



DISCLOSURE REQUIREMENTS FOR RECIPIENTS OF EXTERNAL ASSISTANCE

IFAC International Public Sector Accounting Standards Board

Comments from ACCA

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Executive Summary

The Association of Chartered Certified Accountants (ACCA) is pleased to have this opportunity to comment on the International Public Sector Accounting Standards Board (IPSASB)'s proposed International Public Sector Accounting Standard (IPSAS), *Financial Reporting Under the Cash Basis of Accounting - Disclosure Requirements for Recipients of External Assistance* (the *Exposure Draft*). These comments have been prepared in consultation with members of ACCA's Financial Reporting Committee and the ACCA Public Sector Technical Issues Panel, a group of experienced accountants working in the public sector. In addition, the input from several ACCA members in Africa and Asia has informed this response.

ACCA commends the IFAC IPSASB for developing this draft standard for the cash basis of accounting with the following objectives:

- to increase the comparability and usefulness of the financial information to users of the statements
- and
- to reduce the costs that recipients of such assistance face in complying with the different reporting requirements that may be imposed on them by providers of assistance (paragraph BC 4).

We are, however, concerned that the disclosure requirements proposed in this *Exposure Draft* will be too onerous for a number of the countries for which the draft standard is being developed. In addition, the range of mandatory disclosures proposed may, in many cases, lead to an increase in costs for recipient governments and thus mean that the second objective is not achieved.

We believe that only the core requirements for recipient governments to account for external assistance received in cash and accounted for within the government's own financial systems should be a mandatory part of the



proposed IPSAS, at least in the medium term. Additional disclosure requirements should be included in discretionary sections of the proposed standard. This would ensure that the proposed standard provided a practical benchmark of existing good practice while also encouraging further good practice disclosures.

Detailed Points

Current good practice

1. We are concerned that the disclosure requirements proposed in this *Exposure Draft* will be too onerous for a number of the countries for which the draft standard is being developed. In addition, the range of mandatory disclosures proposed may, in some cases, lead to an increase in costs for recipient governments.
2. Tanzania and Uganda are both considered to provide examples of reasonably good practice in terms of public-sector financial management and accountability, at least in comparison with other Anglophone developing countries. In both cases, efforts are being made to implement the requirements of the IFAC cash basis IPSAS. In addition, over the last few years the Governments of each of these countries have developed separate and different approaches to accounting for external assistance and reporting on budgetary outcomes to their development partners.
3. In terms of the disclosure requirements proposed in the *Exposure Draft*, the Tanzanian reports only comply with one of the 15 requirements (to provide an analysis of total loans and grants received, outlined in paragraph 16) and part of a further requirement (to provide an analysis of total external assistance received, outlined in paragraph 13).
4. Likewise, the Ugandan report does not incorporate many of the disclosure requirements proposed by the IPSASB. It adopts only two of the 15 requirements (those to provide an analysis of external assistance by major classes of provider, outlined in paragraph 15 and to provide an analysis of total loans and grants received, as outlined in paragraph 16). In addition, it complies in part with a further two (to provide an analysis of total external assistance received, as

outlined in paragraph 13 and to provide details of external debt cancelled or rescheduled).

Analysis of external assistance

5. We consider that the analysis of external assistance into the six categories required by the *Exposure Draft* is over-prescriptive, may increase costs for the reporting entities and may lead to disputes and confusion with their development partners. We consider that such an analysis should be a secondary requirement and so relegated to an additional section covering disclosures which are encouraged to be adopted, but are not mandatory.

Emergency assistance

6. The proposed standard should note the particular challenges of accounting for emergency assistance, especially when this is made in-kind or to third parties. Thus, in most cases, it should be recognised that such external assistance will not be disclosed in the financial statements of recipient governments (an exception would be emergency assistance provided in cash direct to the recipient government).

External assistance paid to third parties

7. Again, we consider that the required disclosure of payments to third parties is of secondary importance and should be relegated to a section of optional additional disclosures. Governments in receipt of such external assistance may have difficulty in reporting such information unless this detail was to be provided by each of its development partners.
8. We believe that the core, mandatory requirement of the proposed standard should only cover government to government external assistance, that is aid which is actually managed by and recorded in the financial systems of the recipient entities. This will include, for example, budget support, basket funds and project support which is

provided directly to entities which are part of the reporting entity. For completeness and increased comparability, disclosures of external assistance provided in the form of support to entities with independent financial systems which are not covered by the relevant financial statements and by payments to third parties should be encouraged, but such disclosures should not be a mandatory part of the proposed standard.

9. In paragraph 14 of the *Exposure Draft* there appears to be a typographical error, with reference being made to external assistance paid 'by third parties' rather than 'to third parties'.

Disclosure of separate providers of external assistance

10. We consider that where external assistance is received from more than one provider then this should be analysed into each provider. In addition, the notes to the financial statements should provide details of the assistance in the currency in which it was provided. This disclosure, which is an addition to those proposed in the *Exposure Draft*, would allow each provider to identify in the audited financial statements of the entity the total assistance which they have provided. The Ugandan *Annual Budget Performance Report* referred to above provides details of external assistance received from each development partner in the form of budget support analysed into loans/grants and Poverty Action Fund/other. These payments are reported in US dollars.

Disclosure of rescheduled or cancelled external assistance debt

11. We agree that an entity should "disclose separately in the notes to the financial statements the amount of external assistance debt rescheduled or cancelled" (paragraph 50). However, we consider that the additional requirement to disclose 'the terms and conditions associated with the restructuring of the entity's debt' may be unnecessarily onerous. For example, in Ghana there are over 100 loan agreements, thus the disclosure of even the key terms and conditions would form a significant extension to the Government's financial



statements.. As a result we consider that this additional requirement should be included in an additional section of optional good practice.

Additional disclosure requirements

12. We consider that the following disclosure requirements outlined in the *Exposure Draft* (paragraphs 22 - 49) are not essential for the reporting of external assistance and are not necessarily existing good practice. Thus we believe that these requirements would be better included in an additional section outlining optional good practice, at least in the medium term:
- receipt of goods or services in-kind
 - undrawn external assistance
 - non-compliance with terms and conditions of external assistance
 - terms and conditions of external assistance loans or grants
 - guarantees
- and
- repayment terms of external assistance loans.
13. We believe, however, that, with the exception of the first two of the above points, IFAC could indicate that the proposed IPSAS will be revised in five years' time, with the intention of making these disclosure requirements mandatory.

Loans administered on behalf of a third party

14. We agree with the principles applied in paragraph 21 of the draft standard. We believe, however, that it would be significantly easier for the providers of such external assistance to follow such loans or grants and a clearer picture would be provide if both liability and assets are fully recognised in the financial statements of the entity which is administering the external assistance.

Good practice by development partners

15. We note that two of the Public Expenditure and Financial Accountability (PEFA) benchmarks on good financial management refer to the role of donors. The first provides a benchmark on the extent to which direct budget support is provided promptly and in line with commitments. The second refers to the extent to which donors provide recipient governments with information on a quarterly basis on the aid which is to be provided and on the project aid which has been provided. The report of the *Commission for Africa*, page 41, stated earlier this year that international donors:

fail to live up to their funding pledges. And they provide funds over short timeframes, which deters African governments from making long-term commitments to projects they know they could not afford to continue if funding dried up after one or two years. Where aid is ineffective donors are sometimes to blame as much as recipients. Donor countries must change their approach.

16. In addition, according to Oxfam (*Paying the Price*, 2004):

In Zambia, more than three quarters of donor agencies fail to notify the government about actual aid disbursements, making effective financial planning extremely difficult for the government. In Tanzania, 20 out of 39 donor agencies submitted no information about project or programme spending when asked to do so by government.

17. ACCA believes that it would be useful for the proposed standard to require at least the main providers of external assistance to provide an annual report to the government to which it has provided assistance. This report would provide much of the detail which the current *Exposure Draft* suggests should be included (at least within the notes) in the financial statements of the recipient government. Such a report should cover the financial year of the recipient government, should be provided within two months of the end of this financial year and should cover, for example:

- an analysis of total external assistance provided, analysed into the categories currently suggested by paragraph 13 of the *Exposure Draft*
 - payments made to third parties to settle the government's obligations (paragraph 14)
 - the amounts of any external assistance debt rescheduled or cancelled (paragraph 50)
 - undrawn external assistance (paragraph 22-24)
 - terms and conditions of external assistance loans or grants (paragraph 26-28)
 - guarantees (paragraph 33)
 - non-compliance with terms and conditions of external assistance (paragraph 36)
 - repayment terms of external assistance loans (paragraph 39-40)
- and
- receipt of goods or services in-kind (paragraph 44).

1. We consider that such an annual report from a provider of external assistance should also provide a comparison of actual remittances, compared with those which were proposed in agreements with the recipient government.

1. In addition, we believe that governments and international financial institutions which have provided loans to governments of developing countries should ensure that demand notes for interest and capital repayments are submitted sufficiently promptly for such payments to be made on time. The Tanzanian *Quarterly Budget Execution Report* for the first quarter of the 2004/05 financial year stated that delays in the submission of such demand notes were the main reason for the under-spend in debt servicing for that quarter (page 1).

Specific Matters for Comment

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

We consider that the definition is sufficiently broad. However, we consider that the mandatory part of the proposed standard should only refer to external assistance paid in cash to the reporting entity. The main objective of this standard should be to ensure that such payments are adequately accounted for in the recipient government’s financial statements.

2. *Whether other sources of assistance, such as assistance provided by nongovernmental organizations (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 consider that the proposed standard could also include external assistance made by NGOs to the extent that these are subject to formal agreements and that the payments are made in cash directly to the reporting entity. We do not consider that the scope of the proposed standard should be extended to include payments by NGOs in-kind or to third parties.

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 believe that the mandatory element of the proposed standard should only require the disclosure of external assistance by ‘major classes’, without further specification. The suggested additional optional section of good practice could, however, recommend disclosure according to the categories outlined in paragraphs 13-15 of the *Exposure Draft*.

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

As noted in paragraph 17 above, we do not consider that such a requirement should be a mandatory element of the proposed standard.

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).*

As noted in paragraph 17 above, we do not consider that such a requirement should be a mandatory element of the proposed standard.

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.



As noted in paragraph 17 above, we do not consider that such a requirement should be a mandatory element of the proposed standard.

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.*

As noted above, we consider that many disclosure requirements included in the *Exposure Draft* are excessive and would be better moved to a section of the proposed standard detailing additional, optional disclosures.

8. *Whether the proposal in paragraph 54:*

(a) For a transition period of two years is sufficient to apply this Standard. Is a longer transitional 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?

We believe that a transitional period of five years would be more appropriate (except for the requirements relative to cash received directly by the reporting entity), unless our recommendation to significantly reduce the mandatory disclosure requirements is adopted.

(b) To exempt the requirement to disclose comparative figures during the first year of application of this Standard is appropriate.

We agree with this recommendation.

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