Think Ahead ACCA

Roadmap for Adoption of IFRS Sustainability Disclosure Standards in Kenya

Issued by the Institute of Certified Public Accountants of Kenya (ICPAK)

Comments from ACCA

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ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants.

We're a thriving global community of over 252,000 members and over 526,000 future members based in 180 countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere, the opportunity to experience a rewarding career in accountancy, finance, and management. Our qualifications and learning opportunities develop strategic business leaders, and forward-thinking professionals with the financial, business, and digital expertise essential for creating sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. We believe that accountancy is a cornerstone profession of society and is vital in helping economies, organisations, and individuals to grow and prosper. We do this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

Through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation. Find out more at accaglobal.com

ACCA in Kenya

ACCA set up its office in Kenya in 2004 to support its over 1,000 members and over 3,600 future members in Kenya. Through our network of private and public sector Approved Employers and several learning partners across the country, we actively contribute to the development of the accountancy and finance profession in Kenya.

As part of our commitment to sustainability, ACCA has been at the forefront of fostering a more robust business environment in implementing sustainability into accounting and finance practices. We set up a sustainability hub providing access to S1 and S2 explainer videos, reports, and articles to help our members and other accounting professionals keep up to date on sustainability matters.

At national and regional levels, ACCA also continues to work collaboratively with professional accountancy organisations including the Institute of Certified Public Accountants of Kenya (ICPAK) and the Pan African Federation of Accountants (PAFA), in driving this commitment. Our joint engagements in building capacity and contributing to insight on local adoption of the international sustainability standards are some of the ways we seek to lead the future of our profession together and amplify our voice to influence key policy issues affecting the profession.

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1.0 General Comments

ACCA is pleased to receive this opportunity to provide its views in response to ICPAK's request for comments on the *Roadmap for Adoption of IFRS Sustainability Disclosure Standards in Kenya*. We commend ICPAK for its initiative in committing to adopt the standards. This consultation response further highlights ACCA's commitment to supporting ICPAK in implementing sustainability standards in Kenya.

ACCA has consistently advocated for a global approach to the development of sustainability disclosure standards, and we fully support the role of the International Sustainability Standards Board (ISSB) in setting a consistent and comparable global baseline to sustainability reporting around the world.

In creating reporting standards, it is vital to ensure that the reporting fosters the required systemic or operational changes and that investors leverage these disclosures to allocate capital more effectively and responsibly. We believe that the broad adoption of integrated thinking is key to this. Therefore, we encourage jurisdictions to build on the IFRS Sustainability Disclosure Standards (ISSB standards) applying, as required, an additive approach, rather than fundamentally amending the baseline provided by the ISSB. This additive approach could include adapting regional for reporting frameworks or guidelines to address the specific needs of regulators, investors, and other key stakeholders, while ensuring compatibility and interoperability.

2.0 Specific comments on components of the roadmap

We have provided specific comments concerning certain components in the roadmap as follows:

2.1 Operationalizing multiple sustainability regulations

We recognize the need for additional sustainability-related disclosures tailored to specific jurisdictions or sectors, such as the *Nairobi Securities Exchange ESG disclosure guidance, the Code of Corporate Governance Practices for Issuers of Securities to the Public by the Capital Markets Authority (CMA)*, the *Sustainable Finance Initiative (SFI) industry principles for the banking sector* and *the Guidance on Climate-Related Risk Management for the banking sector by the Central Bank of Kenya (CBK),* all providing some sustainability sectoral framework for reporting entities.

However, in reducing the risk of disclosure overload, ACCA recommends the layering of jurisdiction-specific disclosure requirements on the ISSB standards, as a baseline. Hence, where an IFRS sustainability disclosure standard covers the reporting requirement for a particular sustainability reporting risk and opportunity which is provided in a sectoral regulation, the option to refer to these additional sectoral standards should not be mandatory. This would help in reducing both reporting costs and reporting time. Findings from our research on companies' readiness to adopt IFRS S2[1] show that companies need to reduce the number of sources/reports in which climate-related disclosures are provided and significantly improve the level of cross-referencing between sources/reports.

2.2 Implementation Guidance

We support ICPAK's decision to provide guidance and support to entities in standards implementation and compliance, with the establishment of the Multi-Stakeholder Sustainability and Climate Change Reporting Committee. The provision of additional implementation guidance will help to reduce ambiguity, by providing clarifications and examples to adopters.

ACCA believes that the additional guidance would also help companies with assessing anticipated risks and opportunities across short, medium, and long-term timeframes which may pose challenges for organisations, particularly in regions where forward-looking disclosures are not yet mandatory.

More so, as this is a new area of disclosure for most preparers, we envisage that it may be challenging for entities to disclose information on the resilience of their strategy and cash flows about sustainability-related risks and opportunities despite the phased implementation timelines. Therefore, we believe additional application guidance and illustrative examples will be essential in supporting entities to properly implement the ISSB sustainability standards.

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[1] [Companies Readiness to Adopt IFRS S2 Climate-Related Disclosures]

Another area where additional implementation support is necessary is in data collection. Considering sustainability data will invariably come from various sources, ACCA believes that there is a need for reporting entities to not only establish the sources of data and the data collection methodology but also consider using external support. Technology can also act as an enabler in the reporting process[2]. Here, the implementation committee's additional guidance can offer sector-specific data that serves as a baseline, helping to streamline data collection and reduce both cost and effort for preparers.

This aligns with the ISSB's concept of all reasonable and supportable information being available to the entity at the reporting date without undue cost or effort, to ease the burden of disclosure and assist organisations in applying the standards.[3]

2.3 Mandatory adoption for Small and Medium Enterprises (SMEs)

We support a phased approach to implementation that reflects the size of entities and the resources they need to dedicate to implementation. We expect that there will be some test phase period and commend ICPAK for providing a 'voluntary adoption' phase which would also help to build capacity before the mandatory phase.

We understand that the mandatory adoption phase for SMEs is for accounting periods on or after January 1, 2029. We however recommend a longer interval for adoption for such smaller entities. This is because smaller, non-listed entities are likely to encounter difficulties in identifying, assessing, prioritizing, and disclosing risks and opportunities related to their value chains when implementing the standards. We recommend that ICPAK carry out field tests to evaluate the impact of these disclosure requirements on SMEs. Furthermore, ICPAK should consider measures to alleviate the compliance burden on SMEs, such as providing additional or extended reliefs and permitting the use of proxy data.

We agree with ICPAK's provision to reassess a future timeline for the mandatory adoption of sustainability reporting standards in the public sector, considering the anticipated International Public Sector Accounting Standards Board (IPSASB) sustainability standards, due to be published in 2025.

Based on ACCA's recent research *'PFM Performance in Africa'*, we encourage governments and government organisations to ensure the full adoption of the International Public Sector Accounting Standards (IPSAS) on an accrual basis, as a key step to improving capacity for adopting the IPSASB sustainability standards[4].

[2] Sustainability reporting: the guide to preparation
[3] Basis for Conclusions for IFRS S1, paragraph BC9
[4] PFM performance in Africa

2.4 Definition of Public Interest Entities (PIEs)

We observed that ICPAK's press release defined PIEs as:
(a) A publicly traded entity;
(b) An entity one of whose main functions is to take deposits from the public;
(c) An entity one of whose main functions is to provide insurance to the public; or
(d) An entity specified as such by law, regulation or professional standards reflecting significant public interest in the financial condition of such an entity due to the potential impact of their financial well-being on stakeholders.

While there is a general provision for future designation as a PIE by regulation, the current PIE definition appears to exclude certain unquoted private entities that due to the nature of their business, size, or corporate status require a wide range of stakeholders should be regarded as PIEs. It may be important also to align the PIE definition to the global standards due to the sustainability reporting implications for both the value chain and across jurisdictions where a different PIE definition applies.

2.5 Assurance of Sustainability reports

We share ICPAK's view on the importance of independent assurance in enhancing the credibility of sustainability reports. However, our research highlights that assurance skills gained through financial audit experience are crucial for delivering high-quality sustainability assurance, especially when it comes to the professional judgement that would be required in applying ISSA 5000 when operational[5].

The interconnected nature of financial reporting and sustainability reporting further emphasises the need for sustainability assurance providers to have undertaken sufficient training and professional experience in both financial and sustainability reporting. We believe that accountants are well-suited to connect financial and non-financial information and apply professional judgement to the complex requirements of ISSA 5000, including for example the various concepts of materiality, estimates and extent of disclosures. However, we recognise the need to work inclusively with other professionals in building and adopting ethical and assurance standards that encompass all reporting frameworks such as the proposed International Ethics Standards for Sustainability Assurance which is being prepared by International Ethics Standard Board for Accountants (IESBA). ACCA believes that while the proposed IESBA ethical standards for sustainability assurance provides a substantial and firm ethics foundation for sustainability assurance engagements, there is a need for more specificity in addressing some of the more complex aspects such as the Independence requirements, value chain entity interpretation, and enforcement for non-Professional Accountants.

[5] Sustainability assurance – rising to the challenge - See section 6 (Conclusion and the way forward)