

27 May 2022

International Public Sector Accounting Standards Board  
277 Wellington Street West  
Toronto, ON M5V 3H2  
Canada

Dear Sir/Madam

**BAOA SUBMISSION ON IPSASB'S EXPOSURE DRAFT 81: CONCEPTUAL FRAMEWORK UPDATE:  
CHAPTER 3, QUALITATIVE CHARACTERISTICS AND CHAPTER 5, ELEMENTS IN FINANCIAL  
STATEMENTS**

The Botswana Accountancy Oversight Authority (BAOA) takes this opportunity to comment on the IPSASB's Exposure Draft: Conceptual Framework Update: Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements.

Please refer to the Appendix to this letter to see our comments on the questions raised in this Request for Information.

If you would like to discuss our comments in detail kindly e-mail us at [dmajinda@baoa.org.bw](mailto:dmajinda@baoa.org.bw) or phone directly on +267 3919735.

Yours faithfully,



Duncan Dankie Majinda  
Chief Executive Officer

## Appendix

### **SPECIFIC MATTER FOR COMMENT 1: PRUDENCE**

**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 BC3.17 A- BC 3.17E explains the reasons for this guidance. Do you agree with this approach?**

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

#### Response

Qualitative aspects are important in applying the prudence concept as they would help in cases where judgments have to be made in exercising faithful representation of information. However, these are already addressed in the 2014 Conceptual Framework, with the removal of prudence as an accounting principle, and the fact that IPSASB has returned to it suggests that there still remain those who feel that public sector accounting should apply bias for purposes of prudence. To this extent the two additional paragraphs (3.14 and 3.14B) may provide useful clarification, although otherwise they appear to be already adequately addressed under the Conceptual Framework's definition of Faithful Representation.

### **SPECIFIC MATTER FOR COMMENT 2: OBSCURING INFORMATION AS A FACTOR RELEVANT TO MATERIALITY JUDGEMENTS**

**In discussing materiality in paragraphs 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 paragraph BC3.32A and BC 3.32B.**

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

#### Response

The Authority agrees with the inclusion of obscuring Information as a Factor Relevant to Materiality judgements. This appears to be a useful expansion to the concept of materiality as the inclusion of immaterial disclosures can have a negative impact on users, Entities should avoid disclosures of immaterial information and focus on disclosing only material information that is relevant to the users of the financial statements and does not obscure key and relevant disclosures.

## **SPECIFIC MATTER FOR COMMENT 3-RIGHTS – BASED APPROACH TO A RESOURCE**

**Paragraph 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

- a) The Authority agrees with the proposed change of a rights-based approach as it does not only consider the normal circumstances that result with an asset as per paragraph 5.7B but goes on further to give examples of other ways an entity might also obtain rights for example creating a know-how that is not in the public domain. In addition, highlighting examples of conditions which result in an entity's rights being recognised as an asset - 5.7D also would assist users.
- b) The ED's reference to past events seems useful. In theory some issues could arise from incremental transfers of resources which may lead to misrecognition.
- c) However, the change to a rights-based approach is very complex to interpret, particularly where it defines a specific right as equating to an asset, and while the logic appears sound, one wonders about how practical it will be for these concepts to be applied in day-to-day accounting, particularly for non-current and non-financial assets such as Property, Plant and Equipment (PPE). A concern may be reasonably raised in respect of Understandability, where viewing an asset as a set of rights (that is, right to use, sell, lease or pledge) may create a view where each right is viewed as a separate asset, which may change the unit of account.

## **SPECIFIC MATTER FOR COMMENT 4: DEFINITION OF A LIABILITY**

**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 5.18 A- 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

Agree. This appears to be a reasonable clarification and improvement in consistency for the guidance on liabilities.

## **SPECIFIC MATTER FOR COMMENT 5: GUIDANCE ON THE TRANSFER OF RESOURCES**

**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

- a) The Authority agrees with the proposed guidance on the transfer of resources. A transfer of resources from one party to the other should happen if there is a present obligation to do so arising from the occurrence of specified uncertain future events. Examples of obligations to transfer resources include obligations for one entity to pay cash to the other and obligations for an entity to provide goods and services. The guidance and examples given are clear for users and preparers of financial statements to understand the concept for transferring resources from one party to the other.
- b) The expansion of the definition of liabilities to include potential liabilities should explicitly reference contingent liabilities as defined in IPSAS 19. Given the importance of contingent liabilities under (Government Finance Statistics Manual (GFSM 2014), and the ongoing commitment to align IPSAS with GFSM, it would be helpful for practitioners to have guidance on the proper classification of liabilities and contingent liabilities in the ED.

## **SPECIFIC MATTER FOR COMMENT 6: REVISED STRUCTURE OF GUIDANCE ON LIABILITIES**

**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. Paragraphs BC5.18H explains the reasons for this restructuring.**

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

Response

- a) Given the concern noted above, about lack of clarity in defining potential liabilities as opposed to contingent liabilities, we would agree with the guidance of the liability to be aligned with the revised definition of a liability provided that the issues highlighted in the comment above are addressed.

## **SPECIFIC MATTER FOR COMMENT 7: UNIT OF ACCOUNT**

**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 of unit of Account and its content? If not, how would you modify it and why?**

## Response

- a) It is noted that the examples provided throughout the Exposure Draft refer to binding arrangements, and it is appreciated that the recent changes introduced to IPSAS in respect of these arrangements have given rise to the need to clarify many issues. However, Governments also need to apply these requirements to PPE (and elsewhere) and some examples of their application in other contexts may be helpful.
- b) As with the introduction of rights as the basis for recognition of assets, the concept of a single unit of account changing from asset to liability based on an underlying performance agreement with a third party appears difficult to understand and to apply. Again, it is hard to see how this complexity contributes to the Understandability of the financial statements in respect of core resources such as PPE. However much it may support the Faithful Representation of complicated arrangements between Governments and third parties, in Public Private Partnerships (PPP) or service concession agreements.
- c) A review of material online relating to the IASB, from which IPSASB has adopted this concept, indicates that the Unit of Account is usefully applied to financial assets and contractual arrangements and is not necessarily applied to fixed assets. An example noted which is not specific to financial assets is during assessment of goodwill impairment, when the Unit of Account is the reporting entity, rather than any specific component of its balance sheet. In this context the Unit of Account appears to be much more helpful, and it is unclear why the ED does not specify how this concept should be applied.

## **SPECIFIC MATTER FOR COMMENT 8: ACCOUNTING PRINCIPLES FOR BINDING ARRANGEMENTS THAT ARE EQUALLY UNPERFORMED**

**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

The Authority agrees that guidance on binding arrangements that are equally unperformed should be included in the Conceptual Framework. The Conceptual

Framework should include a separate section, providing examples and clarity of how these principles could be applied rather including it under the Unit of Account.

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