

Grant Thornton International

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June 17, 2005

Mr. Paul Sutcliffe  
IPSASB Technical Director  
International Federation of Accountants  
545 Fifth Avenue  
14th Floor  
New York, NY 10017

Re: Proposed International Public Sector Accounting Standard: Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance

*Via email*

Dear Mr. Sutcliffe:

Grant Thornton International appreciates the opportunity to comment on the above referenced Exposure Draft (ED 24) regarding disclosure requirements for recipients of external assistance. Our comments follow the order suggested: Exposure Draft in General and then Specific Matters.

**The Exposure Draft in General**

Grant Thornton International supports the issuance of the proposed standard. We believe that the disclosure of information relating to international donor assistance, both loans and grants, in reporting national revenue and expenditures is essential to determining whether the financial statements present a “true and fair view” of (or “presents fairly”) a country’s financial condition. Including this assistance assures that financial statements adequately describe a country’s sources of funds and in particular the extent of its reliance on external assistance to meet its budgetary requirements.

However we recommend that the application of this proposed standard should be extended to apply to all public sector entities, other than government business entities, that are recipients of external assistance and not limited to those entities that prepare and present their general purpose financial statements on a cash basis of accounting.

Entities that prepare their general purpose financial statements under an accrual basis and existing International Public Sector Accounting Standards (IPSAS) explicitly should be required to make these same disclosures in order that users of those financial statements can more accurately

determine the financial condition of the public sector entity. While we acknowledge that application of existing IPSASs, and in particular IPSAS 2 *Cash Flow Statements* and IPSAS 15 *Financial Instruments: Disclosure and Presentation*, should give rise to some disclosures about external assistance, the disclosure requirements are not as explicit as those proposed by ED 24.

We also recommend that the Board explicitly extend the application of ED 24 to public sector entities preparing general purpose financial statements under an accrual basis of accounting so as to improve comparability between government entities that prepare their financial statements on different bases (cash and accrual). We believe this would be an important improvement in financial reporting by governments and improve transparency and information usefulness to providers of external assistance.

### **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 believe that official resources will be generated internally as well. For the avoidance of any doubt, we suggest adding “other than internally generated funding” after “resources” in the definition of external assistance. The definition of External Assistance would read:

External Assistance means all official resources, other than any internally generated funding, which the recipient can use or otherwise benefit from in pursuit of its objectives.

*2. Whether other sources of assistance, such as assistance provided by non-governmental organizations (NGOs), should also be included in the definition of “external assistance”.*

We consider that NGO assistance/funding of any type should not be included in the definition of external assistance as this stage of the development of accounting standards for public sector entities that prepare the general purpose financial statements on a cash basis of accounting. Explicit extension of ED24 to assistance from NGO’s we believe could give rise to confusion and too much detail at this time.

*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 categories are useful and should be required. It will most likely take some time to determine which categories are most useful and the level of detail which best assists users in understanding the circumstances surrounding a country’s assistance. Therefore, it is likely that some modification of the categories will occur; even though at this time we are unable to anticipate what they might be. Countries should have some flexibility in selecting categories as long as full disclosure is not compromised.

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

We agree that data on changes and balances of undrawn assistance will be useful. A comparison of the relative accessibility of donor and internal funds would also be useful in assessing budget and funds management effectiveness.

*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 support disclosure of the material terms and conditions of external assistance agreements, and any material non-compliance with those terms and conditions. These are necessary to inform the user about the current and future cash flows of the entity. However, having said that, these disclosures can often be very lengthy. To avoid the risk of public sector entities (intentionally or accidentally) attempting to mask critical information with disclosure of too much detail, we recommend that the Board make clearer the application of the concept of materiality with regard the disclosure of terms and conditions of external assistance and any non-compliance thereof.

We do not believe that it is sufficient for the only reference to materiality to be in the last sentence of an introductory paragraph; such that a sentence is include that reads “International Public Sector Accounting Standards are not intended to apply to immaterial items”. We recommend, as a minimum, that specific use is made of the words material, key or significant is used in paragraphs 26-28 and 36 of ED 24. Use of such words would parallel existing disclosure requirements, for example in IPSAS 15 *Financial Instruments: Disclosure and Presentation*, which uses words such as major type of forecasted transaction (paragraph 50) and “significant terms and conditions” (paragraph 54).

We also recommend the inclusion of an explanatory paragraph with regard to the level of detail that should be disclosed and recommend that the Board include the following paragraph in ED 24 (this parallels paragraph 52 of IPSAS 15).

“Determination of the level of detail to be disclosed about particular external assistance is a matter for the exercise of judgment taking into account the relative significance of that external assistance. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring significant information as a result of too much aggregation. For example, when an entity is party to large numbers of external assistance agreements with similar characteristics and no one agreement is individually significant, summarized information by reference to particular classes of external assistance is appropriate. On the other hand, specific information about an individual external assistance agreement may be important when that agreement represents, for example, a significant entity’s cash flows.”

*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.*

We believe data on non-cash goods in kind would be a useful disclosure.

*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.*

We believe the disclosures proposed are generally appropriate. Similar to our comments in item 5, these disclosures can often be very lengthy and the Board may wish to consider providing

guidance between providing users the level of disclosure they believe they need to understand the governmental entity's donor assistance and not providing disclosures that may truly be not necessary to fully understand the nature and extent of present and future cash flows.

8. *Whether the proposal in paragraph 54:*

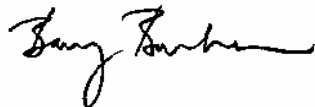
*(a) For a transition period of two years is sufficient to apply this Standard. Is a longer transitional period necessary to ensure that the appropriate authorities in each recipient country are able to access the data necessary to properly account for external assistance?*

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

We believe these to be appropriate transitional periods and support the Board's decision not to require disclosure of comparative figures during the first year of application of the Standard

Please direct any questions/comments you may have to Dick Willett, Director of International Operations, in our US member firm's Global Public Sector unit in Alexandria, VA. His phone number is 703/837-4444 and email is [dick.willett@gt.com](mailto:dick.willett@gt.com).

Very truly yours,

A handwritten signature in black ink, appearing to read "Barry Barber". The signature is fluid and cursive, written on a light-colored background.

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