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IPSASB EXPOSURE DRAFT 63 ON SOCIAL BENEFITS

The Public Sector Accounting Standards Board (PSASB), Kenya was established by the Public Finance Management Act (PFM) No.18 of 24th July 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.

The Public Sector Accounting Standards Board, Kenya is pleased to submit its comments on Exposure Draft 63 on Social Benefits to the International Public Sector Accounting Standards Board. PSASB Kenya supports the work of IPSASB in providing guidelines on accounting for Social Benefits in the public sector in order to meet the needs of users of General Purpose Financial Reports for the purposes of accountability and decision making. In many jurisdictions, expenses relating to Social Benefits form a significant proportion of the total expenditure.

PSASB Kenya responses on Specific Matters for Comment are documented in the attachment for your consideration.

With kind regards,

BERNARD NDUNGU, MBS
CHAIRMAN, PUBLIC SECTOR ACCOUNTING STANDARDS BOARD



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PSASB's Responses to Exposure Draft 63 on Social Benefits

Specific Matters for Comment 1

Do you agree with the scope of this Exposure Draft and specifically the exclusion of universally accessible services for the reasons given in paragraph BC21(c)?

If not, what changes to the scope would you make?

PSASB agrees with the Scope of this Exposure Draft and specifically the exclusion of universally accessible services in order to provide a more principles based, less artificial boundary between social benefits and non- exchange expenses. PSASB is of the view that this distinction is necessary since the on- going project on Accounting for revenue and non- exchange expenses covers universally accessible services.

Specific Matter for Comment 2

Do you agree with the definitions of social benefits, social risks and universally accessible services that are included in this Exposure Draft?

If not, what changes to the definitions would you make?

PSASB agrees with the definition of universally accessible services as outlined in the exposure draft. However, it's the Board's opinion that the definition given for social benefits is more of a description than a definition. The definition of social risks should also be modified. PSASB proposes the following definitions for social benefits and social risks.

Social benefits: These are cash transfers, goods in kind and/or services in kind provided to individuals and/or households who meet eligibility criteria, mitigate the effect of social risks and address the needs of the society as a whole but are not universally accessible services.

Social risks: Social risks are events or circumstances that relate to the characteristics of individuals and/or households and may adversely affect the welfare of individuals and/or households, either by imposing additional demands on their resources or by reducing their income.

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Specific Matter for Comment 3

Do you agree that, with respect to the insurance approach:

- (a) It should be optional;
- (b) The criteria for determining whether the insurance approach may be applied are appropriate;
- (c) Directing preparers to follow the relevant international or national accounting standard dealing with insurance contracts (IFRS 17, *Insurance Contracts* and national standards that have adopted substantially the same principles as IFRS 17) is appropriate; and
- (d) The additional disclosures required by paragraph 12 of this Exposure Draft are appropriate? If not, how do you think the insurance approach should be applied?

PSASB agrees with all the aspects above in relation to the insurance approach. However under the criteria for determining the appropriateness of the insurance approach under paragraph 9 of the exposure draft should be qualified as follows:

- a. The social benefit scheme is intended to be fully funded from contributions: and*
- b. There is evidence that the entity manages the scheme in the same way as an insurer of insurance contracts, including assessing the financial performance and the financial position of the scheme on a regular basis.*
- c. Where one or both of the criteria above are not met, the Social Benefit Scheme should be recognized and measured under the Obligating Event Approach.*

Specific Matter for Comment 4

Do you agree that, under the obligating event approach, the past event that gives rise to a liability for a social benefit scheme is the satisfaction by the beneficiary of all eligibility criteria for the next benefit, which includes being alive (whether this is explicitly stated or implicit in the scheme provisions)?

If not, what past event should give rise to a liability for a social benefit?

This Exposure Draft includes an Alternative View where some IPSASB Members propose a different approach to recognition and measurement

PSASB's Responses to Exposure Draft 63 on Social Benefits

PSASB does not agree with this approach as presented in the Exposure Draft. This approach prescribes a single recognition point applicable to all social benefits which the Board considers inappropriate. For example, an unemployment benefit scheme may give rise to short term liabilities while a retirement benefit will give rise to a long term liability.

PSASB opines that each Social Benefit Scheme should be recognised and measured in accordance to its economic substance. Prescribing a single recognition point to all Social Benefit Schemes will not provide users of financial statements with the information they require to assess the impact of social benefits. In Kenya, the Government transfers cash to all its citizens who are aged 70 years and above on a monthly basis, through budgetary allocation irrespective of their economic status. It would be more useful for the Government to assess the implication of this Scheme in their Statement of Financial Position for decision making purposes in the short and long term over the life of eligible beneficiaries. In this case being alive also becomes a criterion of measuring the liability.

Specific Matter for Comment 5

Regarding the disclosure requirements for the obligating event approach, do you agree that:

- (a) The disclosures about the characteristics of an entity's social benefit schemes (paragraph 31) are appropriate;
 - (b) The disclosures of the amounts in the financial statements (paragraphs 32–33) are appropriate; and
 - (c) For the future cash flows related to an entity's social benefit schemes (see paragraph 34):
 - (i) It is appropriate to disclose the projected future cash flows; and
 - (ii) Five years is the appropriate period over which to disclose those future cash flows.
- If not, what disclosure requirements should be included?

PSASB agrees with the disclosure requirements under the obligating event approach. However, given our response to Specific Matter for Comment 4, disclosure c above on future cash flows related to an entity's social benefit schemes will be applicable to schemes that give rise to short- term liabilities since this information on schemes that give rise to long term liabilities will be captured in the Statement of Financial Position of the reporting entity.

Specific Matter for Comment -6

The IPSASB has previously acknowledged in its *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities*, that the financial statements cannot satisfy all users' information needs on social benefits, and that further information about the long-term fiscal sustainability of these schemes is required. RPG 1, *Reporting on the Long Term Sustainability of an Entity's Finances*, was developed to provide guidance on presenting this additional information.

In finalizing ED 63, the IPSASB discussed the merits of developing mandatory requirements for reporting on the long-term financial sustainability of an entity's finances, which includes social benefits. The IPSASB identified the following advantages and disadvantages of developing such requirements at present:

PSASB's Responses to Exposure Draft 63 on Social Benefits

Advantages

Long-term financial sustainability reports provide additional useful information for users for both accountability and decision making, and that governments should therefore be providing. This especially applies to information about the sustainability of the funding of social benefits given the limited predictive value of the amounts recognized in the financial statements.

Social benefits are only one source of future outflows. Supplementary disclosures (as proposed in the ED) on social benefits flows in isolation are therefore of limited use in assessing an entity's long-term sustainability, as they do not include the complete information on all of an entity's future inflows and outflows that long-term financial sustainability reports provide.

Long-term financial sustainability reports will improve accountability and will help support Integrated Reporting <IR> in the public sector. They will also provide useful information for users, in particular for evaluations of intergenerational equity.

Disadvantages

The extent and nature of an entity's long-term financial reports are likely to vary significantly depending on its activities and sources of funding. It would therefore be difficult to develop a mandatory standard.

The nature of the information required for reporting on the long-term sustainability of an entity's finances, in particular, its forward-looking perspective, could preclude its inclusion in General Purpose Financial Statements.

Given the scope and challenges involved in its preparation and audit considerations, some question whether it would be appropriate to make information in a General Purpose Financial Report mandatory.

RPG 1 was only issued in 2013, so it may be too soon to assess whether requirements developed from those in RPG 1 should be mandatory.

Do you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, and if so, how?

If you think the IPSASB should undertake further work on reporting on long-term fiscal sustainability, what additional new developments or perspectives, if any, have emerged in your environment which you believe would be relevant to the IPSASB's assessment of what work is required?

PSASB's Responses to Exposure Draft 63 on Social Benefits

IPSASB should undertake further work on reporting on long-term fiscal sustainability in order to assess convergence of issues for a mandatory standard to be developed. This will enhance the use of prospective information derived from GPFs for decision making process.

In addition to increased debt within our jurisdiction, there are significant engagements on Public Private Partnerships (PPPs). Information on long- term fiscal sustainability of the PPP projects will enhance the Government's assessment of these projects' sustainability, its ability to settle the obligations that arise from these projects and its risk exposure while taking on new projects.