



27 November 2024

***BOTSWANA INSTITUTE OF CHARTERED ACCOUNTANTS COMMENT LETTER TO
IPSASB'S EXPOSURE DRAFT (ED) 90- Amendments to IPSAS as a result of the
Application of IPSAS 46, measurement***

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 **90 - Amendments to IPSAS as a result of the Application of IPSAS 46, measurement**

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

Yours Faithfully,
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Buisanang Ushuka, ACPA

Acting Director – Technical and Public Sector Accounting Services

Specific Matter for Comment 1:

Do you agree that current operational value is an applicable current value measurement basis for assets in the scope of IPSAS 12, Inventories, and IPSAS 31, Intangible Assets, as proposed in Part 1 of this ED?

If you do not agree please explain your reasoning.

Comment

Yes, we do agree that current operational value is an applicable current value measurement basis for assets in the scope of IPSAS 12. Our decision is grounded in the context of the recently approved current operational value principles in IPSAS 46 and the updated objective of measurement of assets in the Updated Conceptual Framework: Chapter 7, Measurement of Assets and Liabilities in Financial Statements.

At this point, We assessed whether current operational value will mean the same thing as current replacement value or the replacement will result into confusion. There appears to be no difference, hence the applicability of current operational value for initial and subsequent measurement basis of inventories will provide more relevant measurement information for inventories held for their operational capacity.

We are also of the view that current operational value should replace current replacement cost in the measurement of inventories at the 'lower of cost and current replacement cost'. Measuring inventories at the lower of cost and current replacement cost is a public sector specific guidance for the measurement of inventories held for their operational capacity.

We share the views expressed in BC17 by the IPSASB that current replacement cost and current operational value are both amounts that the entity would pay for the asset at the measurement date and both use entry values and reflect the current condition of the existing asset.

More importantly, we expect that current replacement cost and current operational value will yield a similar, if not the same, balance.

Therefore, replacing current replacement cost with current operational value is not expected to result in measurement differences, but rather will align IPSAS 12 measurement guidance with the IPSASB's updated measurement methodology in IPSAS 46, Measurement.

ii) However, we disagree with the proposals in ED 90 regarding the application of current operational value to the subsequent measurement of intangible assets. We are of the opinion similar to the alternative view expressed:

1. The absence of the 'active market restriction' for the revaluation of intangible assets held for their operational capacity may impact the reliability of the measurement of those intangible assets.
2. Applying current operational value requirements to intangible assets, could pose application challenges as current operational value was developed for tangible assets.
3. Also, the International Accounting Standards Board (IASB) has embarked on compressive review of the accounting requirements for intangible assets for private-sector entities and it would be advisable to wait for the IASB to finalize its review of IAS 38 – rather than making changes to one aspect of the accounting for intangible assets at this time.

These among others, enjoins us to the views expressed by proponents of the alternative view, Ms. Ryan and Mr. van der Burgh that the addition of current operational value into IPSAS 31, Intangible Assets should be put on hold in consideration of the above concerns.

Additionally, we have concerns regarding active market restriction. The proposed amendments to IPSAS 31 do not include an 'active market restriction' for the revaluation of intangible assets held for their operational capacity, similar to the restriction for the revaluation of intangible assets held for their financial capacity, which are subsequently measured at fair value shown in paragraph 74B of IPSAS 31 in ED 90.

Therefore, under the proposed amendments to IPSAS 31 in ED 90, if a public sector entity holds intangible assets for operational capacity and no active market exists, the entity would be permitted to revalue these intangible assets using the cost approach to measure current operational value.

We also wonder if this proposal would achieve appropriate financial reporting and consistency with The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities.

It is worthy to note that the proposals in ED 90 would mean that a public sector entity would be able to revalue an intangible asset for which there is no active market if the asset is held for its operational capacity, but the same entity would not be permitted to revalue the same type of intangible asset if the asset was held for its financial capacity; and the same type of asset would not be permitted to be revalued if it was held by a private sector entity, regardless of the purpose for which it is held.

Hence, we are at this point not in support of IPSASBs changes as it could create inconsistencies that would reduce the relevance, faithful representation, comparability and understandability of information in public sector entities' financial statements.

Specific Matter for Comment 2:

Part 1 of this ED proposes that current operational value is an applicable subsequent current value measurement basis for right-of-use assets (i.e., assets in scope of IPSAS 43, Leases).

a). Do you agree that current operational value can be applied to the subsequent measurement of right-of-use assets? If you do not agree, please explain your reasoning.

Comment

Yes, we do agree that current operational value can be applied to the subsequent measurement of right-of-use assets. It is important to note that the value of right-of-use assets is most commonly estimated by discounting the expected lease payments.

An entity should discount the cash flows when applying the market approach and the cost approach to estimate the current operational value of an asset at subsequent measurement.

As a result, applying the market approach would require an entity to estimate the current operational value of a right-of-use asset by discounting observable lease payments of an identical or comparable right-of-use asset in an active market.

(b) If you agree with (a), do you agree that current operational value can be applied using the current guidance in IPSAS 46 (without the income approach as one of its measurement techniques)? If you do not agree please explain your reasoning

We also concur with IPSASB's assertion that current operational value can be applied using the current guidance in IPSAS 46 without the income approach as one of its measurement techniques. This is because the absence of the income approach to convert future amounts to a single current amount, will only have little practical application of current operational value to estimate the value of a right-of-use asset at subsequent measurement.

We therefore conclude that the ability to discount cash flows is a concept that is not limited to one measurement technique and that current operational value is an applicable measurement basis for right-of-use assets subsequently measured in accordance with IPSAS 45 using the market approach or cost approach.

Specific Matter for Comment 3:

Do you agree with the replacement of value in use of a non-cash-generating asset by current operational value in the definition of recoverable service amount in IPSAS 21, Impairment of Non-Cash Generating Assets, as proposed in Part 2 of this ED?

Comment

Yes, we do agree with the replacement of value in use of a non-cash-generating asset by current operational value in the definition of recoverable service amount in IPSAS 21, Impairment of Non-Cash Generating Assets, as proposed in Part 2 of this ED.

Having critically examined the three options for the retention or replacement of value in use of a non-cash-generating asset as a branch of recoverable service amount, we are of the opinion that the third option “Adopt current operational value as a branch of recoverable service amount in its own right” is more appropriate to avoid any application confusion.

In considering the first option we realized that the approach does not involve risk adjustments and discounting cash flows to a present value. Therefore, “value in use” is not being used in the same way as in IPSAS 26 and IAS 36 and that the current requirements and guidance in IPSAS 21 are also inconsistent with both IPSAS 46 and the Conceptual Framework.

Again, adopting current operational value as a surrogate for value in use would mean retaining the definition of “value in use of a non-cash-generating asset”. By the same token approach (a) is inconsistent with the definition of “value in use” in IPSAS 26 and IAS 36.

We therefore conclude that:

Replacing value in use of a non-cash-generating asset with current operational value updates the terminology in IPSAS 21 to reflect the measurement methodology in IPSAS 46.

The revised definition of recoverable service amount is consistent with the main principle of impairment testing that the carrying amount of an asset should be written down to the higher of: i) the value of the asset to the entity in operation or ii) the amount for which the asset could be sold