TAS IFRS Conference Solves the Zimbabwe Corporate Reporting Issues

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From 15 – 19 November 2023, Training & Advisory Services (TAS) held an IFRS technical conference, themed: ***Towards Best Corporate Reporting Practices to Protect Public Interest.*** Participants included high profile chief finance officers, economists, auditors, Public Accountants and Auditors Board (PAAB) as the Zimbabwe Accounting Standard Setter, the Institute of Chartered Accountants of Zimbabwe (ICAZ) representing most practicing accountants and auditors and the Zimbabwe Stock Exchange (ZSE). The conference took a deep technical analysis of prior years and current Zimbabwean reporting challenges to:

1. Assist preparers with 2023 reporting preparation.
2. Improve the relevance and usefulness of financial reports to users.
3. To chart a way back to full IFRS compliance

The biggest goal being to make the Zimbabwean financial market attractive for both domestic and international stakeholders by providing relevant financial information. The key outcomes to solve these challenges are outlined in this article.

The key outcomes of the analysis were as follows:

1. **Authority of IFRS/IPSAS** – Clarified that International Financial Reporting Standards (IFRS) and International Public Sector Standards (IPSAS) provide supreme guidance on accounting and other reporting matters and that is provided for in Zimbabwe laws. Complying with IFRS is therefore compliance with laws and regulations.

2. **Functional & Presentation Currency & Exchange Rate for reporting purposes**
    - The reporting challenge for Zimbabwe arises from currency as a result of multi-currency and hyperinflation.
    - The ZWL$ lacks exchangeability with other currencies, having a currency auction market is an ultimate indicator of lack of exchangeability of a currency.
    - The determination of exchange rate is an entity specific matter of professional judgement, and a ***reporting entity can estimate an exchange rate for financial reporting purposes***.
    - IFRS Guidance on assessing lack of exchangeability and estimating exchange rate has been available since 2017 and is now included in IFRS since August 2023. **PAAB is proposing a mandatory early adoption of this guidance from 1 January 2024**.
    - Due to the existence of multiple currencies in Zimbabwe, entities should perform annual functional currency assessment.
    - Functional currency is not a matter of choice but rather a matter of fact and substance. It is representing the currency that an entity actually receives and expends in its trade/operations.

- Some entities are still significantly trading in ZWL$ and must continue having the ZWL$ is their functional currency.
- All entities have a choice on presentation currency as permitted by IFRS.

3. **Hyperinflation Accounting**
   - Hyperinflation financial reports are not providing relevant financial information to the users.
   - General inflation statistics available are unreliable in a multi-currency economy.
   - An ***entity may use the estimated exchange rate as a surrogate General Price Index (GPI)*** as required for hyperinflation accounting. The general price increases are a function of exchange rate fluctuations in a multi-currency hyperinflation environment. The determination of a GPI is a matter of professional judgement. Use of exchange rate as GPI is expected to provide relevance and substance to hyperinflation financial reports.
   - Entities whose functional currency has changed should cease hyperinflationary accounting.
   - Entities whose dominant trading currency is ZWL$ should continue hyperinflation accounting to comply with IFRS. The ***ZSE reiterated that an entity can chose US$ as its presentation currency*** if it helps to achieve relevant financial information. It was also agreed that ***hyperinflation reports may be supported by additional supplementary information in a constant currency*** to achieve fair presentation and relevance.
   - Hyperinflation accounting can only cease for ZWL$ functional currency if Zimbabwe is assessed to be under severe hyperinflation. This assessment had not been done yet.

4. **Compliance with IFRS-** *How to attain IFRS Compliance*
   - Entities that previously stated that they failed to comply with IAS 21 in their financial statements, went out of IFRS as they failed to ***comply with IFRS explicitly and unreservedly***. Non-compliance may not be wished away by passage of time.
   - Such entities have an option to comply with IFRS through either re-adoption of IFRS through IFRS1- *First Time Adoption* or by correcting the previous non-compliances as a prior period error.

5. **Regulatory Position**
   - The regulators emphasized that they do not provide guidance on matters of professional judgement where relevant guidance is available.
   - It was also noted that matters of professional judgement should not be provided guidance for, as the IFRS/IPSAS are principle based, otherwise the guidance will be misinterpreted as prescriptive.
   - Both preparers and audit practitioners were encouraged to exercise their professional judgment on significant judgement matters rather than opt for regulatory guidance.

The conference also noted that both reporting entities and audit practitioners argued for market comparability or legality in choosing the exchange rate and the inflation GPI **at the expense of faithful representation and relevance**. IFRS regards comparability as an enhancing qualitative characteristic, whereas faith representation and relevance are fundamental to the usefulness of financial statements. Thus, an entity does not need to be comparable to others if its circumstances are different. Compliance with IFRS/IPSAS is compliance with law for accounting and reporting purposes as guided by law.

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