



Our Ref: PSD/ED11/2013

25 April 2013

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 Madam

RE: Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Elements and Recognition in Financial Statements

The Institute of Certified Public Accountants of Kenya (ICPAK) welcomes the opportunity to comment on the Conceptual Framework Exposure Draft 2 issued by the International Public Sector Standards Board (IPSASB) of the International Federation of Accountants.

The Institute believes that the proposed Conceptual Framework envisaged in the Exposure Draft establish the concepts that International Public Sector Accounting Standards Board (IPSAB) will apply in setting International Public Sector Accounting Standards (IPSAS). It proposes definitions of elements used in general purpose financial statements of governments and other public sector entities and provides further explanation about these definitions and their recognition.

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

Manager, Professional Standard

Specific Matter for Comment 1

Do you agree with the definition of an asset? If not, how would you modify it?

We agree with the proposed definition and the attributes of what constitutes an asset.

Specific Matter for Comment 2

(a) Do you agree with the definition of a liability? If not, how would you modify it?

(b) Do you agree with the description of non-legal binding obligations? If not, how would you modify it?

ICPAK is in agreement with the proposed definition and the attributes of what constitutes a liability. We also agree with IPSASB decision to distinguish between legal and non-legal binding obligations as these terminologies makes classification more understandable and eliminating any ambiguity that would arise as explained in BC 21.

Specific Matter for Comment 3

Do you agree with the definition of revenue? If not, how would you modify it?

We do not agree with the proposed definition of revenue in the ED. We view that the broad definition of revenue to include deferred inflow as opposed to having these considered as separate elements. As captured in BC34, Revenue should be defined as *"Inflows during the current reporting period, which increases the net assets of an entity, other than ownership contributions"*.

Specific Matter for Comment 4

Do you agree with the definition of expenses? If not, how would you modify it?

As explained above for revenue, similarly, we do not agree with the proposed definition of expenses in the conceptual framework. We view that the broad definition of expenses is sufficient with IPSASB providing guidance on different categorization within expenses. Changes in outflows and inflows will then be addressed within the broader scope of expenses. We opine that any fitting deferral of expenses recognition can be achieved using the definitions of assets, liabilities, and expenses alone, taking into consideration, the control criteria for these transactions.

Specific Matter for Comment 5

(a) Do you agree with the decision to define deferred inflows and deferred outflows as elements? If not, why not?

(b) If you agree with the decision to define deferred inflows and deferred outflows as elements, do you agree with the:

- i. Decision to restrict those definitions to non-exchange transactions? If not, why not?***
- ii. Definitions of deferred inflows and deferred outflows? If not, how would you modify them?***

We do not agree with the Board’s decision to define deferred inflows and deferred outflows arising as a result of non-exchange transactions where the inflows and outflows relate to a specified future reporting period, as elements in the proposed conceptual framework. We believe that this proposal significantly modifies what generally is understood under the concept of revenue and expense, and may have a negative impact on the users’ understanding of the financial performance of the reporting entity. We strongly believe that the Conceptual Framework should only include concepts based on principles which are generally applicable to all transactions. However, due to the specific importance to public sector entities, we note that there exists a strong need to provide guidance as to when the deferred recognition of revenue and expenses, and propose that this would be appropriately addressed at standard level and not on the conceptual framework.

Specific Matter for Comment 6

- (a) Do you agree with the terms net assets and net financial position and the definitions? If not, how would you modify the terms and/or definitions?*
- (b) Do you agree with the decision to define ownership contributions and ownership distributions as elements? If not, why not?*
- (c) If you agree with the decision to define ownership contributions and ownership distributions as elements, do you agree with the definitions of ownership contributions and ownership distributions? If not, how would you modify them?*
- (d) Ownership interests have not been defined in this Conceptual Framework. Do you think they should be?*

ICPAK agrees with the proposal that net assets are the difference between assets and liabilities. However, as explained above that deferred inflows and outflows should not be separate elements thus eliminating the need to provide a definition for net financial position. We also agree with the decision to define ownership contributions and ownership distributions as elements, and with the proposed definitions of ownership contributions and ownership distributions. We believe that the proposed conceptual framework need not define ownership interests in the conceptual framework.

Specific Matter for Comment 7

Do you agree with the discussion on recognition? If not, how would you modify it?

ICPAK agrees with the proposed recognition criteria and the related disclosures.