



IFRS Foundation

Columbus Building, 7 Westferry Circus

Canary Wharf, London E14 4HD

United Kingdom

25 October 2021

Dear Sir/Madam,

Chartered Accountants Academy (CAA) and Training and Advisory Services (TAS) Submission - Commentary on Exposure Draft 78 – Property, Plant and Equipment issued by the International Public Sector Accounting Standards.

In response to your request for comments on Exposure Draft 78 – Property, Plant and Equipment issued by the International Public Sector Accounting Standards., attached is the comment letter prepared by Chartered Accountants Academy and Training & Advisory Services. The comment letter is a result of deliberations of members of CAA and TAS which comprises chartered accountants who have experience in auditing, IFRS specialists and academics.

We are grateful for the opportunity to provide our comments on this project.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

CAA

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Our comments are as follows:

We feel the opening of ED 78 gives more clarity and better guidance on measurement options when accounting for assets within its scope, especially identifying the characteristics of heritage and infrastructure assets, and proposing new guidance on how these important types of public sector assets should be recognized and measured. This results in financial statements in public sector becoming more standardised as there is a guiding principal of measurement for assets that were previously too controversial to recognise. Our responses to the specific matters for comment are as below:

Specific Matters for comment

Specific Matter for Comment 1 -Proposed Restructuring

Draft] IPSAS [X] (ED 78), Property, Plant, and Equipment proposes improvements to the existing requirements in IPSAS 17, Property, Plant, and Equipment by relocating generic measurement guidance to [draft] IPSAS [X] (ED 77), Measurement; relocating guidance that supports the core principles in this Exposure Draft to the application guidance; and adding guidance for accounting for heritage assets and infrastructure assets that are within the scope of the Exposure Draft.

Do you agree with the proposed restructuring of IPSAS 17 within [draft] IPSAS [X] (ED 78)? If not, what changes do you consider to be necessary and why?

Specific Matter for Comment 1 – Response

- Agreed since the relocating guidance result in fair measurement of heritage assets as they have different characteristics with other assets like property plant and equipment .

Specific Matter for comment 2 – (paragraph 29 – 30)

Do you agree that when an entity chooses the current value model as its accounting policy for a class of property, plant, and equipment, it should have the option of measuring that class of assets either at current operational value or fair value? If not, please provide your reasons, stating clearly which current value measurement basis would best address the needs of the users of the financial information, and why?

Specific Matter for comment 2 – Response

- *Agreed. Use of current operational value method for recognition gives a more realistic financial position of an entity making this adjustment more welcome but it fluctuates more frequently and might be difficult to have a more constant figure as compared to the fair value measurement since there are different methods used to calculate.*

- *There is need for consistency in the adopted measurement basis to avoid changing from one method to the other year after year which may affect the reliability of the information being disclosed to stakeholders.*
- *There is also need to consider difficulties brought in by natural disasters/pandemics like covid in value determination.*
- *Current operational value signifies the value at which an asset can be sold or settled for at that measurement date therefore it would be more accurate to remeasure the current value at each reporting date because removing any subsequent accumulated depreciation might results in a distorted current value.*

We would suggest that the draft allows for depreciation on historical method only and not for current value method.

Specific Matter for Comment 3 (paragraph AG3)

Are there any additional characteristics of heritage assets (other than those noted in paragraph AG3) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice? Please provide your reasons, stating clearly what further characteristics present complexities when accounting for heritage assets, and why?

Specific Matter for Comment 3 - Response

- *The use of specific characteristic to identify heritage assets (irreplaceable, having restrictions with a long/ indefinite useful life) gives better guidance and clarity on what constitutes a heritage asset with regards to the standard.*
- *We recommend that some examples of what constitute a heritage asset be provided for clarity and guidance purposes.*
- *We strongly feel that the recognition criteria specific for heritage assets might have to be broadened to include*
 - *Limited alternative uses*
 - *Cultural, historic, or environmental attributes.*
 - *Public sector assets – using the characteristics given in the draft as restriction, this can only be the case if the government has control of the heritage asset rather than it being owned by a private sector.*

Specific Matter for Comment 4 (paragraph AG5)

Are there any additional characteristics of infrastructure assets (other than those noted in paragraph AG5) that present complexities when applying the principles of [draft] IPSAS [X] (ED 78) in practice? Please provide your reasons, stating clearly what further characteristics present complexities when accounting for infrastructure assets, and why?

Specific Matter for Comment 4 - Response

- *The characteristics of infrastructure assets (long useful life and networks/ systems) gives a good guidance on recognition criteria which is a welcome development.*
- *They are specialized in nature (no dual purpose/use)*
- *They are generally immovable*

Specific Matter for Comment 5 (paragraphs 80-81 and AG44-AG45)

This Exposure Draft proposes to require disclosures in respect of heritage property, plant, and equipment that is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably. Do you agree that such disclosure should be limited to heritage items? If not, please provide your reasons, stating clearly the most appropriate scope for the disclosure, and why?

Specific Matter for Comment 5 - Response

- *We propose that the disclosure should be required for all PPE rather than being limited to heritage assets. We acknowledge and agree that heritage assets pose the highest risk in terms of recognition criteria, however, there is need for the public sector to be accountable and make such disclosures for all its unrecognized PPE.*

Specific Matter for Comment 6 (paragraphs IG1-IG40)

Do you agree with the Implementation Guidance developed as part of this Exposure Draft for heritage assets? If not, please provide your reasons, stating clearly what changes to the Implementation Guidance on heritage assets are required, and why?

Specific Matter for Comment 6 - Response

- *Accounting for the change in policy (historic cost model to current value model) and a change in depreciation method prospectively gives an easier option to the entity. While the change in depreciation should have been accounted for prospectively as a change in accounting estimate, the draft assumes that the 2 changes happen simultaneously hence the application of a prospective adjustment would be more acceptable.*
- *The draft should, however, give more guideline on how the changes would be implemented if they do not occur concurrently. We would suggest the following:*
 - *Change in accounting policy (historic to current value) – retrospective adjustment*
 - *Change in depreciation method – prospective adjustment.*

General Observations for comment - Heritage Assets

Recognition Criteria (paragraphs 7 – 11)

- *The idea of removal of scope exclusion of heritage assets from PPE is a very welcome idea and we feel this would bring into account the property accounting and maintenance of such landmarks.*

Measurement

- *Heritage assets require significant judgements when it comes to measurement. The ED does not have a specific guidance that will enable the public sector to correctly measure their heritage assets.*
- *While the use of IFRS 13 principles is more than welcome, it does not address the initial measurements of heritage assets as the deemed cost model, does not provide significant guidance given the way of acquisition of such assets in the public sector.*

- *Further guidance on how to arrive at deemed costs may be needed.*