



# THE ROLE OF ACCOUNTANTS: REPORTING AND AUDITING IN AN EVERCHANGING ENVIRONMENT

**BDO ZIMBABWE**

**BDO**



## SUMMARY

- INTRODUCTION
- QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION
- MAJOR CHANGES IN ZIMBABWE
- EXPECTED ROLE OF ACCOUNTANTS GOING FORWARD

# INTRODUCTION

- There have been many significant changes in the economy over the past few years. Accountants, both in business and in practice play a significant role in reporting and auditing within this dynamic environment.
- Accountants should;
  1. Anticipate
  2. Interpret
  3. Adapt
  4. Provide guidance



## Introduction (Cont'd)

- **Anticipate-** Some changes are not as **drastic as others** and in such cases, an Accountant should attempt to anticipate likely changes and how they will affect financial statements and ultimately their users.
- **Interpret-** Many changes, especially in recent times are **legislative** and it is an Accountant's role to dissect what the change means and how it affects financial statements.
- **Adapt-** Being able to quickly transition is vital. This way, it saves an entity from breaking the law and/or presenting information which does not depict current affairs. It also allows for Auditors to issue an opinion that takes account of all relevant information
- **Provide guidance-** Accountants in business and in practice should be in a position to provide guidance on what companies and other stakeholders should do to respond to the changes.

# QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION

## Faithful representation

- Financial reports represent economic phenomena in words and numbers. To be useful, financial information must faithfully represent the substance of the phenomena that it purports to represent.
- In many circumstances, the substance of an economic phenomenon and its legal form are the same. If they are not the same, providing information only about the legal form would not faithfully represent the economic phenomenon.
- This means that the role of an Accountant in reporting and auditing goes beyond application of legislation. The economic substance of financial information should always be considered.

## Relevance

- Relevant financial information is capable of making a difference in the decisions made by users.

## QUALITATIVE CHARACTERISTICS OF USEFUL FINANCIAL INFORMATION

- In addition to achieving relevance and faithful representation, financial information will be enhanced by the following qualitative characteristics;
- **Comparability**- Enables users to identify and understand similarities and differences among items.
- **Verifiability**- Different knowledgeable users and independent observers can reach consensus that a particular depiction is faithfully presented.
- **Timeliness**- Information is available to users in time to be capable of influencing decisions.
- **Understandability**- Information should be classified clearly and concisely.



## MAJOR CHANGES IN ZIMBABWE

### Cash shortages starting 2016

- The first major change was gradual and started to surface at the beginning of 2016. USD cash became scarce. In the second half of 2016, the RBZ introduced a foreign currency allocation priority list which was meant to allocate foreign currency on the basis of a priority list. This meant that the “ USD” balances in bank accounts were not foreign currency

### The priority list was spread over the following;

- Priority 1 High - Raw materials, machinery and other critical inputs.
- Priority 2 Medium- Clients who have borrowed to fund critical and strategic imports.
- Priority 3 Low- University fees, Cash depositing clients in the retail and wholesale service industry.
- Priority 4 No Priority- Capital remittances from disposal of local property and cross border investments and payments for services available in Zimbabwe.

## MAJOR CHANGES IN ZIMBABWE (Cont'd)

### Role of Accountants during this period (DISCLOSURE)

- It was important that the users of financial statements understand that bank balances recorded in the financial statements were not easily accessible and the USD balances recorded were not transferable to foreign suppliers . This was in line with the faithful representation characteristic required of financial statements.
- Accountants in some cases disclosed this in the financial statements.
- It is the Accountant's role to always show useful and material information that can affect decisions made by the users of financial information.





## MAJOR CHANGES IN ZIMBABWE (Cont'd)

### 2018 Financial year

- During the year the Zimbabwean economy was characterised by a multi-tiered pricing model. Under the model, a single product had different prices depending on the mode of payment, whether United States Dollar Cash, electronic money (RTGS), mobile money or bond notes.
- This resulted in transactions bearing similarities to what one would expect with transactions that are undertaken in different currencies to which IAS 21, The Effects of Changes in Foreign Exchange Rates, would apply.
- Market wide, entities experienced premiums and discounts on the official foreign exchange rate of 1:1 between the RTGS balances and Bond Notes and the United States Dollars.
- Financial statements were prepared in USD using the official exchange rate of 1:1.
- In 2018, the functional currency for most entities in Zimbabwe changed and though not official, the RTGS became a currency.

## MAJOR CHANGES IN ZIMBABWE (Cont'd)

### Functional Currency

- Is the currency of the primary economic environment in which the entity operates.
- The primary economic environment in which an entity operates is normally the one in which it primarily generates and expends cash. An entity considers the following factors in determining its functional currency:

(a) the currency:

(i) that mainly influences sales prices for goods and services (this will often be the currency in which sales prices for its goods and services are denominated and settled); and

(ii) of the country whose competitive forces and regulations mainly determine the sales prices

## MAJOR CHANGES IN ZIMBABWE (Cont'd)

### What is Functional Currency?

(b) the currency that mainly influences labour, material and other costs of providing goods or services (this will often be the currency in which such costs are denominated and settled).

### Change in functional currency as per IAS21

- When there is a change in an entity's functional currency, the entity shall apply the translation procedures applicable to the new functional currency prospectively from the date of the change.
- In other words, an entity translates all items into the new functional currency using the exchange rate at the date of the change. The resulting translated amounts for non-monetary items are treated as their historical cost.
- In other words, the entire balance sheet is translated using the exchange rate at the date of the change.

## MAJOR CHANGES IN ZIMBABWE (Cont'd)

### When did the functional currency change?

- It is not clear when the functional currency changed during the period.
- Legally there was no local currency in Zimbabwe other than the USD and other foreign currencies during the year.
- There was some formal acknowledgment of the existence of RTGS as a currency in October 2018.

## MAJOR CHANGES IN ZIMBABWE (Cont'd)

### Role of Accountants in this period

- Accountants always have to produce financial information that faithfully represents the affairs of the business.
- Auditors also have to issue an audit opinion on whether this faithful representation and fair presentation has been upheld.
- Accountants have a duty to provide guidance on how peculiar situations should be dealt with.
- Legally, entities had to report in USD using the official exchange rate of 1:1, however this no longer depicted the economic substance of the financial position and financial performance of entities.
- Accountants therefore legally complied by presenting financial statements in USD but Auditors had to issue an adverse opinion due to the substance of the matter. Non-compliance with IAS21 (The Effects of Changes in Foreign Exchange Rates).



## MAJOR CHANGES IN ZIMBABWE (Cont'd)

### Statutory Instrument SI 22 and 33 of 2019- February 2019

- On the 22nd of February 2019, a statutory instrument (S.I) 33 of 2019 was issued as an amendment to the Reserve Bank of Zimbabwe Act and it introduced a new currency called the RTGS Dollar. The Exchange Control Directive 28 of 2019 was issued on the same day which introduced an interbank market for the RTGS Dollar and the USD as well as other existing currencies in the multi-currency regime.
- Statutory Instrument 33 of 2019 specified, that for accounting and other purposes, all assets and liabilities that were immediately before the effective date valued in United States Dollars (other than those held in NOSTRO FCA accounts and foreign obligations denominated in foreign currency) shall on and after the effective date be deemed to be valued in RTGS dollars at a rate of 1:1 to the United States Dollar. The opening rate for United States Dollar to RTGS dollars was set at 1:2.5.

## MAJOR CHANGES IN ZIMBABWE (Cont'd)

### On conversion

- If the conversion process complied with IFRS, there would be no gain or loss on conversion to RTGS dollars
- Following the law resulted in a gain or loss on change in functional currency.
- The gain or loss on functional currency change was accounted for in various ways by companies.
- The gain was accounted for in profit or loss, directly through equity and some in other comprehensive income.
- There was significant misstatement of financial statements arising from the conversion process.
- Companies immediately revalued assets to reflect the new values arising from the change in functional currency.
- Companies realised significant profits for those with investment properties and revaluation gains for property, plant and equipment.
- Trading companies realized significant profit from selling inventory which was not rebased

## MAJOR CHANGES IN ZIMBABWE (Cont'd)

### Role of accountants on conversion to ZWL

- Modification of audit reports.
- Preparers should advise users of financial statements to exercise caution in the use of financial statements and to seek guidance on the interpretation of the financial statements from experts.

## MAJOR CHANGES IN ZIMBABWE (Cont'd)

### CHANGE IN PRESENTATION CURRENCY

- Most companies have adopted the ZWL as a presentation currency.
- Change in presentation currency has to be done retrospectively, starting with the Statement of Financial Position as at 1 January 2018.
- In this regard, the 2019 financial statements and their comparatives will be presented in ZWL.
- The rate of exchange to use between the USD and RTGS as at 1 January 2018 may be difficult to establish. The rate to use to adjust the 2018 financial statements is also subject to a lot of judgement as there was no official rate.
- Technically difficult to comply with IFRS because the 1:1 exchange rate resulted in modification of audit opinion.

## MAJOR CHANGES IN ZIMBABWE (Cont'd)

### 2019 Hyperinflationary Environment

- Zimbabwe has been experiencing hyperinflation as defined by IAS 29 (Financial Reporting in Hyperinflationary Economies). It is indicated by the following;
- the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency. Amounts of local currency held are immediately invested to maintain purchasing power;
- the general population regards monetary amounts not in terms of the local currency but in terms of a relatively stable foreign currency. Prices may be quoted in that currency;
- sales and purchases on credit take place at prices that compensate for the expected loss of purchasing power during the credit period, even if the period is short;
- interest rates, wages and prices are linked to a price index; and the cumulative inflation rate over three years is approaching, or exceeds, 100%.
- Financial statements of an entity whose functional currency is the currency of a hyperinflationary economy shall be measured in terms of the measuring unit current at the reporting date.



## MAJOR CHANGES IN ZIMBABWE (Cont'd)

### 2019 Hyperinflationary Environment (Cont'd)

- Restatements are effected by applying the general price index.
- Historical financial statements if presented are supplementary information and not the primary financial statements.
- Comparative financial statements have to be restated .A challenge will arise on the rate to use to convert 2018 USD figures to ZWL before applying the general price index. If a rate of 1:1 is applied will this achieve fair presentation?
- There is also the issue of general price index published for 2018 ,whether these were for USD or RTGS.
- A number of historical issues have to be resolved before full compliance with IFRS is attained.

## MAJOR CHANGES IN ZIMBABWE (Cont'd)

### Role of Accountants in this period

- The Public Accountants and Auditors Board (PAAB) officially announced that all firms which report in terms of IFRS will start publishing reports using hyperinflation accounting based on the International Accounting Standard (IAS) 29: Financial Reporting in Hyperinflationary Economies.
- The reporting of inflation adjusted financial statements is for periods ending on or after 1 July 2019.
- Assist users in the interpretation of hyperinflated financial statements.
- Explain the features of inflation adjusted financial statements.
- Assist in preserving value for the firms.

## EXPECTED ROLE OF ACCOUNTANTS GOING FORWARD

- **Keeping an eye on the investor** - Investor protection is really where the focus of the audit needs to be.
- **Safeguard the integrity of financial reporting**
- **Protection of the public interest** - Accountants in business and practice should advocate for laws and principles that maintain public trust and public value.
- **Professional accountants in business are a key pillar in helping organisations to create and sustain value and growth in a changing environment.** They should be:

**Creators of value** - lead in development and implementation of strategies, policies, plans and structures which create sustainable value. Accountants need to change from bean counters to bean growers. Accountants need to focus more energy and expertise in developing real time and forward looking information to drive organisational performance.

**Providers of value** - provide high quality information for sustainable development strategy

**Keepers of value** - protect natural, social, industrial and financial capital

## EXPECTED ROLE OF ACCOUNTANTS GOING FORWARD (Cont'd)

**Reporters of value-** ensure high quality reporting for stakeholders

- **Business Consultants** - Accountants should proactively advise internally and externally so that stakeholders understand the effect of the changes so that businesses realign their operations.

Financial reporting is evolving becoming more complex ,there are more areas of judgement and more qualitative disclosures are required and accountants should interact more with stakeholders to meet their growing needs.

- **Embrace technology**-Artificial Intelligence ,block chain and data analytics are the game changers for professional accountants. Data is the heart of all economic activity. There is increasing focus on data management that is Know Your Data. Investing in technology will reduce audit risks as testing will be 100% and more data is available which allows the auditor to get better business insight. The accountant in business will have lots of data from which an extraordinary view of the organisation can be obtained allowing accountants to play a more central role in the advancement and execution of strategy

## EXPECTED ROLE OF ACCOUNTANTS GOING FORWARD (Cont'd)

**“The idea that auditors and accountants are great with numbers but can’t write has to be challenged” Chun Wee Chiew 2018**