



Exposure Draft: 81

Proposed International Public Sector Accounting Standard

Chapter 3, Qualitative Characteristics and Chapter 5, Elements in
Financial Statements

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

31 May 2022

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ED 81: Proposed Update to the Conceptual Framework : Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements

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 81: Proposed Update to the Conceptual Framework : Chapter 3, Qualitative Characteristics and Chapter 5, Elements in Financial Statements

<i>Specific Matter for Comment 1: Prudence</i>
<p>We do not agree with this approach. Whilst we acknowledge that faithful representation would cover prudence, we are of the view that prudence should be regarded as a standalone qualitative characteristic. The exercise of caution in preparing financial statements is now more needed more than ever. The reason for this is because:</p> <ul style="list-style-type: none"> • There is increasing need for judgement and estimation in presenting items in the financial statements and the fact that this is happening in environments of extreme uncertainty where change is also very rapid. For example we have seen due to changes in technology natural monopolies for public sector entities going away overnight and sometimes rendering significant investments worthless. This requires more caution in presenting items in financial statements. • Increasingly public sector entities are now subject to scrutiny and expectation of performances by the different constituencies that they serve. We have seen increasingly jurisdictions where executives in those entities are given performance contracts (Zimbabwe being a typical example) and thus there is high risk for non-conservative approach in depicting items in the balance sheet especially where judgement and estimation is required. <p>Due to the above, we are of the view that prudence which requires the exercise of caution should be regarded as a standalone qualitative characteristic.</p>
<i>Specific Matter for Comment 2 – Obscuring Information as a factor relevant to materiality judgements</i>
<p>We agree with the addition of obscuring information as factors relevant to materiality judgements. We also think that there need to be a bit more explanation on what obscuring information entails. As it looks based on the text in the BC3.32B it would seem as obscuring information is inclusion of immaterial information. We believe that obscuring is broader than that. By definition, obscuring means “make unclear or difficult to understand” We propose that this definition be added in the text.</p>
<i>Specific Matter for Comment : Rights based Approach to a Resource</i>
<p><i>We agree with the proposed change. We recommend use of simple and vey common examples that can easily relate to wide range of jurisdictions that use IPSAS for example on 5.7b “from owning a debt instrument such as a student loan” – such instruments are not very common and may obscure the point that is being made, we suggest that use this example “from owning a debt instrument such as a treasury bill” On 5:13 “intangible resources, like the electromagnetic spectrum” – we recommend a much simpler everyday life example.</i></p>
<i>Specific Matter for Comment 4: Definition of a Liability</i>

We do not agree with the definition. In the public sector “present obligation” are a very common phenomenon and most of these present obligation do not necessarily bind to the entity to transfer resources for example A municipality has a present obligation to supply clean water but that obligation is not binding to transfer resources and many municipalities fail to do this consistently. For there to be a liability – the emphasis should be on “binding” We suggest that the definition reads A Liability is a binding present obligation of the entity to transfer resources as a result of past events.

Specific Matter for Comment 5: Guidance on the transfer of resources

We agree with the guidance.

Specific Matter for Comment 6: Revised Structure of Guidance on Liabilities

We agree with the restructuring.

Specific Matter for Comment 7—: Unit of Account

Partially Agree – the guidance is open to different interpretation for use. It looks as if an entity for example can decide what suits them as unit of account. We believe the guidance should focus more on what would constitute a unit of account below which the asset would not be regarded as unit of account. For example a building would be regarded as a unit of account if there are not other separately identifiable assets within that building. However if the elevator is considered a unit of account separate from the building for depreciation purposes then it can be separately recognised from the building. In essence, the guidance should focus on what would constitute the smallest unit of account for purposes of recognition and measurement.

