



Exposure Draft: 78

Proposed International Public Sector Accounting Standard

Property, Plant, and Equipment

**Response from the Public Accountants
and Auditors Board (PAAB), Zimbabwe**

14 October 2021

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ED 78: Property, Plant and Equipment

PAAB is pleased to present its comments on this Exposure Draft, which has been reviewed by PAAB's Public Sector Accounting Standards Committee (PSASC).

Response to Specific Matters for Comment

Detailed comments on the Specific Matters for Comment are provided in the attached Annex.

We hope this is a helpful contribution to IPSASB's work in this area.

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ED 78 SPECIFIC MATTERS FOR COMMENT

Specific Matter for Comment 1:

[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?

PAAB agrees with the proposed restructuring of IPSAS 17 within [draft] IPSAS [X] (ED 78). The restructuring assists to achieve the objectives of the project, i.e. to update guidance for reporting heritage and infrastructure assets as well as align the measurement of Property, Plant and Equipment within the related measurement project.

This restructuring reallocates the generic measurement guidance to ED 77 further improves the Conceptual Framework while adding guidance for accounting for heritage and infrastructure assets within the scope of ED 78 i.e. at standards level. This is consistent with the Measurement Hierarchy where Measurement Models and Measurement Bases are guided by the Conceptual Framework while Measurement Techniques are dealt with at Standards level.

Specific Matter for Comment 2— (paragraphs 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.

PAAB agrees 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 fair value or at current operational value.

Fair value represents the price an entity would receive when it disposes an asset. This is therefore a relevant option for valuing assets under the current value model.

Public sector entities do not often dispose their assets and they hold substantial assets for their service delivery, i.e. current operational value also becomes relevant option of valuing their assets under the current value model.

Measurement Basis: Current operational value is the value of an asset used to achieve the entity's service delivery objectives at the measurement date. Guidance will be provided at Conceptual Framework level.

Measurement Technique: Cost approach is a measurement technique that reflects the amount that would be required to replace the service capacity of an asset i.e. current replacement cost. The measurement technique will be dealt with at Standard level.

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.

In addition to the 3 characteristics identified in paragraph AG3 of ED 78, PAAB identifies additional characteristics of some of the heritage assets. These include;

- *Reliable measurement difficulty;* this particularly relates to historical monuments or natural heritage assets which are difficult or not practically measure reliably but may have indefinite income flows for example from tourism. Examples in Zimbabwe include; Victoria falls, Zimbabwe ruins, Hot-springs, Chinhoyi caves. Reliable measurement of these assets is difficult and they may just have to be disclosed with certain minimum information disclosed
- *There may be legal restrictions on their sale;* Buildings recognised as national heritages may be used for commercial purposes for example as offices or museums but cannot be sold or their structures may not be altered. These may have to be accounted for using current operational value since their use is in service delivery
- *They may cross jurisdiction boundaries;* Some heritage assets cross jurisdiction boundaries with no one country able to claim their total ownership. This is usually common with natural heritages. Recognition and measurement of such assets becomes a challenge.
- *They are rarely held for their ability to generate cash inflows;* heritage assets are in most cases not held for their ability to generate cash inflows. In some cases they actually do not generate cash inflows at all but they are maintained by government therefore effectively generating negative cash flows.

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.

In addition to the characteristics identified in paragraph AG5 of ED 78, PAAB identifies additional characteristics of some of the infrastructure assets. These include;

- *Sustainable competitive advantage;* In many instances infrastructure assets are a natural monopoly, operating in markets where the barriers to entry are high.
- *They provide essential services;* Infrastructure assets are essential to the operation of an economy or society. They are often less influenced by economic factors than other assets, helping them to deliver steady services through cycles of economic performance.

The 2 additional characteristics identified above make fair value not appropriate for the valuation of infrastructure assets with these 2 additional characteristics. The current operational value becomes a more appropriate measurement method under the current value model.

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.

PAAB agrees with the proposed disclosure where heritage property, plant, and equipment—or class of heritage property, plant, and equipment—is not recognized in the financial statements because, at initial measurement, its cost or current value cannot be measured reliably, the entity shall disclose: (a) The difficulties in obtaining a reliable measurement that prevented recognition; and (b) The significance of the unrecognized asset(s) in relation to delivery of the entity's objectives.

However, the same challenges are faced in recognising and measuring wildlife in a Game Park where the animals can be classified as biological assets but the public entity owning the game park does not have control over the movement of the animals which can stray out of the park or even out of the jurisdiction if the Game Park shares a border with another game park or a neighbouring jurisdiction. Disclosures similar to those proposed in ED 78 for Heritage assets not recognised and measured will be appropriate for animals in the Game Park that are also not recognised and measured. The key challenges for animals in the Game Park are; (a) to get the numbers of animals to recognise because of free movement across boundaries/borders which reduces control over the animals by the Game Park and also (b) to establish the measurement technique either through fair value (if focus is to be placed on market value say through an auction market which is a common selling platform for Game Park animals) or current operational value (if focus is to be put on service delivery of attracting tourists).

Another example is rivers. It may be necessary to give some guidance on assets like a river which is a heritage asset crossing many jurisdictions but its importance to some of the jurisdictions is critical for the economies. An example is the Nile and its importance to countries it passes through. How should this river be treated at jurisdiction level for those countries dependent on it economically. Guidance at that level from the ED is not very clear.

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.

PAAB agrees with the Implementation Guidance developed as part of this Exposure Draft for heritage assets.

However, actual implementation for specific assets may need to be expanded on in line with policies followed at the level of public sector entity the heritage assets are held i.e.;

- Central Government
- Local Government, and
- Applicable State Owned Enterprises that use IPSAS

Specific Matter for Comment 7— (paragraphs IG1-IG40):

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

PAAB agrees with the Implementation Guidance developed as part of this Exposure Draft for infrastructure assets.

However, actual implementation for specific assets will need to be in line with policies followed at the level of public sector the infrastructure assets are held i.e.;

- Central Government
- Local Government, and
- Applicable State Owned Enterprises that use IPSAS.

Generic implementation guides are alright but they have to be refined to specific measurement techniques applicable to the assets depending on where they are held in the public sector entities chain i.e. whether they are held at central government level, local government level or held by a SOE because the purpose of holding the assets in the infrastructure network or system may differ at each of the holding entity. An example is a water supply system to a city which may start from a dam all the way to a domestic household. The dam may be a heritage asset or man-made (constructed) and owned by central government. The water may then be drawn free of charge by a local government authority or state owned enterprise for purification and finally the local government authority distributes the water to households with combined objectives of providing a service and raising money through the water sales. Implementation guide of the ED on the infrastructure assets held at each level of such a system will need to be specific to the level of the public sector supply chain in the whole water system taking into account the objectives at each level of the chain.

Consideration also needs to be given to the nature of infrastructure assets i.e. whether they are purely public sector assets or whether they are financed and owned through public, private partnerships.

