

Editor's Note

Welcome to the first electronic edition of ICPAK Technical Newsletter. Our mission is to oversee the development of the accountancy profession in Kenya through: supporting the members' professional and business needs as well as their competencies and skills so that they are able to meet the expectations of clients and employers; protecting the public by ensuring that our members adhere to highly recognised international standards of financial reporting and management and that the ultimately serve the public interest and promoting the recognition of our members globally. Looking back in 2013, the Institute takes pride in 35 years of diligently serving the profession and the public. 2014 comes with increased demand for independent oversight of the profession. We are also pleased that the National Treasury has finally established the Public Sector Accounting Standards Board. This marks a stride in our compliance with SMO 5—International Public Sector Accounting Standards and Other Pronouncements Issued by the IPSASB and we shall work closely with the Board to ensure adoption of IPSAS by the government. The institute will continue to play its role as well as undertake consultation on new guidance on implementation of the new legislative requirements around the oversight, while also continue to disseminate information on technical developments through its professional standards committee and the registration and quality assurance committee. Other plans include review of the FiRe Award and establishment of e-learning resources for its members. We acknowledge the efforts of the professional standards committee for their efforts in transforming the Institute's wish of issuing a technical newsletter fruitful.

CPA Edwin Makori, Editor

IASB Updates



1. IASB issues interim Standard on rate-regulated activities

On 30 January 2014, the International Accounting Standards Board (IASB) issued an interim Standard, IFRS 14 Regulatory Deferral Accounts as an interim solution while the longer term rate-regulated activities project is undertaken by the IASB. The IASB stated that by publishing this Standard, they were not anticipating the outcome of the comprehensive rate-regulated activities project which is in its early stages. Rate regulation can have a significant impact on the timing and amount of an entity's revenue. The standard is aimed at enhancing the comparability of financial reporting by entities that are engaged in rate-regulated activities such as gas, electricity and water.

The objective of IFRS 14 is to specify the financial reporting requirements for 'regulatory deferral account balances' that arise when an entity provides good or services to customers at a price or rate that is subject to rate regulation.

This Standard is intended to allow entities that are first-time adopters of IFRS, and that currently recognise regulatory deferral accounts in accordance with their previous GAAP, to continue to do so upon transition to IFRS.

Rate regulation is a framework for establishing

the prices that can be charged to customers for goods and services and that framework is subject to oversight and/or approval by an authorised body that is empowered by statute or regulation to establish the rate or range of rates that bind an entity for instance in the utility sector where the government through its agency set rates both in the interest of customers and to ensure the overall financial viability of the entity

Regulatory deferral account balance is any expense (or income) account that would not be recognised as an asset or a liability in accordance with other Standards, but that qualifies for deferral because it is included, or is expected to be included, by the rate regulator in establishing the rate(s) that can be charged to customers

The interim standard allows first-time adopters to continue to recognize amounts related to rate regulation in accordance with their previous GAAP requirements when they adopt IFRS. However, to enhance comparability with entities that already apply IFRS and do not recognize such amounts, the Standard requires that the effect of rate regulation must be presented separately from other items. An entity that already presents IFRS financial statements is not eligible to apply the Standard.

IFRS 14 Regulatory Deferral Accounts is effective from 1 January 2016, with early application permitted.

2. Post-implementation Review of IFRS 3, 'Business combinations'

On 30 January 2014, the International Accounting Standards Board (IASB or the Board) began the public consultation stage of its review of IFRS 3 by publishing a request for information (RFI) on experience with, and the effect of, implementing the standard. The IASB carries out a post-implementation review of each new IFRS or major amendment. This is normally carried out at least two years after the new requirements have become mandatory and been implemented.

Being the second post implementation review, after IFRS 8 - Operating segments, the RFI is seeking feedback on (a) whether the standard provides information that is useful to users of financial statements, (b) whether there are areas of the standard that represent implementation challenges and (c) whether unexpected costs have arisen when preparing, auditing or enforcing the requirements of the standard.

The accounting for business combinations encompasses a wide range of areas. In the RFI, the IASB is looking to gather the information described in the scope section above, for the following areas:

- Definition of a business, and the differences between accounting for an asset acquisition and a business combination.
- Using fair value measurement in business combinations accounting.
- Recognising intangible assets separately from goodwill, and accounting for negative goodwill
 - o Impairment testing of goodwill and specified intangible assets, rather than amortisation.
- Accounting for non-controlling interests (NCI) at initial recognition and subsequent changes that do not result in a loss of control, and does the accounting produce relevant information.
- Accounting for step acquisitions and for retained investments after loss of control
- Disclosing the nature and effect of a business combination

The IASB is also giving respondents an opportunity to provide information on any additional matters that they think are relevant and that have not been addressed by the individual questions in the RFI.

What next

The RFI is open for comment until 30 May 2014. Based on the submissions received and the



information that is gathered during the second phase of the PIR, the Board will present its findings in the report and feedback statement and will set out the steps it plans to take, if any, as a result of the review.

Depending on the nature of any findings, these steps could lead to the IASB deciding to:

- Retain IFRS 3 as issued
- Continue to monitor the implementation of IFRS 3, if the results of the PIR are inconclusive; or
- Revise IFRS 3 to remedy problems identified by the PIR

The IASB expects to publish the report and feedback statement by the end of 2014.

The PIR is an opportunity for the IASB to assess the effects of the requirements of IFRS in the area of business combinations accounting. It may lead to the identification of areas of IFRS that would benefit from clarification or amendment.

We encourage members to take this opportunity to provide feedback to the Board.



3. IFRS 9 effective date deferral

During the February 2014 meeting, the International Accounting Standards Board (IASB) discussed the effective date of IFRS 9 Financial Instruments. The IASB did not hold redeliberations on its Exposure Draft Insurance Contracts (ED).

The IASB voted to fix a new effective date for IFRS 9, Financial Instruments, of 1 January 2018. IASB members were reluctant to delay the standard, or make further changes to it, pending decisions on the linked insurance contracts literature.

One of the IASB's reasons for selecting this date is having more opportunity to progress its insurance contracts project and potentially provide greater alignment mandatory effective date of IFRS 9 will not depend on the completion of the new insurance contracts standard and noted it will consider, as part of the insurance contracts project, whether further transition guidance is necessary if entities would have to apply IFRS 9 before the insurance contracts standard becomes

effective. Previously, in November 2013, the IASB stated that the mandatory effective date of the completed IFRS 9 standard would not be earlier than 1 January 2017.

The IASB issued new hedge accounting requirements in November 2013 and has now also completed accounting requirements¹ and is expected to be issued in the second quarter of 2014.

Implications

The Board's decision to defer the effective date of IFRS 9 provides some sort of relief especially for the insurance industry as it offers the IASB the opportunity to solve one of the key concern that the IFRS 9 and insurance contracts' effective dates would not be aligned, resulting in insurers having to go through two rounds of change in a relatively short period.

IPSASB Updates

1. IPSASB issues Exposure Draft (ED) 54, on Reporting Service Performance Information

In their continued commitment to addressing public sector-specific reporting issues, the IPSASB issued in December 2013 the proposed Recommended Practice Guidance (RPG) Exposure Draft (ED) 54, to address the need for guidance on reporting service performance information and provides good practice guidelines on reporting service performance information. It provides guidance on the choice of performance indicators that show an entity's achievements with respect to its service performance objectives, disclosures about the basis of the reported information, and service performance related narrative discussion and analysis.

It is applicable to all public sector entities other than Government Business Enterprises (GBEs). The primary function of governments and public sector entities is to provide services to constituents. This proposed RPG aims to support the provision of high quality service performance information by public sector entities whether they are already reporting service performance information or plan to begin reporting such information in the future.

What next

The Board seeks feedback to guide it in developing a final recommended practice guideline that will assist an entity with the reporting of service

performance information. ED is open for comment until 31 May 2014.

IAASB Updates

1. IAASB A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality

The International Auditing and Assurance Standards Board (IAASB) released its new publication, A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality. Through this Framework, the IAASB aims to raise awareness of the key elements of audit quality, encourage key stakeholders to challenge themselves to do more to increase audit quality in their particular environments, and facilitate greater dialogue between key stakeholders on the topic.

The main objectives of the proposed framework are:

1. Raising awareness of key elements of audit quality.
2. Encouraging key stakeholders to explore ways to improve audit quality.
3. Facilitating greater dialogue between key stakeholders on the topic.

Audit Quality encompasses the key elements that create an environment which maximizes the likelihood that quality audits are performed on a consistent basis. Elements of the Framework for Audit Quality include inputs, processes, outputs, interaction and contextual factors.

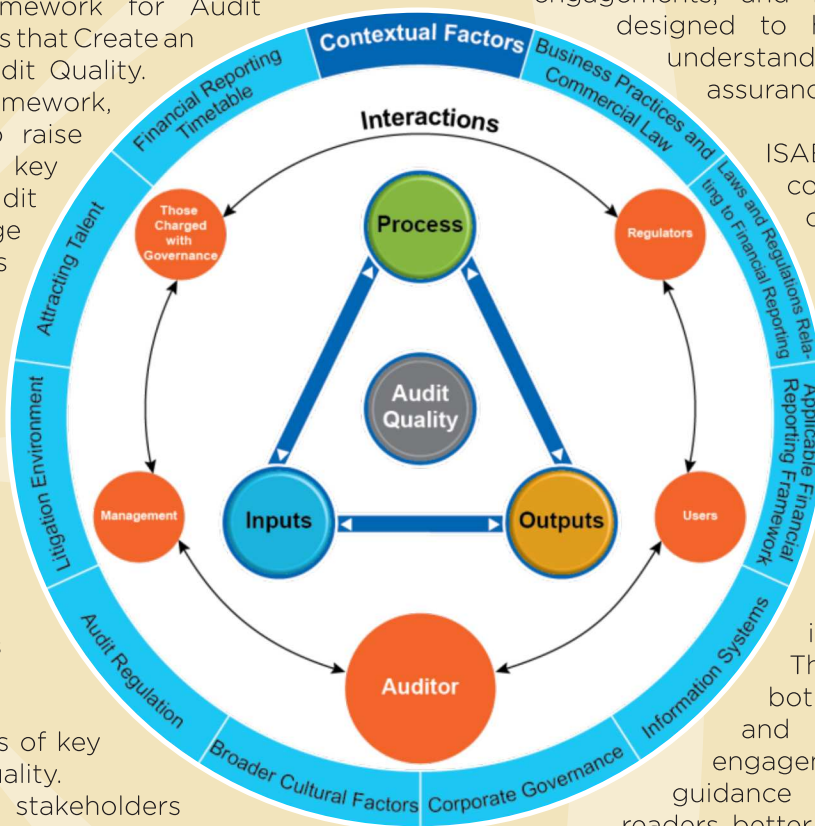
It is neither an authoritative document nor a substitute for the auditing standards, standards of quality control, ethics and other regulatory requirements. IAASB expects that the Framework

will generate discussion, and positive actions to achieve a continuous improvement to audit quality.

2. IAASB Enhances Standard for Assurance Engagements

The IAASB recently released an updated and enhanced International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. The standard covers both reasonable and limited assurance engagements, and introduces guidance designed to help readers better understand these two levels of assurance.

ISAE 3000 (Revised) covers a wide variety of engagements, ranging from assurance on statements about the effectiveness of internal control, for example, to assurance on sustainability reports and possible future engagements addressing integrated reporting. The standard covers both reasonable and limited assurance engagements, and introduces guidance designed to help readers better understand the two levels of assurance.



ISAE 3000 is effective for assurance engagements where the assurance report is dated on or after December 15, 2015.

Professional Standards Committee (PSC) Updates

1. ICPAK Position on ISA 610 (Revised 2013) – Using the Work of Internal Auditors and Related Conforming Amendments

In March 2013, the IAASB released ISA 610 (Revised

2013) under the same title. ISA 610 (Revised 2013) now also includes requirements and guidance addressing the external auditor's responsibilities if using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor for purposes of the audit, where such assistance is not prohibited by law or regulation. The material in ISA 610 (Revised 2013) pertaining to direct assistance is effective for audits of financial statements for periods ending on or after December 15, 2014.

The committee took note of the need to clarify the applicability of paragraph 26, provides that:

"26. The external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. If so, paragraphs 27-35 and 37 do not apply. (Ref: Para. A31)".

The committee resolved that:

- i. There was no law, or regulation, in place that prohibit use of internal auditors to provide direct assistance under the supervision of the external auditors; and that the standard has put in place clear safeguards to address the perceived or actual threat to independence when using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor for purposes of the audit.
- ii. The Committee proposed inclusion of this in the CPD event and other resources on the requirements of the standard, including the high threshold of requirements/as specified in the standard that need to be complied with (documentation on file) before considering reliance on internal audit and believe that examples where these thresholds will be met are likely to be few and far between.

What next

The Committee recommends that Council approves the adoption of ISA 610 Revised [2013] and that ICPAK members apply ISA 610 Revised as issued without any modification.

Members to read and internalize the standard to ensure that all safeguard are applied when using the internal audits to provide direct assistance under the direction, supervision and review of the external auditors, provided multi location audits also allow for the same.

2. Illustrative financial statements

In February 2014, the PSC published illustrative

financial statements – general purpose financial statements and illustrative financial statements for banks for the years ended 31 December 2013.

The illustrative are aimed ensuring members comply with changes in standards that are applicable. Preparers of financial statements are encouraged to make use of these illustrative.

3. Guideline on Signing Assurance Engagements – Independent Auditor Opinion

The professional standards committee and the practitioners' development committee in January 2014, finalised their consultation and issued a revised guideline on signing assurance engagements – independent auditor opinion. The guideline makes it mandatory for all practitioners to comply with by-law No. 38 which requires an engagement leader to sign and indicate his/her name The Institute takes pride in the fact that this guideline early adopted sections of the Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing as issued by the IAASB in July 2013. The institute will advice members when the revised ISA 700 is issued and its implication on the auditor report.

**Professional Standards Committee
Q2 of 2014**

The Committee will continue its role of disseminating technical information to assist in the implementation of standards and legal requirements impacting on the accounting profession, to members while also contributing to the standard setting process. Key areas identified for the second quarter include:-

- a. Guidelines on anti money laundering for professional accountants – to enhance members appreciation of the proceeds of crimes and anti money laundering activities Act (POCAMLA), of 2009, which lists accountants as reporting institutions and the Institute as a supervisory body.
- b. Review of the framework for audit quality – aimed at enhancing the Audit Quality Review functions of the Institute.
- c. Commenting on the Exposure drafts and discussion papers issued by the independent standard setting Boards and Committees of IFAC.
- d. The professional standards committee has prioritized review of the FiRe Award structure since the structure in place has been effective for the last 12 years.