

**Meeting:** IPSASB Consultative Advisory Group

**Meeting Location:** Luxembourg, Luxembourg

**Meeting Date:** June 26, 2017

# Agenda Item 8

For:

☐ Approval

☒ Discussion

☒ Information

## Cash Basis IPSAS

<b>Project summary</b>	To make amendments to <i>Financial Reporting Under the Cash Basis of Accounting</i> (The Cash Basis IPSAS)	
<b>Meeting objectives</b>	<b>Topic</b>	<b>Agenda Item</b>
<b>Discussion Items</b>	<a href="#">Cash Basis IPSAS – Limited Scope Project</a>	8.1
<b>Other supporting items</b>	<a href="#">Appendix A: IPSASB Due Process Checklist</a>	8.2
	<a href="#">Appendix B: Links to Other Documents</a>	8.3

# Agenda Item 8.1

## Background

1. The Cash Basis IPSAS was issued in January 2003, with subsequent updates in 2006 and 2007. The Cash Basis IPSAS is organized into two parts:
  - (a) Part 1 – Requirements; and
  - (b) Part 2 – Encouraged Additional Disclosures.
2. In 2008 the IPSASB established a Task Force to consider implementation issues with the Cash Basis IPSAS. The Task Force completed its review of the Cash Basis IPSAS in 2010 and [published a report with a number of recommendations](#).
3. The IPSASB considered the recommendations from the Task Force in its development of the 2015 forward Strategy and Work Plan and asked constituents if a revision to the Cash Basis IPSAS to address the Task Force recommendations should be undertaken. Alternative options included deleting the Cash Basis IPSAS from the IPSASB's literature or retention in the IPSASB's literature with no changes.
4. Following consideration of the responses from constituents, the IPSASB concluded that a limited scope project dealing with the key implementation issues identified by the Task Force should be initiated. This led to the approval of [ED 61, Amendments to: Financial Reporting under the Cash Basis of Accounting](#) in December 2015 and its publication in February 2016. The primary objective of ED 61 was to propose removal of major obstacles to the adoption and implementation of the Cash Basis IPSAS. ED 61 proposed the:
  - (a) Relocation of the requirement to prepare and present consolidated financial statements for all controlled entities from Part 1 to Part 2;
  - (b) Relocation of the requirements that entities disclose information about external assistance from Part 1 to Part 2; and
  - (c) Relocation of the requirements that entities disclose information about third party payments<sup>1</sup> from Part 1 to Part 2.
5. On the release of ED 61 the IPSASB clarified that that the Cash Basis IPSAS is meant to be a step on the path to the adoption of the accrual basis IPSASs, rather than an endpoint. This reflected the view of a number of IPSASB members that that revision of the Cash Basis IPSAS should not be seen as an endorsement of the cash basis of accounting.
6. ED 61 also proposed to update the Cash Basis IPSAS to reflect changes made (additions, withdrawals and replacements) to existing accrual IPSASs and Recommended Practice Guides since the last update to the Cash Basis IPSAS.
7. The IPSASB has not yet considered the comments received on ED 61 in detail nor debated the next steps in the project, due to the need to devote agenda time to higher priority projects and staff

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<sup>1</sup> A third party payment is when an external party (third party) either settles an obligation of the entity or purchases goods and services for the benefit of the entity.

constraints. However, the IPSASB does plan to consider the responses to ED 61 and approve amendments to the Cash Basis IPSAS in the second half of 2017.

## Responses Received and Views on Scope

8. The objective of the CAG discussion is to consider a high-level analysis of the comments received to ED 61 and to provide the IPSASB with CAG views on any public interest issues arising from these responses.
9. Eighteen responses were received to ED 61 from a number of jurisdictions. ED 61 asked two Specific Matters for Comment (SMCs). SMC 1 addressed the issues identified in paragraph 4 (a)-(c) above and SMC 2 addressed the issues in paragraph 6. This session will only report on responses to SMC 1.
10. SMC 1 asked respondents to comment on proposals to move from Part 1 (mandatory) to Part 2 (encouragements) provisions related to:
  - (a) Preparation of consolidated financial statements;
  - (b) Disclosure of information about external assistance; and
  - (c) Disclosure of information about payments to third parties.
11. There was majority support for all three proposals. However, the proposals regarding external assistance and third party payments were not as well supported as the proposal on consolidated financial statements.
12. Those respondents, that did not support making disclosures about external assistance and payments to third parties non-mandatory, argued that it would undermine the transparency of the financial statements. Respondents argued that public sector entities may not disclose significant benefits received thus potentially depriving donors and others of useful information. Further, donors would be unable to assess how the funds they provided were being utilized.
13. A counter argument to these objections is that general purpose financial statements are produced for users that cannot demand specific information. Donors are likely to be able to demand such information through special purpose financial reports.

### **Question to the CAGs:**

- *Is the public interest better served by the Cash Basis IPSAS having less requirements and more encouraged disclosures, even though some argue the financial statements would be less useful for accountability and decision-making?*
- *Is the public interest better served by the IPSASB focusing entirely on developing accrual IPSAS after the current limited scope project on the Cash Basis IPSAS is complete?*
- *Is the public interest better served with a Cash Basis IPSAS that is easier to adopt and implement to help constituents build capacity so they can progress towards adoption and implementation of the accrual basis IPSASs?*

**Appendix A: IPSASB Due Process Checklist (condensed to included portions relevant to the CAG)**

Project: Cash Basis IPSAS

#	Due Process Requirement	Yes/No	Comments
<b>A. Project Brief</b>			
A1.	A proposal for the project (project brief) has been prepared, that highlights key issues the project seeks to address.	Yes	The IPSASB considered the project brief at its March 2015 meeting (see <a href="#">Agenda Item 10</a> ).
A2.	The IPSASB has approved the project in a public meeting.	Yes	See the minutes of the <a href="#">March 2015 IPSASB meeting (section 10)</a> .
A3.	The IPSASB CAG has been consulted on the project brief.	N/A	<ul style="list-style-type: none"> <li>This step is not in effect for this project.</li> </ul>
<b>B. Development of Proposed International Standard</b>			
B1.	The IPSASB has considered whether to issue a consultation paper, or undertake other outreach activities to solicit views on matters under consideration from constituents.	N/A	As stated in the Project Brief, the IPSASB concluded this is a project would not have a consultation paper.
B2.	If comments have been received through a consultation paper or other public forum, they have been considered in the same manner as comments received on an exposure draft.	N/A	
B3.	The IPSASB CAG has been consulted on significant issues during the development of the exposure draft.	N/A	
<b>D. Consideration of Respondents' Comments on an Exposure Draft</b>			
D4.	The IPSASB CAG has been consulted on significant issues raised by respondents to the exposure draft and the IPSASB's related responses.	Yes	<p>The IPSASB published <a href="#">ED 61, Amendments to Financial Reporting under the Cash Basis of Accounting</a> (the Cash Basis IPSAS) in February 2016.</p> <p>The <a href="#">responses received</a> to ED 61 are publicly posted on the IPSASB website.</p> <p>The IPSASB CAG was consulted on the limited scope Cash Basis IPSAS project in June 2017.</p>

**Agenda Item 8.2**

#	Due Process Requirement	Yes/No	Comments
D5.	Significant comments received through consultation with the IPSASB CAG are brought to the IPSASB's attention. Staff have reported back to the IPSASB CAG the results of the IPSASB's deliberations on those comments received from the CAG.		IPSASB will consider the comments from CAG discussions together with those from respondents to the ED.

### Appendix B: Links to Other Documents

14. This appendix provides links to document which may be useful to CAG members in providing a background related to the project.
  - (a) Cash Basis IPSAS [project page](#)