



30 November 2021

BOTSWANA INSTITUTE OF CHARTERED ACCOUNTANTS COMMENT LETTER TO IPSASB MID-PERIOD WORK PROGRAM CONSULTATION

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.

We welcome the opportunity to comment on the Mid-Period Work Program Consultation paper issued on July 2021 which seeks our input in determining what is most important to us in delivering the IPASAB 2019-2023 Strategy. We believe that our input into this process will help the IPSASB to make its final decisions on the projects that should be added to its Work Program when resources become available.

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

Question 1

Do you agree with the major projects proposed by the IPSASB?

If not, which major project(s) would you substitute for those proposed, and why?

Major Project Proposals 1: Presentation of Financial Statements

We agree with the inclusion of the revision of Presentation of Financial Statements as one of the major projects proposed by the IPSASB.

As more and more jurisdictions race to embrace accrual accounting, the way and manner financial information is presented to its users is more than ever becoming important in making the information useful.

We support any early attempt to review the overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

It is our candid opinion that a Theme A project that enhances presentation would help all public sector entities communicate their financial narrative better for accountability purposes and to the decision makers that evaluate this information.

IFAC and CIPFA status report (2021) revealed that a good number of governments across the globe are likely to implement IPSAS by 2025.

We have reviewed this proposed project and how it became a priority and evaluated against the two factors for project selection:

- Strategy and Work Plan 2019-2023 criteria for project prioritization; and
- Availability of resources.

In arriving at our opinion we assessed and agreed that this project would provide the greatest public interest benefits to users and is consistent with IPSASB 2019-2023 Strategy

We also agreed that financial reporting issue is widespread globally amongst public sector entities and if not well addressed will impair the ability of the financial statements to provide useful information for accountability and decision making.

Again, as momentum builds across jurisdictions to implement IPSAS, the urgency to review Presentation of Financial Statements has recently gained prominence and therefore requires urgent consideration.

As resources become available as indicated by IPSASB, we agree that a technically sound solution to the issue can be developed within a reasonable time period and current resource constraints without impacting adversely on the completion of other projects.

Major Project Proposals 2: Differential Reporting

We support the inclusion of differential reporting as a major project item in the Mid-Period Work Program consultation.

Our opinion is premised on the grounds that there appears to be a continuing shift from cash to accrual-accounting in the immediate future and that IPSAS usage and influence is increasing. This sentiment is also echoed by the recently published International Public Financial Accountability Index 2021 Status Report.

When we consider Cost and benefits analysis as one of the criteria in adopting IPSAS, we are with the opinion that for less complex public sector entities, the costs of implementing IPSAS-compliant financial reporting may outweigh the benefits received by the users unless some form of relief from the full requirements of the accrual-basis IPSAS is provided.

We therefore believe that a rethink on complexity, understandability, scalability and proportionality across the suite of IPSAS through the development of prescribed principles and guidelines is not only considering appropriate but also timely looking at the pace many jurisdictions are moving to embrace IPSAS

The inclusion of this project at this time would enable IPSASB to explore the characteristics of less complex public sector entities and the appropriate financial reporting approaches and guidance that could be applied by less complex public sector entities.

Again, a differential reporting project could support a broader range of public sector entities applying IPSAS and could provide a base level of comparability between all entities applying either form of IPSAS, thereby supporting delivery of Promoting IPSAS adoption and implementation mandate of IPSASB

Furthermore, a differential reporting project would enable a more consistent and effective use of the IPSAS through a focus on how the IPSAS are written and presented and encourage, among other principles, the use of clear, plain language, avoiding duplication, repetition of requirements and cross-referencing where unnecessary

It is our humble submission that a differential reporting at this point is very crucial and would enable IPSASB to focus on the documentation requirements in the IPSAS, and determining what more can be done to assist with effective implementation of these requirements.

Question 2

Do you agree with the minor projects proposed by the IPSASB?

If not, which minor project(s) would you substitute for those proposed, and why?

Minor Project Proposals

Having critically examined the four 'minor' projects involving updates to existing IPSASB pronouncements, or IASB alignment projects, We agreed that three of the minor projects (IPSAS 21, Impairment of Non-Cash Generating Assets, IPSAS 31, Intangible and Making Materiality Judgement) merit their place on the Minor Project Proposals list but disagree on inclusion of IPSAS 33, First Time Adoption of Accrual Basis IPSASs as a minor project and would rather call for its inclusion in the list of major projects.

Minor Project Proposal 1: IPSAS 21, Impairment of Non-Cash Generating Assets Minor Project,

We agreed that this project be placed under minor projects. A limited-scope project in this area will help address the inconsistency in definition of value in use between IPSAS 21 and IPSAS 26 which is currently being considered in the Measurement Project.

We do understand enormous challenges that public sector entities face when testing for impairment of assets held for public sector specific purposes and therefore enhancing this public sector specific guidance to clarify its application in practice will provide significant benefits for both preparers and users of financial statements.

We support IPSASB's assertion that the Measurement Project was not the appropriate place to address the inconsistency and that clarification in limited scope project of the standard will be appropriate.

Minor Project Proposal 2: IPSAS 31, Intangible Assets

We agreed that this project be placed under minor projects as it satisfies all the project prioritization criteria.

A limited-scope project in this area will help shed more light on:

- (a) Measurement principles developed as part of ED 77, *Measurement*;
- (b) Heritage principles developed as part of ED 78, *Property, Plant, and Equipment*; and
- (c) Changes to principles resulting from the ongoing natural resources project.

Our review of IPSASB's ongoing projects have identified public sector specific amendments that are likely to be necessary to IPSAS 31 following their completion

We strongly believe that by taking forward a Theme A minor update project in this area will provide relevant requirements for the recognition and measurement of some public sector specific intangible items

Minor Project Proposal 3: Making Materiality Judgements

The concept of material has been bandied around in the accountancy circles for some time now and lack of consensus and clarity on this principle has created the urgency to look at it again.

More often than not, practitioners use judgement to decide what information to include in financial statements and users of financial information have tended to place more reliance on it.

However, lack of clarity has created disclosure problem with many public sector entities providing too much irrelevant information and not enough relevant information in their financial statements.

We do affirm our stand that whenever possible IPSASB should try and align its projects with that of IASB's and therefore we believe it is a step in the right direction for IPSASB to align with IASB Practice Statement, *Making Materiality Judgements*, to address this issue.

It is our candid opinion that using this as a basis as part of a minor Theme B project would allow the IPSASB to address this challenge efficiently, and provide public sector users with important new practical support.

Also with more jurisdictions, with little experience applying IPSAS and moving to accrual accounting, disclosure overload is increasingly becoming a significant issue and consider IPSASB's attempt to align with IFRS guidance as a feasible solution

Minor Project Proposal 4: IPSAS 33, First Time Adoption of Accrual Basis IPSASs as a major project

It is widely understood that IPSAS 33 provides practical guidance based on worldwide experience to public sector accounting practitioners, who intend to implement accrual basis IPSAS1 directly or indirectly for the first time.

Many Jurisdictions and public sector entities around the world are in some form encouraged to adopt IPSAS without altering any of their requirements, applying IPSAS 33 *First-time Adoption of Accrual Basis IPSAS*, which was issued by the IPSAS Board (IPSASB) in January 2015.

It should therefore be acknowledged that even though there still remain challenges, in practice many jurisdictions decide to implement IPSAS through a national endorsement process, adjusting for any specific jurisdictional features.

This is however not the situation IPSAS 33 advocates, the use of IPSAS 33 still remains relevant and helpful in such cases.

It is also undoubtedly evident that IPSAS 33 covers many complex accounting policy decisions for public sector entities on their initial application of IPSAS although entities will use IPSAS 33 once. There is no doubt that this can shape their experience long after this has happened.

Furthermore, IPSAS 33 distinguishes between a preparation phase, which can take as long as needed and precedes the adoption of IPSAS 33, and a transitional period following the adoption of IPSAS 33, which may not exceed three years.

We agree with the widely held notion that IPSAS 33 is designed for a phased rather than a “big-bang” approach to IPSAS implementation.

It should be noted that when a first-time adopter takes advantage of the exemptions that affect the fair presentation of the financial statements and its ability to assert compliance with accrual basis IPSAS, it will not be able to make an explicit and unreserved statement of compliance with the IPSAS framework as a whole during the period of transition.

A review of experiences by early adopters’ of IPSAS revealed that most of the jurisdictions and other public sector entities prefer a phased implementation approach that enables them to adopt a more flexible implementation timeline and distribute the impact of the reform over a longer period of time.

Our jurisdiction’s experience has shown clearly that implementing accrual based IPSAS is a long and arduous process.

It is worthy pointing out that, while IPSAS 33 significantly lessens the burden for entities adopting accrual basis IPSAS for the first time, placing it under a major project and giving it more attention and comprehensively reforming it will go a long way to ensure successful implementation of accrual accounting.

We therefore conclude that some challenges and inconsistencies have been identified in its application, and with more jurisdictions adopting accrual-basis IPSAS, addressing the problems identified through a major Theme A project is important for both the IPSASB and potential IPSAS adopters and would support delivery of Theme D.