Republic of Kenya

PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

Ref: PSASB 1/2 Vol. II (50) **Date: 1st August 2022**

Ross Smith
Program and Technical Director
International Public sector accounting standards Board
International Federation of Accountants
277 wellington Street West
Toronto
Ontario M5V3H2
CANADA

Dear Ross,

EXPOSURE DRAFTS 82: RETIREMENT BENEFIT PLANS

The Public Sector Accounting Standards Board, Kenya is pleased to submit its comments on ED 82: Retirement Benefit Plans. The Board welcomes the IPSASB for providing accounting, presentation and disclosure requirements of Retirement Benefit Plans for entities under the IPSAS Reporting environment. This is geared towards increasing transparency and accountability of public sector entities regarding obligations owed to employees and other eligible participants who are members of the retirement benefit plans.

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 has provided comments on the Specific Matters for Comment in the Appendix to this letter.

Yours Sincerely,

FCPA FREDRICK RIAGA
CHIEF EXECUTIVE OFFICER

Republic of Kenya

PSASB
PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (KENYA)

Responses to Exposure Draft 82: Retirement Benefit Plans

The Public Sector Accounting Standards Board-Kenya has provided comments on the specific matters for comment as below:

Specific Matter for Comment 1 – Paragraph 9 (see paragraphs BC10–BC13)
This Exposure Draft (ED) proposes amending the IAS 26 definition of 'defined benefit plans' to include all retirement benefit plans that are not defined contribution plans. The definition proposed for a defined benefit plan is consistent with IPSAS 39, Employee Benefits as follows: 'Defined benefit plans are retirement benefit plans other than defined contribution plans. Do you agree with this proposal? If not, why not?

Yes: We agree with the proposal based on the reasoning provided in Paragraphs BC 10-BC 13. Some Public Sector Entities operate defined benefit plans and the amendment of the definition as provided in IAS 26 is welcome to include these retirement plans that may not be necessarily popular in the private sector that applies the IFRSs.

Specific Matter for Comment 2 – Paragraph 9 (see paragraph BC14)
This ED proposes to retain the IAS 26 definition for 'actuarial present value of promised retirement benefits' as it addresses the plan perspective rather than to use the IPSAS 39 definition for 'present value of a defined benefit obligation'. Do you agree with this proposal? If not, why not?

Yes: We agree with the proposal of paragraph 9 and BC14 as the Actuarial present value of the promised retirement benefits, addresses plan perspective rather IPSAS 39 definition for present value obligation which seems to attach plan assets.

Specific Matter for Comment 3 – Paragraph 10 (see paragraph BC15)
This ED proposes that for defined benefit plans the actuarial present value of promised retirement benefits be recognized and presented on the face of the statement of financial position as a provision for that obligation. This removes two options in IAS 26 which permit the actuarial present value of promised retirement benefits to be only disclosed in the notes to the financial statements or in a separate actuarial report. Do you agree with this proposal? If not, why not?

Yes: We agree with proposal and reasoning as set out in paragraphs 10 and BC15 and the presentation of actuarial present value of promised retirement benefits be recognized as a provision in the statement of financial position. It has been noted that pension arising from retirement benefit plans managed by some government entities result in significant liabilities for these entities. By presenting this information in the statement of financial position, users of the financial statements can understand the impact of these plans on the current and future cash requirements of the entities.

Specific Matter for Comment 4 – Paragraph 11 (see paragraph BC16)
IAS 26 does not specify whether or where the retirement benefit obligations for defined contribution plans should be recognized and presented. To achieve the objective of increased transparency and accountability, this ED proposes that defined contribution obligations should be recognized and presented on the face of the statement of financial position. Do you agree with this proposal? If not, why not?

Yes: We agree with the position of IPSASB on the recognition and presentation of retirement benefits contributions in the statement of financial position.

Specific Matter for Comment 5 – Paragraph 12 (see paragraph BC19)
IAS 26 allows plan assets to be valued at amounts other than fair value. This ED proposes that plan investments should be measured at fair value. Do you agree with this proposal? If not, why not?

Yes: we agree with no further comments.

Specific Matter for Comment 6 – Paragraph 13 (see paragraph BC17)
IAS 26 allows the actuarial present value of promised retirement benefits to be calculated using either current or projected salaries. This ED proposes that only projected salaries should be used. Do you agree with this proposal? If not, why not?

Yes: we agree based on the reasoning provided on paragraph BC17 which provides that using current salaries has the potential of understating the actuarial present value of the promised retirement benefits. The objective to increase transparency and accountability of retirement benefit plans will also be enhanced by using projected salaries to calculate actuarial present value of promised retirement benefits instead of current salaries.

Specific Matter for Comment 7 – Paragraphs 15(c) and 19 (see paragraph BC23)
This ED proposes that a retirement benefit plan be required to prepare a cash flow statement whereas IAS 26 is silent on this. This ED also proposes the cash flow statement be prepared using the direct method. Do you agree with this proposal? If not, why not?

PSASB agrees that a cash flow statement should be prepared as it forms part of the primary statements for general purpose financial statements. We also agree with the conclusions given on use of the direct method of cashflow preparation without giving an option for the use of the indirect method.

Specific Matter for Comment 8 – Paragraph 27 (see paragraph BC24)
This ED proposes prospective application of the requirements of the Standard which would require an opening and closing statement of financial position in accordance with the Standard but no comparative figures in other financial statements. Do you agree with this proposal? If not, why not?

PSASB agrees with the prospective application of the requirements of the Standard. This will not only provide relevant information for sooner but will also promote application of the standard.

Specific Matter for Comment 9– Paragraphs BC20-BC21 and Implementation Guidance

Public sector retirement benefit plans are structured and/or regulated in many ways and jurisdiction-specific requirements on how to account for contributions and benefits may vary. As a result, this ED proposes not to require contributions or benefits to be accounted for as any specific element in the financial statements, which is aligned with the approach taken in IAS 26. Instead, Implementation Guidance and Illustrative Examples are provided to demonstrate different accounting presentation depending on how the contributions and benefits are viewed.

Do you agree with this proposal? If not, why not?

Yes: We agree as retirement benefit plans and contributions are unique elements in the financial statements. The illustrative examples given offer adequate guidance to the preparers of financial statements for Retirement Benefit Plans.