



Republic of Kenya



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
277 Wellington Street West
Toronto
Ontario M5V3H2
CANADA

Dear *Ross Smith*

EXPOSURE DRAFT 92 ON TANGIBLE NATURAL RESOURCES.

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 developing and managing accounting and financial systems by all State organs and public entities.

We thank the IPSASB for publishing the ED 92 Tangible Natural Resources, which will guide the recognition, measurement, and presentation of tangible natural resources in general-purpose financial statements.

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

Yours *Sincerely*

CPA GEORGINA MUCHAI
Aq. CHIEF EXECUTIVE OFFICER

Responses to Exposure Draft 92: Tangible Natural Resources

The objective of this ED is to propose guidance on the recognition, measurement, and presentation of tangible natural resources in general-purpose financial statements.

Specific Matter for Comment 1

This Exposure Draft is broadly applicable to all tangible natural resources which are not within the scope of any other existing IPSAS. Do you agree with the proposed scope?

If not, what alternative scoping approach would you propose and why?

PSASB Kenya agrees with the proposed scope.

PSASB Kenya however proposes enhancement of the scope to cater for tangible natural resources that may transition from other Standards.

An example is where in Kenya, East Africa, farmers, upon certification and licensing, are allowed to farm specific wild animal species which are becoming extinct e.g. the wild goats of South Island in Lake Turkana. When such animals mature and return to their natural habitat, there should be guidance on being transferred from IPSAS 27 to this standard.

Specific Matter for Comment 2

This Exposure Draft defines a natural resource as an item which is naturally occurring and embodies service potential, the capability to generate economic benefits, or both, and a tangible natural resource as a natural resource with physical substance.

Do you agree with the proposed definitions? If not, why not?

PSASB agrees with the proposed definition of natural resources and tangible natural resources.

Specific Matter for Comment 3

This Exposure Draft includes a rebuttable presumption that the tangible natural resources recognized within the scope of this draft Standard have indefinite useful lives on the basis that they are generally not used or consumed in the same manner as tangible assets within the scope of other IPSAS. Therefore, these tangible natural resources are not depreciated.

Do you agree with the proposed rebuttable presumption that tangible natural resources should not be depreciated?

PSASB Kenya agrees with the rebuttable presumption that tangible natural resources should not be depreciated. However, we propose that the standard should allow for impairment to cater to the effects of degradation of natural resources, for example, a lake that gradually dries out and shrinks, leading to a loss in the value of the economic benefits generated by the lake.

For instance, Lake Kenyatta in Lamu, Kenya, East Africa, dried out during an extended drought. Interventions were made to sustain wildlife dependent on the lake, but after prolonged rain, the lake returned to its previous levels.

Specific Matter for Comment 4

This Exposure Draft exempts an entity from disclosing certain information which may lead to further degradation of tangible natural resources which are rare or endangered.

Do you agree with the proposed disclosure exemption? If not, why not?

PSASB agrees with this disclosure exemption as it helps in ensuring endangered species don't become extinct through human activities like poaching.

Specific Matter for Comment 5

This Exposure Draft includes cross-references to the guidance in IPSAS 45 on the determination of cost in an exchange transaction and the disclosure requirements for current value. This guidance was incorporated by cross-reference as the acquisition of tangible natural resources is expected to be rare in the public sector, and there is familiarity with the principles on the determination of cost, which are consistent with those found in IPSAS 45.

Do you agree that these cross-references are sufficiently clear? If not, how should the above guidance be incorporated into the Final Standard?

PSASB agrees with the cross references to IPSAS 45 as acquisition of tangible natural resources is expected to be rare in the public sector. The determination of cost in an exchange transaction and the disclosure requirements for current value in IPSAS 45 are sufficient for use in this Standard.

Specific Matter for Comment 6

This Exposure Draft allows the application of its requirements on a modified retrospective approach, by recognizing tangible natural resources which meet the recognition criteria on the date of initial application of the draft Standard at their deemed cost, or on a full retrospective basis in accordance with IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors.

Do you agree that the option to apply the proposed guidance on a modified retrospective basis will result in useful information? If not, why not?

We are in agreement that the option to apply the proposed guidance on a modified retrospective basis will result in useful information. Transition in retrospective basis considers effects of a transitioned tangible natural resource on the accumulated surplus/deficit of an entity, for the period over which the

entity had been holding the resource, though not having recognized it in the books.

Specific Matter for Comment 7

The IPSASB proposes to amend the description of 'heritage asset' in IPSAS 45 so that heritage assets which are also tangible natural resources are accounted for within the scope of this draft Standard.

Do you agree with the proposed amendment? If not, why not?

PSASB agrees on the amendment to the description of 'heritage asset' in IPSAS 45 so that heritage assets which are also tangible natural resources are accounted for within the scope of this draft Standard. This will ensure that all tangible natural resources, both held for heritage and other uses are all accounted for in the same standard.

Examples of tangible natural resources that are heritage assets in Kenya, East Africa is the Kikuyu Springs in Kenya, East Africa, where access is restricted so as to preserve the Agikuyu culture, and The Kaya Natural Forest in the Coast of Kenya to preserve the Mijikenda Culture, where even tourists are only allowed to view from a distance without entry into the forest.

Specific Matter for Comment 8

The non-authoritative guidance in this draft Standard was developed for topics that are potentially complex and difficult to apply in practice are areas of concern for constituents or where additional non-authoritative guidance could be useful.

Do you agree that the proposed implementation guidance and illustrative examples are sufficient? If not, what other topics would be helpful and why?

PSASB proposes additional application guidance and illustrative examples to include conserving tangible natural resources, which involves human interventions like veterinary activities, e.g., treatment and security programs to restrict access and conserve natural resources.

Other proposals:

- Some natural resources can be measured as a whole rather than a sum of individual parts. For example, the standard can measure an ecosystem rather than individual animals and plants within the ecosystem. Provide more guidance on the unit of account.
- Some activities, such as veterinary interventions for wild animals, should be allowable under this standard. Conservation efforts should not be considered human intervention.