



The South African Institute of Chartered Accountants

15 June 2005

The Technical Director  
International Public Sector Accounting  
Standards Board  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017  
United States of America

Email: [publicsectorpubs@ifac.org](mailto:publicsectorpubs@ifac.org)

Dear Sir

***SAICA SUBMISSION ON EXPOSURE DRAFT 24 – FINANCIAL REPORTING  
UNDER THE CASH BASIS OF ACCOUNTING – DISCLOSURE REQUIREMENTS  
FOR RECIPIENTS OF EXTERNAL ASSISTANCE***

In response to your request for comments on Exposure Draft 24 – *Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance*, issued by the International Federation of Accountants' International Public Sector Accounting Standards Board (IPSASB), attached please find the comment letter prepared by the South African Institute of Chartered Accountants (SAICA).

We would like to thank you for the opportunity to provide comments on the document.

Please do not hesitate to contact me should you wish to discuss any of our comments.

Yours sincerely

Patrick Maranya  
**Project Director – Public Sector**

cc: Roy Harichunder (Chairperson of the Public Sector Committee)

## GENERAL COMMENTS

Overall, we support Exposure Draft 24 – *Disclosure Requirements for Recipients of External Assistance*, as it provides guidance to entities on how such entities should disclose information relating to external assistance. The guidance will ensure that there is consistent and comparable information provided by all recipient of external assistance. In addition, the disclosures will provide users of financial statements of such entities with useful information to understand the level of reliance and assistance available to the entity.

We are in agreement with the principles in the exposure draft. However, we have noted some areas where more guidance, clarification or amendments are required in order to enhance the disclosure of the information required in the proposed standard and have included our comments in this regard.

In addition, even though we consider the disclosures to be necessary and appropriate, the practical implementation will be onerous. This may have a major impact on developing nations which are main recipients of external assistance.

## SPECIFIC COMMENTS

### *Question 1*

*Whether the proposed definition of “external assistance” in paragraph 5 is sufficiently broad to encompass all official resources received.*

We agree that the definition is sufficient. However, consideration should be made on the following issues.

- The current definition states that “*official resources means all loans, grants, technical assistance, guarantees or other assistance provided or committed ...*”. We recommend that, other than being specific on the types, it would be more appropriate if the definition included the types as examples. The preparers of financial statements may struggle to classify other types of resources received that are not listed in the definition.
- The examples should also include ‘goods or services in-kind’ which have been covered in detail in the exposure draft. In addition, it is important to expand or explain the term ‘technical assistance’, e.g. by providing examples. We are of the view that such assistance would fall within ‘services in-kind’. We recommend that mention be made of technical assistance in the section dealing with ‘goods or services in-kind’.
- It would be appropriate to expand the introductory notes to explain the fact that external assistance as required to be repaid in some instances, e.g. loans, whilst in others repayment would only be required if terms and conditions are not met, e.g. grants.

## ***Question 2***

*Whether other sources of assistance, such as assistance provided by non-governmental organisations (NGOs), should also be included in the definition of “external assistance”. Currently, the Exposure Draft requires that entities disclose all official resources received. Official resources as defined in paragraph 5 would exclude certain assistance received from NGOs.*

We support the inclusion of assistance provided by non-governmental organisations in the definition of ‘external assistance’. It will ensure that disclosure in the financial statements include all the assistance that entities receive.

Such disclosures will provide users of the financial statements with holistic, adequate and complete information of the total amount of assistance received, used and available for the entity; which is important for the assessment of its going concern. It enables the users to know the level of dependence of assistance by the entity. The exclusion of NGO assistance would limit the amount of information available to users of financial statements prepared on cash basis of accounting.

We recommend that an extension be made to address assistance provided or committed under binding agreements by other entities besides the government, bilateral and multilateral agencies, e.g. a private entity providing assistance to public sector entity.

## ***Question 3***

*Whether the Exposure Draft should specify the categories of external assistance as required in paragraphs 13-15 or only require the disclosure of external assistance by “major classes” without further specification.*

We support the proposal in the exposure draft to specify the categories of external assistance as required by paragraphs 13-15. This would enable the users to understand the purposes in which the assistance was provided.

Paragraph 13-15 require such information be disclosed separately, either on the face of the statement of cash receipts and payments or in the notes to the financial statements. We recommend that disclosure of external assistance by category be required only in the notes to financial statements. The disclosure on the face of statement of cash receipt and payments may be onerous and extensive, as some entities may have received many types of external assistance.

Paragraph 15 requires disclosure of providers of external assistance by major classes when there is more than one provider. We would recommend that there be a requirement to disclose the names of each provider by way of a note in the financial statements. The information would enable the users to understand the names and the amount of assistance provided by each provider to the entity. It would also promote transparency which is a good reflection to the donors

#### ***Question 4***

*The proposal to disclose the balance of, and changes in, undrawn external assistance during the period (paragraph 22).*

Agreed, such information is important to users of financial statements. It would enable the users to note the availability and accessibility of funds and going concern of the entity.

#### ***Question 5***

*The proposal to disclose the terms and conditions of external assistance agreements as required by paragraphs 26-28 and any non-compliance thereof (paragraph 36).*

We agree with the proposal.

However, we propose that a requirement be included in paragraph 36 for entities to disclose the reasons for non-compliance in the financial statements.

#### ***Question 6***

*Whether the proposals in paragraph 44 as noted below are appropriate:*

- (a) To disclose the fair value of non-cash goods-in-kind; and*
- (b) That fair value should be based on the prices of equivalent goods or services in the recipient country.*

The proposals are appropriate. The principle is in line with the proposed approach for measuring goods or services received in-kind, in the IPSASB project on revenue from non-exchange transactions.

We would recommend inclusion of an option not to disclose fair values if its' determination is impractical. Establishing fair values may be a challenge that many entities would likely face. The exposure draft should require disclosure where this option is applied.

In addition, consideration should be made to include guidance, in an appendix, on how to determine the fair value, e.g. market prices, index etc.

#### ***Question 7***

*Whether the disclosures proposed are appropriate. If the disclosures are considered excessive, the IPSASB would welcome input on which disclosures should not be required. The IPSASB would also welcome input on any key disclosures that have not been dealt with and should be required.*

Other than those proposed in our responses, we consider the disclosures to be adequate.

### ***Question 8***

*Whether the proposal in paragraph 54:*

- (a) *For a transition period of two years is sufficient to apply this Standard. Is a longer transition period necessary to ensure that the appropriate authorities in each recipient country are able to access the data necessary to properly account for external assistance?*
- (b) *To exempt the requirements to disclose comparative figures during the first year of application of this Standard is appropriate.*

The proposed transition period is reasonable as some entities will require time to compile the information. It is correct to state that there will be practical challenges in many entities to source and collate the information required by the exposure draft, hence the need for the two year period. However, the Board should consider encouraging early disclosure of the information, if available.

### **OTHER COMMENTS**

#### ***Definition of foreign currency***

The term ‘reporting currency’ is used in many of the definitions in the exposure draft. Considering that the IPSAB is undertaking a project to amend 11 IPSASs including IPSAS 4 – *The Effects of Changes in Foreign Exchange Rates*, to incorporate the amendments of the improvement project of the International Accounting Standards Board (IASB), we recommend that the term ‘reporting currency’ be aligned with the proposed amendment in this standard. All affected definitions should also be amended.

#### ***Definition of economic entity***

Paragraph 11 makes reference to the term ‘economic entity’. We recommend including a definition of the term in the exposure draft to be consistent with cash based standard where the term is defined.

#### ***Appendix 1***

##### ***Consolidated Cash Receipt and Payments***

The disclosure of external assistance should be expanded to include NGOs and other providers, as proposed in the comments on Question 2 above.

***Note 1 – External Assistance***

Providers of borrowed funds and grant funds should disclose funds from NGOs and other providers, as proposed in the comments on Question 2 above.

As proposed in the comments on Question 3, a note should be disclosed, listing by name each provider of finance and the amounts of assistance granted.

***Note 2 – Undrawn External Assistance***

To be in line with the disclosure requirements in paragraphs 22 relating to movement of undrawn external assistance, we propose the change of the term in the note 2 “*external assistance received*” to “*external assistance drawn or utilised*”, which should be a reduction.

We also recommend disclosure of the closing amount of undrawn external assistance, both by reporting (local) currency and foreign currency. Exchange rates used should be disclosed in the accounting policies section of the financial statements.

#93850