31 May 2024

BOTSWANA INSTITUTE OF CHARTERED ACCOUNTANTS COMMENT LETTER TO IPSASB'S EXPOSURE DRAFT (ED) 87 Stripping Costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12).

Introduction

The Botswana Institute of Chartered Accountants ("BICA") is a statutory body established by Accountants Act, 2010, as amended for the regulation of the accountancy profession in Botswana. The Institute's mission is to protect public interest through promoting the accountancy profession, supporting accountants, facilitating quality professional accountancy services through the monitoring and regulation of professional accountants.

The Institute appreciates the opportunity to contribute towards exposure draft ***87 Stripping Costs in the Production Phase of a Surface Mine (Amendments to IPSAS 12).***

We have provided our comments on the specific matters for comment as per the Exposure Draft. Should you wish to have further engagements please do not hesitate to contact the undersigned.

Yours Faithfully,

Buisanang Ushuka, ACPA

Acting Director – Technical and Public Sector Accounting Services

MATTERS FOR COMMENT

Specific Matter for Comment 1

The IPSASB decided to propose IFRIC 20-aligned guidance in ED 87 (see paragraph BC9). Do you agree that amendments to IFRIC 20, for the public sector, are limited to terminology and other IPSASB-specific formatting and consistency amendments (see paragraph BC10)? If not, please explain your reasons, stating clearly what further amendments are necessary and why.

Comment

Yes, we do agree that amendments to IFRIC 20, for the public sector, are limited to terminology and other IPSASB-specific formatting and consistency amendments.

It is important to mention that one of the key consideration that the IPSASB should take into account when producing standards is to ask whether the equivalent IFRS is suitable for their needs or requires modification to be applicable in the public sector.

We strongly support these amendments for the simple reason that the key elements of the IPSASB's development process as set out in its Terms of Reference and in Guidelines or "rules of the road" for modifying IFRSs for application by public sector entities has been followed.

The fundamental question we asked was that, does IFRIC 20 addresses the issue of the definition of an asset?

If it does, what types of benefits does stripping activity creates?

Our review apparently showed that stripping activity meet the definition of an asset and that stripping activity may create two types of benefit:

(i) Inventory produced and (ii) improved access to the ore.

It is therefore incumbent upon entities to assess whether the benefits of the stripping activity fall within either of those categories.

To the extent that the benefit from the stripping activity is realized in the form of inventory produced, the entity shall account for the costs of that stripping activity in accordance with the principles of IPSAS 12, Inventories.

To the extent the benefit is improved access to ore, the entity shall recognize these costs as a non-current asset, only when the criteria below are all met.

I. It is probable that the future economic benefit (improved access to the ore body) associated with the stripping activity will flow to the entity;
II. The entity can identify the component of the ore body for which access has been improved; and
III. The costs relating to the stripping activity associated with that component can be measured reliably.

We consider the inclusion in the amendment of Paragraphs 62H and 62I as very helpful as they shed more light on the exemptions that affect fair presentation and compliance with Accrual Basis IPSASs during the Period of Transition

We also carefully evaluated the BC9 and BC10 and support IPSASB's revision of IPSAS 12 to include, *Stripping Costs in the Production Phase of a Surface Mine.*

These amendments clarify existing guidance on accounting for stripping costs in the production phase of a surface mine and applies to all types of natural resources that are extracted using this process. It is therefore worthy to note that accounting for such costs in the public sector is long overdue.

In furtherance to the above, we did not identify any public sector specific reasons to depart from the principles in IFRIC 20 in the development of this revision, except for terminology and other IPSASB-specific formatting and consistency amendments and support the IPSASB's conclusion that stripping costs ultimately end in the cost of mineral inventory produced by a surface mine, from which the surface mine will derive benefits.

Specific Matter for Comment 2

The IPSASB decided to propose the IFRIC 20-aligned guidance in ED 87 as an amendment to IPSAS 12, Inventories, by including the guidance as an Appendix (see paragraph BC11). Do you agree with the IPSASB's decision? If not, please explain your reasons, stating clearly, where the guidance should be included and why.

Comment

Yes, we do agree with the IPSASB's decision to include the guidance as an Appendix to IPSAS 12, *Inventories*. Including the guidance as appendix will help entities that have been expensing all production period stripping to locate easily the information needed to begin capitalising from the date of adoption of the interpretation.

It is our candid opinion that the appendix will invariably provide additional information that is too detailed or too lengthy to include in the main text. This information includes for example A7. Appendix A7 clearly addresses the following issues:

(a) Recognition of production stripping costs as an asset;
(b) Initial measurement of the stripping activity asset; and
(c) Subsequent measurement of the stripping activity asset.

This goes a long way to help to maintain the clarity and conciseness of the main text. Again, by placing detailed information in the appendices, IPSASB can avoid cluttering the main text with lengthy descriptions and technical details.
The use of appendix will also increase the transparency of the text by providing entities and their preparers of financial statements with access to the data and information used in the amendments.
Furthermore, including the changes as appendix will make it easier for readers to access the data and information that supports their work. This is particularly important in cases where users want to replicate the text or use the data for other purpose
The arrangement in the appendix is very similar if not the same as the headings contained in the IPSAS.
The sequencing of headings as shown in the appendix clearly highlights:
Scope
Application of IPSAS to Stripping Cost in the Production Phase of a Surface Mine
Recognition of production stripping costs as an asset
Initial measurement of the stripping activity asset
Subsequent measurement of the stripping activity asset

If we consider for example A14 under ***Subsequent measurement of the stripping activity asset heading:***

After initial recognition, the stripping activity asset shall be carried at either its cost or its revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part" it is undeniable that the emphasis will assist entities to clearly know exactly what to do after initial recognition.

In reaching our decision, we reviewed the Basis of Conclusion paragraph BC11 and are in full agreement with the IPSASB conclusion that stripping costs ultimately end in the cost of mineral inventory produced by a surface mine, from which the surface mine will derive benefits.

Furthermore, we noticed the relationship between stripping activities and the cost of inventory produced, and agree that the guidance aligned with IFRIC 20 and should be included as Appendix A to IPSAS 12.