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Our Ref: PSD/ED003/2014

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 48: Separate Financial Statements

The Institute of Certified Public Accountants of Kenya (ICPAK) welcomes the opportunity to comment on the Exposure Draft (ED 48) – Separate Financial Statements, issued by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC).

We agree with the proposal to permit the use of the equity method, in addition to cost or fair value, for investments in other entities. This is consistent with the recently issued ED 2013/10 – Equity Method in Separate Financial Statements (Proposed Amendments to IAS 27) by the IASB. We believe the equity method provides information that is reliable and useful, and possibly at a lower cost than either the cost method or the fair value method. It is more relevant in the case of public sector where investment entities are often used more as “instruments” to enable service provision, rather than as a holding for investment purposes.

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 generally with the proposals for separate financial statements? In particular, do you agree with the proposal to permit the use of the equity method, in addition to cost or fair value, for investments in other entities?

We agree with the proposals for separate financial statements.

With respect to Public sector entities, equity method and cost method are ideally more relevant than the fair value since they are primarily not for profit entities and by nature would mostly want to avoid fair value adjustments and unrealized gains attributable to fair valuations and as such equity method is appropriate to them in addition to cost.

Majority of public sector entities especially governments are in place for a short period of time. Unwinding of fair value adjustments may not be reflective of the performance of the current government.

It may be a challenge for most public sector institutions to arrive at fair values that can be relied on. As mentioned in the ED, in most cases there are no active markets. In addition, most public sector institutions would be in existence for a long period of time and cost basis may not provide relevant information to the users of the financial statements.