



25 May 2022

BOTSWANA INSTITUTE OF CHARTERED ACCOUNTANTS COMMENT LETTER TO EXPOSURE DRAFT 81 – CONCEPTUAL FRAMEWORK UPDATE: CHAPTER 3, QUALITATIVE CHARACTERISTICS AND CHAPTER 5, ELEMENTS IN FINANCIAL STATEMENTS

Introduction

The Botswana Institute of Chartered Accountants (“BICA”) is a statutory body established by Accountants Act, 2010 for the regulation of the accountancy profession in Botswana. The BICA mission is to protect public interest through promoting the accountancy profession, supporting accountants, facilitating quality professional accountancy services through the monitoring and regulation of professional accountants.

The Institute appreciates the opportunity to contribute towards IPSASB’s Exposure Draft 81 – *Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements*. We provide our comments to each specific question as per the exposure draft.

Should you wish to have further engagements please do not hesitate to contact the undersigned.

Yours Faithfully

Signed electronically

Mosireletsi M Mogotlhwane ACA

Manager –

Technical and Public Sector

Accounting Services

Signed electronically

Edmund Bayen

Director -

Technical and Public Sector

Accounting Services

RESPONSES TO SPECIFIC QUESTIONS

Specific Matter for Comment 1

In paragraphs 3.14A and 3.14B, the IPSASB has provided guidance on the role of prudence in supporting neutrality, in the context of the qualitative characteristic of faithful representation. Paragraphs BC3.17A- BC3.17E explain the reasons for this guidance. Do you agree with this approach?

If not, why not? How would you modify these paragraphs?

Response

We support the approach taken by IPSASB by concluding that there is very little value addition that will be derived by elevating prudence to a qualitative characteristic within the Conceptual Framework and providing guidelines on the role of prudence to the concept of neutrality and faithful representation better clarity would have been achieved.

Specific Matter for Comment 2:

In discussing materiality in paragraph 3.32 the IPSASB has added obscuring information to misstating or omitting information as factors relevant to materiality judgments. The reasons for this addition are in paragraphs BC3.32A and BC3.32B.

Do you agree with the addition of obscuring information to factors relevant to materiality judgments? If not, why not?

Response

Voluminous disclosures may be used to obscure information that would otherwise influence a user of GFRs, we are of the opinion that IPSASB took a proper decision to include the phrase 'obscuring information' to factors relevant to materiality judgments.

Specific Matter for Comment 3

Paragraphs 5.7A-5.7G reflect a rights-based approach to the description of resources in the context of an asset. The reasons for this approach are in paragraphs BC5.3A-BC5.3F.

Do you agree with this proposed change? If not, why not?

Response

We are in agreement with the proposed changes as suggested by the IPSASB.

The IASB in its 2018 Conceptual Framework took the view that 'ownership of a physical object arose due to rights conferred by law' and therefore whether these rights were conferred through full legal ownership or by a contract for use of an object during its useful life, they all were rights of one kind or another. The IASB therefore deemed both rights as a resource thus the reason the Right of Use in leases is deemed a resource.

On the converse, the IPSASB 2014 Conceptual Framework distinguished between service potential and the capability to generate economic benefits that arose directly from legal ownership of the resource and one that arose from other rights to use the resource.

While the IPSASB was of the view that physical ownership gave rise to a specific type of control and should conceptually be reflected, it also acknowledged that a conceptual approach that led to underlying assets not being recognized risked not meeting the qualitative characteristic of understandability.

Specific Matter for Comment 4

The revised definition of a liability is in paragraph 5.14:

A present obligation of the entity to transfer resources as a result of past events.

The reasons for the revised definition are in paragraphs 5.18A-5.18H.

Do you agree with the revised definition? If you do not agree with the revised definition, what definition do you support and why?

Response

The IASB revised its definition for a liability to “A present obligation of the entity to transfer an economic resource as a result of past events.”

Prior to the current proposed revision both the IASB and IPSASB had almost similar definitions with the only differences being

- a) IASB used the term “economic resource” while the IPSASB used the term “resource”
- b) IASB used the term “past events” (plural) while the IPSASB used the term “past event” (singular)
- c) IASB used the term “outflow of resources” while the IPSASB used the term “outflow of resources”

The proposed change aims to align the definitions with the only exception being the use of the term “economic resources” by IASB and “resources” by IPSASB. IPSASB has maintained the use of the term “resources” as a way to eliminate the confusions that may be created due to the use of the term “economic benefits” in the definition of a resource thereby affecting the recognition threshold.

IPSAS 23 – Revenue from non-exchange transactions (taxes and transfers) defines “Transfers” as inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. In using the term “transfers” in the proposed change, IPSASB noted the inconsistency it would create at the standard level but acknowledged that such inconsistencies could be mitigated by provision of additional guidance and a new definition at the standards level.

The change to the term “past events” is seen to better convey the concept that present obligations that give rise to liabilities can accumulate over time due to an initial past event and further past events.

We therefore concur with IPSASB on the proposed change in the definitions.

Specific Matter for Comment 5

The IPSASB has included guidance on the transfer of resources in paragraphs 5.16A-5.16F of the section on Liabilities. The reasons for including this guidance are in paragraphs BC5.19A-BC5.19D.

Do you agree with this guidance? If not, how would you modify it?

Response

In the 2014 Conceptual Framework a liability was defined as "a present obligation of the entity for an outflow of resources that results from a past event". With this definition, it therefore implied that a liability would only exist if it involved an outflow of resources from the entity.

Concerns were raised over the uncertainties on what constituted an outflow of resources from the entity during the review of ED 71 - Revenue without Performance Obligations. It should be noted that the ability of a public sector entity to extinguish or reduce a present obligation by methods other than fulfillment does not mean that an entity has a realistic alternative of avoiding a transfer of resources and therefore a rationale for non-recognition of a present obligation as a liability, which otherwise meets recognition criteria.

We therefore, agree with IPSASB’s decision to include the guideline in view of the clarity that it will provide to preparers of GPFs when determining whether to recognize or not recognize a liability.

Specific Matter for Comment 6

In addition to including guidance on the transfer of resources, the IPSASB has restructured the guidance on liabilities so that it aligns better with the revised definition of a liability. This guidance is in paragraphs 5.14A-5.17D. Paragraph BC5.18H explains the reasons for this restructuring.

Do you agree with this restructuring? If not, how would you modify it?

Response

We are of the opinion that the decision by IPSASB to undertake the restructuring is not only plausible but that it also makes it easy for the preparers of GPFs to effectively use the materials to make decisions.

Specific Matter for Comment 7

The IPSASB has added a section of Unit of Account in paragraphs 5.26A-5.26J. The reasons for proposing this section are in paragraphs BC5.36A-BC5.36C.

Do you agree with the addition of a section on Unit of Account and its content? If not, how would you modify it and why?

Response

The addition of this section will not only create a more standardized way of reporting, but it will also lead to a more consistent way of reporting.

Specific Matter for Comment 8

The IPSASB took the view that guidance on accounting principles for binding arrangements that are equally unperformed should be included in the Conceptual Framework, but that a separate section on accounting principles for such binding arrangements is unnecessary. These principles are included in paragraphs 5.26G-5.26H of the section on Unit of Account. The explanation is at paragraphs BC5.36D-BC5.36F.

Do you agree that:

(a) Guidance on principles for binding arrangements that are equally unperformed is necessary; and if so

(b) Such guidance should be included in the Unit of Account section, rather than in a separate section?

If you do not agree, please give your reasons.

Response

In view of the foregoing, we concur with IPSASB's decision to provide guidance on principles for binding arrangements that are equally unperformed.

It is also our considered opinion that while a separate section may not be necessary it would however place emphasis on the content if a sub-heading "Binding arrangements that are equally unperformed" was placed between paragraphs 5.26F and 5.26G as is the case with the Basis of Conclusion where a similar paragraph exists between paragraphs BC5.36C and BC5.36D.