Institute of Certified Public Accountants of Kenya
CPA Centre, Ruaraka, Thika Road.
P. O. Box 59963 – 00200 Nairobi, Kenya
Tel: (020) 2304226/7; 8068570/1
Mobile: (+254) 727531006 / 733856262 / 721469796
Fax: (020) 8562206
Drop in box no. 164 Revlon Professional Plaza

Our Ref: PSD/ED004/2014

14 February 2014

Stephanie Fox,
IPSASB Technical Director,
International Public Sector Accounting Standards Board,
International Federation of Accountants,
277 Wellington Street West,
Toronto, Ontario M5V 3H2,
Canada.

Dear Stephanie,

RE: Exposure Draft ED 49: Consolidated Financial Statements

The Institute of Certified Public Accountants of Kenya (ICPAK) welcomes the opportunity to comment on the Exposure Draft (ED 49) – Consolidated Financial Statements, issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC).

We agree with the new definition of control and investment entity as provides more clarity to the preparers and users of financial statements. We however dissent to the proposal to withdraw the exemption in IPSAS 6, *Consolidated and Separate Financial Statements* (December 2006) for temporarily controlled entities. Governments will always have temporarily controlled entities because of its overall responsibility to the public consolidating them; from a cost perspective far outweigh the benefits when there are very many temporarily controlled entities and may mislead the users of financial statements as it may misstate the reality.

We have included our responses to each of the Specific Matters for Comment and IPSASB's Preliminary View in an appendix to this letter.

If you would like to discuss these comments further, please contact the undersigned on icpak@icpak.com or the undersigned at nixon.omindi@icpak.com.

Yours Faithfully,

Nixon Omindi
For Professional Standards Committee

Specific Matter for Comment 1:

Do you agree with the proposed definition of control? If not, how would you change the definition?

Yes. We agree with the proposed definition. However, most public sector bodies especially government institutions follow the legal aspect which is based on quantifiable ownership interest. This needs to be clear in the definition of control in the IPSAS.

Specific Matter for Comment 2:

Do you agree that a controlling entity should consolidate all controlled entities (except in the circumstances proposed in this Exposure Draft)? If you consider that certain categories of entities should not be consolidated, please justify your proposal having regard to user needs and indicate your preferred accounting treatment for any such controlled entities. If you have any comments about temporarily controlled entities, please respond to Specific Matter for Comment 3.

We agree with the proposal to consolidate all controlled entities. However, there is need for guidance on entities rescued by the government from financial distress. The government may have control but for a limited period of time. Our view is that these entities be disclosed in the financial statements and should not be consolidated. The cost of consolidating all these entities may outweigh the benefit in cases where there are many entities that have been rescued by the government. See further comments under Comment 3.

Specific Matter for Comment 3:

Do you agree with the proposal to withdraw the exemption in IPSAS 6, *Consolidated and Separate Financial Statements* (December 2006) for temporarily controlled entities? If you agree with the withdrawal of the exemption please give reasons. If you disagree with the withdrawal of the exemption please indicate any modifications that you would propose to the exemption in IPSAS 6 (December 2006).

We do not agree with this.

Governments will always have temporarily controlled entities because of its overall responsibility to the public. These entities that are temporarily controlled may be better dealt with by making appropriate disclosures as opposed to consolidating them. Consolidated these entities may mislead the users of financial statements because it may misstate the reality. We suggest that the IPSASB develop criteria for identifying temporarily controlled entities as this will enhance consistency in the financial statements of public sector entities.

Specific Matter for Comment 4:

Do you agree that a controlling entity that meets the definition of an investment entity should be required to account for its investments at fair value through surplus or deficit?

Yes. The emphasis for an investment entity is on returns hence the value of investments is important. Fair value will be appropriate in this case.

Specific Matter for Comment 5:

Do you agree that a controlling entity, that is not itself an investment entity, but which controls an investment entity should be required to present consolidated financial statements in which it (i) measures the investments of the controlled investment entity at fair value through surplus or deficit in accordance with IPSAS 29, *Financial Instruments: Recognition and Measurement*, and (ii) consolidates the other assets and liabilities and revenue and expenses of the controlled investment entity in accordance with this Standard?

Do you agree that the proposed approach is appropriate and practicable? If not, what approach do you consider would be more appropriate and practicable?

We agree with the proposed approach.

Specific Matter for Comment 6:

The IPSASB has aligned the principles in this Standard with the Government Finance Statistics Manual 2013 (GFSM 2013) where feasible. Can you identify any further opportunities for alignment?

We do not have any comments.