PSASB

PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

GUIDELINES ON IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) BY PUBLIC SECONDARY SCHOOLS IN KENYA

AUGUST 20, 2021

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GUIDELINES ON IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) BY PUBLIC SECONDARY SCHOOLS IN KENYA

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ACRONYMS

BOM	Board of Management
CDE	County Director of Education
DSAS	Directorate of School Audit Services
EWC	Electricity Water and Conservancy
FS	Financial Statements
FY	Financial Year
IPSAS	International Public Sector Accounting Standards
Kshs	Kenya Shillings
MOE	Ministry of Education
NT	National Treasury
OAG	Office of the Auditor General
OCOB	Office of the Controller of Budget
PA	Parents Association
PFM	Public Finance Management
PSASB	Public Sector Accounting Standards Board
SRC	Salaries and Remuneration Commission
TSC	Teachers Service Commission

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PREFACE

It is my pleasure to issue these guidelines in accordance with Section 194, particularly sub-section 1 a, b, and e, of the PFM Act 2012. The guidelines contained herein are designed to offer direction to Public Secondary Schools in Kenya as they implement the International Public Sector Accounting Standards (IPSAS) prescribed by PSASB.

On 8th August 2014, the Public Sector Accounting Standards Board vide gazette notice number 5440 approved the adoption of IPSAS Cash for application by National and County Government and their respective entities, IPSAS Accrual to be applied by Semi- autonomous State and County Agencies and IFRS for application by State and County Corporations carrying out commercial activities.

On 22nd September 2017, PSASB approved the financial reporting template for Public Secondary Schools to enable the institutions comply with the prescribed accounting standards. However, a slow uptake of the implementation of IPSAS through the financial reporting template issued was noted to be very low. It is at this backdrop that the Principal Secretary, National Treasury vide Circular number AG.4/16/2 Vol.3(72) dated 30th June 2021, issued the Financial Reporting Template for application by Public Secondary Schools in Kenya with effect from the financial year ended 30th June 2021. The financial reporting template is prepared under the IPSAS Cash reporting framework modified for receivables and payables. The template also caters for specific needs and reporting requirements by Public Secondary Schools in Kenya. In preparing the template, PSASB consulted with the Directorate of Schools Audit at the Ministry of Education and the Directorate of Accounting Services at the National Treasury.

GUIDELINES ON IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) BY PUBLIC SECONDARY SCHOOLS IN KENYA

These guidelines have been prepared to:

1. Provide a background and the benefits of financial management reforms for schools in Kenya
2. Explain the IPSAS accounting framework including the basic accounting concepts, elements and components of IPSAS compliant financial statements
3. Provide a step-by-step guide in the preparation of financial statements using the PSASB prescribed financial reporting template
4. Communicate transition arrangements in implementing IPSAS accounting framework by Public Secondary Schools.

To facilitate implementation of IPSAS going forward, the key stakeholders in this process including the Directorate of Schools Audit at the Ministry of Education, the Accounting Services at the National Treasury and PSASB among others, have developed an action plan on capacity building and stakeholder engagement. These developments will be communicated to you from time to time.

Transparency and accountability in financial management is paramount to the continuity and sustainability of learning institutions as they seek to provide knowledge to the current generations and in posterity.

CHIEF EXECUTIVE OFFICER

PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

Date

GUIDELINES ON IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) BY PUBLIC SECONDARY SCHOOLS IN KENYA

CHAPTER 1: INTRODUCTION

1.1 Background

1.1.1 Statement of the Problem

The current public secondary schools reporting framework has not provided disclosure of adequate financial information that is relevant for decision making by key stakeholders and users of the financial information. Significant weaknesses in the current school reporting framework includes:

1) Lack of standardisation. Different schools use different standards and formats to prepare annual financial statements, which compromises the quality of comparability and understandability of financial statements.
2) Incomplete financial information- Most of the public schools do not disclose information on assets such as land, buildings, motor vehicles, furniture, equipment, machinery, inventory, biological assets including livestock, poultry, trees and farm produce. Information on long term liabilities such as gratuity and borrowings are also not adequately disclosed. Information relating to income generated from rent, investments, hire of facilities is also not disclosed by some institutions.
3) Failure by the school management to provide non- financial information such as student enrolment, academic performance, number of teachers both under TSC and BOM, teachers per subject and the establishment of non- teaching staff. This may impair decision making by key stakeholders involved in schools' management.
4) Failure to provide other key information on governance of the public secondary schools. Such information includes the composition, activities and role of Board of Management in public secondary schools.

These challenges among others triggered financial management reforms in public secondary schools.

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1.1.2 Financial management reforms for public secondary schools in Kenya

The Public Sector Accounting Standards Board (PSASB) was established and constituted in accordance with sections 192 and 193 of the PFM Act, 2012 through a Gazette Notice No. 1199 of 28th February 2014.The purpose or mandate of the Board can be summarized as follows:

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

The education sector has grown tremendously in Kenya since independence. This has resulted to an increase in the number of public secondary schools and a significant increase in the number of students joining these institutions.
To this end, the Ministry of Education is undertaking several reforms. Key among these include enhancement of financial reporting in the schools. Towards this, the following has been done:

1. The Public Sector Accounting Standards Board has prescribed the International Public Sector Accounting Standards (IPSAS) for application by all public secondary schools.
2. The Public Sector Accounting Standards Board (PSASB) in consultation with the Ministry of Education and the National Treasury developed a financial reporting template to assist the public secondary schools to adhere to the prescribed standards i.e. IPSAS.

The Public Sector Accounting Standards Board in consultation with the National Treasury and the State Department for Early Learning and Basic Education has developed these guidelines to assist secondary schools in implementing International Public Sector Accounting Standards (IPSAS) and to apply the attendant financial reporting template to enhance financial reporting in schools. This resonates with the Public Finance Management Reform Strategy (PFMRS) 2019/2022 which calls for a public finance management system that promotes transparency, accountability, equity, fiscal discipline and efficiency in the use of public resources for improved service delivery.

These guidelines are prepared in accordance with section 194 (1b and e) of the PFM Act, 2012.

1.2 Legal framework

Chapter 12 of The Constitution of Kenya 2010 provides that there shall be openness and accountability including public participation in public financial matters; that public funds shall be used in a prudent and responsible manner and fiscal reporting shall be clear. Further, Section 81 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, each National Government entity (school) shall prepare financial statements in respect of the entity. Section 81 (3) requires that the financial statements so prepared be in a form that complies with relevant accounting standards as prescribed and approved by the Public Sector Accounting Standards Board of Kenya from time to time.

The Basic Education Act, 2013 Fourth Schedule (Section 23) requires the Board of Management of a public institution of basic education to keep all proper books and records of accounts of the income, expenditure and assets of the institution.

It is at the backdrop of this legal background that the PSASB, the Ministry of Education and the National Treasury have prescribed the International Public Sector Accounting Standards (IPSAS) for Public Secondary Schools in Kenya.

1.3 Applicable Financial Accounting and Reporting Standards in Kenya

On 8th August 2014, the Public Sector Accounting Standards Board vide gazette notice number 5440 approved the adoption of IPSAS Cash for application by National and County Government and their respective entities, IPSAS Accrual to be applied by Semi- autonomous State and County Agencies and IFRS for application by State and County Corporations carrying out commercial activities.

These prescribed standards have been implemented since 2014. PSASB has continued to expand the coverage of public sector entities to ensure implementation of the prescribed accounting and financial reporting standards in Kenya.

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1.4 Rationale for adoption of International Public Sector Accounting standards

International Public Sector Accounting Standards (IPSAS) are a set of accounting standards issued by the IPSAS Board for use by public sector entities around the world in preparation of financial statements.

In Kenya, PSASB adopted the IPSAS for application by public sector entities, in particular PSASB has prescribed IPSAS Cash for application in public secondary schools for purposes of achieving the following:

1.4.1 Comprehensiveness in reporting

Adoption of IPSAS will help schools to fully disclose all financial and non-financial information crucial for effective decision making in the education sector. Further the schools will be required to disclose assets, liabilities, receipts and payments. All non- current assets including biological assets and inventory shall be disclosed in the financial reports.

1.4.2 Strengthen accountability and transparency

Adoption of IPSAS will enhance the realization of the principles of public finance as enshrined in article 201 of the Constitution of Kenya 2010. Consequently, this will strengthen accountability and transparency in Public secondary schools.

1.4.3 Compliance with the prevailing legal framework

The adoption of IPSAS in financial reporting enhances compliance with the relevant laws as follows:

1. Schools shall prepare financial statements in the formats prescribed by PSASB in accordance with PFM Act, 2012.
2. The schools financial year will be aligned to the government year that commences on 1st July to 30th June as required under the PFM Act, 2012 and the Basic Education Act, 2013.
3. Schools shall submit financial statements to the Office of the Auditor General in line with PFM Act 2012, Basic Education Act 2013 and the Public Audit Act, 2015.

1.4.4 Comparability of financial information

Adoption of IPSAS will enable users to compare performance of schools periodically and come up with necessary interventions and control mechanisms. Comparability will also be achieved for the same school across different accounting periods.

1.4.5 Standardization in reporting

Adoption of IPSAS will enhance standardization in reporting by public secondary schools. Standardization creates efficiency for management and oversight authorities including the Office of the Auditor General to undertake their review on a timely and standardized manner.

1.4.6 Understandability of financial statements

There has been an increased demand for transparency on public funds by oversight authorities and members of the public in Kenya over time. The IPSAS reporting framework provides for linkage between financial and non- financial information in public secondary schools. This will enhance the understandability by users on how funds received by schools are used to ensure the objectives set are met.

1.4.7 Consolidation of financial information prepared by public secondary schools

Harmonization of reporting through adoption of IPSAS and prescribed reporting templates will allow the key stakeholders that include the State Department for Early Learning and the National Treasury to prepare consolidated financial statements for public secondary schools. In addition, other stakeholders will be able to obtain information relating to schools easily.

1.5 Responsibility of financial management in schools

1.5.1 Board of Management (BOM)

The functions of the Board of Management in relation to management of schools finances as per section 59 and Schedule IV of The Basic Education Act, 2013 in an institution shall be to;

1) Promote the best interests of the institution and ensure its development;
2) Promote quality education for all pupils in accordance with the standards set under the Basic Education Act, 2013 or any other written law;
3) Ensure and assure the provision of proper and adequate physical facilities for the institution;
4) Prepare a comprehensive termly report on all areas of its mandate and submit the report to the County Education Board;
5) Allow reasonable use of the facilities of the institution for community, social and other lawful purposes, subject to such reasonable and equitable conditions as it may determine including the charging of a fee;
6) Administer and manage the resources of the institution;
7) Receive, collect and account for any funds accruing to the institution;
8) Recruit, employ and remunerate such number of non-teaching staff as may be required by the institution in accordance with the Basic Education Act;
9) Prepare annual estimates of revenue and expenditure for the institution under its charge, in such form and at such times as the Cabinet Secretary may prescribe.
10) Incur expenditure for the purpose of the institution in accordance with estimates approved by the Cabinet Secretary, and any approved expenditure under any head of the estimates may not be exceeded without the prior written approval of the Cabinet Secretary.
11) Receive all grants made out of public funds, whether for capital or revenue purposes, and any subscriptions, donations or bequests made to the institution.
12) Appeal to the general public for subscriptions, donations or bequests with the approval of the Cabinet Secretary
13) Pay all expenses connected with the institution including the salaries of staff with the approval of the County Education Board upon consultation with the Cabinet Secretary

14) Make arrangements to raise any loan which they may, at the request of the institution, authorize the Board of Management to secure in accordance with any order made by the Cabinet Secretary in the matter, or in accordance with the terms and conditions of the loan.
15) Invest any of the funds of the institution in securities in which for the time being trustees may by law invest in trust funds, or in any other securities which the Treasury may, from time to time, approve for that purpose.

1.5.2 The Principal/Head of the institution

The Basic Education Act Part VIII on Governance and Management of Basic Education and Training (Section 62) states that the principal/head of a basic education institution shall;

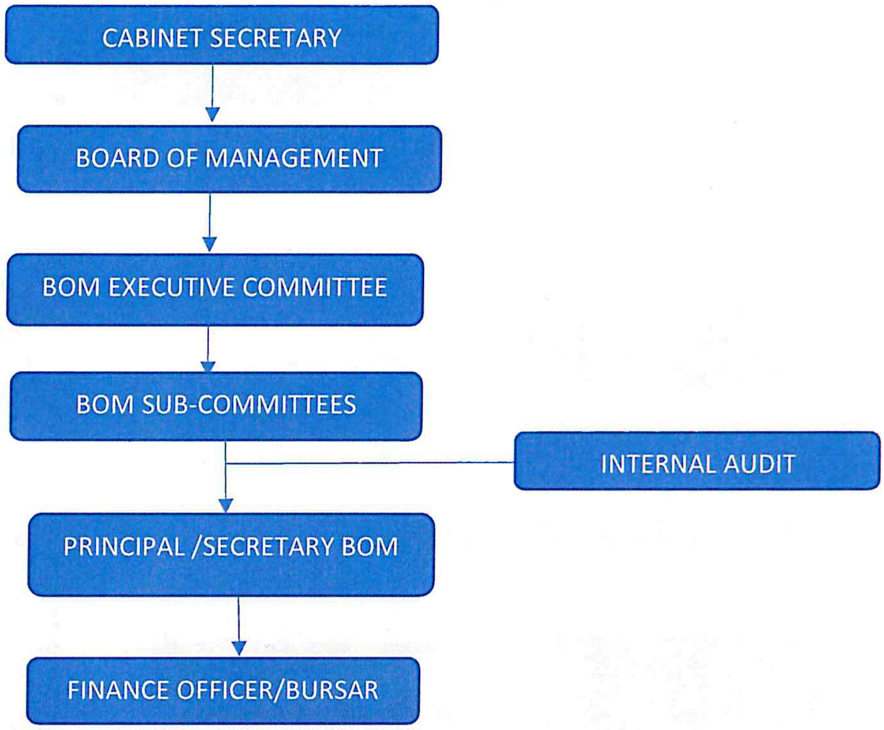
1) Be the secretary to the Board of Management and Parents Association
2) Be responsible for the day-to-day management of the affairs of the institution, and shall present an account of the expenditure to the Board of Management

1.5.3 The Parents Association

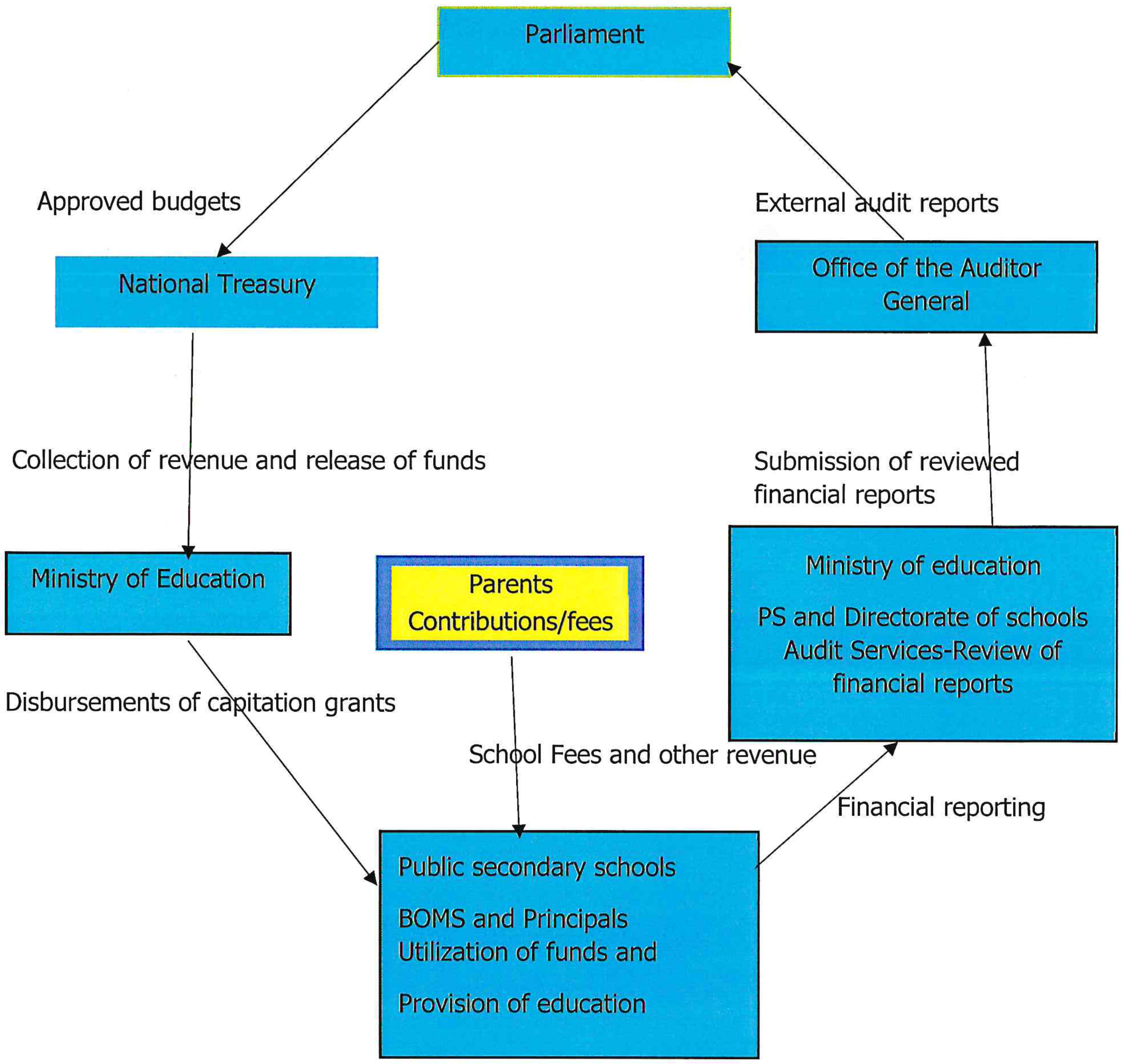
Responsibilities of the Parents Association (PA) as per the Third Schedule of the Basic Education Act, 2013) in relation to financial management are:

1. To discuss, explore and advise the parents on ways to raise funds for the physical development and maintenance
2. To explore ways to motivate the teachers and pupils to improve their performance in academic and co-curricular activities;
3. To discuss and recommend charges to be levied on pupils or parents;
4. To undertake and oversee development projects on behalf of the whole Parents Association;

1.5.4 Schools' financial reporting structure



1.5.5 Flow of public funds and accountability in public schools



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1.6 Scope

These guidelines and the IPSAS financial reporting template shall be applied by all public secondary schools in the preparation of their annual report and financial statements.

1.7 Purpose

The purpose of these guidelines is to provide direction on the implementation of IPSAS reporting framework in public secondary schools. The BOM and the school principals/head of institutions play a key and strategic role in the management of schools' resources. The Basic Education Act, 2013 requires BOMs to prepare annual financial reports and submit them to the Cabinet Secretary.

With the adoption and implementation of IPSAS based financial reports, these guidelines will be handy and timely tools for BOMs and school principals/ head of institutions for purposes of compliance with the requirements of the PFMA, 2012, the Basic Education Act, 2013 and of the IPSAS as prescribed by the PSASB.

1.8 Review IPSAS implementation guidelines

The Ministry of Education, Boards of Management, School Principals/ head of institutions and bursars are required to continually apply these guidelines in the schools financial reporting and may cause for review of the guidelines where necessary, either in whole or in part subject to approval of the proposed change or changes by the Public Sector Accounting Standards Board.

1.9 Public Finance Management Institutions

The following public institutions are relevant to the operations and management of financial resources by schools;

1. The National Treasury
2. Ministry of Education
3. Public Sector Accounting Standards Board
4. Office of the Auditor General
5. Salaries and Remuneration Commission
6. Teachers Service Commission

CHAPTER 2: FUNDAMENTAL PRINCIPLES, CONCEPTS AND REQUIREMENTS

2.1 Accounting Bases, Assumptions and Concepts

The following bases and concepts shall guide schools as they prepare financial information:

i. Going Concern Assumption

Going concern assumes that the institution will remain in operation in the foreseeable future, usually 12 months. In preparation of financial statements, the school will be assumed to be a going concern unless otherwise stated by the MOE.

ii. Materiality Concept

Information is material if its omission or misstatement could influence the economic decisions of users made on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. However, it is inappropriate to make, or leave uncorrected, immaterial departures from prescribed accounting treatment to achieve a particular presentation of a school's financial information. All public finances are considered material since entities hold these funds in trust.

iii. Prudence Concept

Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated, and liabilities or expenses are not understated.

However, the exercise of prudence does not allow the deliberate understatement of assets or income or the deliberate overstatement of liabilities or expenses. In short, prudence does not permit bias.

iv. Identification of Financial Statements

The Financial Statements shall be identified clearly and distinguished from other information in the same reports and accounts. Each component of the financial statements shall have the following information displayed prominently, and repeated when it is necessary for a proper understanding of the information presented:

a. The name of the school.

b. The reporting date or the period covered by the financial statements.

c. The presentation currency.

d. The level of rounding off used in presenting amounts in the financial statements.

The requirements above are normally met by presenting page headings and abbreviated column headings on each page of the financial statements.

v. Comparative Information

Comparative information shall be presented in respect of the preceding period for all amounts reported in the financial statements. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.

In some cases, narrative information provided in the financial statements for the preceding period(s) may continue to be relevant in the current period. For example, details of a legal dispute, the outcome of which was uncertain at the end of the preceding period and is yet to be resolved, are disclosed in the current period. Users may benefit from the disclosure of information that the uncertainty existed at the end of the preceding period, and about the steps that have been taken during the period to resolve the uncertainty.

vi. Offsetting

Assets and liabilities, Receipts and Payments, shall not be offset unless required or permitted by the accounting standards and as shall be communicated by the Public Sector Accounting Standards Board.

2.2 Qualitative Characteristics of Financial Statements

In preparing financial statements, schools should consider the following qualitative characteristics:

Relevance

Financial and non- financial information is relevant if it can make a difference in achieving the objectives of financial reporting. Information is considered relevant if it assists users of financial information to make decisions. Therefore, accounting information is relevant if it can provide helpful information about past events and help in predicting future events or in taking action to deal with possible future events.

Faithful Representation

Financial information should be reliable. Faithful representation is the extent to which information reflects an entity's resources, obligatory claims and transactions. For faithful representation to be achieved, financial statements should be complete, neutral (free from bias) and free from error.

Verifiability

Verifiability is the quality of financial information that helps assure users that information in the financial statements faithfully represents the economic and other phenomena it purports to represent. The information included in the financial statements should be supportable.

Understandability

Understandability is the quality of financial information that enables users to comprehend its meaning. Financial reports should present information in a manner that responds to the needs and knowledge base of users, and to the nature of information presented.

Timeliness

Timeliness means having information available for users before it loses its capacity to be useful for decision making purposes. Lack of timeliness can render financial information to be less useful.

Comparability

Comparability is the quality of financial information that enables users to identify similarities and differences between two sets of phenomena. Comparability is achieved between two or more reporting periods and between two or more reporting entities. By applying IPSAS and standardizing reporting, the quality of comparability will be achieved.

2.3 Components of Financial Statements

At the end of every financial period, all public secondary schools shall be required to prepare financial statements in accordance with the financial reporting template issued and approved by the Public Sector Accounting Standards Board.

The financial statements of a public school shall consist of the following: -

i. Statement of Receipts and Payments
ii. Statement of Assets and Liabilities
iii. Statement of cash flows
iv. Statement of Budgeted versus Actual amount
v. Basis of preparation and accounting policies
vi. Explanatory notes; and
vii. Other relevant disclosures

These statements are discussed in detail in **Chapter 4** of these guidelines.

2.4 Elements of Financial Statements

a) Assets

An asset is a resource with an economic benefit that the school owns or controls with the expectation that it will enable it meet its objectives. An asset has a service potential or ability to generate economic benefits that can arise directly from the resource itself, from the rights to use the resource or the school's ability to direct how it may be used by denying or restricting access to that resource. For the purpose of these guidelines, assets include: Fixed assets, Biological assets inventory and financial assets among others.

b) Liabilities

A liability is a present obligation of the school for an outflow of resources that results from a past transaction or other event. For the purpose of these guidelines, liabilities will include payables, gratuity, borrowings among others.

c) Revenue

Revenue is the gross inflow of economic benefits/ service potential during the reporting period when those inflows result in an increase in net assets /equity other than increases relating to contributions from owners.

Revenue refers to inflow of economic benefits during the reporting period when those inflows result in an increase in assets or reduction in liabilities. It comprises of capitation grants, parents' contributions/fees, donations and other receipts from the school's own income generating activities.

d) Expenses

These are costs incurred and expired by the school during the reporting period in the form of non-teaching staff salaries, Boarding and Stores, Tuition, Transport and Travelling, EWC and other costs for purposes of school operations.

Surplus /Deficit

Surplus is the amount by which the school revenue exceeds expenses in a given financial year while deficit is the amount by which school expenses exceeds revenue in a given financial year.

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CHAPTER 3: GUIDELINES ON NON -FINANCIAL INFORMATION

3.1 Key School Information and Management

Each public secondary school at the end of the financial reporting period will be required to provide the following information together with the financial statements:

3.1.1 Background information

The school shall disclose the country, county, sub-county of operation and enabling Act in its financial report, including the dates of its registration and certificate of registration. The school should indicate whether it is a day/boarding, number of students enrolled, number of the teachers both from TSC and BOM as at the date of reporting.

3.1.2 Board Members

The school shall disclose the names, designation and date of appointment of members of the Board of Management involved in management of its affairs during the reporting period. This information shall be presented in a tabular format. In addition, the role of BOM shall be disclosed.

3.1.3 Board Committees

The school shall present the following information with respect to committees of the BOM:

-the name of the committee

- the composition of the committee

- designation of members in the committee (chairperson/member or secretary

- number of meetings attended by each member to the committee meetings

This information is intended to inform the users of the financial statements on how governance of public secondary schools is implemented by the BOMs. The Basic Education Act,2013 requires the BOM to submit on an annual basis a report on governance of the school to the Director General, Basic Education.

3.1.4 School operation Management

During the reporting period the school shall state officers in charge of its management on a day-to-day basis relating to financial management. This includes the principal/ head of institution, the Deputy Principal and the School Bursar. The TSC number should be included where relevant.

3.1.5 School Bankers

The school shall disclose all its bank accounts including its bankers, the branch and the account numbers. All accounts shall be disclosed including the CDF bank accounts and the Mobile money pay bill numbers.

3.2 Summary Report of the School Performance

Schools shall prepare a summary of school performance that has financial and non- financial parameters. The non- financial information should enhance the understandability of the financial statements.

3.2.1 Financial performance:

The school should report on the following information relating to financial performance.

- Surplus/ deficit for the year and a comparison of the same for the last three years
- Capitation grants from the Ministry of Education for the last three years
- Ratio of capitation grant per student over the last three years
- A three-year overview of growth of other income(s) earned by the school.
- A three- year overview of growth in expenditure of the school
- Movement of debtors and creditors of the school over the last three years
- Movement of cash and bank balances over the last three years

Graphical presentation, ratios, tables or pie charts should be used to show/ indicate trends.

3.2.2 Teacher Student ratio:

The school should disclose the following information in relation to teacher student ratio:

- Number of teachers recruited and posted to the school within the year by BOM and TSC respectively
- number of teachers that were transferred/ retired during the period
- Number of teachers employed by TSC, and number employed by BOM.
- Number of teachers per subject to indicate shortage and inform allocation of resources
- Teacher student ratio (total number of students in school divided by the total number of teachers).

3.2.3 Mean score in the 20XX KCSE:

The school should provide details of academic performance of the school for each year over the last three years. In this section, the following information should be disclosed:

- Include the number of KCSE registered students over the last three years
- Indicate those that have transitioned to institutions of higher learning
- Include the mean score over the last three years as compared to the school's set score.
- Indicate graphically the trend in academic performance if possible, per subject taken

3.2.4 Capacity of the school:

The school should include information on capacity in terms of facilities like classes, dormitories, laboratories, toilets, halls and other amenities. This information is useful for decision making by key stakeholders in management of public secondary schools in Kenya. This information should be presented by dividing the total number of students against the facilities. A tabular format may be used to present the information.

3.2.5 Development projects carried out by the school:

The school shall disclose the following information in a tabular format; an example is given here below;

- Projects completed in the year e.g construction of classes, dormitories, halls, ablution blocks, purchase of school buses among others
- On- going projects as at the end of the year
- New projects started during the year
- Sources of funds for the projects including capitation grants, parents contributions/fees, donations from alumni and well-wishers, donations from development partners, CDF donations and receipts from revenue generating activities among others.

The table below gives an example of the disclosure required.

Projects	Source Of Funds	Status	Initial Cost (Kshs)	Amount Spent (Kshs)	Expected Completion Time
School Bus	CDF	-	-	-	-
Dormitory	MOE	ongoing	15M	10M	30th June 2022
Dining	PARENTS	-	-	-	-
Classroom	ALUMNI	-	-	-	-
Laboratory	-	-	-	-	-
Ablution Block	-	-	-	-	-

3.2.6 Approval of the summary report on the performance of the school

The statement on performance of the school shall be signed by the school's principal/ head of institution.

3.3 Statement of School Management Responsibility

Schedule 4 (Section 23) of the Basic Education Act, 2013 requires the Board of Management of a public institution of basic education to keep all proper books and records of accounts of the income, expenditure and assets of the institution.

The statement of school management responsibility indicates that the BOM understands their responsibility with respect to financial management of the school and that they have caused books of account to be kept and the financial information presented reflects the true and fair value of the school's transactions.

The BOM chair, the principal/ head of institution and the bursar shall sign off this statement.

CHAPTER 4: GUIDELINES ON FINANCIAL INFORMATION

4.1 Statement of Receipts and Payments

4.1.1 Definition of terms

Receipts

This relates to funds received by schools either as capitation for tuition, operations or as school funds revenue received as parents' contribution or other receipts.

Capitation

Transfer of funds to schools by government through the State Department for Early Learning and Basic Education in which the amount is determined by the number of students enrolled.

Capitation grants for tuition

Transfer of funds to schools by government to support tuition related activities for the students enrolled in the school. The amounts are used to cover expenses such as textbook and reference materials, exercise books, laboratory equipment, examination and other teaching/ learning related expenses.

Capitation grants for operations

Transfer of funds to schools by government to support the day to day running of the schools. This grant is used to support activities such as personnel emoluments, utilities, administration costs and medical expenses among others. These activities are co-funded by government and parents.

Capitation grants for Infrastructure

Transfer of funds to schools by government to support infrastructure related activities for the students enrolled in the school. The amounts are used to cover expenses such as classrooms laboratories Ablution blocks and dormitories among others.

School fund income- Parent's contributions/ fees

These are receipts from parents in respect of school fees paid to support boarding and operational activities such as personnel emoluments, utilities, administration costs, medical expenses. These activities are co-funded by government and parents.

School fund income- other receipts

This relates to amounts received by secondary schools that may arise from income generated activities such as farming activities, rental income, hire of ground and equipment or other sources. Other income also relates to donations and grants from alumni, well-wishers, development partners and the CDF among others.

Payments

This relates to funds paid by school for tuition expenses, operations, boarding and other school fund related expenses. Expenses relate to an outflow of resources for payment of goods, works and services delivered or rendered.

4.1.2 Recognition of Receipts and Payments

The school recognises all receipts from the various sources when the event occurs, and the related cash has actually been received by the school. In addition, the school recognises all expenses when the event occurs, and the related cash has actually been paid out by the school. For purposes of the secondary schools reporting, the template has been modified for receivables and payables.

4.1.3 Statement of Receipts and Payments

All Public secondary schools shall be required to prepare statements of receipts and payments for the reporting period as per the approved template. The Statement of Receipts and Payments shall include all Receipts and Payments and the resulting surplus or deficit.

4.1.4 Receipts

Receipts include but not limited to, the following:

1. Capitation grants for tuition
2. Capitation grants for operations
3. Capitation grants for infrastructure development
4. Parents' Contributions
5. Other receipts that include:
    a) Rent revenue
    b) revenue from farming activities
    c) Insurance compensation
    d) revenue from Posho mill
    e) revenue from Bus Hire
    f) Fee for hire of ground and equipment
    g) revenue from grants and donations
    h) Interest revenue
    i) Dividends income
6. Proceeds from borrowings

Payments includes, but is not limited to, the following:

a) Personnel Emoluments
b) Gratuity
c) Administration Costs
d) Textbooks and Reference Materials
e) Teaching, Learning and Examination Materials
f) Repairs, Maintenance and Improvements
g) Local Transport / Travelling
h) Electricity, Water and Conservancy
i) Medical Expenses
j) Lunch Programme
k) Activity Expenses

l) Strengthening Mathematics and Science Education (SMASE)
m) Boarding Equipment and Stores
n) Rent Expense
o) Expenses On revenue Generating Activities
p) Insurance Costs
q) Bank Charges
r) Loans Interest Payments
s) Loan Principal Repayment
t) Acquisition of Assets

The above payment items have been classified into 3 broad financial statement line items to be presented on the face of the Statement of receipts and payments namely: Payment for Tuition, Payment of operations, Boarding and school fund payments.

Explanatory notes shall be included to provide additional information about amounts included on the face of the statement of Receipts and Payments.

4.1.5 Accounting Entries with Respect to Statement of Receipts and Payments

1. When schools receive capitation from Government

Dr. Bank Account (Tuition/Operation)	xxx
Cr. Receipts (respective vote heads)	xxx

(Being recording of the cash received by secondary schools from the government through the Ministry of Education)

2. When schools receive fees from Parents

Dr. Bank Account (School fund Account)	xxx
Cr. Receipts (respective vote heads)	xxx

(Being recording of the cash received by secondary schools from parents for co-funded activities)

3. When schools receive fees Other Receipts

Dr. Bank Account (School fund)	xxx
Cr. Receipts (respective vote heads)	xxx

(Being recording of the cash received by secondary schools from other receipts including donations from Alumni and as defined elsewhere in these guidelines)

4. When schools make payments

Dr. Expense (Respective vote heads)	xxx
Cr. Bank (Respective bank accounts)	xxx

(Being recording of the cash paid out by secondary schools for expenses)

4.1.6 Documents to Be Maintained to Support Receipts and Payments

Receipts

The following documents shall be maintained with respect to receipts recorded by secondary schools in the statement of receipts and payments

a) Ledger books / Receipt Schedule
b) Used Receipt books
c) Counter foil receipt book register
d) Fees register
e) Class register
f) List of debtors/Students with school fees arrears
g) Approved fee structure
h) Bank statement
i) Duplicate pay-in slip

The following documents shall be maintained with respect to payments recorded by secondary schools in the statement of receipts and payments

a. Ledger books/ Payment schedules
b. Used Cheque books/ cheque counterfoils
c. Payment Voucher files
d. Invoices

e. List of creditors
f. Cashbook
g. Bank statement
h. LPOs and LSOs
i. Certificates of work completed
j. Delivery notes
k. Certificate of inspection and acceptance
l. Cheque registers
m. Payrolls and Payment Schedules

4.1.7 In-kind contributions

In-kind contributions are donations that are made to the *school* in the form of actual goods and/or services rather than in money or cash terms. These donations may include vehicles, equipment, consumables or personnel services among others. Where the financial value received for in-kind contributions can be reliably determined, the school includes such value in the statement of receipts and payments both as a receipt and as a payment in equal amounts.

4.2 Statement of Financial Assets and Financial Liabilities

4.2.1 Definition of terms

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 financial institutions at the end of the reporting period.

Cash in Bank

Cash in Bank consists of Current accounts, savings account, Fixed deposit account, Mobile money accounts. Bank account balances include amounts held at various financial institutions at the end of the reporting Period.

Cash on hand

Cash on hand relates to any cash balances not banked by the institution at the end of the reporting period.

Short term investments

Short-term investments, also known as marketable securities or temporary investments, they are financial investments that can easily be converted to cash.

Accounts Receivable

Accounts receivable is the balance of money due to the school for goods or services delivered or used but not yet paid for by students or clients. Accounts receivables are listed in the statement of financial assets and liabilities as financial assets. Accounts receivable include Fees arrears, Other non-fees receivables, Salary advances and Imprest advances. In describing accounts receivables, the school should include an ageing analysis of the fees arrears starting with the current year, then the previous year and for prior periods exceeding two years.

Accounts payables

Accounts payable is the liability account that keeps track of money that the school owes to any third party. These include suppliers of goods and services, students (overpaid fees), and staff. Depending on the terms for repayment, the amounts are typically due immediately or within a short period of time. Examples of accounts payable in school include Trade creditors, Prepaid fees, Gratuity, Retention monies.

In describing accounts payable the reporting school should include an ageing analysis of the trade creditors starting with the current year, then the previous year and for prior periods exceeding two years.

Fund balance brought forward

Fund balance brought forward represent the surplus or deficit of the prior financial periods. This is the unexpended balance at the end of a prior financial year that has been rolled forward to the next financial year.

Surplus/Deficit for the year

This is the resultant figure from the difference between receipts and payments.

4.2.3 Accounting treatment of items in the Statement of assets and liabilities

The following accounting entries are made for elements in the assets and liabilities statement

1. (a) Short term investments- On purchase of investments:

Dr. Short term investments	xxx
Cr. Bank	xxx

(b) On recognition of interest income arising from these investments at any given point

Dr. Short term investments	xxx
Cr. Interest income (School Fund account other receipts)	xxx

(c) On liquidation of investments

Dr. Bank	xxx
Cr. Short term investments	xxx

2 When recognising receivables at the end of each reporting period

Dr. Accounts Receivable (student account)	xxx
Cr. Income (School fund – parents contributions)	xxx

3 (a) Accounts Payable- The following entries are made when recording payables

Dr. Purchases/ expense (relevant vote head)	xxx
Cr. Account payable (Supplier account)	xxx

(b) When payment for goods and services is done

Dr. Account payable (Supplier account)	xxx
Cr. Cash/bank	xxx

4.3 Statement of Cashflows

All Public secondary schools shall be required to prepare statements of cash flows for the reporting period as per the approved template. The statement should be incompliance with IPSAS 2- Cash flow statements.

4.3.1 Definition of terms

Operating activities

Operating activities are those activities that relate to the core mandate of an organisation. They are not investing or financing activities. Cash Flow from Operations includes the cash flows associated with cash receipts from capitation, school fees, grants, donations, cash from income generating activities and cash payments used in paying for goods and services, employee costs, payments for learning materials among others.

Investing activities

Investing activities are the acquisition and disposal of long- term assets and other investments not included in cash equivalents. Investing cash flows includes the cash flows associated with buying or selling property, plant, and equipment (PP&E), other non-current assets, and other financial assets.

Financing activities

Financing activities are activities that result in changes in the size and composition of the equity capital or borrowings of the entity. Financing cash flows include cash flows associated with borrowing and repaying bank loans. Cash flows from investing and financing activities are reported separately gross (gross cash receipts and gross cash payments, no netting) unless they meet certain specified criteria.

4.3.2 Components of a cash flow statement

a) Cash flows from operating activities,
b) Cash flows from investing activities,
c) Cash flows from financing activities
d) Net cash and cash equivalents
e) Cash and Cash equivalents at the beginning of the period
f) Cash and cash equivalents at the end of the year.

a) Cash flows from operating activities

The following are items used in deriving cash flows from operating activities.

Receipts

- Capitation grants for tuition
- Capitation grants for operations
- Capitation grants for infrastructure
- Parents contributions/ fees
- other receipts

Payments

- Payments for Tuition
- Payments for Operations
- Boarding and School Fund Payments

Net Cash flow from operating activities =cash receipts from operating activities- cash payments used in operating activities.

b) Cash flows from investing activities

The following are items used in deriving cash flows from investing activities;

- Proceeds from Sale of Assets
- Acquisition of Assets
- Proceeds from investment
- Purchase of investment

Net Cash flow from investing activities =Proceeds from sale of assets and long term investments- acquisition of assets and long term investments.

c) Cash flow from financing/ borrowings activities

The following are items used in deriving cash flows from financing/ borrowings activities;

- Proceeds from borrowings/ loans
- Repayment of principal borrowings

Net Cashflow from financing activities= Proceeds from borrowings- repayment of principal on borrowings.

d) Net increase/decrease in cash and cash equivalents

Net increase/decrease in cash and cash equivalents = Net Cash flow from/used in operating activities+ Net Cash flow from/used in investing activities + Net Cash flow from/used in financing activities.

e) Cash and cash equivalents at the beginning of the year

This is the opening balance from the bank accounts, cash in hand and short- term investments which are readily convertible to cash.

f) Cash and cash equivalents at the end of the year

Cash and cash equivalents at the end of the year=cash and cash equivalents at the beginning of the year + net increase/decrease cash and cash equivalents.

The cash and cash equivalents at the end of the year should tie to bank, cash balances and portion of short- term investments included in the statement of assets and liabilities.

4.3.3 Method of cash flow presentation/ preparation

There are two methods of cash flow statement presentation allowed by the IPSAS. The direct method of cash flow presentation and the indirect method of cash flow presentation.

Direct method: Operating cash flows are presented as a list of cash flows (presenting gross cash receipts and payments); cash receipts associated with capitation, school fees, grants, donations, cash from revenue generating activities and cash payments used in paying for goods and services, employee costs, payments for learning materials among others.

Indirect method: Operating cash flows are presented as a reconciliation from profit to cash flow. (adjusting surplus or deficit for non-operating and non-cash transactions and for changes in working capital).

The method of cash flow statement presented in the financial reporting template for public secondary schools, and which is encouraged for use by public sector entities, is the **direct method of cash flow presentation.**

4.4 Statement of Budgeted Verses Actual Amounts

4.4.1 Legal background

In line with Section 81 (2a) of the PFM Act, 2012, Each National Government entity is required to prepare a statement of budgeted verses Actual Amounts. The main purpose of this statement is for the entity to demonstrate its compliance with the approved budgets. The statement also demonstrates the entity's financial performance where the basis of preparation of financial statements and the budget preparation basis are the same.

4.4.2 Rationale of the statement as per IPSAS

Paragraph 1.7.8 of IPSAS Cash requires an entity that makes publicly available its budget to present a comparison of budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or additional columns to the statement of receipts and payments.

PSASB prescribes that a separate financial statement is prepared to compare budget versus actual amounts is prepared.

4.4.3 Definition of terms

Original Budget

Indicates the first/ original budget approved by the school's BOM. This is column (a) of the budget statement and should contain figures based on the first approved budget by BOM.

Adjustments

These are the budget changes arising from re-allocations and supplementary revisions during the year which are factored under column (b) of the budgeted versus actual statement.

Final Budget

The final budget is the approved budget after supplementary and re-allocations are effected, to the original budget. This is column (c) of the statement of actual versus budgeted amounts. The final budget is computed as follows:

Final budget (c)=Original budget (a)+ (-) Adjustments(b)

Actual on comparable basis

These are figures obtained from execution of the budget. They relate to actual receipts and payments of goods, works and services. This is depicted as column (d) of the statement of budget versus actual amounts.

Budget utilisation difference

This is the difference between the final budget and actual amounts on comparable basis. The budget utilisation difference is computed as follows:

Budget utilization difference (e)=Final budget (c)- Actual on comparable basis (d)

Percentage of Utilisation

This is the percentage indicating the level of collection of funds and the level of usage of funds as a percentage of the final budget. It demonstrates the entity's level of performance in budget execution. The percentage of utilisation is a key ratio for decision making by management and key stakeholders.

The percentage of utilisation is computed as follows:

% of Utilization (f) = Actual on comparable basis (d) / Final budget (c)

4.4.4 Explanatory notes to the statement of budgeted versus actual amounts

The school is expected to provide an explanation of:

- Significant underutilization below 90% and any overutilization above 100%
- What led to the difference between the original budget and the final budget? (Either supplementary and/or re-allocation of the budget)

4.5 Accounting Policies

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements. Accounting policies adopted should:

- Present the basis of preparation of financial statements. In the case for schools, this is the IPSAS Cash Basis
- Present specific accounting policies selected and applied for significant transactions and other events.
- Present information that is understandable and reliable
- Provide information that is relevant to the understanding of the financial statements

The accounting policies included under the PSASB prescribed financial reporting template have been tailor made to the operations of a public secondary school as closely as possible. In cases where the school has transactions or balances not defined by the accounting policies in the template, such an accounting policy will be included to ensure better understanding of the school's financial statements. On the contrary, where an accounting policy has been included in the template and does not seem to be defining a transaction or a balance relating to the reporting institution, this policy should be removed.

4.6 Notes to the financial statements

The purpose of notes to the financial statements is to:

- Disclose information required by IPSAS that is not presented on the face of the statement of receipts and payments, statement of financial assets and liabilities, cash flow statement and the statement of budgeted versus actual amounts
- Provide additional information that is not presented on the face of the statement of receipts and payments statement of financial assets and liabilities, cash flow statement and the statement of budgeted versus actual amounts

The school shall ensure that notes are:

a) Presented in a systematic manner
b) Cross- referenced properly to the primary financial statements
c) Prepared in a manner that assists users of financial statements to understand the financial statements better and compare them across institutions and across periods.

The financial reporting template prescribed for public secondary schools contains notes to the financial statements which are linked to the primary financial statements.

4.7 Other Important Disclosures

4.7.1 IPSAS Cash requirements with respect to assets and liabilities

IPSAS Cash Standard paragraph 1.3.10 states that Entities that report using Cash basis of accounting frequently collect information on items that are not recognized under cash accounting. Examples of the type of information that may be collected include details of:

(a) Receivables, payables, borrowings and other liabilities, non-cash assets and accruing revenues and expenses;
(b) Commitments and contingent liabilities; and

Performance indicators and achievement of service delivery objectives

4.7.2 Non-Current Liabilities:

The school is required to disclose all outstanding bank loans, outstanding leases, Hire purchase contracts and gratuity as at the end of the reporting period. The disclosure will enhance the understanding of liabilities owed by the school at any given reporting period.

4.7.3 Biological Assets:

The school shall provide disclosure on all biological assets owned by the school. This shall include but not limited to cattle, goats, trees and poultry. The number of biological assets is supposed to be disclosed as well as their value based on cost, market value or a management estimate for the different classes of biological assets.

4.7.4 Borrowings Movement schedule

The school shall provide a schedule indicating the balance at the beginning of the period, additional borrowings during the period and the closing balance. This disclosure indicates the borrowing repayment trends by the school.

4.7.5 Stock/Inventory

Provide a stock movement in monetary value as indicated in note 17.

4.7.6 Progress on Follow up of Auditors recommendations

Populate the table on auditors recommendations of the template indicating the issues raised by the Auditor in your last Audit Report. This report is an indication of the institution's progress in implementing recommendations from audit.

4.7.7 Annex: 2 Summary of Fixed Assets Register

Populate the Annex 2 table using historical figures and using the classification provided.

GUIDELINES ON IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS) BY PUBLIC SECONDARY SCHOOLS IN KENYA

CHAPTER 5: TRANSITIONAL ARRANGEMENTS

5.1 Accounting Framework for Public Secondary Schools

PSASB, as mandated by section 194 of the PFM Act, 2012, prescribed the International **Public Sector Accounting Standards (IPSAS) Cash basis** for application by Public Secondary Schools. The cash based IPSAS has been modified to include receivables and payables.

Other non- current assets including property, plant and equipment, biological assets and inventory are disclosed in the financial statements as encouraged by the IPSAS Cash.

5.2 Financial Reporting Template for Secondary Schools

To assist the Public Secondary Schools to adhere to the prescribed accounting framework, a financial reporting template for Public Secondary Schools has been prepared by the Public Sector Accounting Standards Board in accordance with Section 194(1d) of the PFM Act 2012.

This template was issued for implementation by the Principal Secretary, National Treasury on 30th June 2021 vide circular Ref AG.4/16/2 Vol.3 (72). The financial reporting template can be accessed from the PSASB website on www.psasb.go.ke, National Treasury's website on www.treasury.go.ke and the Ministry of Education website on www.education.go.ke.

5.3 Reporting Period

The schools' reporting period has been harmonized to the Government fiscal year that runs from 1st July to 30th June each year as provided for by Section 87 of the Basic Education Act, 2013 read together with Section 81 of the PFM Act, 2012.

The first period of reporting under the new accounting framework is 30th June 2021. To facilitate preparation of the financial statements, Schools are expected to prepare financial statements for

18 months from 1st January 2020 to 30th June 2021. Subsequently, financial statements will be prepared for 12 months from 1st July to 30th June each year.

Schools should disclose in the financial statements that the financial statements cover a longer period of 18 months. A disclosure should also be made that the reason for preparing financial statements for a longer period is the adoption of IPSAS for schools and the change from implementing the government fiscal year instead of a calendar year for schools.

5.4 Comparative Information

For the purposes of the first financial statements prepared under IPSAS, the comparative information will be for the period ended 1st January to 31st December 2019. A disclosure should be made in the financial statements that the comparative information may not be comparable due to a longer period covered by the current financial period.

Comparative information shall be reclassified to fit the format of the prescribed financial reporting template as much as possible. Where this is not possible, a disclosure to that effect should be made in the financial statements as provided for by the IPSAS Cash.

5.5 Annual Reporting Timelines

In line with section 81 of the PFM Act, 2012, the schools are required to prepare annual financial statements within three months after the end on the financial year that is, by 30th September of each financial year. The annual reports and financial statements shall be submitted to the Accounting Officer in the Ministry of Education for onward transmission to the Office of the Auditor General in line with the Public Audit Act, 2015 and the PFM Act, 2012.

5.6 Forming a dedicated Financial Reporting team

The BOM is encouraged to form a dedicated team tasked with the responsibility of preparing the Annual Report and Financial Statements. The BOM shall ensure that the annual reports and financial statements are submitted within the set timeliness.

5.7 Technical Assistance

The State Department for Early Learning and Basic Education will provide technical support to schools in the implementation of the IPSAS financial reporting template prescribed by Public Sector Accounting Standards Board. In case the school experiences technical difficulties in application of the reporting template, please contact the County Director of Education. The CDE may escalate the issues to the relevant departments at the Ministry of Education, the National Treasury and the Public Sector Accounting Standards Board.

5.9 Training and Capacity Building

The Ministry of Education through the State Department of Early Learning and Basic Education, the National Treasury and the PSASB will continue to train and sensitize the following key stakeholders to ensure compliance with the IPSAS reporting framework:

1. Auditors from Schools Audit Services
2. County Directors and Sub- County Directors of Education
3. Boards of Management for schools
4. School Principals
5. School Bursars
6. Teachers Service Commission
7. Kenya Education Management Institute
8. Parents Association among others

The Auditors from School audit services will provide technical assistance as ToTs. A finance and procedures manual will also be prepared to provide guidance on management accounting and reporting financial information by schools.

5.10 Accountable Documents

In preparing financial statements on the Basis of IPSAS, accountable documents which include but not limited to cheques, payment vouchers, fee statements, receipt books, cashbooks, bank reconciliation statements shall continue to be used as per current arrangements.

5.11 Accounting Software

Schools shall continue to use the current accounting arrangements in place. The National Treasury and the State Department for Early Learning and Basic Education will in due time recommend an accounting software to create efficiency for schools while preparing the financial statements.

5.12 Review and Approval of Financial Statements

The Board of Management is responsible for the review and approval of financial statements before they are submitted to the Accounting Officer at the Ministry of Education.

CHAPTER 6: REFERENCES

In preparation of these guidelines reference has been made to the following documents

i. The Constitution of Kenya
ii. Public Finance Management Act, 2012
iii. Basic Education Act,2013
iv. Public Audit Act, 2015
v. IPSAS Cash Standard
vi. Ministry of Education circulars
vii. National Treasury Circulars and
viii. Attendant regulations to the above Acts