Accountants Park
Plot 2374, Thabo Mbeki Road
P.O. Box 32005
Lusaka
ZAMBIA

Telephone: + 260 21 1 374550/9, Fax + 260 21 1 255355
E-mail: technical@zica.co.zm

ZICA/12/21/6

29th June 2016

The International Public Sector Accounting Standards Board

Dear Sir,

COMMENTS ON EXPOSURE DRAFT 60 – PUBLIC SECTOR COMBINATIONS

The Zambia Institute of Chartered Accountants (ZiCA), the national regulator of the Accountancy Profession in Zambia, welcomes the opportunity to provide comments to the International Public Sector Accounting Standards Board (IPSASB) on the Exposure Draft 60: *Public Sector Combinations* issued in January 2016, with the comment period closing on 30th June, 2016.

We generally support the proposed improvements to the relevance, faithful representativeness and comparability of the information that a reporting entity provides in its financial statements about a public sector combination and its effects. However, we are of the view that the use of acquisition method of accounting (as set out in IFRS 3, *Business Combinations*) for acquisitions in the public Sector may not be appropriate.

Our comments on the proposals in the ED are included in detail in the Appendix to this letter, where we have answered the specific questions asked.

The Institute will be ready to respond to any matters arising from the above comments.

Yours faithfully

Chansa A Chiteba
DIRECTOR STANDARDS & REGULATION
FOR/SECRETARY AND CHIEF EXECUTIVE OFFICER

Appendix- Public Sector Combinations

The Specific Matters for Comment requested for the Exposure Draft are provided below.

Specific Matter for Comment 1:
Do you agree with the scope of the Exposure Draft? If not, what changes to the scope would you make?

Comment:
We agree with the scope of the exposure draft as laid out in paragraphs 2 up to 5. Further, paragraphs 3 and 4 allay any possible ambiguities that may arise by providing situations where the standard will not apply.

Specific Matter for Comment 2:
Do you agree with the approach to classifying public sector combinations adopted in this Exposure Draft (see paragraphs 7–14 and AG10–AG50)? If not, how would you change the approach to classifying public sector combinations?

Comment:
We are agreeable to the two approaches given in classifying the public sector combinations under paragraphs 7 and 8 because of the focus on whether or not one party gains control of one or more operations as a result of the combination. This manner of classification will also assist in the choice of accounting treatment of the combination that can provide information that meets the objectives of financial reporting and that satisfies the qualitative characteristics.

However, we think the option given to entities in paragraph 14 may lead to inconsistency in the classification and resulting accounting treatment of one operation or more operations by different entities.

Specific Matter for Comment 3:
Do you agree that the modified pooling of interests method of accounting should be used in accounting for amalgamations? If not, what method of accounting should be used?

Comment:
We generally agree with the modified pooling of interests method of accounting. As indicated in paragraph AG43, the method views the combination from the perspective of each of the combining entities and their owners or constituents who are uniting their interests in the resulting entity. The method also enables users to assess the performance of the resulting entity based upon the combined historical assets and liabilities of the combining operations at the date of the amalgamation and in comparing operating results with prior periods.

BC51 also justifies that it is one of the methods that are seen as generally the least costly to apply, because:
a) It uses the existing carrying amounts of the assets, liabilities, and net assets/equity of the combining operations; and
b) it does not require identifying, measuring, and recognizing assets or liabilities not previously recognized before the amalgamation.

Further, paragraph BC52 contends that the method portrays a faithful representation of the amalgamation because it recognizes the assets and liabilities of the combining operations at the date of the amalgamation.

Specific Matter for Comment 4:
Do you agree to adjustments being made to the residual amount rather than other components of net assets/equity, for example the revaluation surplus? If not, where should adjustments be recognized?

Comment:
No comment

Do you agree that the residual amount arising from an amalgamation should be recognized:

(a) In the case of an amalgamation under common control, as an ownership contribution or ownership distribution; and

(b) In the case of an amalgamation not under common control, directly in net assets/equity?
If not, where should the residual amount be recognized?

Comment:
No comment

Specific Matter for Comment 5:
Do you agree that the acquisition method of accounting (as set out in IFRS 3, *Business Combinations*) should be used in accounting for acquisitions? If not, what method of accounting should be used?

Comment:
We do not support the use of acquisition method of accounting (as set out in IFRS 3, *Business Combinations*) for acquisitions in the public Sector. Firstly, as established in BC 39, the assumption in IFRS 3 is that it is always possible to identify the acquirer because entities subject to the scope of IFRS 3 will always have owners. In the public sector, there may be no quantifiable ownership interests in a public sector entity, which can make it impossible to identify an acquirer.
Secondly BC72 lays strong case against the use of acquisition method for acquisitions in the public sector. We agree that the most prevalent types of acquisition occur where operations are acquired for the achievement of objectives relating to the delivery of goods and/or services, instead of generating economic benefits to return to equity holders. It is also right to state that many acquisitions do not include the transfer of consideration and as such these types of acquisitions may be different in nature from business combinations as identified in IFRS 3. As paragraph BC72 indicates, this is because the concept of acquiring an operation directly in exchange for the transfer of consideration is missing.

We recommend the fresh start method because the resulting entity is held accountable for the current value of the resources of the combining operations and also takes care of the use of fair value in the acquisition method of accounting.