



PUBLIC ACCOUNTANTS AND AUDITORS BOARD

**FINANCIAL REPORTING AND AUDITING GUIDANCE
ON CURRENCY CONSIDERATIONS UNDER THE ENVIRONMENT
PREVAILING**

**FOR FINANCIAL YEARS BEGINNING ON OR AFTER
1 JANUARY 2018**

21 March 2019



Public Accountants and Auditors Board

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Harare

This Guidance has been issued by the Public Accountants and Auditors Board after extensive consultative work undertaken by its Zimbabwe Accounting Practices Board through its sub-committees, the Accounting Standards Committee (ASC) and the Committee For Auditing Standards (CFAS), which comprised representatives from preparers, auditors and users of financial statements, as well as Professional Accountancy Organisations (PAOs).

1. The PAAB's Legislative Mandate

1.1 *Functions of the Board*

The legislated functions of the Public Accountants and Auditors Board (the Board) are set out in Section 5 of the Public Accountants and Auditors Act (Chapter 27:12) (the PAA Act) and include, inter alia:

(g) "to represent the views of the accountancy profession on national, regional and international issues;"

1.2 *Regulation of professional standards*

In discharging its functions, Section 44(2) of the PAA Act states that the Board may, among other things, make regulations prescribing:

(a) "auditing standards, accounting standards and accountancy reporting standards for use in Zimbabwe, including the application of internationally recognized auditing, accounting and reporting standards".

On the 1st of March 2019, the Minister of Finance and Economic Development, through Statutory Instrument 41 of 2019, prescribed International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), Interpretations originated from the International Financial Reporting Interpretations Committee (IFRICs), Interpretations originating from the Standing Interpretations Committee (SICs), IFRS for SMEs Standards, International Standards on Auditing (ISAs), International Public Sector Accounting Standards (IPSASs), International Education Standards (IESs) and International Code of Ethics for Professional Accountants (including International Independence Standards) for use in Zimbabwe.

This Guidance thus does not seek to replace the prescribed standards but rather, given the relevant circumstances, to provide practical assistance in particular to preparers, including registered accountants and auditors in the preparation, presentation and audit of financial statements of entities operating in Zimbabwe for the financial years beginning on or after 1 January 2018. The registered accountants and auditors are reminded to apply professional judgement in considering the circumstances of each of the reporting entities on a case by case basis.



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Definitions

1. For the purposes of this Guidance, the following terms have meanings attributed below:
 - Fair presentation Framework – refers to a financial reporting framework that requires compliance with the requirements of the framework and;
 - Acknowledges explicitly or implicitly that to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
 - Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.
 - A fair presentation framework, among other things:
 - Normally exhibits attributes that result in information provided in the financial statements that is useful to intended users. The attributes are Relevance, Completeness, Reliability, Neutrality and Understandability. (ISA 210, Appendix 2); and
 - Must address the recognition, measurement, presentation and disclosure requirements.
 - Legal and regulatory framework – Those laws and regulations to which an entity is subject constitute the legal and regulatory framework (ISA 250;2);
 - Non- compliance with laws and regulations– Acts of omission or commission, intentional or unintentional, committed by the entity, or by those charged with governance, by management or by other individuals working for or under the direction of the entity, which are contrary to the prevailing laws and regulations. (ISA250;12);
 - RTGS dollar - means any funds held as bank deposits under the Real Time Gross Settlement system established in terms of the National Payments Systems Act (Chapter 24:23), bond



notes and coins, and mobile money (e.g. EcoCash, OneWallet, NetCash etc.). This electronic currency was introduced by the Reserve Bank of Zimbabwe on the 22nd of February 2019.

- Nostro FCAs – foreign currency bank customer accounts that pertain to free funds, diaspora remittances, international organisations’ remittances, portfolio investment inflows, loan proceeds and export retention proceeds. This was applicable for the period from the 1st of October 2018 to the 22nd of February 2019;
- RTGS FCAs – bank customer accounts that are constituted of all Real Time Gross Settlement (RTGS) or mobile money transfers (e.g. Ecocash, Onewallet, Netcash etc) and bond notes and coins deposit accounts for Individuals and Corporates. This was applicable for the period from the 1st of October 2018 to the 22nd of February 2019;
- Functional currency - is the currency of the primary economic environment in which the entity operates;
- Presentation currency - is the currency in which the financial statements are presented;
- Foreign currency - is a currency other than the functional currency of the entity;
- Exchange rate - is the ratio of exchange for two currencies;
- Spot exchange rate - is the exchange rate for immediate delivery;
- Closing rate - is the spot exchange rate at the end of the reporting period;

Background

2. In 2009, Zimbabwe adopted the multi-currency system to replace the sole use of the Zimbabwean dollar (ZWS). Consequently, most entities adopted the United States Dollar (USD) as the functional and presentation currency.
3. Zimbabwe witnessed significant monetary and exchange control policy changes in 2016 and increasingly through to 2019. The relevant changes were a result of continued economic challenges faced by the country that resulted in, among other things, foreign currency shortages. In response,



the Reserve Bank of Zimbabwe (RBZ) together with the Ministry of Finance and Economic Development promulgated a series of exchange control operational guidelines and compliance frameworks.

Introduction of Bond Notes and Coins

4. Summarised below, are some of the factors that were noted between 2016 and 2017:
 - Introduction of government directives to open the Real Time Gross Settlement System (RTGS) to use other currencies (i.e. ZAR etc.) and the requirement for entities to further adopt and embrace multi-currencies; and
 - Introduction of \$200 million worth of bond notes in addition to the bond coins initially issued;
 - The bond notes and coins were supported by the gazetting of Statutory Instrument 133 of 2016 which prescribed that the bond notes were legal tender and would be at par with the USD;
 - Increased use of alternative transaction and money transfer platforms (e.g. mobile money, point of sale etc.); and
 - Promulgation of new legislation in the form of statutory instruments 122A of 2017 that defines currency to include bond notes and coins only for the purposes of the regulations. Statutory Instrument 122A of 2017 was crafted with the objective of curbing illegal dealings in currency and giving the police special powers to confiscate the currency notes.

2018 Separation of FCA RTGS Account from FCA Nostro Account

5. In 2018, the following were announced through Monetary Policy Statements issued by the RBZ and announcements by the Minister of Finance and Economic Development:
 - In February 2018, RBZ instructed banks to ring fence foreign currency deposits by foreign exchange earners; and
 - In October 2018, banks were instructed to separate and create distinct (separate) bank accounts for depositors, namely: RTGS FCA and Nostro FCA accounts based on the “Know Your Client” KYC of their clients, effective 15 October. The exchange rate remained fixed



at 1:1 and the balances in the two types of accounts continued to be referred to as the United States Dollar (US\$); and

- The requirement by the Zimbabwe Revenue Authority (ZIMRA) through Public Notice Number 45 of 2018 that businesses should remit taxes in the specific currencies in which they collected them without any conversion to RTGS, bond notes, local point of sale and mobile money.

Constrained exchangeability

6. Due to the foreign currency constraints experienced in the economy, some entities were leaving obligations unsettled for long periods of time. This position therefore led to constrained exchangeability between the RTGS FCA and the USD Nostro FCA for some entities. A lack of or constrained exchangeability arises if an entity is unable to readily exchange a currency for another currency through a legal exchange mechanism within a reasonably short period of time.

2019 Introduction of the RTGS Dollar and the Interbank foreign exchange market

7. The Monetary Policy Statement of 20th of February 2019, among other things, pointed out that:
 - Since the last Monetary Policy Statement on the 1st of October 2018, Zimbabwe witnessed significant changes on the economic front. The economy took a different course of direction from a more positive economic trajectory to a more highly inflationary environment;
 - The foreign exchange premiums on the parallel market ranged from 1.40 to 1.80 to the US dollar in September 2018 increased to levels of between 3.0 to 4.0 in February 2019;
 - The movement in foreign exchange premiums has had negative pass-through effects on inflation which increased particularly from the September year-on-year level of 5,4% to 20,9% in October 2018 and closed the year at 42,09% in December 2018;
 - The shift in economic fundamentals during the last quarter of 2018 also increased the practice by retailers of charging goods and services based on a multi-tier pricing system, where a single



product had different prices depending on the mode of payment, e.g. USD cash, electronic payment, mobile money and bond notes;

- The current pricing structure indicates that the majority of transactions in the economy were now largely being conducted in electronic money and bond notes at implied parallel market rates of around 3.0 to 3.5 to the USD.
8. On the 22nd of February 2019, a statutory instrument (S.I) 32 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 RU 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. In addition, Statutory Instrument 33 of 2019 was issued on 22 February 2019 and it specified, among other things, that for accounting and other purposes, all assets and liabilities that were immediately before the effective date valued in United States Dollars (other than assets and liabilities referred to in section 44C(2) of the Reserve Bank of Zimbabwe Act) shall on and after the effective date be deemed to be values in RTGS dollars at a rate of one-to-one to the United States Dollar.

Aim of this Guidance

9. Acknowledging the complexity of the environment prevailing as summarised in the background section above and the fact that a one-size-fits-all approach to addressing the same will not be appropriate, the aim of this Guidance is to:
- outline and highlight considerations that Preparers and Auditors of financial statements will find themselves required to make during the financial year-end reporting season for periods commencing on or after 1 January 2018.
10. The Guidance does not establish new requirements or contain exemptions from the requirements of IFRSs and ISAs and should be read with the relevant IFRSs and ISAs, as applicable. Preparers and Auditors must exercise professional judgement to determine the extent to which any of the guidance provided may be appropriate in light of the requirements of the IFRSs and ISAs and the particular circumstances of each entity.



11. The accounting profession was seized with the currency considerations since the issuance of its previous guide on the 26th of February 2018. Before that process could be completed, the developments as summarised in the background section above continually informed the relevant fact patterns culminating in S.I. 33 of 2019 which was issued on the 22nd of February 2019 and which, among other things, prescribed the accounting for RTGS balances and bond notes, and USD transactions as well as the related conversions.

Effective Date of the Guidance

12. This Guidance is effective for financial periods commencing on or after 1 January 2018.

Prescribed Financial Reporting Frameworks

13. In terms of Section 44(2) of the PAA Act, the PAAB Board may make regulations prescribing auditing standards, accounting standards and accountancy reporting standards for use in Zimbabwe, including the application of internationally recognized auditing, accounting and reporting standards.
14. On the 1st of March 2019, the Minister of Finance and Economic Development, through Statutory Instrument 41 of 2019, prescribed International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), Interpretations originated from the International Financial Reporting Interpretations Committee (IFRICs), Interpretations originating from the Standing Interpretations Committee (SICs), IFRS for SMEs Standards, International Standards on Auditing (ISAs), International Public Sector Accounting Standards (IPSASs), International Education Standards (IESs) and International Code of Ethics for Professional Accountants (including International Independence Standards) for use in Zimbabwe.
15. In addition to the above, S.I. 41 of 2019 also formally prescribed IFRS as the financial reporting framework that was adopted by the Board and used by entities in Zimbabwe over the past years (i.e. retrospectively). This therefore remains the financial reporting framework in use.



16. An entity cannot rectify inappropriate accounting policies either by disclosure of the accounting policies used or by notes or explanatory material (IAS1:18)

IFRSs Requirements: IAS 21 The Effect of Changes in Foreign Exchange Rates

17. Some entities operating in Zimbabwe applied a multi-tiered pricing structure during the period under consideration, where a single product had different prices depending on the mode of payment, whether USD cash, electronic payment, 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 Effect of Changes in Foreign Exchange Rates* would apply.

Impact of Legal and Regulatory Framework on Financial Reporting

18. Statutory instrument 133 of 2016, Statutory Instrument 33 of 2019 and the Monetary Policy Statements of the 22nd of February 2018, 1st of October 2018 and 20th of February 2019 all confirmed the parity of 1:1 between the RTGS balances and Bond Notes, and the USD.
19. S.I. 33 of 2019 may present challenges in terms of compliance with IFRSs due to possible conflict with IAS 21 for some entities. IAS 21 requires the use of a spot rate in accounting for transactions. During the 2018 financial year, some entities may have experienced premiums and discounts on the official foreign exchange rate of 1:1 between the RTGS balances and Bond Notes and the USD.
20. S.I. 33 of 2019 was issued in terms of section 2 of the Presidential Powers Temporary Measures Act [Chapter 10:20]. Section 5 of that Act provides that:
“ Regulations made in terms of section two shall, to the extent of any inconsistency, prevail over any other law to the contrary, apart from regulations that have been made and are in force in terms of the Emergency Powers Act [Chapter 11:04]”.



Financial Reporting Implications considered.

21. Preparers of financial statements are expected to comply with the laws and regulations of the country although that decision is of course the sole prerogative of the directors and or those charged with governance of the respective entities.
22. Preparers are expected to assess the impact of the entity's inability to comply with the requirements of IAS 21 *Effects of Changes in Foreign Exchange Rates*. The assessment should cover the financial statements as a whole, including the Statement of Financial Position and the Statement of Comprehensive Income.
23. The assessed impacts can be considered as significant or not significant depending on the facts and circumstances of the entity and that may affect the fair presentation of the financial statements.

Events after the Reporting Period (International Accounting Standard 10)

24. Non- adjusting events after the reporting period, are events that are indicative of conditions that arose after the reporting period.
25. Preparers should take note of the following events among any other relevant events:
 - The Monetary Policy Statement of the 20th of February 2019;
 - Exchange Control Directive RU 28 of 2019 which introduced an interbank market for the RTGS Dollar and the USD issued on the 22nd of February 2019; and
 - Statutory Instrument 33 of 2019 issued on the 22nd of February 2019 which, for accounting and other purposes, deemed all assets and liabilities that were valued in USD immediately before the 22nd of February 2019 to be valued in RTGS Dollars at a rate of 1:1.
26. It is generally expected that the developments noted are likely to be significant for entities and it is recommended that the following be complied with in that regard:
 - Disclosure requirements of paragraph 21 of IAS 10 *Events after the Reporting Period* relating to non-adjusting events should be complied with in full;



- Preparers are encouraged to disclose separately and in columnar form, as illustrated in Appendix 1, the elements of the statement of financial position analysed into three categories namely: Monetary Assets and Liabilities (Nostro FCA USD), Monetary Assets and Liabilities (RTGS Dollar) and Non-monetary Assets and Liabilities (whose underlying values or amounts are denominated in USD). The total amount for each line item should be reconciled to the amounts presented in the primary Statement of Financial Position.
- At a minimum, in the notes to the financial statements, as illustrated in Appendix 1, it is recommended in this Guidance that three additional sets of the Statement of Financial Position be prepared.
- Preparers should also disclose the key assumptions made by management in the preparation of the analysis as well as explaining that the amounts presented may therefore not reflect the opening balances in RTGS Dollars going forward (i.e. for future accounting periods)
- Where it is practicable and the amounts considered reliable, entities are encouraged to present a Statement of Comprehensive Income in a similar manner.
- Narrative and similar disclosures to provide appropriate and relevant information to users is also strongly encouraged.

Functional and Presentation Currencies

27. Since there was no official and legal local currency prior to the 22nd of February 2019, in particular given the provisions of S.I. 33, the presentation currency of most entities in the Country is expected to remain as the United States Dollar as at 31 December 2018 and for the year then ended. This is a matter, however, that remains the sole prerogative of directors or those charged with governance of respective entities.
28. The notes to the financial statements dealing with the functional and presentation currencies should be expanded to include a detailed description of currency and be appropriately referenced to the



Events after the reporting date note which will be expected to cover the introduction of the RTGS Dollar, amongst other relevant developments.

Forming an Audit Opinion on the Financial Statements

29. *In terms of auditing guidance, it is important, given the comments made above in this Guidance that International Standards on Auditing (ISAs) remain fully applicable and the aim therefore is to highlight and reinforce some relevant aspects of the ISAs without substituting, detracting or derogating from this principle. This section of the Guidance should therefore be read in that context:*

30. As auditors should be aware, the auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with IFRSs.

31. If the auditor:

(a) concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or

(b) is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement,

the auditor shall modify the opinion in the auditor's report in accordance with ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*.

32. The auditor issues an appropriately modified auditor's opinion in accordance with ISA 705:

- When the auditor concludes that the financial statements do not adequately describe or refer to the applicable financial reporting framework or basis of accounting; and or
- When an entity departs materially from the applicable or prescribed financial reporting framework and the aim of the departure is not to achieve fair presentation.



33. The table below illustrates how the auditor’s judgement about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

<i>Nature of Matter Giving Rise to the Modification</i>	<i>Auditor’s judgement about the Pervasiveness of the Effects or Possible Effects on the Financial Statements</i>	
	Material but not pervasive	Material and Pervasive
Financial statements are materially misstated.	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence.	Qualified opinion	Disclaimer opinion

34. On the Report on other Legal and Regulatory requirements, the Auditor is required to provide relevant information on whether the entity complied the Companies Act, Banking Act, Insurance Act and any other relevant laws and regulations to the extent applicable and pertinent to his/her audit report and requirements of the ISAs.

35. **Appendix 2** is a decision tree which, based on relevant ISAs, can assist auditors to decide on the most appropriate audit opinion to issue with respect to the 2018 financial statements. The table is meant for illustrative purposes and is not meant to be a substitute for auditors’ professional obligations to apply fully the relevant ISAs and other relevant requirements, which remain applicable in Zimbabwe as pointed out above in this Guidance.



APPENDIX 1: Illustrative sensitivity analysis for events after the reporting period

Element	Components of reported amounts				Sensitivity Analysis		
	Monetary Assets/ Liabilities Nostro FCA USD	Monetary Assets/ Liabilities RTGS Dollar	Non-Monetary Assets/ Liabilities USD	Total USD @ 1:1	Total RTGS \$ @ 1:2.5	Total RTGS \$ @ 1:X	Total RTGS \$ @ 1:Y
Bank and Cash	100,000	500,000	-	600,000	XXX	XXX	YYY
Property and Equipment	-	-	1,000,000	1,000,000	XXX	XXX	YYY
Accounts Payable	(200,000)	(3,000,000)	-	(3,200,000)	XXX	XXX	YYY

Key assumptions: List them here.



APPENDIX 2: Decision Tree for possible audit opinions



