PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

GUIDELINES ON IMPLEMENTATION OF INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS ACCRUAL) BY LEVEL 4 AND 5 PUBLIC HOSPITALS IN KENYA

MAY 10, 2022

PUBLIC SECTOR ACCOUNTING STANDARDS BOARD
P.O. Box 38831-00100 email: info@psasb.go.ke.

Table of Contents

Acronyms

BOM	Board of Management
FS	Financial Statements
FY	Financial Year
IPSAS	International Public Sector Accounting Standards
Kshs	Kenya Shillings
NT	National Treasury
OAG	Office of the Auditor General
OCOB	Office of the Controller of Budget
PFM	Public Finance Management
PSASB	Public Sector Accounting Standards Board
PPE	Property Plant and Equipment

Chapter 1: Introduction

1.1 Background

1.1.1 Statement of the Problem

Level 4 and 5 hospitals are devolved units operated by the County Governments in Kenya. The County treasuries have been presenting the hospital financial records as a single line within the IPSAS Cash template. The reporting framework under IPSAS Cash does not provide adequate disclosure of financial information that is relevant for decision making by the various users of the financial information. Challenges in the existing reporting framework includes:

1) **Lack of standardisation**. County treasuries use a generic IPSAS cash to prepare annual financial statements, which undermines the comparability and understandability of financial statements.

2) **Incomplete financial information**- The IPSAS Cash template does not allow the presentation of assets such as land, buildings, motor vehicles, furniture, equipment, machinery, inventory etc. Information on long term liabilities such as gratuity and borrowings are also not captured.

3) **Lack of Non-financial Information:** The current template being a generic one, does not provide adequate non- financial information that relates to the operation of the entities. This may impair decision making by key stakeholders involved in hospital management.

4) **Governance**: The current template does not allow the presentation of information relating to corporate governance of the entities.

1.1.2 Financial management reforms for Level 4 and 5 hospitals in Kenya

Significant resources received by the county governments in Kenya are channeled towards the provision of healthcare. Over the years there has been increased demand for greater openness and accountability in the utilization of resources within the devolved healthcare units. To this end, the Government of Kenya is undertaking several public finance management reforms. Key among these include enhancement of financial reporting in level 4 and 5 hospitals. Towards this, the following has been done:

1. The Public Sector Accounting Standards Board (PSASB) has prescribed the International Public Sector Accounting Standards (IPSAS Accrual) for application by all Level 4 and 5 hospitals.
2. PSASB in consultation with the relevant stakeholders, has developed a financial reporting template to assist the Level 4 and 5 hospitals to adhere to the prescribed standards.

The PSASB in collaboration with the National Treasury has developed these guidelines to assist Level 4 and 5 hospitals in implementing International Public Sector Accounting Standards (IPSAS Accrual) with a view to enhance financial reporting in these entities. This resonates with the Public Finance Management Reform Strategy (PFMRS) 2018/2023 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 were 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 fund shall be used in a prudent and responsible manner and fiscal reporting shall be clear. Further, Section 164 (1) of the Public Finance Management Act, 2012 requires that, at the end of each financial year, each County Government entity (hospital) shall prepare financial statements in respect of the entity. Section 164 (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.

It is at the backdrop of this legal background that PSASB has prescribed the International Public Sector Accounting Standards (IPSAS Accrual) for Level 4 and 5 hospitals in Kenya and provided a financial reporting template to enhance compliance to the prescribed standards.

1.3 Applicable Financial Accounting and Reporting Standards 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.

The 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.

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.

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 IPSAS for application by public sector entities and has prescribed IPSAS Accrual for application in Level 4 and 5 hospitals for purposes of achieving the following:

1.4.1 Comprehensiveness in reporting

Adoption of IPSAS Accrual will allow level 4 and 5 hospitals to fully disclose all financial and non-financial information crucial for effective decision making in the health sector. Further the level 4 and 5 hospitals will be required to disclose assets, liabilities, revenue, and expenditure.

1.4.2 Strengthen accountability and transparency

Adoption of IPSAS Accrual 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 level 4 and 5 hospitals. It is also envisioned that there will be improved clarity on fiscal reporting.

1.4.3 Compliance with the prevailing legal framework

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

1. Level 4 and 5 hospitals shall prepare financial statements in the formats prescribed by PSASB in accordance with PFM Act, 2012.

2. Level 4 and 5 hospitals shall submit financial statements to the Office of the Auditor General in line with PFM Act 2012 and the Public Audit Act, 2015.

1.4.4 Comparability of financial information

Adoption of IPSAS Accrual will enable users to compare performance of level 4 and 5 hospitals periodically and come up with necessary interventions and control mechanisms. Comparability will also be achieved for the same level 4 and 5 hospitals across different accounting periods. Better still, it will also allow comparability of different hospitals at given point in time.

1.4.5 Standardization in reporting

Adoption of IPSAS Accrual will enhance standardization in reporting by level 4 and 5 hospitals.

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 Accrual reporting framework will provide for linkage between financial and non- financial information in level 4 and 5 hospitals. This will enhance understandability by users on how funds received by hospitals are used to ensure the objectives set are met.

1.4.7 Consolidation of financial information prepared by Level 4 and 5 hospitals

Harmonization of reporting through adoption of IPSAS Accrual and prescribed reporting templates will allow the key stakeholders that include the National and County treasuries to prepare consolidated financial statements and other information for Level 4 and 5 hospitals.

1.5 Scope

These guidelines and the IPSAS Accrual financial reporting template shall be applied by all Level 4 and 5 public hospitals in the Republic of Kenya in the preparation of their annual report and financial statements.

1.6 Purpose

The purpose of these guidelines is to provide direction on the implementation of IPSAS Accrual reporting framework in Level 4 and 5 Hospitals.

1.7 Review IPSAS implementation guidelines

The Accounting officers in the level 4 and 5 hospitals are required to continually apply these guidelines in the hospitals financial reporting and may cause for review of the guidelines where necessary, either in whole or in part subject to approval of the proposed changes by the Public Sector Accounting Standards Board.

1.8 Public Finance Management Institutions

The following public institutions are relevant to the operations and management of financial resources by hospitals:

1. The County Department in charge of Health
2. The County Treasury
3. The National Treasury
4. Public Sector Accounting Standards Board
5. Office of the Auditor General
6. Office of the Controller of Budget
7. Ministry of Health
8. Any other through circulars and guidelines.

Chapter 2: Fundamental Principles, Concepts and Requirements

2.1 Accounting Bases, Assumptions and Concepts

The following bases and concepts shall guide Level 4 and 5 hospitals 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 hospital will be assumed to be a going concern unless otherwise provided or stated owing to prevailing circumstances in the legal or operating environment.

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 hospital'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 hospital.

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) continues 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, revenue, and expenditure shall not be offset unless required or permitted by the accounting standards.

2.2 Qualitative Characteristics of Financial Statements

In preparing financial statements, Level 4 and 5 hospitals 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.

The PFM Act and the Public Audit Act, give the timelines for annual and quarterly financial reporting and final audited reports respectively to ensure that the quality of timeliness is achieved by Accounting officers.

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 Accrual and standardizing reporting, the quality of comparability will be achieved**.**

2.3 Components of Financial Statements

At the end of every financial period, all Level 4 and 5 hospitals 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 hospital shall consist of the following: -

i. Statement of Financial Performance
ii. Statement of Financial Position
iii. Statement of Changes in Net assets
iv. Statement of Cashflows
v. Statement of comparison of budget and actual amounts
vi. Basis of preparation and accounting policies
vii. Notes to the financial statements
viii. 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 hospital owns or controls with the expectation that it will enable it to meet its objectives. An asset has a service potential or ability to generate economic benefits or service potential that can arise directly from the resource itself, from the rights to use the resource or the hospital'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 hospital 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 Government grants, donations and other receipts from the hospital's own income generating activities.

d) Expenses

These are costs incurred and expired by the during the reporting period in the form of staff costs, medical supplies, repairs, consultancies etc. for purposes of hospital operations.

e) Surplus /Deficit

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

Chapter 3: Guidelines on Non -Financial Information

3.1 Key Hospital Information and Management

3.1.1 Background information

The hospital shall disclose the country, county, sub-county of operation and enabling Act/other legislation in its financial report, including the dates of its registration and certificate of registration.

3.1.2 Board Members

The hospital 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 may be presented in a tabular format. In addition, the role of BOM shall be disclosed.

3.1.3 Board Committees

The hospital 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 the hospital is implemented by the BOMs.

3.1.4 Hospital operation Management

During the reporting period the Hospital shall state officers in charge of its management on a day-to-day basis relating to financial management.

3.1.5 Hospital Bankers

The hospital shall disclose all its bank accounts including its bankers, the branch and the account numbers.

3.2 Chairman's statement

The chair of the Board of Management will be expected to prepare a statement indicating the strategic direction of the hospital, key activities in the year undertaken towards the institution's objective, key successes, challenges and future outlook of the institution.

3.3 Report of the Chief Executive Officer/ Medical Superintendent

The Chief Executive Officer is the Accounting Officer and therefore is charged with the overall management of an entity's resources in accordance with Section 149 of the PFM Act, 2012. His report should therefore give key highlights of strategic, financial, and operational performance of the hospital in a more detailed format.

3.4 Statement of the Hospital's performance against predetermined objectives

Section 149 subsection 2(g) of the PFM Act 2012, requires the Accounting Officer of a County Government Entity to prepare a strategic plan in conformity with the medium-term fiscal framework and financial objectives of the County government.

Section 164 Subsection 2 (f) of the Public Finance Management Act, 2012 requires the accounting officer to include in the financial statement, a statement of the County Government entity's performance against predetermined objectives. These predetermined objectives are as outlined in the entity's strategic documents and in this case, the strategic plan. The template has given a format in which this statement should be prepared to enable the Accounting Officers adhere to the provisions of the PFM Act and provide users of the annual statements with information on how the entity is performing against its own strategy.

3.5 Corporate Governance Statement

This is a statement whose purpose is to provide information on the governance of the institution. This statement discloses the attendance of board and committee meetings, matters relating to succession planning, appointment of the members and their roles and responsibilities.

3.6 Management Discussion and Analysis

This is a detailed statement on the financial and non- financial performance of the institution during the year. This statement should be prepared in a way to capture the reader of the annual statement and financial statements and to understand at a glance the overall performance of the organisation. It should therefore be captivating through use of graphs, bar charts, pie charts, photos, tables and other visual aids. Most non- finance readers of financial statements find this area very useful to their understanding of the organization's operations.

3.6.1 Financial performance:

The hospital 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
- Grants from the County Government for the last 3 years
- A three-year overview of growth of other income(s) earned by the hospital.
- A three- year overview of growth in expenditure of the hospital
- Movement of debtors and creditors of the hospital over the last three years
- Movement of cash and bank balances over the last three years

3.6.2 Capacity of the hospital:

The hospital should include information on capacity in terms of facilities like wards, bed capacity, theaters, laboratories, specialists working the hospitals etc. This information is useful for decision making by the key stakeholders in management of the public hospitals. A tabular format may be used to present the information.

3.6.3 Development projects carried out by the hospital:

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

- Projects completed in the year e.g., construction of laboratories, wards, administration blocks, ablution blocks, purchase of ambulances 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 Government grants, donations from development partners 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
		-	-	-	-
		-	-	-	-
		-	-	-	-
	-	-	-	-	-

3.6.4 Approval of the summary report on the performance of the hospital

The statement on performance of the hospital shall be signed by the hospital's medical superintendent.

3.7 Environmental and Sustainability Reporting

Sustainability reporting has gathered momentum in the recent past world over. Entities operate within communities since they serve customers(patients), suppliers, employees and members of the public who would like to be assured that the entity will be sustainable for the current and future generations. Entities should also state how they are responsible for the environment they operate in including maintaining proper policies as to how they treat the community around them.

The template gives a few parameters that can guide a hospital in preparing this statement including activities for social responsibility.

3.8 Statement of Hospital Management Responsibility

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

3.9 Report of the Independent Auditor

The report of the Independent Auditor is left blank and only populated once the entity has been audited. The responsibility of audit of Level 4 and 5 hospitals rests with the Office of the Auditor General in accordance with the provisions of the Public Audit Act of 2015 that requires the OAG to audit all public funds.

Chapter 4: Guidelines on Financial Information

4.1 Statement of Financial Performance

4.1.1 Definition of terms

Revenue

This relates to funds received from exchange and non-exchange transactions.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange. Exchange transactions include revenue generated from clinical/medical services, sale of goods, rent of facilities among others.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange or gives value to another entity without directly receiving approximately equal value in exchange. Non-exchange transactions include transfers from county/national governments, donations from development partners and public contributions. Non exchange transactions are prevalent in the public sector setting and are disclosed separately in line with provisions of IPSAS 1- Presentation of Financial Statements and IPSAS 23 Non- Exchange Transactions (Taxes and Transfers).

Expenses

These are cost incurred by the hospital to render its core business and they included: Medical/Clinical costs, employee costs, remuneration of directors, repairs and maintenance and General expenses.

4.1.2 Recognition of Revenue and Expenses

The hospital recognises all revenues from the various sources when the event occurs, whether cash or its equivalents has been received or not. In addition, the hospital recognises all expenses when the event occurs, whether the related cash or its equivalents has been paid out or not.

4.1.3 Statement of Financial Performance

All level 4 and 5 hospitals shall be required to prepare statement of financial performance for the reporting period as per the approved template. The Statement of statement of financial performance shall include all revenues and expenses and the resulting surplus or deficit.

4.1.4 Revenues

Revenues include but not limited to, the following:

Revenue from non-exchange transactions

1. Transfers from the County Government
2. In kind contributions from the County Government
3. Grants from donors and development partners
4. Transfers from other Government entities
5. Public contributions and donations

Revenue from exchange transactions

1. Rendering of services (Medical Service Income)
2. Revenue from rent of facilities
3. Finance/ Interest income
4. Other incomes

4.1.5 Expenses

Expenses include but not limited to, the following:

1. Employee costs
2. Board Expenses
3. Clinical costs
4. Depreciation and amortization expense
5. Repairs and maintenance
6. Grants and subsidies
7. General expenses
8. Finance costs

Explanatory notes shall be included to provide additional information about amounts included on the face of the statement of financial performance.

4.2 Statement of Financial Position

The statement of financial position presents Assets and Liabilities of the Hospital as at the reporting date. Below are the definitions and guiding notes on various elements found in the Statement of financial position.

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 hospital at the end of the reporting period. These may include any money collected or received in cash or petty cash balances at the end of a reporting period.

Short term investments

Short-term investments are financial investments that can easily be converted to cash and are subject to insignificant risk of changes in value.

Receivables from exchange and non-exchange transactions

Accounts receivable is money due to the hospital for services offered. Accounts receivables are listed in the statement of financial position under current assets. Accounts receivables are classified as exchange and non-exchange transactions in line with the definitions outlined in **section 4.1.1** above. In describing accounts receivables, the hospital should include an ageing analysis.

Inventories

Inventories are assets in the form of materials or supplies to be consumed in the process of offering health care services; held for sale or distribution in the ordinary course of operations; or in the process of production for sale or distribution. This may include pharmaceutical and other non-pharmaceutical items. Inventory is measured at cost upon initial recognition. To the extent that inventory was received through non-exchange transactions (for no cost or for a nominal cost), the cost of the inventory is its fair value at the date of acquisition. For example, in case of donations of medicines and medical devices such as vaccines, such items should be included as inventory at their fair value. Inventory is accounted for in accordance with IPSAS 12-Inventories.

Property, Plant and Equipment

Property, Plant and Equipment (PPE) are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used during more than one reporting period. All PPE 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 PPE are required to be replaced at intervals, the entity 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. PPE is accounted for in accordance with the provisions of IPSAS 17- Property, Plant and Equipment.

Intangible Assets

Intangible assets are identifiable non-monetary assets without physical substance. 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. The useful life of the intangible assets is assessed as either finite or indefinite. Some examples of intangible assets include computer software, copyrights and patents arising from medical research among others. Intangible assets are accounted for according to the provisions of IPSAS 31- Intangible Assets

Investment property

Investment property is property (land or building) held to earn rentals or capital appreciation or both rather than for ordinary business use and sale in the ordinary course of operations. Investment property is measured initially at cost, including transaction costs. Investment property acquired through a non-exchange transaction is measured at its fair value at the date of acquisition. Subsequently, investment property is measured either using the cost model and are depreciated over the useful life of the asset or at fair value. Investment properties are derecognized either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit or service potential is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the surplus or deficit in the period of de-recognition. Transfers are made to or from investment property only when there is a change in use. An example of an investment property may include a hospital that has a plaza for the purposes of charging rent at market rates. Investment property is accounted for under IPSAS 16- Investment Property.

Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the hospital 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 hospital 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. Provisions are accounted for in accordance with IPSAS 19 – Provisions, Contingent Liabilities and Contingent Assets.

Service concession arrangements

In the recent past, Kenya has invested in projects through the Public, Private Partnerships model. In accounting, this is known as service concession arrangements. A service concession arrangement is a binding arrangement between a grantor (public entity) and an operator (private entity) in which: (a) The operator uses the service concession asset to provide a public service on behalf of the grantor for a specified period of time; and (b) The operator is compensated for its services over the period of the service concession arrangement.

The hospital shall analyse all aspects of service concession arrangements that it enters into in determining the appropriate accounting treatment and disclosure requirements. Where a private party contributes an asset to the arrangement, the hospital shall recognize that asset when, and only when, it controls or regulates the services the operator must provide together with the asset, to whom it must provide them, and at what price. In the case of assets other than ’whole-of-life’ assets, it controls, through ownership, beneficial entitlement or otherwise – any significant residual interest in the asset at the end of the arrangement. Any assets so recognized are measured at their fair value. To the extent that an asset has been recognized, the hospital also recognizes a corresponding liability, adjusted by a cash consideration paid or received. These arrangements are accounted for under IPSAS 32-Service Concession Arrangements.

Borrowings

The hospital is required to capture both domestic and external borrowings where applicable. Additionally, the hospital should capture the repayments, the denominations of the loans, the lending institutions, and the balances due. Loans and borrowings are recognized initially at fair value plus directly attributable transaction costs. 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 considering any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. Borrowings are financial instruments accounted for under IPSAS 41-Financial Instruments that becomes effective 1st January 2023 and supersedes IPSAS 29.

Trade and Other payables

Trade and other payables refer to amount owed by the hospital to third parties. These include suppliers of goods and services, employee dues, third-party payments (unremitted payroll deductions) Audit fee etc. In describing trade and other payable the reporting hospital should include an ageing analysis.

4.2 Statement of Changes in Net Assets/Equity

The net assets are composed of reserves, capital fund and accumulated surplus/ deficit. The hospital shall disclose the nature and purpose of reserves and funds. The statement of changes in net assets/ equity presents opening balances, changes (additions/reductions) and closing balances of net assets.

4.3 Statement of Cashflows

All Level 4 and 5 hospitals shall be required to prepare statements of cash flows for the reporting period as per the approved template. The statement shall be incompliance with IPSAS 2- Cash flow statements. The direct method of cash flow preparation shall be used.

4.3.1 Definition of terms

Operating activities

Operating activities are those activities that relate to the core mandate of an organization. They are not investing or financing activities. Cash Flow from Operations includes the cash flows associated with cash receipts from transfers from the county government grants, from donors and development partners, transfers from other government entities, public contributions and donations, rendering of services- medical service, income revenue from rent of facilities, Finance / interest income deposits and payments received in advance and cash payments used in paying for Medical/Clinical costs goods and services, employee costs, remuneration of directors, repairs and maintenance, grants and subsidies, general expenses, finance costs, refunds 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.

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

- Transfers from the County Government
- Grants from donors and development partners
- Transfers from other Government entities
- Public contributions and donations
- Rendering of services- Medical Service Income
- Revenue from rent of facilities

- Finance / interest income
- Deposits and payments received in advance
- Other receipts from operations

Payments

- Medical/Clinical costs
- Employee costs
- Remuneration of directors
- Repairs and maintenance
- Grants and subsidies
- General expenses
- Finance costs
- Refunds

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.

- Purchase of property, plant, equipment, and intangible assets
- Proceeds from sale of property, plant, and equipment
- Acquisition of investments

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
- Repayment of borrowings
- Capital grants received

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 financial position.

4.4 Statement of Budgeted Versus Actual Amounts

4.4.1 Legal background

In line with Section 164 (2a) of the PFM Act, 2012, each County Government entity is required to prepare a statement of budgeted versus 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 14 of IPSAS 24 Provides that: Subject to the requirements of paragraph 21, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSASs. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

a) The original and final budget amounts.
b) The actual amounts on a comparable basis; and
c) By way of note disclosure, an explanation of material differences between the budget for which the entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements and a cross reference to those documents is made in the notes.

4.4.3 Definition of terms

Original Budget

Indicates the first/ original budget approved by the hospital'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. These figures should be on a comparable basis to the budget preparation basis in terms of period, classification and basis (whether cash or accrual basis).

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 hospital 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 Level 4 and 5 hospitals, this is the IPSAS Accrual 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 hospital as closely as possible. In cases where the Hospital 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 hospital'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 hospital 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 Level 4 and 5 hospitals contains notes to the financial statements which are linked to the primary financial statements.

4.7 Other Important Disclosures

4.7.2 Financial Risk Management:

The Hospital is required to disclose all risks including credit risk, liquidity risk, market risk and capital risk management in line with the provisions of IPSAS 30-Financial Instruments: Disclosures. This is relevant information for users of financial statements to understand how the organisation manages its debtors and recovery of receivables, ability to pay liabilities when they fall due and is management of capital and sources of the same.

4.7.3 Related party disclosures

The Hospital shall provide a disclosure on all related party relationships, transactions, and balances in line with IPSAS 20- Related Party Disclosures. The template give some examples of related parties and a format for reporting transactions and balances.

4.7.4 Contingent liabilities

A contingent liability is a possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non- occurrence of one or more uncertain future events not wholly within the control of the entity. In accordance with IPSAS 19, contingent liabilities are disclosed and not recognized in the financial statements unless their subsequent assessment determines that the contingent liabilities have crystalized into provisions.

4.7.5 Capital Commitments

IPSAS 17 on Property, Plant and Equipment requires an entity to disclose information relating to capital commitments ongoing at then of the period, those authorised for and contracted and those authorised but not contracted for. This information gives the user an overview of capital projects that the entity is undertaking and the possible cash flow commitments towards these projects.

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.

Chapter 5: Transitional Arrangements

5.1 Accounting Framework for Level 4 and 5 hospitals

PSASB, as mandated by section 194 of the PFM Act, 2012, prescribed the International Public Sector Accounting Standards (IPSAS) Accrual basis for application by Level 4 and 5 hospitals.

5.2 Financial Reporting Template for Level 4 and 5 hospitals

To assist the hospitals to adhere to the prescribed accounting framework, a financial reporting template for Level 4 and 5 hospitals has been prepared by the PSASB in accordance with Section 194(1d) of the PFM Act 2012.This template was issued for implementation by the Public Sector Accounting Standards Board on xxx The financial reporting template can be accessed from the PSASB website on www.psasb.go.ke and National Treasury's website on www.treasury.go.ke.

5.3 Reporting Period

The hospitals' reporting period runs from 1st July to 30th June each year. The first period of reporting under the new accounting framework is 30th June 2022. The level 4 and 5 hospitals are expected to prepare financial statements for 12 months from 1st July 2021 to 30th June 2022 and subsequent periods.

5.4 Comparative Information

Paragraphs 77,78 and 79 of the IPSAS 33 provided that:

A first-time adopter is encouraged, but not required, to present comparative information in its first transitional IPSAS financial statements or its first IPSAS financial statements presented in accordance with this IPSAS. When a first-time adopter presents comparative information, it shall be presented in accordance with the requirements of IPSAS 1.

1. Where a first-time adopter elects to present comparative information, the transitional IPSAS financial statements or the first IPSAS financial statements presented in accordance with this IPSAS shall include:

a) One statement of financial position with comparative information for the preceding period, and an opening statement of financial position as at the beginning of the reporting period prior to the date of adoption of accrual basis IPSAS.
b) One statement of financial performance with comparative information for the preceding period.
c) One statement of changes in net assets/equity with comparative information for the preceding period.
d) One cash flow statement with comparative information for the preceding period.
e) A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the first-time adopter makes its approved budget publicly available; and
f) Related notes including comparative information, and the disclosure of narrative information about material adjustments as required by paragraph 142 of IPSAS 33.

2. Where a first-time adopter elects to not present comparative information, its transitional IPSAS financial statements following the adoption of accrual basis IPSASs or its first IPSAS financial statements presented in accordance with this IPSASs shall include:

a) One statement of financial position, and an opening statement of financial position at the date of adoption of accrual basis IPSAS.
b) One statement of financial performance.
c) One statement of changes in net assets/equity.
d) One cash flow statement.
e) A comparison of budget and actual amounts for the current year as a separate additional financial statement or as a budget column in the financial statements if the first-time adopter makes its approved budget publicly available; and
f) Related notes and the disclosure of narrative information about material adjustments as required by paragraph 142 of IPSAS 33.

PSASB advises hospitals to elect option 2 above and present just one statement except for the statement of financial position.

5.5 Annual Reporting Timelines

In line with section 164 of the PFM Act, 2012, the hospitals are required to prepare annual report and financial statements within three months after the end of the financial year that is, by 30th September of each financial year. The annual report and financial statements shall be submitted to the County Executive Committee Member for Health who shall approve and forward the statements to the County Executive Committee member for finance for onward transmission to the Office of the Auditor General.

5.6 Establish Financial Reporting team

The Accounting Officer is required to form a dedicated team drawn from various departments tasked with the responsibility of preparing the annual report and financial statements. The Accounting Officer shall ensure that the annual report and financial statements are submitted within the set timeliness.

5.7 Technical Assistance

The County Treasury shall provide technical support to hospitals in the implementation of the IPSAS Accrual financial reporting prescribed by PSASB. Where need arise, the County Treasury may collaborate with the National Treasury and PSASB in providing technical assistance to the hospitals.

5.8 Training and Capacity Building

The County Treasury shall ensure training and sensitization of key stakeholders to enhance compliance with the IPSAS Accrual reporting framework.

5.9 Review and Approval of Financial Statements

The Board of Management is responsible for the review and approval of annual reports and financial statements and ensure the same are submitted to the Office of the Auditor General in line with the PFM Act, 2012.

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. Public Audit Act, 2015

iv. IPSAS Accrual Standards

v. Ministry of Health circulars

vi. National Treasury Circulars and

vii. Attendant regulations to the above Acts