Republic of Kenya

PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

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Ross Smith
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CANADA

Dear *Mr. Smith,*

EXPOSURE DRAFT 95 – IMPROVEMENTS TO IPSAS ACCOUNTING STANDARDS – VOLUME 10.

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 make minor improvements to the accrual-basis IPSAS Standards regarding financial instruments, foreign exchange, and consolidated financial statements, as well as editorial clarifications.

Our comments on the Exposure Draft are outlined in the appendix to this letter.

Yours *Sincerely,*

FCPA GEORGINA MUCHAI
CHIEF EXECUTIVE OFFICER

Encl.

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RESPONSES TO EXPOSURE DRAFT 95 – IMPROVEMENTS TO IPSAS ACCOUNTING STANDARDS – VOLUME 10.

Responses to the Specific Matters for Comment

Specific Matter for Comment 1

Part 1 of this Exposure Draft proposes additional disclosures for supplier finance arrangements, which are characterized by one or more finance providers offering to pay amounts an entity owes its suppliers and the entity agreeing to pay according to the terms and conditions of the arrangements at the same date as, or a date later than, suppliers are paid.

In your experience, are supplier finance arrangements sufficiently prevalent in your jurisdiction to warrant the proposed disclosure?

1) Prevalence and Institutional Relevance

In our jurisdiction, the prevalence of supplier finance arrangements is low due to restrictions imposed by existing fiscal rules and public debt management legislation. Statutory frameworks usually prohibit public-sector entities from incurring unbudgeted credit liabilities through financial intermediaries.

2) Justification for Support

PSASB Kenya agrees with the inclusion of the disclosure requirements in IPSAS 2 (*Cash Flow Statements*) and IPSAS 30 (*Financial Instruments: Disclosures*) for the following reasons:

- Transparency of Public Sector Commitments: It provides a realistic view of an entity's true financial obligations, preventing the masking of structured debt as simple trade payables.
- Fiscal Risk Mitigation: Disclosing the amounts for which suppliers have already received payment from finance providers is essential for oversight bodies to assess credit concentrations and liquidity risks.

General Comments on the Remaining Amendments

PSASB Kenya has no objection to Part 2 (Classification and Measurement of Financial Instruments), Part 5 (Amendments to IPSAS 30 for Consistency with Other IPSAS Standards), Part 6 (Derecognition of Lease Liabilities and Transaction Price), Part 7 (Terminology Regarding the Cost Method), and Part 8 (De facto Agents). These amendments are largely consequential, terminological, or consistency-driven and are expected to have limited practical effect on Kenya's public-sector reporting entities.

PSASB Kenya-specific comments on Parts 3, 4, and 9 are set out below, as these amendments are particularly relevant to the Kenyan public sector context, including Kenya's ongoing transition from cash to accrual-basis IPSAS ahead of the cabinet-mandated completion date of June 30, 2027.

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Part 3 – Contracts Referencing Nature-Dependent Electricity

1) Relevance to the Kenyan Public Sector

PSASB welcomes the proposed amendments to IPSAS 30 and IPSAS 41 on contracts referencing nature-dependent electricity. PSASB agrees that the own-use exception and hedge accounting clarifications in paragraphs AG6A–AG6B and 155AA–155AB of IPSAS 41 are relevant and useful for entities party to such arrangements.

2) Recommendation

PSASB Kenya recommends that, when finalizing these amendments, IPSASB consider including an illustrative example based on a public sector electricity generation or off-take entity, given that the existing illustrative example (Example 18A) is framed around a municipality entering into a virtual power purchase agreement with a private wind generator. Additional public sector-specific examples, for instance involving a state-owned generation company supplying a national grid, would assist preparers such as Kenya's electricity sector public entities in applying the own-use assessment in paragraph AG6B and the 12-month look-back period specified therein.

Part 4 – Lack of Exchangeability

1) Relevance to the Kenyan Public Sector

PSASB Kenya supports the proposed amendments to IPSAS 4 and IPSAS 33 on the lack of exchangeability. We consider the proposed two-step framework – first assessing exchangeability for a specified purpose, then estimating a spot rate using an observable rate or another estimation technique when a currency is not exchangeable – to be a practical and implementable approach for Kenyan public sector entities, including national and county government entities and state corporations with foreign-currency-denominated liabilities or investments.

2) Recommendation

PSASB Kenya recommends that IPSASB provide additional implementation guidance to address situations specific to developing economies in which multiple administratively set exchange rates may exist for different purposes, as contemplated in paragraph B6. Additional guidance on assessing whether such administratively set rates reflect prevailing economic conditions, beyond the factors listed in paragraph B14, would be of practical value to preparers and auditors in our jurisdiction.

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Part 9 – Hedge Accounting by a First-Time Adopter

1) Relevance to the Kenyan Public Sector

PSASB welcomes the proposed amendments to IPSAS 33 on hedge accounting by a first-time adopter. As Kenya continues its phased transition from cash-basis to accrual-basis IPSAS, with a cabinet-mandated target completion date of June 30, 2027, an increasing number of public sector entities will be applying IPSAS 33 as first-time adopters in the coming reporting periods. PSASB supports the proposed clarifications to paragraphs AG95 and AG96, which are expected to assist first-time adopters in appropriately reflecting, or discontinuing, pre-existing hedging relationships in their opening IPSAS statement of financial position.

2) Recommendation

PSASB recommends that IPSASB consider, as part of its broader work on first-time adoption, additional implementation guidance or training materials specifically addressing hedge accounting transition issues for jurisdictions adopting accrual-basis IPSAS for the first time, given the technical capacity constraints that may exist in such jurisdictions relative to the IFRS first-time adoption population from which paragraphs AG95 and AG96 are derived.

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