Republic of Kenya

PSASB
PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

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Ross Smith
Program and Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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CANADA

Dear *Mr. Smith***,**

EXPOSURE DRAFT 96 – DEFINITION OF AN OPERATION AND RECOGNITION OF ACQUIRED LIABILITIES AND CONTINGENT LIABILITIES (AMENDMENT TO IPSAS 40)

The Public Sector Accounting Standards Board Kenya (PSASB) is mandated by section 194 of the Public Finance Management Act of Kenya, 2012, to prescribe frameworks and set generally accepted standards for the development and management of accounting and financial systems across all State organs and public entities. The Board mainstreams best practices in good governance, internal controls, and risk management.

We thank the IPSASB for publishing the proposal to amend IPSAS 40 (Public Sector Combinations) to align with amendments to IFRS 3 Business Combinations arising from Definition of a Business (Amendments to IFRS 3) and Reference to the Conceptual Framework (Amendments to IFRS 3).

PSASB's comments on the Exposure Draft are outlined in the appendix to this letter.

Yours *Sincerely,*

FCPA GEORGINA MUCHAI
CHIEF EXECUTIVE OFFICER

Encl.

RESPONSES TO EXPOSURE DRAFT 96: DEFINITION OF AN OPERATION AND RECOGNITION OF ACQUIRED LIABILITIES AND CONTINGENT LIABILITIES (AMENDMENT TO IPSAS 40)

Responses to the Specific Matters for Comment

Part 1: Definition of an operation

IPSASB proposes to amend by adding related application guidance and illustrative examples regarding the definition of "operation," and by adding an optional concentration test to simplify the assessment of whether an acquired set of activities and assets constitutes an operation.

PSASB Kenya agrees with the proposed amendments relating to the definition of an operation and the introduction of the optional concentration test. The amendments enhance the distinction between asset acquisitions and public sector combinations.

- The revised guidance emphasizes that an operation must include inputs and a substantive process that together enable the creation of outputs. We support the clarification that outputs are not mandatory for an acquired set to qualify as an operation. This is particularly relevant for public sector entities that operate to deliver services rather than generate profits.
- The optional concentration test provides a mechanism to simplify assessments, reduce implementation complexity, and improve operational efficiency where acquisitions involve concentrated groups of similar assets.

Recommendations for Improvement

We suggest that the IPSASB should expand the implementation guidance to cover public sector-specific realities:

- **Public Sector Examples:** Include illustrative examples covering the transfer of government functions and mergers of public sector entities.
- **Inherited Staff & Policy Mandates:** Provide clarification on how to treat inherited staff and how to evaluate operations driven by policy mandates rather than voluntary mergers.
- **Practical Valuations:** Allow practical valuation approaches, rather than strictly market-based ones, recognizing that public-sector assets often lack an active market.

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Part 2: Recognition of acquired liabilities and contingent liabilities within the scope of IPSAS 19

IPSASB proposes to amend by:

i. *Referencing the guidance in IPSAS 19, Provisions, Contingent Liabilities and Contingent Assets, to determine whether a present obligation exists on the acquisition date because of past events.*
ii. *Providing clarification that only contingent liabilities that are present obligations in accordance with IPSAS 19, and whose fair value can be measured reliably, can be recognized.*
iii. *Providing an explicit prohibition against the recognition of contingent assets to be consistent with IPSAS 19.*

PSASB Kenya agrees with the proposed amendments clarifying the recognition of acquired liabilities and contingent liabilities within the scope of IPSAS 19. We support the requirement that entities apply IPSAS 19 to determine whether a present obligation exists at the acquisition date, strengthening the baseline for liability recognition. We also support the clarification that contingent liabilities assumed in an acquisition should be recognized if a present obligation exists and its fair value can be measured reliably, even if an outflow of resources is not probable at the acquisition date. Additionally, we strongly agree with the explicit prohibition against recognizing contingent assets as this reduces the risk of premature recognition and aligns cleanly with IPSAS 19.

Recommendations for Improvement

The IPSASB should consider providing additional public sector-specific implementation guidance regarding the determination of "present obligations" at the acquisition date, specifically:

- Obligations arising directly from legislation or statutory mandates.
- Constructive obligations stemming from outstanding commitments.
- Environmental restoration obligations inherited.
- Complex litigation exposures and obligations arising from government restructuring programs.
- Reliable measurement of contingent liabilities inherited through legacy litigation, inter-agency transfers, or entity restructuring, where active markets or comparable transactions are typically unavailable to support fair value estimates.

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