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EXPOSURE DRAFT 72: TRANSFER EXPENSES

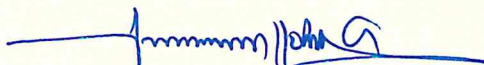
The Public Sector Accounting Standards Board, Kenya is pleased to submit its comments on **ED 72: Transfer Expenses**. Currently, there is a gap in accounting for transfer expenses by transfer providers as there is no literature within the IPSAS suite of standards to cover the same. PSASB welcomes this move by IPSASB to develop a specific standard on Transfer Expenses for public sector entities. In our jurisdiction, a significant amount of public expenditure relates to transfer expenses from one level of government to another and therefore accounting for such transfers becomes paramount.

The Public Sector Accounting Standards Board (PSASB), Kenya was established by the Public Finance Management Act (PFM) No.18 of 2012. The Board was gazetted by the Cabinet Secretary, National Treasury on 28th February 2014 and has been in operation since.

The Board is mandated to provide frameworks and set generally accepted standards for the development and management of accounting and financial systems by all state organs and Public entities in Kenya and to prescribe internal audit procedures which comply with the Public Finance Management Act, 2012.

PSASB Kenya response is documented in the attachment for your consideration.

With kind regards.



FREDRICK RIAGA
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PUBLIC SECTOR ACCOUNTING STANDARDS BOARD

EXPOSURE DRAFT 72 : TRANSFER EXPENSES

Specific Matter for Comment 1:

The scope of this [draft] Standard is limited to transfer expenses, as defined in paragraph 8. The rationale for this decision is set out in paragraphs BC4–BC15.

Do you agree that the scope of this [draft] Standard is clear? If not, what changes to the scope or definition of transfer expense would you make?

Comment: PSASB agrees with the definition of transfer expenses in paragraph 8 and the rationale as set out in paragraph BC4–BC15. However the IPSASB should consider paragraph 4 for clarity- 'An entity shall also apply this [draft] Standard in accounting for the subsequent measurement of other non-contractual payables, except where the subsequent measurement of the payable is within the scope of another Standard. This [draft] Standard does not apply to the recognition and initial measurement of other non-contractual payables. It is not clear why the standard would not apply for initial recognition of other non-contractual payables when it does not define what they relate to and which standard accounts for them.

Specific Matter for Comment 2:

Do you agree with the proposals in this [draft] Standard to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations, mirroring the distinction for revenue transactions proposed in ED 70, Revenue with Performance Obligations, and ED 71, Revenue without Performance Obligations? If not, what distinction, if any, would you make?

Comment: PSASB agrees with the proposals to distinguish between transfer expenses with performance obligations and transfer expenses without performance obligations, mirroring the distinction for revenue transactions proposed in ED 70, Revenue with Performance Obligations, and ED 71, Revenue without Performance Obligations.

Specific Matter for Comment 3:

Do you agree with the proposal in this [draft] Standard that, unless a transfer provider monitors the satisfaction of the transfer recipient's performance obligations throughout the duration of the binding arrangement, the transaction should be accounted for as a transfer expense without performance obligations?

Comment: PSASB agrees with the proposal as outlined in the draft considering distinction of satisfaction as outlined in paragraph 33 and paragraph 90 of the exposure draft. Without the ability to monitor the satisfaction of the performance



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obligation, it would be impossible to determine the timing of recognition of the transfer expense with a performance obligation.

Specific Matter for Comment 4:

This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses with performance obligations:

- (a) A transfer provider should initially recognize an asset for the right to have a transfer recipient transfer goods and services to third-party beneficiaries; and
- (b) A transfer provider should subsequently recognize and measure the expense as the transfer

Recipient transfers goods and services to third-party beneficiaries, using the public sector performance obligation approach. The rationale for this decision is set out in paragraphs BC16–BC34. Do you agree with the recognition and measurement requirements for transfer expenses with performance obligations? If not, how would you recognize and measure transfer expenses with performance obligations?

Comment: PSASB agrees with recognition and measurement requirements for transfer expenses with performance obligation as envisioned in paragraph BC34. It is practical for the transfer provider to initially recognize an asset for the rights to have goods or services provided to third party beneficiaries because they have control over the assets until the transfer happens. Upon transfer, control over the asset is lost and therefore an expense is recognized.

Specific Matter for Comment 5:

If you consider that there will be practical difficulties with applying the recognition and measurement requirements for transfer expenses with performance obligations, please provide details of any anticipated difficulties, and any suggestions you have for addressing these difficulties.

Comment: The main challenge in public sector would be in paragraph 13(d), where the transfer provider may not be able to monitor satisfaction of those performance obligations throughout the duration of binding arrangement. Some challenges may also arise on binding arrangements of enforceable rights and obligations where the enforcement may be outside the legal system, also identification of distinct goods and services may be a challenge considering that users of this standard/draft are public sector entities therefore, transferred goods and services may be construed as social goods and benefits in some instances as defined in IPSAS 19 and IPSAS 42.

Specific Matter for Comment 6:

This [draft] Standard proposes the following recognition and measurement requirements for transfer expenses without performance obligations:

(a) A transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources (this proposal is based on the IPSASB's view that any future benefits expected by the transfer provider as a result of the transaction do not meet the definition of an asset); and

(b) A transfer provider should measure transfer expenses without performance obligations at the carrying amount of the resources given up.

Do you agree with the recognition and measurement requirements for transfer expenses without performance obligations?

If not, how would you recognize and measure transfer expenses without performance obligations?

Comment: Yes, existence of an obligation to transfer the resources under accrual should trigger expense recognition. Similarly, loss of control over resources to be transferred also trigger their de-recognition hence recognition of the expense. The earlier of any of these is thus appropriate. Measuring the expense at the carrying amount of the resources given up is appropriate as any other method would result into a loss or gain, which was not the intention of such a transfer.

Specific Matter for Comment 7:

As explained in SMC 6, this [draft] Standard proposes that a transfer provider should recognize transfer expenses without performance obligations at the earlier of the point at which the transfer provider has a present obligation to provide resources, or has lost control of those resources. ED 71, Revenue without Performance Obligations, proposes that where a transfer recipient has present obligations that are not performance obligations, it should recognize revenue as it satisfies those present obligations. Consequently, a transfer provider may recognize an expense earlier than a transfer recipient recognizes revenue. Do you agree that this lack of symmetry is appropriate? If not, why not?

Comment: PSASB agrees that the lack of symmetry is reasonable and mirrors prudence in the accounting. It is not a contradiction, but principle application. It would however be easier if by analogy, existence of present obligation under ED 71 was analyzed as existence of a performance obligation since the treatment is the same on revenue recognition.



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Specific Matter for Comment 8:

This [draft] Standard proposes that, when a binding arrangement is subject to appropriations, the transfer provider needs to consider whether it has a present obligation to transfer resources, and should therefore recognize a liability, prior to the appropriation being authorized. Do you agree with this proposal? If not, why not? What alternative treatment would you propose?

Comment: Yes, we agree.

Specific Matter for Comment 9:

This [draft] Standard proposes disclosure requirements that mirror the requirements in ED 70, Revenue with Performance Obligations, and ED 71, Revenue without Performance Obligations, to the extent that these are appropriate. Do you agree the disclosure requirements in this [draft] Standard are appropriate to provide users with sufficient, reliable and relevant information about transfer expenses? In particular,

- (a) Do you think there are any additional disclosure requirements that should be included?
- (b) Are any of the proposed disclosure requirements unnecessary?

Comment: PSASB agrees the disclosure requirements in this [draft] Standard are appropriate to provide users with sufficient, reliable, and relevant information about transfer expenses

- (a) Additional disclosure should give clear distinction of intended goods and services from social benefits described in IPSAS 19 and IPSAS 42. Also where a transfer provider has recognized transfer expenses without performance obligations at the point at which the transfer provider has a present obligation to provide resources but before the loss control of those resources, a disclosure is necessary for the resources not yet lost but for which an expense has been recognized.***
- (b) No disclosure requirements are unnecessary***