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Mr. Paul Sutcliffe
Technical Director
International Public Sector Accounting Standards Board
545 Fifth Avenue, 14th Floor
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Email: publicsectorpubs@ifac.org

Dear Mr. Sutcliffe,

Re: Developing Nations Permanent Task Force response to IPSASB Exposure Draft 24 – *Financial Reporting Under The Cash Basis Of Accounting – Disclosure Requirements For Recipients Of External Assistance*

INTRODUCTION

The IFAC Developing Nations Permanent Task Force (DNPTF) welcomes the opportunity to comment on IPSASB Exposure Draft 24 – *Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance*.

The role of the DNPTF is to support the development of the accounting profession, particularly in developing nations by aiding their participation in the international standard-setting process and their efforts at seeking resources from member bodies and other organizations in developed nations. The constituents of the DNPTF are IFAC member organizations and their members in developing nations.

One of the DNPTF key objectives is to directly work with IFAC standard-setting committees and boards, and other standard setting bodies to ensure that they are aware of and give due consideration to issues relevant to the accountancy profession in developing nations. We therefore, thank the IPSASB for the opportunity to provide comments on this exposure draft.

This submission was prepared on the basis of comments expressed by members of the Developing Nations Permanent Task Force. It takes into account their experience with development assistance.

GENERAL COMMENTS

The DNPTF supports the IPSASB's aim of rationalizing the number of accounting practices and reporting requirements and to enhance the consistency and quality of financial reporting by recipients of external assistance, while reducing compliance costs. We consider the proposed Standard to be timely and important as there is a need for transparent and comparable reporting for external assistance. We agree that the guidance included in the proposed Standard has the potential to be of benefit both to the international donor community and recipients of external assistance. There are, however, some areas in the proposed Standard where amendments or clarification are required, and our comments which follow are provided in this context.

SCOPE OF THE PROPOSED STANDARD

The proposed standard is presented as additional to the Cash Basis IPSAS. We would recommend that the IPSASB consider combining the content of this exposure draft with the broader requirements of the Cash Basis IPSAS. We consider this would enhance the understandability and therefore the likelihood of compliance with the IPSASB's recognition and disclosure requirements for cash accounting. Furthermore, we would suggest more clearly stating the requirement that full compliance with the Cash Basis IPSAS requires compliance with the requirements of this proposed standard.

Paragraph 2 indicates that the Standard applies to all public sector entities other than Government Business Enterprises (GBE). According to the definition of a GBE in paragraph 4, an entity to qualify as GBE must display all characteristics listed under (a) – (e). In some jurisdictions paragraph 5 (d) poses a challenge for many government-owned entities. It requires that an entity must be non-reliant on continuing government funding to be a going concern. There are, however, some entities that are profit oriented but at the same time rely on government subsidies to be a going concern. An example of this situation may be railway companies or utility companies that are required to use IFRSs as a basis for their financial reporting government grants. At the same time those companies rely on government funding. Would such companies fall under the definition of GBE and continue using IFRSs as a basis of their financial statements, or would they be required to follow the requirements in this proposed standard?

The term "Public Sector Entities" is not defined in the proposed standard. This term is only defined in the paragraph 12 of the "Preface to International Public Sector Accounting Standards". The introductory paragraph of the proposed Standard states that the Standard should be read in the context of the "Preface". We believe, however, that it may be helpful to the reader if this definition was included in the Standard itself.

DEFINITION OF "EXTERNAL ASSISTANCE"

We understand that the additional categories (trade finance, emergency assistance, military assistance and balance of payments assistance) were added partly to clarify the definition of "external assistance" which could otherwise be variously interpreted. We also understand that the proposed standard was extended in this way to provide a

comprehensive picture of the extent to which a country is “aid dependent”. However, the resulting proposed Standard appears far too complex given the lack of proper accounting infrastructure in many developing economies. We fully agree that the Standard needs to explain that the “external assistance” excludes the other categories. This will make it clear what should be included under this term. To insist on providing the additional information, however, may deter some developing countries from providing the basic information sought. We also believe that it may be somewhat unrealistic to expect, at least from some governments, full disclosure of military aid received. We fear that the net result of implementing the Standard as proposed could be either non-compliance or a heavily qualified audit opinion on the basis of non-provision of information.

ASSISTANCE PROVIDED BY NON-GOVERNMENTAL ORGANIZATIONS (NGOs).

We believe that the definition of “external assistance” should include assistance provided by non-governmental organizations. This will ensure that financial statements disclose all the assistance that public sector entities receive.

SCOPE OF DISCLOSURE REQUIREMENTS

In our opinion ED 24 as a cash based standard, should not over elaborate the reporting requirements. Therefore, it may be more practicable if the standard required disclosure of external assistance by “major classes” without further specifications. Arguably, to know that there is a balance of, for example, cash balance of payments assistance yet to be drawn down tells very little about the extent to which a country is “aid dependent”. Without comprehensive balance sheet information, it is impossible to tell the extent to which any balance is adequate or otherwise for future commitments of countries in receipt of external assistance.

DISCLOSURE OF BALANCE OF, AND CHANGES IN, UNDRAWN EXTERNAL ASSISTANCE DURING THE PERIOD

We believe, that movements in development assistance during the year should be disclosed. Paragraph 22(a) (iv) refers to “total amount cancelled during the period” but does not include the word “lapsed.” Cancellation implies some kind of a default. Assistance can be available for a defined period of time and if not completely used it lapses. The lapses may be condoned by the donor at times and would lead to an amendment in the original terms. Therefore, it is necessary that lapsed, and lapsed but not renewed must also be reflected in addition to the cancelled assistance.

DISCLOSURE OF THE TERMS AND CONDITIONS OF EXTERNAL ASSISTANCE AGREEMENTS

From a developing nations’ point of view, disclosure of detailed terms and conditions in respect of each item of external assistance would be onerous. We propose that paragraph 26 should be reworded to read: “The entity shall disclose separately in the notes to the financial statements major terms and conditions of the external assistance agreements that determine or affect access to external assistance or limit the use of such funds.” Paragraphs 27 and 28 may therefore be deleted.

DISCLOSURE OF FAIR VALUE OF NON-CASH GOODS-IN-KIND

We believe that requiring inclusion in the notes of assistance-in-kind received on a fair value basis is not appropriate for three reasons:

- (a) it confuses the cash basis of the proposed standard with an accruals concept,
- (b) it assumes readily available markets and market information in the receiving country; and
- (c) the costs of collecting reliable information on fair values are likely to outweigh the benefits to users of disclosing this information.

It should be noted that by definition, countries in receipt of, for example, food aid in times of famine, will not have a local market for food, or if so the values will be heavily distorted by its scarcity. From a practical perspective, accounting on a fair value basis will not be a priority in times of emergency, even if there was an adequate accounting infrastructure and qualified personnel in place. If this kind of information is deemed useful for accountability purposes, we propose that the in-kind-assistance was disclosed on the basis of the units of non-cash goods-in-kind received. For example: XXX kilos of rice, XXX number of vehicles, XXX number of temporary shelters. In that way, local readers of the accounts will be able to place their own value of in-kind-assistance received and international donors can complete the reconciliation, so there is no need for valuations.

TRANSITION PERIOD

In our opinion the transition period of two years proposed in the standard is sufficient. Public sector entities should be encouraged to use the standard.

We commend the IPSASB for its goals of rationalizing accounting practices and reporting requirements to enhance the quality and consistency of reporting by recipients of external assistance. There is a strong possibility that in its present complex format, the standard will be unworkable and the IPSASB's goal of simplifying reporting requirements will not be achieved. Like with all the other IPSASs, this will be even more dependent on external assistance to adopt and implement for most developing countries.

Should the matters raised in this submission require any clarification, I will be pleased to discuss them before the proposed Standard is finalized.

Yours sincerely,



Ndung'u Gathinji
Chair, IFAC Developing Nations Permanent Task Force