PSASB

PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

IPSAS 42

SOCIAL BENEFITS GUIDELINE

September 2023

Our Mission

To prescribe and promote adoption of financial reporting, internal auditing, and risk management standards in the public sector

Our Vision

Globally acceptable standards on public sector financial accountability

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Message from the CEO

IPSAS 42, Social Benefits, plays a vital role in ensuring transparency, accountability, and consistency in financial reporting related to social benefits. Social benefits are cash payments made by governments/organizations to individuals or households to support their well-being and help them meet their basic needs. These benefits may include cash transfers to the elderly, cash transfers to persons living with disabilities, etc.

This standard will assist public sector entities in accurately reporting on the costs associated with providing social benefits. Implementing this Standard will ensure that entities' financial statements accurately reflect the true costs of these benefits, leading to more transparent and reliable financial reporting. This is crucial for ensuring that taxpayers and other stakeholders clearly understand how public funds are being used to support social welfare programs.

IPSAS 42 promotes consistency in financial reporting across government entities and helps to ensure that financial information is presented consistently and comparably. This is important for making informed decisions, analyzing financial data, and holding government organizations accountable for their spending on social benefits.

Overall, IPSAS 42 is a game changer in accounting for social benefits. As a board, we have developed this guideline with the intention of simplifying the Standard for easier understanding and application. I wish you well as you apply IPSAS 42 Standard.

CPA GEORGINA MUCHAI
AG. CHIEF EXECUTIVE OFFICER

1.0 INTRODUCTION

IPSASB issued International Public Sector Accounting Standard (IPSAS) 42, "Social benefits" in January 2019 for application period beginning on or after January 1, 2022 which was later changed to January 1, 2023 owing to the COVID- 19 Pandemic.

The objective of this IPSAS is to improve the relevance, faithful representativeness, and comparability of the information that a reporting entity provides in its financial statements about social benefits as defined in this standard. The users of financial statements should be able to assess the nature of such social benefits provided by an entity, key features of the operation and impact of such social benefit.

The principal issues in accounting for social benefits are:

- The recognition of expenses and liabilities,
- Measurement of expenses and liabilities,
- Presentation of information in the financial statements and determination of information to be disclosed to enable users of the financial statements to evaluate the nature and financial effects of the social benefits provided by the reporting entity.

2.0 SCOPE

2.1 Scope of IPSAS 42

An entity that prepares and presents financial statements under the accrual basis of accounting shall apply IPSAS 42 in accounting for social benefits.

IPSAS 42 does not apply to cash transfers that are accounted for in accordance with:

a) IPSAS 39 on employee benefits,

b) IPSAS 41 on Financial Instruments; and

c) Insurance contracts that are within the scope of the relevant International or National Accounting Standards.

2.2 Scope in the Kenyan Context

IPSAS 42 is applicable to Ministries,Departments and Agencies (MDAs),Counties, Corporations and Semi-Autonomous Government Agencies(SAGAs) that apply the IPSAS Accrual Basis of Accounting. Entities most likely to apply this Standard under this category are the entities in the Social Protection Sector.

In assessing whether this standard is applicable, a transaction must meet the definition of a social benefit and entities must consider the eligibility criteria for each social benefit program.

2.3 Examples of Social benefits

Social benefits will include cash transfers to disadvantaged groups such as older persons, persons with disabilities, marginalized communities, unemployed, orphans and vulnerable children. Example of social benefit programs implemented in Kenya include:

Persons with Severe Disabilities Cash Transfer (PWSD-CT).

a) Cash Transfer to Orphans and Vulnerable Children (CT-OVC).

b) Older Persons Cash Transfers (OP-CT).

c) Hunger Safety Net Program (HSNP).

d) Nutritional Improvement for Cash and Health Education (NICHE).

e) Economic Inclusion Program (EIP).

Note: IPSAS 42 is applicable to any other social benefit schemes implemented in Kenya and fits into the definition of social benefits (2.4 below).

2.4 Definition of Terms

Social benefits are cash transfers provided to:

a) Specific individuals and/or households who meet the set eligibility criteria.

b) Mitigate the effect of social risks; and

c) Address the needs of society as a whole.

Social risks are events or circumstances that:

a) Relate to the characteristics of individuals and/or households – for example, age, health, poverty and employment status; and

b) May adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

3.0 RECOGNITION AND MEASUREMENT

The recognition and measurement of social benefits has two (2) approaches;

a) General Approach

b) Insurance Approach

3.1 Recognition and Measurement of Expense - General Approach

An entity shall recognize an expense for a social benefit scheme at the same point that it recognizes a liability. An entity shall recognize an expense in the statement of financial performance only when,

a) A transaction meets the definition of a social benefit

b) All the eligibility criteria for payment of social benefits have been met

c) Payments that had been made in advance prior to meeting the eligibility criteria for the next payment have become irrecoverable.

An entity shall not recognize as an expense,

a) Payments (in advance) prior to meeting the eligibility criteria for the next payment, rather it will be recognized as an asset in the statement of financial position.

The initial measurement of a social benefit expense shall be the social benefit payments predetermined by management from time to time.

3.2 Recognition and Measurement of Liabilities - General Approach

An entity will recognize a liability where:

a) The entity has a present obligation for an outflow of resources that results from a past event - the past event being that the beneficiaries enlisted to receive the social benefit satisfied the eligibility criteria or prior to the reporting date.

b) The entity's present obligation can be measured reliably.

An entity shall initially measure the liability for a social benefit scheme at the best estimate of cost that the entity will incur in fulfilling the present obligations represented by the liability.

For subsequent measurement;

a) The liability shall be reduced as social benefit payments are made. Any difference between the cost of making the social benefit payments and the carrying amount of the liability is recognized in surplus or deficit in the period in which the liability is settled.

b) At an adjusted cost, if the liability is yet to be settled, to reflect the current social benefit payments that the entity will incur in fulfilling the present obligations represented by the liability.

c) At discounted cost for liabilities not expected to be settled before twelve months after the end of the reporting period in which the liability is recognized, thus the liability is increased and interest expense recognized in each reporting period until the liability is settled.

Discount Rate

When the liability in respect of a social benefit scheme is not expected to be settled before twelve months after the end of the reporting period in which the liability is recognized (i.e., the next social benefit payment will not be made for more than twelve months), the liability shall be discounted at the prevailing market rate.

Note: Discounting may not be required for most social benefits because they are short-term liabilities.

3.3 Recognition and Measurement of Social Benefits using the Insurance

Approach

An entity may use the insurance approach in recognition and measurement of social benefits as long as they satisfy the following conditions;

a) Intended to be fully funded from contributions; and

b) Managed as an insurer manages insurance contracts

Note: Where the entity uses this approach, it may select to apply the same standard used in measurement of insurance contracts.

4.0 DISCLOSURES

4.1 General Approach

IPSAS 42 provides that disclosures on social benefits must be made in an entity's financial statements as below:

1. Statement of Financial Performance

a) Total Social benefit expenditures

b) Interest expense arising from discounted social benefits (where applicable)

2. Statement of Financial Position

a) The carrying amount of social benefits liabilities which are usually short-term liabilities and thus should be captured under current liabilities

b) Social benefits advance payments i.e. prepayments

3. Statement of Cash Flows

a) Social benefits payments made within the reporting period i.e. actual outflow of resources.

- Social benefits expenses recognized as liabilities are not captured in the cash flow statement
- Social benefits paid in advance i.e. prepayments are captured in a cash flow statement as they involve an outflow of resources

4. Notes to the Financial Statements

An entity shall disclose information that explains:

a) Characteristics of its social benefit schemes.These characteristics includes the following;

- The nature of the social benefits provided by the schemes (for example, benefits for the elderly, unemployment benefits, and child benefits).
- Key features of the social benefit schemes, such as legislative framework governing the schemes, main eligibility criteria and where additional information about the scheme can be obtained.
- Source of funding for the scheme whether by means of a budget appropriation, a transfer from another public sector entity, or by other means.
- Demographic, economic and other external factors that influence the level of expenditure under the social benefit schemes.

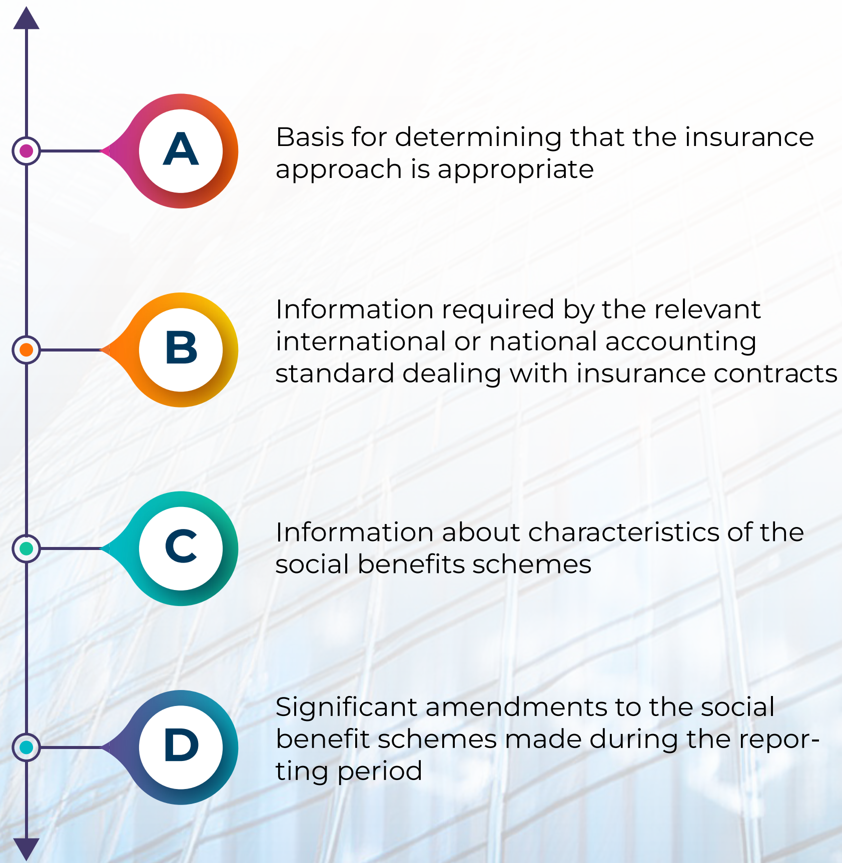
b) Significant amendments to the social benefit schemes made during the reporting period and expected effect of the amendments. Amendments to a social benefit scheme include, but are not limited to:

- Changes to the level of social benefits provided; and
- Changes to the eligibility criteria, including the individuals and/or households covered by the social benefit scheme.

4.2 Insurance Approach

The objective of the disclosures under the insurance approach is for entities to give users of the financial statements a basis to assess the effect that social benefits may have on the statement of financial position, statement of financial performance, statement of changes in net assets/ equity and statement of cash flows of the entity.

An entity shall disclose information that explains:



5.0 ILLUSTRATIVE EXAMPLE AND FREQUENTLY ASKED QUESTIONS

5.1 Examples

Example 1

The State Agency A provides a disability benefit to 60,000 persons with severe disabilities on a monthly basis. The social benefit is at a fixed amount of Kshs. 2,000 per beneficiary per month. During the month of June, the number of persons meeting the eligibility criteria for the social benefit payment stand at 50,000. The State Agency prepares its financial statements as of June 30.

Solution

i) Upon release of social benefits payments of the 50,000 persons who meet the eligibility criteria.

Dr Disability Social Benefits (Expense)	100,000,000
Cr Bank	100,000,000

ii) In case the social benefit payments are made in July, after the end of the reporting period, the entity will recognise an expense at the same time it recognizes a liability in its financial statements for the period ending June 30.

Dr Disability Social Benefits (Expense)	100,000,000
Cr Disability Social Benefits (Liability)	100,000,000

iii) Upon payment of the social benefits liability in July (ii above), if the entity discharges the liability fully, the entity will:

Dr. Disability Social Benefits (Liability)	100,000,000
Cr. Bank	100,000,000

iv) Upon partial settlement of the liability e.g. Kshs. 75,000,000, the entity will reduce the liability with an equivalent amount and the carrying amount of Kshs. 25,000,000 will remain in the liability account until when the entity will be able to discharge the liability.

Dr. Disability Social Benefits (Liability)	75,000,000
Cr. Bank	75,000,000

v) In case a payment was made in June for all the 60,000 persons, the entity will consider those that had met the eligibility criteria separate from those that were yet to satisfy the eligibility criteria (advance payment) as below:

Dr. Disability Social Benefits (Expense)	100,000,000
Dr. Prepayment (Asset)	20,000,000
Cr. Bank	120,000,000

vi) In case the prepayment in (v) above becomes irrecoverable in full, the entity will:

Dr. Disability Social Benefits (Expense)	20,000,000
Cr. Prepayment (Asset)	20,000,000

vii) In case part of the prepayment in (v) above i.e. Ksh 18,000,000 becomes irrecoverable, the entity will:

Dr. Disability Social Benefits (Expense)	18,000,000
Dr. Bank(recovered amount)	2,000,000
Cr. Prepayment (Asset)	20,000,000

5.2 Frequently asked Questions

Question 1

How will an entity assess whether IPSAS 42 is applicable to a social benefit scheme that they implement?

i) IPSAS 42 will first be applicable if the entity uses IPSAS accruals basis of accounting

ii) If the social benefit scheme fits into the definition of social benefits as described in 2.4 above

iii) The standard does not apply to:

- Employee benefits that are within the scope of IPSAS 39
- Financial instruments that are within the scope of IPSAS 41
- Insurance contracts that are within the scope of National or International accounting standards that deal with insurance contracts

Question 2

How does IPSAS 42 affect financial reporting?

IPSAS 42 recognizes social benefits as expenses and liability. In this case therefore the social benefits payment will affect the statement of financial performance,statement of financial position, statement of cash flows and subsequently the statement of changes in net assets. In addition, an entity will be required to make specific disclosures on the nature and impact of the social benefit payments on the entity's financial statements.

Question 3

What are irrecoverable social benefits?

These are social benefits that may never be obtained back from the beneficiaries after establishing that the beneficiaries did not meet the eligibility criteria of the social benefit payment.

Question 4

What is the best estimate of the costs of a social benefit**?**

This is the social benefit payments that the entity will incur in fulfilling the present obligation represented by the liability.

6.0 REPORTING ON SUSTAINABILITY

Entities with social benefits are encouraged, but not required, to prepare general purpose financial reports that provide information on the long-term sustainability of the entity's finances.

7.0 TRANSITIONAL PROVISIONS

7.1 General Approach

An entity shall apply retrospective in accordance with IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors.*

7.2 Insurance Approach

An entity shall apply transitional provisions in the international or national standard in dealing with insurance contracts.

Disclaimer:

This guideline has been prepared as a guidance to public sector entities in Kenya for implementation of IPSAS 42. However, it does not serve as an advisory or complete standard documentation of Social Benefits or a replacement of IPSAS 42. For further engagements on IPSAS 42 reach out to us on acctstandards@psasb.go.ke

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