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Our Ref: PSD/ED12/2013

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: Measurement of Assets and Liabilities in Financial Statements

The Institute of Certified Public Accountants of Kenya (ICPAK) welcomes the opportunity to comment on the Conceptual Framework Exposure Draft 3 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 integrates the objectives and qualitative characteristics of financial reporting.

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 that the selection of a measurement basis should be based on the extent to which a particular measurement basis meets the objectives of financial reporting? If you think that there should be a measurement objective please indicate what this measurement objective should be and give your reasons.

We agree. The objectives of financial reporting offers informed criteria to the preparers of financial statements in choosing measurement basis; objectives are, to a greater extent influenced by the needs of the users of general purpose financial statements for accountability and decision making purposes. Over and above the user requirements, the objectives of financial reporting ensure that the financial statements are fairly stated and meet the minimum threshold of the qualitative characteristics.

Specific Matter for Comment 2

Do you agree with the current value measurement bases for assets that have been identified in Section 3? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

ICPAK agreed that the four measurement bases address the dynamics (economic circumstances) coming into play when measuring the value of assets: costs of services, operating and financial capacity. However it is worthwhile noting that other than the market value the rest of the measurement bases are entity specific (applied when the market evidence significantly decreases or not available) involves judgments, assumptions and application of formulae; as such the level of accuracy is impaired.

Specific Matters for Comment 3

Do you agree with the approaches proposed in Section 4 for application of:

- (a) The fair value measurement model to estimate the price at which a transaction to sell an asset would take place in an active, open and orderly market at the measurement date under current market conditions. If not, please give your reasons; and***

We are in agreement that the fair value model would be a transaction at arm’s length and therefore culminate to an amount that reflects the market conditions. The model therefore gives a more objectively measured exit value. There need to clarify if the terms “ market value” and “ Fair value” is synonymously used in the context of this Exposure Draft.

- (b) The deprival value model to select or confirm the use of a current measurement basis for operational assets. If not please give your reasons.***

We agree. However, deprival value is not a separate measurement basis, but rather a decision rule for selecting between three measurement bases: replacement cost, net realizable value, and value in use.

Appendix – ICPAK’s Submission on the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities: Measurement of Assets and Liabilities in Financial Statements

The model should only be applied in instances where the fair value cannot be applied due to lack of active, open and orderly market, deprival model focuses on the use and management intention regarding the asset (s) in question. The measurement bases in the model involves a great deal of assumptions, estimation and discounting for instance in the case of value in use.

Specific Matter for Comment 4

Do you agree with the proposed measurement bases for liabilities in Section 5? If not, please indicate which additional measurement bases should be included or which measurement bases should not be included in the Framework?

We agree that the measurement bases sufficiently address the measurement of liabilities in the financial statement.