended June 30, 2018**

---

**B. RESULTS OF ACTIVITIES AND ACHIEVEMENTS**

**1. Communication and Stakeholder Engagement**

During the period, the Board entered into Memorandums of Understanding (MoUs) with various institutions highlighting key areas of collaboration that include accounting, finance, financial reporting, investments, governance and internal auditing. The signing of the MoUs was culminated at a high level breakfast meeting that was held at the KICC on 29<sup>th</sup> May 2018. In attendance was Board and Council Members from the Institute of Certified Public Accountants of Kenya(ICPAK),Institute of Certified Secretaries(ICS), Institute of Internal Auditors (IIA), Institute of Certified Investments and Financial Analysts(ICIFA) and the Kenya Accountants and Secretaries Examination Board(KASNEB). During this meeting, participants discussed on ways to improve accounting, internal auditing and financial reporting systems in the public sector in order to ensure accountability of funds and quality of financial reports generated by public sector entities. Going forward, it was agreed that other key stakeholders such as the professional bodies for procurement and human resource officers to be included in such forums.



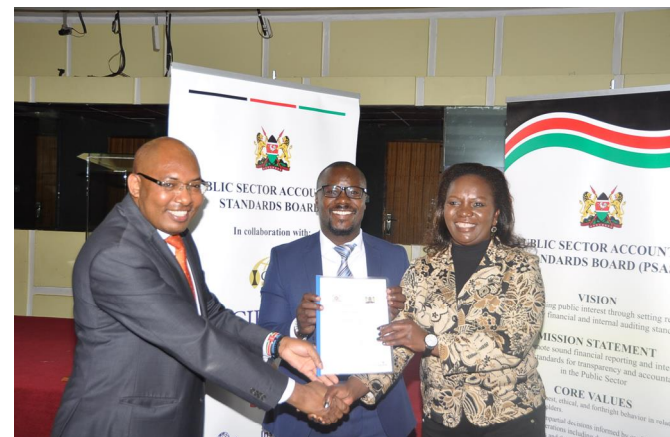
CPA Bernard Ndungu, PSASB Board Chairman exchanging an MoU document on areas of collaboration with FCPA Julius Mwatu Chairman ICPAK Council.



CPA Bernard Ndungu, PSASB Board Chairman with Mr. Alfayo Mogaka, Chairman-IIA exchanging an MOU document.



PSASB Board Chairman exchanging an MoU document with Dr. Nyambura Koigi and CPA Pius Nduathi of KASNEB



PSASB Board Chairman exchanging an MoU Document with CS Salome Onyonka (Board Member) CS Obare Nyaega (CEO) of ICS

**Public Sector Accounting Standards Board (PSASB)  
Annual Report and Financial Statements  
For the year ended June 30, 2018**

---



PSASB Board Chairman exchanging MOU documents  
With Chairman FA Job Kihumba and FA Lazarus Kimang'a  
of ICIFA.



Members of the Board of PSASB with key stakeholders at the breakfast meeting held on 29<sup>th</sup> May 2018. During this meeting areas of collaboration between PSASB and its key stakeholders were discussed.

## **2. Monitoring Compliance with Accounting Standards**

In order to ensure that the Board executes its mandate successfully, monitoring compliance to the prescribed accounting standards is a key activity of the Board each year. During the year, monitoring was done through the following activities:

### **FiRe Award**

FiRe Award is a joint initiative of ICPAK, CMA, NSE and PSASB jointly referred to as promoters. These promoters commit both financial resources and technical expertise with the primary objective of promoting financial reporting excellence, sound corporate governance practices, corporate reporting and enhancing environmental reporting in both public and private entities within the East African region. The Award is an annual event where both public and private sector entities are evaluated against set criteria and awarded for financial reporting excellence within various categories. It is the most prestigious award for financial reporting in East Africa and draws participants from Kenya, Uganda, Tanzania and Rwanda.

During the 2017 FiRe award evaluation, a total of 365 public sector entities that included Ministries, Departments and Agencies, Development Projects, State Corporations, Semi-Autonomous Government Agencies and public funds participated in the FiRe Award Evaluation. 365 entities from the public sector was awarded following presentation of excellent financial statements within the reporting framework that they apply.

The Board uses the FiRe award as a monitoring tool where each participating Board is advised through written feedback on areas that require improvement based on the evaluation done. This has enabled participating entities to improve their financial statements over the last three years that the public sector entities have participated in the award scheme under the stewardship of the Board.

### **Quality Assurance**

During the financial year, the National Treasury engaged consultants to provide technical support to the public sector entities on strengthening their internal audit function. These consultancies commenced in June 2018 and one of their key mandates will be to assess the application of International Professional Practices Framework (IPPF) as the Standard for internal auditing in the public sector as prescribed by PSASB in 2014. PSASB's role in these consultancies is to monitor the performance of the work and ensure value for money for both the National Treasury and the public sector entities.

## **3. Updating financial reporting tools and guidelines**

One of the main mandates of the Board is to prescribe reporting tools and guidelines for use by the public sector entities. During the year, PSASB prepared a reporting template for use by the County Government Public Funds which include car and mortgage schemes. The template will be used by the County Government Entities for the year ended 30<sup>th</sup> June 2018.

The Board also updated the existing annual and quarterly financial reporting templates which include IPSAS Cash, IPSAS Accrual and IFRS templates. Updating of these templates was done to cater for gaps noted during the FiRe Award Evaluation; weaknesses identified from regular

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

---

review of quarterly and annual financial statements, consultation with preparers of financial statements and advice from IMF East AFRITAC consultants. The updated reporting templates are then uploaded on the National Treasury and the Board's websites for preparers of financial statements to access and use them as a benchmark while preparing their annual and quarterly financial statements. Preparers of financial statements were also trained on the use of the updated templates during the bi- annual training held in May and June at the Kenya School of Government.

**4. Promotion and dissemination of Financial Reporting Standards**

The Public Sector Accounting Standards Board, in collaboration with the National Treasury, conducted bi- annual training at the Kenya School of Government in the months of November and December 2017 and May and June 2018. These training programmes targeted Accounting Officers and Accounting Staff from the Ministries, Departments and Agencies, the County Governments, State Corporations and Semi- Autonomous Government Agencies. Participants are trained on applicable financial reporting standards, new and revised standards and their impact, use of prescribed financial reporting templates and PFM requirements for financial reporting. Other topical issues include taxation, procurement, IFMIS practical sessions, ethics among others. During the year, the Board noted improved attendance especially for the Accounting Officers who included County Executive Members of Finance, Chief Executive Officers and Managing directors of various institutions.

Over the years, the Board has noted improvement in financial reporting by entities who consistently allow their officers to attend the training forums.

**5. Contribution to the International Standard Setting Process**

PSASB contributes by giving its views to Exposure Drafts and Consultation Papers issued by the International Standard setting bodies. PSASB views are given based on the local experience and the impact such standards would have on the Kenyan context. This is done to ensure that the standard setting process caters for African Countries most of which are in the process of adopting and adapting the international standards. During the year ended 30<sup>th</sup> June, the Board submitted its contributions to the following exposure drafts and consultation papers. The Board's responses to these papers can be obtained from IPSASB's website.

No.	Standard	Details	Type	Date Due	Date Submitted
1	Accounting for Heritage Items	Heritage items are items that are intended to be held indefinitely and preserved for the benefit of present and future generations because of their rarity and/or significance. Currently there is no standard to account for heritage items which form significant proportion of government assets. There is also no uniformity in recognition and measurement of such items where public sector entities opt to account for heritage items.	Consultation Paper	30 <sup>th</sup> September 2017	26 <sup>th</sup> September 2017

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

No.	Standard	Details	Type	Date Due	Date Submitted
2	Financial Instruments	Following issuance of IFRS 9 by IASB, IPSASB decided to carry out a similar exercise to update IPSAS 29 Financial Instruments: Recognition and Measurement	Exposure Draft 62	31 <sup>st</sup> December 2017	20 <sup>th</sup> December 2017
3	Revenue and Non Exchange expenses	Currently, there is no standard on IPSAS to cater for non exchange expenses which is significant for public sector entities. IPSASB also seeks to revise IPSAS 9, 11 and 23 in line with change made under IFRS 15 on Revenue from Contracts.	Consultation Paper	15 <sup>th</sup> January 2018	15 <sup>th</sup> January 2018
4	Social Benefits	Social benefits are benefits that mitigate social risks and benefit the community as a whole. They include benefits such as unemployed benefits, cash transfers to elderly, health benefits among others. Currently there is no standard under IPSAS to cater for social benefits which account for a significant amount of Government Expenditure.	Exposure Draft 63	31 <sup>st</sup> March 2018	27 <sup>th</sup> March 2018
5	IPSASB Work plan	IPSASB's work plan for 2019-2023. The work plan sets priority areas for the period stated. IPSASB invited comments as to whether activities set for the period indicated a good priority mix for the standard setting process. PSASB also participated in the discussion of the work plan at the sidelines of EU meeting in Ethiopia	Work Plan	15 <sup>th</sup> June 2018	14 <sup>th</sup> June 2018
6	Leases	This was an Exposure Draft issued by IPSASB to allow for convergence to the newly issued IFRS 16 on leases. The draft also sought to resolve stakeholder criticisms of the current IPSAS 13 on leases.	Exposure Draft	30 <sup>th</sup> June 2018	28 <sup>th</sup> June 2018

## 6. Strengthening the Board and the Secretariat

It is my pleasure to report that beginning 1<sup>st</sup> July 2017; PSASB ceased to operate as a department under the National Treasury and was able to operate as a separate Board. This has greatly improved the turnaround time for various activities that the Board had set out in its strategic plan and work plans.

In order to improve the internal control systems and the internal control environment, the following were undertaken:



**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

---

- a) **Secondment of more staff to PSASB-** During the year, the National Treasury seconded officers from the Human Resource and Supply Chain Management departments to enable the Board to carry out the associated activities separately. Previously, procurement, accounting and human resource was done under the National Treasury.
- b) **Preparation and approval of operational manuals for the Board-** The Board members approved operational manuals relating to finance and accounting, human resource, internal audit and procurement. These manuals have operationalised the Board to carry out its mandate ensuring a strong internal control environment.
- c) **Approval of the Board's logo and setting up of the Board's website-** During the period a logo for the Board was approved and a website developed to improve communication with the Board stakeholders.
- d) **Relocation of the Board to CPA Centre, Thika Road-** Although the relocation was done in August 2018, procurement process for the premises was completed and paid for in the financial year 2017/2018. The move is aimed at providing office space for members of staff once hired.

## **7. Training for Board and Secretariat Members**

The Board and the Secretariat members were sponsored to a number of training programs in order to enhance their skills and competencies in regards to financial reporting and internal auditing. Some of the courses and training seminars attended include Standard Setters Forum, ESAAG Conference, Internal auditing and Risk Management, Board Effectiveness Training among others.

## **FUTURE OUTLOOK**

In view to move the organisation to another level, the Board is exploring to recruit technical staff in FY 2018/2019. This move will increase the capacity both in expertise and numbers to the existing Secretariat in order to ensure that the mandate is extended to other public sector entities such as schools and hospitals which are over 40,000 as well as create capacity for the Board to ensure seamless transition of public sector entities to IPSAS Accrual Framework of Accounting. In order to achieve this momentous objective, the Board requires funding and support from its various stakeholders and will therefore continue active stakeholder engagement. The Board also seeks to gain forums with the County management in order to obtain a buy in into the process and ultimately improve public sector accounting and internal auditing.

**Public Sector Accounting Standards Board (PSASB)  
Annual Report and Financial Statements  
For the year ended June 30, 2018**

---

## **CORPORATE GOVERNANCE STATEMENT**

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 who serve on a part time basis. These institutions are: The National Treasury, Office of the 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 Secretaries of Kenya.

These members are nominated by their respective institutions and gazetted by the Cabinet Secretary, National Treasury. The chairman of 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:

<b>No.</b>	<b>Member</b>	<b>Nominating Institution</b>
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	Comm. 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 Secretaries
9	Simon Mundu	Intergovernmental Budget and Economic Council

### **Board diversity**

The Board is constituted by members who have experience in accountancy, auditing, corporate governance, public finance management, financial analysis, investment 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 vi and vii of this report. The Board has three female board members out of nine members and therefore meets the constitutional threshold since at least a third of all members are female.

### **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 also detailed in the Board's five year strategic plan (2015/2016-2020/2021), in the Board's annual work plans and in the Board Charter. New members, once appointed, are given these documents in order to familiarise themselves with the roles and responsibilities as outlined in the law.

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

**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 Committee (GSC)	National and County Governments (NCG)	Government Owned Enterprises (GOE)	Internal Audit Committee (IAC)
1	Bernard Ndungu	ç*				
2	Macklin Ogolla	ç	ç	ç		
3	Sophie Moturi	ç	ç		ç*	
4	David Gichana	ç		ç	ç	
5	Esther Maiyo	ç			ç	ç*
6	Lazarus Kimanga	ç	ç*			ç
7	Anne Owour	ç		ç*		ç
8	Charles Cheruiyot	ç	ç			ç
9	Simon Mundu	ç		ç	ç	

\*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<sup>st</sup> July 2017 to 30<sup>th</sup> June 2018:

No	Members	Number of meetings during the year	Number of meetings attended
1	Bernard Ndungu	5	5 of 5
2	Macklin Ogolla	5	3 of 5
3	Sophie Moturi	5	5 of 5
4	David Gichana	5	4 of 5
5	Esther Maiyo	5	5 of 5
6	Lazarus Kimangø	5	5 of 5
7	Anne Owour	5	4 of 5
8	Charles Cheruiyot	5	4 of 5
9	Simon Mundu	5	1 of 5

Most of the Board members attended all the meetings during the year.

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

---

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 the Secretariat.

Members	Number of meetings during the year	Number of meetings Attended
Lazarus Kimang'a*	3	2 of 3
Sophie Moturi	3	3 of 3
Bernard Ndungu	3	3 of 3
Macklin Ogolla	3	3 of 3
Charles Cheruiyot	3	3 of 3
Patrick Abachi ó Co- opted member	3	3 of 3

\*Chairperson to the committee

- ii. **National and County Government Committee:** The NCG committee deals with financial reporting matters and capacity building for National Government Ministries Departments and Agencies (MDAs) and County Governments (CGs). Entities under the National and County Governments use the International Public Sector Accounting Standards (IPSAS) Cash Framework while in preparation and presentation of their financial statements.

Members	Number of meetings during the year	Number of meetings Attended
Anne E. Owuor*	3	3 of 3
Macklin Ogolla	3	3 of 3
David Gichana	3	1 of 3
Simon Mundu	3	None
Jona Wala- Co- opted	3	3 of 3

\*Chairperson to the committee.

**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	Number of meetings during the year	Number of meetings Attended
Sophie Moturi*	4	4 of 4
David Gichana	4	2 of 4
Esther Maiyo	4	4 of 4
Simon Mundu	4	1 of 4
Kennedy Ondieki-Co-opted	4	2 of 4

\*Chairperson to the committee

**Public Sector Accounting Standards Board (PSASB)  
Annual Report and Financial Statements  
For the year ended June 30, 2018**

---

- iii. **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.

<b>Members</b>	<b>Number of meetings during the year</b>	<b>Number of meetings Attended</b>
Esther Maiyo*	3	3 of 3
Anne E. Owuor	3	3 of 3
Charles Cheruiyot	3	3 of 3
Lazarus Kimang'aa	3	1 of 3
Alfayo Mogaka óCo-opted	3	None

\*Chairperson to the committee

### **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. The first term of the 6 Board members expired on 20<sup>th</sup> January 2017. These members were reappointed by their nominating institutions and gazetted in the Kenya Gazette by the Cabinet Secretary, National Treasury on 21<sup>st</sup> February 2017 for a further term of three years. These members include Bernard Ndungu, Anne Owuor, Macklin Ogolla, Esther Maiyo, Sophie Moturi and Lazarus Kimang'aa. Charles Cheruiyot's term ended in May 2017 and was reappointed to the Board on 13<sup>th</sup> June 2017 for a further term of three years.

### **Compliance to laws and other legal requirements**

PSASB as a responsible corporate citizen is alive to the 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 allowances to the members of the Board are determined by the Salaries and Remuneration Commission. Details of Board and committee allowances are included in these financial statements.

### **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 Board. 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 may come to their attention whether direct or

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

---

indirect. During every Board meeting, an agenda item exists which requires members to make a declaration of any conflict of interest they may have in the business to be discussed.

### **Board Charter**

PSASB's Board Charter was approved on 20<sup>th</sup> June 2017. The Charter outlines powers and responsibilities of the Board and its members, appointment, remuneration, term of the Board members, conduct of meetings, committee's terms of reference, conflict of interest among others. The Charter is premised on the Mwongozo Code and best Corporate Governance Practices.

### **Board Evaluation**

The performance of the Board and its members is evaluated on a regular basis. During the year a Board evaluation exercise was carried out in September 2017 under the guidance of the State Corporations Advisory Committee (SCAC). Individual performance of the members was discussed with the Board Chairman and areas of improvement noted for action.

### **External Audit**

The Office of the Auditor General (OAG) is the external auditor of PSASB. No non-audit services were provided by the external auditors. Their report is set out on pages

### **Strategic Plan, Annual Work Plan and Budget**

The Ag. Head of the Secretariat prepares the strategic plan, annual work plans and budget after consulting the Governance and Strategy Committee and the Secretariat, for consideration and approval by the Board. The Board submits its budget to the National Treasury for consideration in the National Budget. Quarterly, financial statements are submitted to the Directorate of Accounting Services and Quality Assurance in the National Treasury. The annual work plan is prepared from the strategic plan in order to address the strategic objectives identified.

### **Financial Sustainability**

The current allocations made over the MTEF period are sufficient to allow the PSASB to undertake its core activities, but funding is insufficient to allow recruitment for substantive members of staff and therefore curtails some of the key strategic objectives on review of legal and institutional framework. Any further reductions in the allocation would mean the ASB would need to curtail its core activities. The ASB is conscious of expenditure control and complied with its budgetary allocation.

### **Social Responsibility**

PSASB did not engage in any social responsibility projects in the year. The PSASB aligned its procurement policies with the Constitution, the PFMA and Regulations, and the Procurement and Asset Disposal Act, 2015. PSASB ensures transparency in procurement of goods and services and ensures allocation of 30% of contracts are awarded to AGPO suppliers (Women, people with disabilities and the youth).

**MANAGEMENT DISCUSSION AND ANALYSIS**

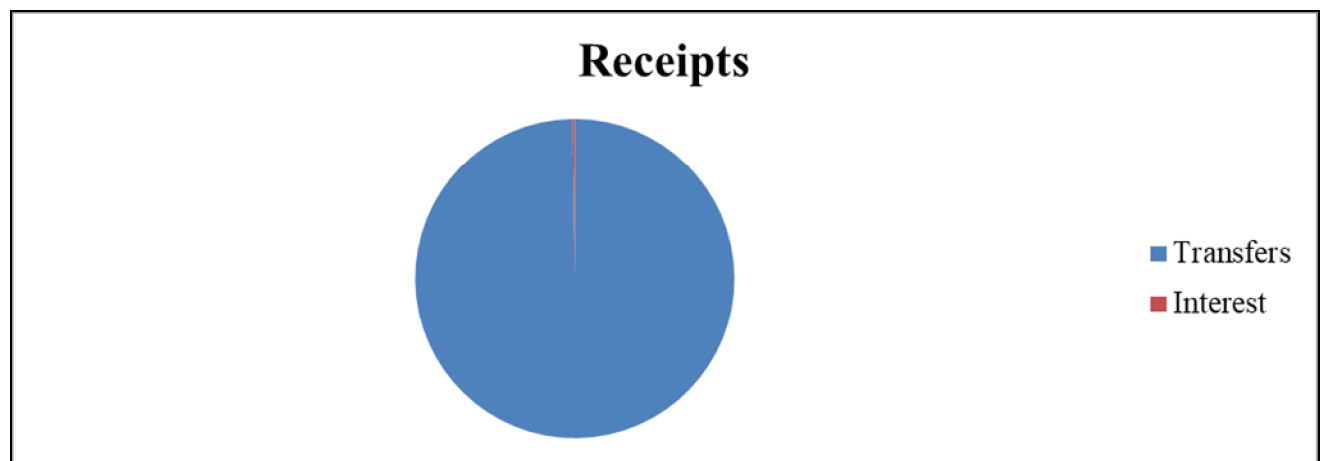
**Summary of financial results against the budget**

Year ended 30 <sup>th</sup> June	Budget	Actual	Utilisation
	FY 2017/18	FY 2017/18	FY 2017/18
	Kshs	Kshs	%
Receipts	113,200,000	113,266,496	101%
Payments	113,200,000	92,601,613	82%

PSASB was able to raise 100% of the budgeted revenue. However, it utilised 82% of the received funds indicating an under absorption of 18%. This was largely attributed to acquisition of assets budget line where the Board had projected to incur partitioning costs for the new office premises before the year. This however did not happen since the procurement process had not been finalised at the year end. All the other activities that the Board had planned for the year were carried out.

**Receipts**

The Board is supported by the National Government through the National Treasury by way of transfer of funds for operational use. These funds are channelled to the Board through its bank account and are thereafter budgeted for and approved by the Board of Management. During the year, the National Treasury transferred a total of Kshs 113 Million on a quarterly basis. The Board also earned Kshs 266,000 as interest from bank deposits. The pie chart below shows income by categorisation

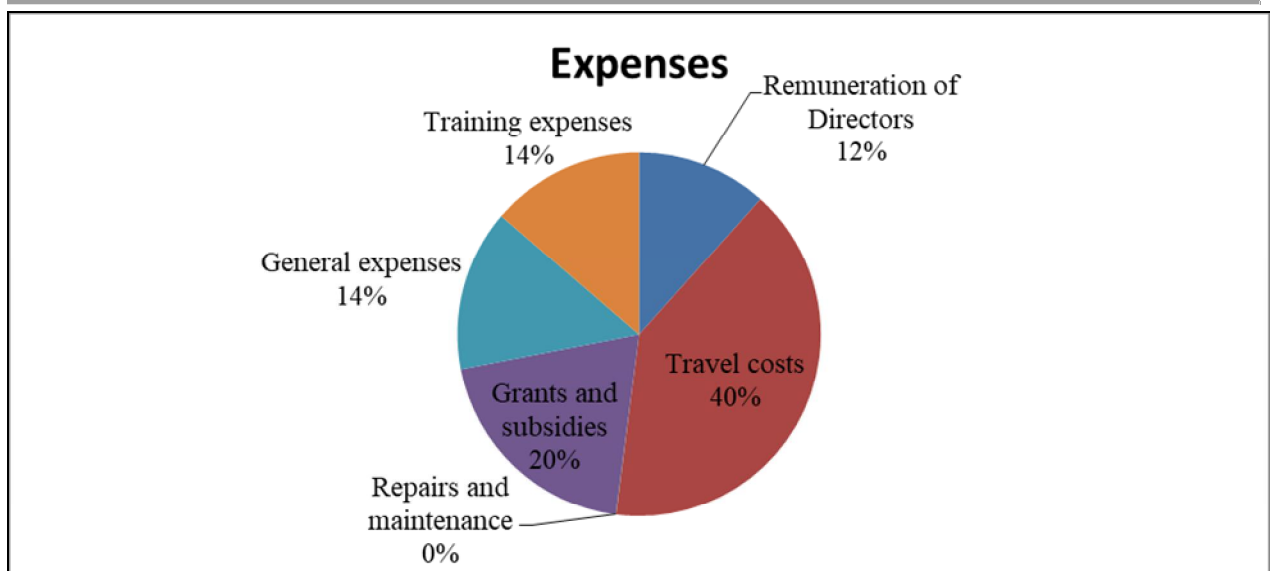


**Public Sector Accounting Standards Board (PSASB)  
Annual Report and Financial Statements  
For the year ended June 30, 2018**

---

**Expenses**

The Board incurred expenses on various line items.



Travel and subsistence costs accounted for 40% of the total expenses while grants and subsidies accounted for 20%. Board allowances accounted for 12% of total expenses while training costs accounted for 14%. Training costs accounted for a large proportion owing to the technical training courses and seminars attended by the Board members and the Secretariat. These training are geared at ensuring the members and members of staff are equipped with the requisite knowledge to ensure that the Board achieves its mandate.

**Surplus for the period**

The surplus for the year ended 30<sup>th</sup> June 2018, amounted to Kshs 47.8million. This surplus relates to funds that will be utilised towards payment of rent and partitions for the new premises at CPA Centre along Thika Road. The funds will also be utilised towards payment of consultancy services to a staff recruitment firm as the Board commences to recruit staff members in FY 2018/2019.

**Other compliance and operational results**

**Entity's compliance with statutory requirements**

PSASB has complied with its establishing Act, that is, the PFM Act, 2012. It has also complied with other legal requirements such as submission of statutory deductions to KRA and its internal policies and procedures. There are no instances of non compliance that would lead to financial loss.



**Key projects and investment decisions the entity is planning/implementing**

PSASB's five year strategic plan, sets out the key projects and investment decisions to be made in order to ensure that it meets its mandate. During the five year strategy the main focus is on migration from cash accounting to accrual accounting by National and County Government entities the strengthening of its structures with a focus on the Secretariat, and bringing more entities on board with regard to financial reporting.

To this end, the Board in collaboration with the National Treasury is overseeing various consultancies that are geared towards preparing public sector entities to move towards accrual accounting. These consultancies include revision of IFMIS chart of accounts, technical assistance to public sector entities on strengthening internal audit function and a consultancy on development of a policy for public sector assets and liabilities.

During the period, the Board assessed the possibility of moving into new premises and recruiting key staff to take the Board's mandate forward.

**Major risks facing the entity**

The major risk affecting the PSASB is the operational risk. This is due to low capacity in terms of numbers and skills given the mandate of the Board. This notwithstanding, the Board has been able to achieve a lot in the last three years it has been in existence including prescribing accounting standards and reporting formats as well as stakeholder engagement and capacity building within the public sector.

**Public Sector Accounting Standards Board (PSASB)  
Annual Report and Financial Statements  
For the year ended June 30, 2018**

---

**REPORT OF THE DIRECTORS**

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018 which show the state of Public Sector Accounting Standards Board (PSASB) affairs.

**Principal activities**

The principal activity of the Board is to set generally accepted accounting and internal auditing standards for the Kenyan public sector.

**Results**

The results of the Board for the year ended June 30, 2018 are set out on page 4 of these financial statements.

**Directors**

The members of the Board of Directors who served during the year are shown on pages v, vi and vii.

**Auditors**

The Auditor General is responsible for the statutory audit of Public Sector Accounting Standards Board in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015.

By Order of the Board



CPA Patrick Abachi  
**Ag. Head, PSASB Secretariat/Secretary to the Board**

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Section 81 of the Public Finance Management Act, 2012 requires the Directors to prepare financial statements in respect of Public Sector Accounting Standards Board which give a true and fair view of the state of affairs of the Public Sector Accounting Standards Board at the end of the financial year and the operating results of the Public Sector Accounting Standards Board for the year. The Directors are also required to ensure that the Public Sector Accounting Standards Board keeps proper accounting records which disclose with reasonable accuracy the financial position of the Public Sector Accounting Standards Board. The Directors are also responsible for safeguarding the assets of the Public Sector Accounting Standards Board.

The Directors are responsible for the preparation and presentation of the Public Sector Accounting Standards Board's financial statements, which give a true and fair view of the state of affairs of the Board for and as at the end of the financial year ended on June 30, 2018. This responsibility includes: (i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Board; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Board (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Board's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Public Sector Accounting Standards (IPSAS), and in the manner required by the Public Finance Management Act, 2012. The Directors are of the opinion that the Board's financial statements give a true and fair view of the state of the Board's transactions during the financial year ended June 30, 2018, and of the Board's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Board, which have been relied upon in the preparation of the Board's financial statements as well as the adequacy of the systems of internal financial control.

Nothing has come to the attention of the Directors to indicate that the Public Sector Accounting Standards Board will not remain a going concern for at least the next twelve months from the date of this statement.

### **Approval of the financial statements**

The Public Sector Accounting Standards Board's financial statements were approved by the Board on **27<sup>th</sup> September 2018** and signed on its behalf by:



Board Chairman



Head, PSASB Secretariat

# REPUBLIC OF KENYA

Telephone: +254-20-342330  
Fax: +254-20-311482  
E-Mail: oag@oagkenya.go.ke  
Website: www.kenao.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON PUBLIC SECTOR ACCOUNTING STANDARDS BOARD FOR THE YEAR ENDED 30 JUNE 2018

---

#### REPORT ON THE FINANCIAL STATEMENTS

##### **Opinion**

I have audited the accompanying financial statements of Public Sector Accounting Standards Board set out on pages 1 to 27, which comprise the statement of financial position as at 30 June 2018, statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Public Sector Accounting Standards Board as at 30 June 2018 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Accrual basis) and comply with the Public Finance Management Act, 2012.

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Public Sector Accounting Standards Board in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

##### **Key Audit Matters**

Key audit matters are those that, in my professional judgement, are of most significance in the audit of the financial statements. I have determined that there were no key audit matters to communicate in my report.

#### REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

##### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

---

*Report of the Auditor-General on the Financial Statements of Public Sector Accounting Standard Board for the year ended 30 June 2018*

## **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan to perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS**

### **Conclusion**

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### **Basis for Conclusion**

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively. In all material respects, I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and Those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Accrual Basis) and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective process and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 220(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit, I also:

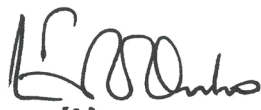
**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

---

- Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern or to sustain its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Board to cease to continue as a going concern or to sustain its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Board to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi.**

**14 March 2019**

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

---

**STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDED 30<sup>th</sup> JUNE 2018**

	Notes	2017-2018	2016-2017
		Kshs	Kshs
<b>Revenue</b>			
<b>Revenue from non-exchange transactions</b>			
Transfers from the National Government- National Treasury	6	113,000,000	-
<b>Total Revenue from Non- Exchange transactions</b>		<b>113,000,000</b>	-
<b>Revenue from exchange transactions</b>			
Interest income	7	266,496	-
<b>Total revenue</b>		<b>113,266,496</b>	-
<b>Expenses</b>			
Remuneration of directors	8	7,469,910	-
Travel subsistence and allowances	9	25,913,435	-
Depreciation and amortization expense	10	1,205,655	-
Repairs and maintenance	11	12,050	-
Grants and subsidies	12	12,757,500	-
General expenses	13	9,212,455	-
Training Expenses	14	8,795,502	-
<b>Total expenses</b>		<b>65,366,833</b>	-
<b>Surplus for the year</b>		<b>47,899,663</b>	-

The notes set out on pages 10 to 30 form an integral part of these Financial Statements.



**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

---

**STATEMENT OF FINANCIAL POSITION**

**AS AT 30 JUNE 2018**

	Notes	2017-2018	2016-2017
		Kshs	Kshs
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	15	21,870,538	-
Receivables from exchange transactions	16	10,007,040	-
		<b>31,877,904</b>	-
<b>Non-current assets</b>			
Property, plant and equipment	17	16,022,085	-
<b>Total assets</b>		<b>47,899,663</b>	-
<b>Total liabilities</b>		-	-
Retained earnings		47,899,663	-
<b>Total net assets and liabilities</b>		<b>47,899,663</b>	-

The Financial Statements set out on pages 10 to 30 were signed on behalf of the Board of Directors by:

Head of the Secretariat  
Name: CPA Patrick Abachi  
ICPAK No. 9878  
Date: **27<sup>th</sup> September 2018**



Chairman of the Board  
Name: CPA Bernard Ndungu, MBS  
ICPAK No. 4451  
Date: **27<sup>th</sup> September 2018**



**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

---

**STATEMENT OF CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

	<b>Retained earnings</b>	<b>Total</b>
<b>At July 1, 2016</b>	-	-
Surplus for the year	-	-
<b>At June 30, 2017</b>	-	-
<b>At July 1, 2017</b>	-	-
Surplus for the year	47,899,989	47,899,989
<b>At June 30, 2018</b>	<b>47,899,989</b>	<b>47,899,989</b>

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

	Notes	2017-2018	2016-2017
		Kshs	Kshs
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Transfers from the National Government - National Treasury		113,000,000	-
Interest income from bank deposits		266,496	-
<b>Total Receipts</b>		<b>113,266,496</b>	<b>-</b>
<b>Payments</b>			
Directors remuneration		7,469,910	-
Travel costs		25,913,435	-
Repairs and maintenance		12,050	-
Grants and subsidies		12,757,500	-
General expenses		9,212,455	-
Training cost		8,795,502	-
Rent prepayment		10,007,366	-
<b>Total Payments</b>		<b>74,168,218</b>	<b>-</b>
<b>Net cash flows from operating activities</b>	<b>18</b>	<b>39,098,278</b>	<b>-</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant, equipment		(17,227,740)	-
<b>Net cash flows used in investing activities</b>		<b>(17,227,740)</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>	<b>15</b>	<b>21,870,538</b>	<b>-</b>
Cash and cash equivalents at 1 July		-	
<b>Cash and cash equivalents at 30 June</b>	<b>15</b>	<b>21,870,538</b>	<b>-</b>

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

	Original budget	Adjustments	Final budget	Actual on comparable basis	Performance difference	Utilization percentage	Notes
	2017-2018	2017-2018	2017-2018	2017-2018	2017-2018		
	Kshs	Kshs	Kshs	Kshs	Kshs		
<b>Revenue</b>							
Transfers from the National Treasury	113,000,000	-	113,000,000	113,000,000	-	100%	
Interest income	-	200,000	200,000	266,496	(66,496)	133%	a)
<b>Total income</b>	<b>113,000,000</b>	<b>200,000</b>	<b>113,200,000</b>	<b>113,266,496</b>	<b>(66,496)</b>		
<b>Expenses</b>							
Compensation of employees	36,346,848	(36,228,760)	118,088	-	(118,088)	0%	b)
Remuneration of Directors	7,200,000	1,990,000	9,190,000	7,469,910	(1,720,090)	81%	c)
Travel cost	18,000,000	9,511,132	27,511,132	25,913,435	(1,597,697)	94%	
Repairs and maintenance	123,316	47,634	170,950	12,050	(158,900)	7%	d)
Grants and Subsidies	13,000,000	(242,500)	12,757,500	12,757,500	-	100%	
General Expenses	16,549,836	(3,976,064)	12,573,772	9,212,455	(3,361,317)	73%	e)
Training Expenses	9,880,000	(243,142)	9,636,858	8,795,502	(841,356)	91%	
Rent Expense	-	12,500,000	12,500,000	10,007,366	(2,492,634)	80%	f)
Purchase of Assets	11,900,000	15,341,700	27,241,700	17,227,740	(10,013,960)	63%	g)
Depreciation	-	1,500,000	1,500,000	1,205,655	(294,345)	80%	h)
<b>Total expenditure</b>	<b>113,000,000</b>	<b>200,000</b>	<b>113,200,000</b>	<b>92,601,613</b>	<b>(20,304,042)</b>		
<b>Surplus for the period</b>	<b>-</b>	<b>-</b>		<b>20,664,883</b>	<b>(20,370,538)</b>		

**Budget notes**

- On interest income the Secretariat was able to negotiate for a better interest rate from the bank considering the unspent balances at the end of the year.
- The Board did not incur any costs on salaries and wages during the year. A review of job descriptions was completed in the 2<sup>nd</sup> quarter by SRC and a salary structure given. However, as at the end of the period the Board had not completed the recruitment process which is expected to be completed in the second quarter of FY 2018/2019.
- The budget was based on projected number of meetings; the projected meetings did not take place as projected.
- This cost had been budgeted for the motor vehicle repairs. The cost had been increased in the last quarter due to the anticipated increase in wear and tear arising from County visits which did not take place and have been scheduled for the next financial year.
- The budget for general expenses was under-utilized since National Treasury was still providing some supplies.
- Budgeting of the rent expense on the CPA Centre premises was done based on the quoted value. However a discount of 20% was given upon payment of a full year's rent.

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Report and Financial Statements**  
**For the year ended June 30, 2018**

---

- g) The line on purchase of assets included partitioning costs of the new offices. However, this cost had not been incurred at the end of the period since the Board was waiting to obtain bill of quantities to commence the procurement process.
- h) The budgeted amount was based on proposed acquisition of assets including partions which did not take place
- i) Changes from original to final budget were as a result of reallocations within the various expense lines. This was informed by regular review of the budget against actual spending.

**NOTES TO THE FINANCIAL STATEMENTS**

**1. GENERAL INFORMATION**

The Public Sector Accounting Standards Board (PSASB) is established by and derives its authority and accountability from the Public Finance Management Act 2012. The Board is wholly owned by the Government of Kenya and is domiciled in Kenya. The Board's principal activity is set generally acceptable accounting and internal auditing standards for the Kenyan Public Sector.

**2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION**

The financial statements have been prepared on a historical cost basis. The preparation of financial statements in conformity with International Public Sector Accounting Standards (IPSAS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Board's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 5 of these financial statements.

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Board.

The financial statements have been prepared in accordance with the PFM Act 2012 and International Public Sector Accounting Standards (IPSAS). The accounting policies adopted have been consistently applied to all the years presented.

**3. ADOPTION OF NEW AND REVISED STANDARDS**

**i. Relevant new standards and amendments to published standards effective for the year ended 30 June 2018**

<b>Standard</b>	<b>Impact</b>
<b>IPSAS 39:</b> Employee Benefits	<p><b>Applicable: 1<sup>st</sup> January 2018</b></p> <p>The objective to issue IPSAS 39 was to create convergence to changes in IAS 19 Employee benefits. The IPSASB needed to create convergence of IPSAS 25 to the amendments done to IAS 19. The main objective is to ensure accurate information relating to pension liabilities arising from the defined benefit scheme by doing away with the corridor approach.</p> <p><i>Upon evaluation of this amended standard by the Board, the effect on the financial statements is nil since the Board does not have a defined benefit scheme for its employees.</i></p>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**3 ADOPTION OF NEW AND REVISED STANDARDS (Continued)**

**ii. New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017**

<b>Standard</b>	<b>Effective date and impact:</b>
<b>IPSAS 40: Public Sector Combinations</b>	<b>Applicable: 1<sup>st</sup> January 2019:</b> The standard covers public sector combinations arising from exchange transactions in which case they are treated similarly with IFRS 3 (applicable to acquisitions only) Business combinations and combinations arising from non exchange transactions which are covered purely under Public Sector combinations as amalgamations.

**iii. Early adoption of standards**

The Board did not early adopt any new or amended standards in year 2018.

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Revenue recognition**

**i) Revenue from non-exchange transactions**

**Transfers from other government entities**

Revenues from non-exchange transactions with other government entities are measured at fair value and recognized on obtaining control of the asset (cash, goods, services and property) if the transfer is free from conditions and it is probable that the economic benefits or service potential related to the asset will flow to the Board and can be measured reliably. Recurrent grants are recognized in the statement of comprehensive income. Development/capital grants are recognized in the statement of financial position and realised in the statement of comprehensive income over the useful life of the assets that has been acquired using such funds.

**ii) Revenue from exchange transactions**

**Interest income**

Interest income is accrued using the effective yield method. The effective yield discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this yield to the principal outstanding to determine interest income each period.

## **NOTES TO THE FINANCIAL STATEMENTS (Continued)**

### **4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **b) Budget information**

The original budget for FY 2017-2018 was approved by the National Assembly. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Board upon receiving the respective approvals in order to conclude the final budget. Accordingly the Board approved its budget based on the National Assembly appropriations and thereafter reviewed it on a quarterly basis to reflect the actual expenditure.

The Board's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared on a cash basis. The amounts in the financial statements were recast from the accrual basis to the cash basis and reclassified by presentation to be on the same basis as the approved budget. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts.

In addition to the Basis difference, adjustments to amounts in the financial statements are also made for differences in the formats and classification schemes adopted for the presentation of the financial statements and the approved budget.

A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented under note 19 of these financial statements.

#### **c) Taxes**

##### ***Current income tax***

PSASB is exempt from corporate tax since it is a Semi- Autonomous Government Agency established to carry out the mandate of the Government from whom it receives funds to carry out this mandate.

##### ***Sales tax***

Expenses and assets are recognized net of the amount of sales tax, except:

- When the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- When receivables and payables are stated with the amount of sales tax included

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**d) Property, plant and equipment**

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. When significant parts of property, plant and equipment are required to be replaced at intervals, the Board recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in surplus or deficit as incurred. Where an asset is acquired in a non-exchange transaction for nil or nominal consideration the asset is initially measured at its fair value. The depreciation rates on a reducing balance basis are as follows:

Land	Nil
Buildings	Nil
Computers, Computer Accessories and Infrastructure	33 <sup>1</sup> / <sub>3</sub> %
Motor Vehicles	25%
Furniture, Fittings and equipments	12.5%

**e) Leases**

Operating leases are leases that do not transfer substantially all the risks and benefits incidental to ownership of the leased item to the Board. Operating lease payments are recognized as an operating expense in surplus or deficit on a straight-line basis over the lease term.

**f) Intangible assets**

Intangible assets acquired separately are initially recognized at cost. The cost of intangible assets acquired in a non-exchange transaction is their fair value at the date of the exchange. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in surplus or deficit in the period in which the expenditure is incurred.

The useful life of the intangible assets is assessed as either finite or indefinite.

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**h) Financial instruments**

*Financial assets*

*Initial recognition and measurement*

Financial assets within the scope of IPSAS 29 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through surplus or deficit, loans and receivables, held-to-maturity investments or available-for-sale financial assets, as appropriate. The Board determines the classification of its financial assets at initial recognition.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Losses arising from impairment are recognized in the surplus or deficit.

*Held-to-maturity*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Board has the positive intention and ability to hold it to maturity. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in surplus or deficit.

*Impairment of financial assets*

The Board assesses at each reporting date whether there is objective evidence that a financial asset or a class of financial assets is impaired. A financial asset or a class of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or the class of financial assets that can be reliably estimated. Evidence of impairment may include the following indicators:

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### h) Research and development costs (Continued)

##### i) Financial instruments (Continued)

###### *Financial assets (Continued)*

###### *Impairment of financial assets (Continued)*

- The debtors or a class of debtors are experiencing significant financial difficulty
- Default or delinquency in interest or principal payments
- The probability that debtors will enter bankruptcy or other financial reorganization
- Observable data indicates a measurable decrease in estimated future cash flows (e.g. changes in arrears or economic conditions that correlate with defaults)

###### *Financial liabilities*

###### *Initial recognition and measurement*

Financial liabilities within the scope of IPSAS 29 are classified as financial liabilities at fair value through surplus or deficit or loans and borrowings, as appropriate. The Board determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

###### *Loans and borrowing*

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in surplus or deficit when the liabilities are derecognized as well as through the effective interest method amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

##### i) Provisions

Provisions are recognized when the Board has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Board expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of financial performance net of any reimbursement.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Contingent liabilities***

The Board does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

***Contingent assets***

The Board does not recognize a contingent asset, but discloses details of a possible asset whose existence is contingent on the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Board in the notes to the financial statements. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognized in the financial statements of the period in which the change occurs.

**j) Nature and purpose of reserves**

The Board creates and maintains reserves in terms of specific requirements. The Board maintains the retained reserves which are meant to be utilised to fund the Board's mandate.

**k) Changes in accounting policies and estimates**

The Board recognizes the effects of changes in accounting policy retrospectively. The effects of changes in accounting policy are applied prospectively if retrospective application is impractical.

**l) Foreign currency transactions**

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction. Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or expenses in the period in which they arise.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**m) Related parties**

The Board regards a related party as a person or an entity with the ability to exert control individually or jointly, or to exercise significant influence over the Board, or vice versa. Members of key management are regarded as related parties and comprise the directors, the CEO and senior managers.

**n) Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and cash at bank, short-term deposits on call and highly liquid investments with an original maturity of three months or less, which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. Bank account balances include amounts held at various commercial banks at the end of the financial year.

**o) Comparative figures**

FY 2017/2018 is the first year of operation and hence the comparative figures for the previous financial year are nil.

**p) Subsequent events**

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2018.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY**

The preparation of the Board's financial statements in conformity with IPSAS requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. State all judgements, estimates and assumptions made: e.g

**Estimates and assumptions**

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Board based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Board. Such changes are reflected in the assumptions when they occur.

**Useful lives and residual values**

The useful lives and residual values of assets are assessed using the following indicators to inform potential future use and value from disposal:

- The condition of the asset based on the assessment of experts employed by the Board
- The nature of the asset, its susceptibility and adaptability to changes in technology and processes
- The nature of the processes in which the asset is deployed
- Availability of funding to replace the asset
- Changes in the market in relation to the asset

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5 SIGNIFICANT JUDGMENTS AND SOURCES OF ESTIMATION UNCERTAINTY  
(Continued)

**Provisions**

Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present value where the effect is material.

**Provision for bad debts**

It is the Board policy to assess the impairment of individual debts on an annual basis and provide for each of them based on the prevailing circumstances.

6 TRANSFERS FROM OTHER GOVERNMENTS

Description	2017-2018	2016-2017
	KShs	KShs
<b>Unconditional grants</b>		
Operational grant from the National Treasury	113,000,000	-
<b>Total government grants and subsidies</b>	<b>113,000,000</b>	

6b) TRANSFERS FROM MINISTRIES, DEPARTMENTS AND AGENCIES

Name of the Entity sending the grant	Amount recognized to Statement of Comprehensive Income KShs	Amount deferred under deferred income KShs	Amount recognised in capital fund.	Total grant income during the year	2016-2017
			KShs	KShs	KShs
The National Treasury	113,000,000	-	-	113,000,000	-
<b>Total</b>	<b>113,000,000</b>	<b>-</b>	<b>-</b>	<b>113,000,000</b>	<b>-</b>

The details of the reconciliation have been included under appendix IV of these financial statements.

7 INTEREST INCOME

Description	2017-2018	2016-2017
	KShs	KShs
Interest from bank deposits	266,496	-
<b>Total interest income</b>	<b>266,496</b>	<b>-</b>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 REMUNERATION OF DIRECTORS

Description	2017-2018	2016-2017
	KShs	KShs
Chairman's Honoraria	720,000	-
Directors emoluments	4,770,760	-
Other allowances	1,979,150	-
<b>Total director emoluments</b>	<b>7,469,910</b>	-

9 TRAVEL AND SUBSISTENCE COSTS

Description	2017-2018	2016-2017
	KShs	KShs
Travel cost	6,236,375	-
Daily subsistence costs	18,561,566	-
Other costs	1,115,494	-
<b>Total director emoluments</b>	<b>25,913,435</b>	-

10 DEPRECIATION EXPENSE

Description	2017-2018	2016-2017
	KShs	KShs
Motor Vehicle	1,032,792	-
Office furniture	56,907	-
Computers	100,082	-
Equipment	15,875	-
<b>Total depreciation and amortization</b>	<b>1,205,655</b>	-

11 REPAIRS AND MAINTENANCE

Description	2017-2018	2016-2017
	KShs	KShs
Equipment and machinery	1,250	-
Furniture and fittings	10,800	-
<b>Total repairs and maintenance</b>	<b>12,050</b>	-

12 GRANTS AND SUBSIDIES

Description	2017-2018	2016-2017
	KShs	KShs
ICPAK 2017 FiRe Award	12,757,500	-
<b>Total grants and subsidies</b>	<b>12,757,500</b>	-

Grants and subsidies relate to funds transferred to the Institute of Public Accountants of Kenya (ICPAK), for coordination of the Financial Reporting Excellence (FiRe) award event. Public sector entities have been participating in this event since 2015. Kshs 10.7m was granted towards funding the budget of evaluating over 350 public sector entities and Kshs 2m as support by PSASB as a promoter to the event. This amount is contributed by each of the four promoters of the award.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**13 GENERAL EXPENSES**

<b>Description</b>	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Advertising, printing and information supplies	1,842,680	-
Hospitality and catering costs	866,988	-
Board and Committee expenses	1,437,960	-
Website development	348,000	-
Fuel and oil	94,450	-
Insurance	527,324	-
Membership to professional bodies	11,200	-
Office general supplies	1,878,513	-
Supplies and accessories- computers and printers	1,653,744	-
Bank charges and commissions	79,296	-
Library cost	120,000	-
Telecommunication supplies	352,300	-
<b>Total general expenses</b>	<b>9,212,455</b>	<b>-</b>

**14 TRAINING COSTS**

<b>Description</b>	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Tuition fee and hire of facility	1,657,621	-
Trainers allowances	45,000	-
Production of training materials	10,935	-
Trainers accommodation	1,047,900	-
Tuition fee	6,034,046	-
<b>Total repairs and maintenance</b>	<b>8,795,502</b>	<b>-</b>

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**15 CASH AND CASH EQUIVALENTS**

<b>Description</b>	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
Cash at Bank - Current account	21,870,538	-
<b>Total cash and cash equivalents</b>	<b>21,870,538</b>	<b>-</b>

**15 (a). DETAILED ANALYSIS OF THE CASH AND CASH EQUIVALENTS**

<b>Financial institution</b>	<b>Account number</b>	<b>2017-2018</b>	<b>2016-2017</b>
		<b>KShs</b>	<b>KShs</b>
a) <b>Current account</b>			
Cooperative Bank of Kenya	01141199471000	21,870,538	-
<b>Grand total</b>		<b>21,870,538</b>	<b>-</b>

**16 RECEIVABLES FROM EXCHANGE TRANSACTIONS**

<b>Description</b>	<b>2017-2018</b>	<b>2016-2017</b>
	<b>KShs</b>	<b>KShs</b>
<b>Current receivables</b>		
Rent prepayment	10,007,366	-
<b>Total receivables</b>	<b>10,007,366</b>	<b>-</b>

Towards the end of the year, PSASB procured a rental premises to host its Secretariat at the CPA Centre along Thika Road. Upon signing of the contract, the Board paid one year's lease payments to ICPAK for FY 2018/ 2019. The Board has subsequently relocated to the new premises in August 2018.

**Public Sector Accounting Standards Board (PSASB)**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2018**

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**17 PROPERTY, PLANT AND EQUIPMENT**

	<b>Motor vehicles</b>	<b>Furniture and fittings</b>	<b>Computers</b>	<b>Plant and equipment</b>	<b>Total</b>
	<b>Shs</b>	<b>Shs</b>	<b>Shs</b>	<b>Shs</b>	<b>Shs</b>
<b>Cost</b>	-	-	-	-	-
At 1 July 2016					
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
<b>At 30<sup>th</sup> June 2017</b>	-	-	-	-	-
Additions	7,082,000	5,463,040	3,603,300	1,079,400	<b>17,227,740</b>
Disposals	-	-	-	-	-
<b>At 30<sup>th</sup> June 2018</b>	<b>7,082,000</b>	<b>5,463,040</b>	<b>3,603,300</b>	<b>1,079,400</b>	<b>17,227,740</b>
<b>Depreciation and impairment</b>					
At 1 July 2016	-	-	-	-	-
Depreciation	-	-	-	-	-
Impairment	-	-	-	-	-
<b>At 30 June 2017</b>	-	-	-	-	-
Depreciation	1,032,792	56,907	100,082	15,875	<b>1,205,655</b>
Disposals	-	-	-	-	-
Impairment	-	-	-	-	-
<b>At 30<sup>th</sup> June 2018</b>	<b>1,032,792</b>	<b>56,907</b>	<b>100,082</b>	<b>15,875</b>	<b>1,205,655</b>
<b>Net book values</b>					
<b>At 30<sup>th</sup> June 2018</b>	<b>6,049,208</b>	<b>5,406,133</b>	<b>3,503,218</b>	<b>1,063,525</b>	<b>16,022,085</b>
<b>At 30<sup>th</sup> June 2017</b>	-	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18 CASH GENERATED FROM OPERATIONS

	2017-2018	2016-2017
	KShs	KShs
Surplus for the year before tax	47,899,989	-
Adjusted for:		
Depreciation	1,205,655	-
Working Capital adjustments		
Increase in receivables	(10,007,366)	-
Net cash flow from operating activities	39,098,278	-

19 RECONCILIATION BETWEEN THE SURPLUS AS PER THE BUDGET AND AS PER STATEMENT OF FINANCIAL PERFORMANCE

DESCRIPTION	SURPLUS( Kshs)
Surplus under statement of financial performance	47,899,989
Surplus under the statement of budgeted and actual amounts	20,664,883
<b>Difference</b>	<b>27,235,106</b>

Explained by:

Purchase of fixed assets included in the statement of financial position	17,227,740
Rent prepayment included in the statement of financial position	10,007,366
<b>Total</b>	<b>27,235,106</b>

The difference between surplus as per statement of budget and actual amounts and as per the statement of financial performance arises from bases differences. This is because the statement of budget and actual amounts is prepared under the cash basis while the statement of financial performance is prepared using accrual basis of accounting.

20 FINANCIAL RISK MANAGEMENT

The Board's activities expose it to a variety of financial risks including credit and liquidity risks and effects of changes in foreign currency. The company's overall risk management programme focuses on unpredictability of changes in the business environment and seeks to minimise the potential adverse effect of such risks on its performance by setting acceptable levels of risk. The Board does not hedge any risks and has in place policies to ensure that credit is only extended to customers with an established credit history.

The Board's financial risk management objectives and policies are detailed below:

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**46. FINANCIAL RISK MANAGEMENT (Continued)**

**(i) Credit risk**

The Board has exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from cash and cash equivalents, and deposits with banks, as well as trade and other receivables and available-for-sale financial investments.

Management assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external assessment in accordance with limits set by the directors. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment.

The carrying amount of financial assets recorded in the financial statements representing the Board's maximum exposure to credit risk without taking account of the value of any collateral obtained is made up as follows:

	<b>Total amount Kshs</b>	<b>Fully performing Kshs</b>	<b>Past due Kshs</b>	<b>Impaired Kshs</b>
<b>At 30 June 2018</b>				
Bank balances	21,870,538	21,870,538	-	-
<b>Total</b>	<b>21,870,538</b>	<b>21,870,538</b>	<b>-</b>	<b>-</b>
<b>At 30 June 2017</b>				
Receivables from exchange transactions	-	-	-	-
Bank balances	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The board of directors sets the organisation's credit policies and objectives and lays down parameters within which the various aspects of credit risk management are operated.

**(ii) Liquidity risk management**

Ultimate responsibility for liquidity risk management rests with the Board's directors, who have built an appropriate liquidity risk management framework for the management of the Board's short, medium and long-term funding and liquidity management requirements. The Board manages liquidity risk through continuous monitoring of forecasts and actual cash flows.

The Board ensures that its debts are paid as and when they fall due. As at the end of the period, the Board did not have any outstanding liabilities.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**46. FINANCIAL RISK MANAGEMENT (Continued)**

**(iii) Market risk**

The board has put in place an internal audit function to assist it in assessing the risk faced by the Board on an ongoing basis, evaluate and test the design and effectiveness of its internal accounting and operational controls.

Market risk is the risk arising from changes in market prices, such as interest rate, which will affect the Board's income or the value of its holding of financial instruments such as cash. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. Overall responsibility for managing market risk rests with the Audit Committee.

The Board's Finance Department is responsible for the development of detailed risk management policies (subject to review and approval by Audit Committee) and for the day to day implementation of those policies.

There has been no change to the Board's exposure to market risks or the manner in which it manages and measures the risk.

a) Foreign currency risk

The Board has transactional currency exposures. Such exposure arises through purchases of goods and services that are done in currencies other than the local currency. Invoices denominated in foreign currencies are paid after 30 days from the date of the invoice and conversion at the time of payment is done using the prevailing exchange rate.

As at the end of the year, the Board held no assets or liabilities in foreign denominated currencies

b) Interest rate risk

Interest rate risk is the risk that the Board's financial condition may be adversely affected as a result of changes in interest rate levels. The company's interest rate risk arises from bank deposits. This exposes the company to cash flow interest rate risk. The interest rate risk exposure arises mainly from interest rate movements on the Board's deposits.

*Management of interest rate risk*

To manage the interest rate risk, management has endeavoured to bank with institutions that offer favourable interest rates.

*Sensitivity analysis*

The Board analyses its interest rate exposure on a dynamic basis by conducting a sensitivity analysis. This involves determining the impact on profit or loss of defined rate shifts. The sensitivity analysis for interest rate risk assumes that all other variables, in particular foreign exchange rates, remain constant.

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**46. FINANCIAL RISK MANAGEMENT (Continued)**

**(iii) Market risk (continued)**

Using the end of the year figures, the sensitivity analysis indicates the impact on the statement financial performance if current floating interest rates increase/decrease by one percentage point as a decrease/increase of **KShs 2,664** on the surplus. A rate increase/decrease of 5% would result in a decrease/increase in surplus of **KShs 13,325**.

**iv) Capital Risk Management**

The objective of the Board's capital risk management is to safeguard the Board's ability to continue as a going concern. The Board capital structure comprises of the following funds:

	<b>2017-2018</b>	<b>2016-2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Retained earnings	47,899,989	-
<b>Total funds</b>	<b>47,899,989</b>	<b>-</b>
Total borrowings	-	-
Less: cash and bank balances	(21,870,538)	-
Net debt/(excess cash and cash equivalents)	(21,870,538)	-
<b>Gearing</b>	<b>0%</b>	<b>-</b>

**21 RELATED PARTY BALANCES**

**Nature of related party relationships**

Entities and other parties related to the Board include those parties who have ability to exercise control or exercise significant influence over its operating and financial decisions. Related parties include management personnel, their associates and close family members.

**Government of Kenya**

The Government of Kenya is the principal shareholder of the Board, holding 100% of the Board's equity interest. The Government of Kenya has provided full guarantees to all long-term lenders of the Board, both domestic and external. Other related parties include:

- i) The National Government;
- ii) The National Treasury;
- iii) Other State Corporations;

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**21. RELATED PARTY BALANCE (Continued)**

**Government of Kenya (Continued)**

- iv) Other Ministries, Departments and Agencies;
- v) County Governments;
- vi) Semi- Autonomous Government Agencies and Public Funds;
- vii) Key management;
- viii) Board of directors;

	<b>2018</b>	<b>2017</b>
	<b>Kshs</b>	<b>Kshs</b>
<b>Transactions with related parties</b>		
<b>a) Grants from the Government</b>		
Grants from National Government- National Treasury	113,000,000	-
<b>Total</b>	<b>113,000,000</b>	<b>-</b>
<b>b) Key management compensation</b>		
Directors' emoluments	7,469,910	-
<b>Total</b>	<b>7,469,910</b>	<b>-</b>

**22 CONTINGENT ASSETS AND CONTINGENT LIABILITIES**

The Board did not have any contingent liabilities or assets as at the end of the year 30<sup>th</sup> June 2018.

**23 CAPITAL COMMITMENTS**

<b>Capital commitments</b>	<b>2017-2018</b>	<b>2016-2017</b>
	<b>Kshs</b>	<b>Kshs</b>
Authorised for and not contracted	7,000,000	-
<b>Total</b>	<b>7,000,000</b>	<b>-</b>

As at the end of the year, the Board had authorised a total of Kshs 7 million shillings to be used in partitioning of the new office space at the CPA Centre along Thika Road. This commitment had not been incurred by 30<sup>th</sup> June 2018 and will therefore be incurred in FY 2018/2019. As at the end of the year, procurement process was underway.



**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**24 EVENTS AFTER THE REPORTING PERIOD**

There were no material adjusting and non- adjusting events after the reporting period.

**25 ULTIMATE AND HOLDING ENTITY**

The Board is a Semi -Autonomous Government Agency under the National Treasury. Its ultimate entity is the Government of Kenya.

**26 Currency**

The financial statements are presented in Kenya Shillings (Kshs).

**APPENDIX 1: PROGRESS ON FOLLOW UP OF AUDITOR RECOMMENDATIONS**

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

<b>Reference No. on the external audit Report</b>	<b>Issue / Observations from Auditor</b>	<b>Management comments</b>	<b>Focal Point person to resolve the issue (Name and designation)</b>	<b>Status: (Resolved / Not Resolved)</b>	<b>Timeframe: (Put a date when you expect the issue to be resolved)</b>
N/A	N/A	N/A	N/A	N/A	N/A

**Guidance Notes:**

- (i) Use the same reference numbers as contained in the external audit report;
- (ii) Obtain the "Issue/Observation" and "management comments", required above, from final external audit report that is signed by Management;
- (iii) Before approving the report, discuss the timeframe with the appointed Focal Point persons within your Board responsible for implementation of each issue;
- (iv) Indicate the status of "Resolved" or "Not Resolved" by the date of submitting this report to National Treasury.

Chairman of the Board



**27<sup>th</sup> September 2018**

**APPENDIX II: PROJECTS IMPLEMENTED BY THE BOARD**

**Projects**

There are no projects implemented under PSASB.

**Public Sector Accounting Standards Board (PSASB)  
Annual Reports and Financial Statements  
For the year ended June 30, 2018**

---

**APPENDIX III: INTER-ENTITY TRANSFERS**

	<b>ENTITY NAME:</b>	PUBLIC SECTOR ACCOUNTING STANDARDS BOARD		
	<b>Break down of Transfers from the National Treasury</b>			
	<b>FY 17/18</b>			
a.	Recurrent Grants			
		<u>Bank Statement Date</u>	<u>Amount (KShs)</u>	<u>Indicate the FY to which the amounts relate</u>
		25.08.2017	28,250,000	FY 17/18
		14.12.2017	28,250,000	FY 17/18
		18.01.2018	28,250,000	FY 17/18
		24.05.2018	28,250,000	FY 17/18
		<b>Total</b>	<b>113,000,000</b>	

The above amounts have been communicated to and reconciled with The National Treasury

**Chairman of the Board**

**Head, PSASB Secretariat**




**Public Sector Accounting Standards Board (PSASB)**  
**Annual Reports and Financial Statements**  
**For the year ended June 30, 2018**

---

**APPENDIX IV: RECORDING OF TRANSFERS FROM OTHER GOVERNMENT ENTITIES**

Name of the MDA/Donor Transferring the funds	Date received			Where Recorded/recognized					Total Transfers during the Year
	as per bank statement	Nature: Recurrent/Development/Others	Total Amount - KES	Statement of Financial Performance	Capital Fund	Deferred Income	Receivables	Others - must be specific	
National Treasury	113,000,000	Recurrent	113,000,000	113,000,000	-	-	-	-	113,000,000
<b>Total</b>			<b>113,000,000</b>	<b>113,000,000</b>	-	-	-	-	<b>113,000,000</b>