



Exposure Draft

ED/2021- Proposed IPSASB concessionary leases and other arrangements similar to leases



17 May 2021

The Technical Director
IPSASB Technical Director

Dear Sir/Madam

**Chartered Accountants Academy (CAA) and Training and Advisory Services (TAS) Submission –
Exposure Draft on concessionary leases and other arrangements similar to leases**

In response to your request for comments for **Exposure Draft on concessionary leases and other arrangements similar to leases** attached are the comments 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,

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Item	Nature of the arrangement	Accounting treatment applied by lessees	Accounting treatment applied by lessors
Concessionary Leases			
1. Right of use assets under concessionary agreements for non-profit making organizations.	Most International Aid Organisations fully fund their activities. However, some usually operating under the health sector are provided with office space within hospitals or government buildings. In exchange for not paying rent the government usually seeks either for free services to be provided to the public or at subsidised rates (cost recovery)	Lessees still apply and account for such transactions through the operating lease model. As such since there are no rental obligations arising, no rentals are accrued, but rather the net benefits of any tax waivers and disclosures of the nature of the memorandum arrangements are made.	Since Government is still on cash accounting such transactions are not recorded however, disclosure are made in activity reports of the host Ministry.
2. Leases for Zero or nominal consideration	These exist where most ministries use buildings owned by the Ministry of Local Government (Government arrangements). In some instances, it occurs where public entities with complimentary activities share buildings e.g., a local authority hosting a road administrator. These result in typical off balance sheet financing issue that are not being accounted for.	Lessees only disclose the arrangements but do not account for the nil consideration.	As with lessees, lessors only disclose the arrangements but do not account for the nil consideration.
3. Access rights (or rights of access to property and/or land)	Notable examples include Railway entities which charge for Wayleaves and level crossings. Wayleaves cater for anything that is built over or under the railway line (electricity, internet cables, fixed line telephone cables etc) whilst level crossings relate to roads passing over railway lines. Sidings which are railway tracks into private properties.	The existing accounting treatment involves raising a creditor for access rights to be availed and expensing the cost of such rights.	A debtor is raised for usage of the access rights and revenue account credited.

4. Agreements allowing right-of-use	Donations to schools/clinics/sewer infrastructure usually to a local authority or public entity	Such assets are capitalised as donations and accounted for as PPE by local authorities using IPSAS. Under IFRS using public entities such assets are accounted for using the IAS 20 approach (Deferred Income)	For most International aid organisations this is treated as a Capital disbursement (item expensed under the programmes section of the income statement)
5. Social housing rental agreements	Local authorities in some instances have houses or residential flats build for such purposes. These usually fall into two categories i) Commercial nature ii) Service delivery/social housing aspect		Commercial nature arrangements are accounted for using the IPSAS 16/IAS 40 investment property approach. The Social arrangements properties are accounted for under IPSAS 17 as PPE and the related rentals as income.
6. Shared properties with or without a lease arrangement in place.	These circumstances do exist especially when it comes to Central Government. There are in most instances no formal lease agreements except confirmation of a contract through letters of rental demands or rental reviews by the leasing ministry.	Central government is still on a cash basis and rent paid is accounted for on the disbursement return and rent payable on the payables return.	For the lessor, rent received is accounted for on the revenue return whilst rentals due are accounted for on the outstanding revenue returns.
7. Water rights	Local authorities require a guaranteed supply of raw water from the national water authority. Whilst the water bodies can be used for any other activities as directed by the water authority, the Councils are allowed to set up their water uptaking infrastructure on an agreed location.	The local authorities do not account for the dam site availed for them to construct/put up their infrastructure. They only account for raw water drawn that they are billed and the pumping equipment under IPSAS 17 PPE infrastructure assets.	The Water authority only accounts for the revenue for water drawn they would have billed.