

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  
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Dear Sir

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

We welcome the opportunity to provide comments on the proposed International Public Sector Accounting Standard – *Financial Reporting Under the Cash Basis of Accounting – Disclosure Requirements for Recipients of External Assistance*.

Overall, we support the proposed Standard as the reporting of these disclosures would be useful to all users of the financial statements in assessing the overall financial position of an entity, including the level and sustainability of external assistance received.

Our letter to you has been drafted in three parts for ease of reference, and are as follows:

- Part A – Specific matters for comment
- Part B – General comments
- Part C – Editorial comments

Please feel free to contact us should you have any queries on our comments, or if you would like to discuss them further.

Your sincerely

Zahra Cassim  
**Chief Executive**

## **PART A - 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 the definition of external assistance is sufficiently broad to encompass all types of external assistance received from official sources.

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.*

While the initial need for developing the Standard was on the request of agencies or similar entities providing development assistance (presumably in the form of grants and loans) to governments or government entities, the scope of the Standard was then extended to encompass all types of official assistance received (including in-kind assistance). In the Basis for Conclusions, paragraph 11, the IPSASB concluded that assistance in-kind formed an important source of external assistance to governments or government entities. By excluding certain assistance provided by NGO's from the Standard, there may be a significant amount of this type of assistance that is not being disclosed in the financial statements of entities that apply cash based accounting. The disclosure of this type of assistance may assist users in establishing the extent to which a government or entity can meet the requirements of its constituents (i.e. should the aid be removed, would the entity be in a position to provide the equivalent services), the reliance of the entity on aid, as well as the overall financial sustainability and service delivery of the entity.

In addition to this, the Standard is aligned to the principles contained in the non-exchange revenue draft exposure draft (BC6), which does not distinguish between assistance from official or non-official sources. We suggest that all assistance provided by NGO's is included in the definition of external assistance on this basis. The definition of 'official resources' may need to be amended to accommodate instances where assistance is provided without a binding arrangement.

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.*

The scope paragraph of the Standard indicates that the provisions of the Standard are applicable to all entities that prepare the cash basis of accounting, and are recipients of external assistance. This assumes that entities, other than whole-of-government, or a Treasury/Finance Department are required to apply this Standard. Some of the categories indicated may relate to national aspects of the fiscus i.e. Balance of Payments and Military Assistance, and may not be categories of assistance that are ordinarily received by individual or economic entities. While these types of assistance may not be received by individual entities, the stipulation of specific categories is comprehensive, and prompts users to identify types of transactions in line with the definitions. General users of financial statements may be more interested in ‘broad categories’ of assistance, while donors might be more interested in the categories proposed in the Standard. Keeping the purpose of the Standard in mind, i.e. streamlining requirements for preparers while still meeting donor expectations, the categories proposed may be more appropriate than broad categories, as well that they provide a good overall picture of how assistance received sustains the various activities of the entity.

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

We fully support this disclosure as it gives the providers of assistance sufficiently detailed information to satisfy their requirements from an accountability perspective. Other users are provided pertinent information about the types of assistance received and to be received in future periods, which provides an indication of the financial sustainability of the government or entity.

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

We fully support this disclosure, for the reasons stated in response to question 4. We would however like to emphasize that only those terms and conditions significant to the

loan or grant be disclosed. Significant terms conditions may include items that would put the loan into default or breach, in the case of a grant.

Paragraph 26 is not prescriptive on this issue, and may result in all terms and conditions of a loan or grant being disclosed, resulting in unnecessary volumes of information.

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.*

(a) We support the disclosure of assistance received in-kind, as it introduces the concepts outlined in non-exchange revenue, and will broaden the current thinking of entities applying the cash basis of accounting, and may ultimately assist in the transition from cash to accrual accounting. In addition, our current South African legislation requires that all gifts received, in-kind or otherwise, be disclosed in the notes to the financial statements. That being said, we do not feel that this disclosure should be limited to official sources only. The response to question 2 provides additional support for this view.

(b) We support this proposal as being the first alternative when valuing the assistance received in-kind, seconded by using an international fair value. The use of fair value in the recipients economy may however result in a very high fair value being reflected (which may indeed be the concept to fair value?). Additional guidance needs to be included as an appendix or implementation guide (depending on whether not the Standard conforms with the IASB improvements) to assist users in determining what fair value to use, as this may be a very 'relative' concept i.e. what is fair value to one person may not necessarily be fair value to another. For example, entities may experience difficulty in determining a price in their own economy or an international market (in this instance the value in the donor's economy may not be appropriate given that the reason for selling the asset is possibly that it is fully utilised and has a negligible carrying value). The Standard should prescribe what the reference point would be for determining the value of food aid, technical assistance or assets in the recipient economy e.g. for technical assistance – would it be the value of market related services (cheapest, most expensive, dependant on the level of expertise etc.).

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.*

While the suggested disclosure is very extensive and may in places be onerous, it is not envisaged that the volume of disclosure will be the same for every entity. As discussed in the response to question 3, most entities may not have balance of payments, military finance and trade finance assistance which will significantly reduce the volume of information to be disclosed. It is potentially only at whole-of-government or central treasury level that the volume may be increased. All the information suggested as disclosures are relevant and will assist users in making informed decisions. Regarding the illustrative disclosures in the appendices, these are very elaborate and may be better presented in a more condensed format. A suggestion has been included on page 10 of the document, which may serve as an illustration.

Entities may not be in a position to report all the required information immediately (despite the transitional provision). It may take a significant amount of time to gather the requisite information, capture the data onto the reporting or financial systems, and make adjustments to IT systems (e.g. structuring of accounts and reports to collect the information in the manner required by the Standard).

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.*

- (a) We believe that relief is required so that entities are afforded sufficient time to gather the appropriate information for disclosure purposes. A longer transitional provision may be required, perhaps between 3 and 5 years, in the light of the extensive information gathering process required. The transitional provision may need to be extended beyond just the disclosure of undrawn assistance, to include items such as the repayment schedules (for example).

Another alternative would be to delay the effective date of the Standard so as to ensure that entities are able to prepare sufficiently for the implementation of the Standard, which would then make the two year transitional provision appropriate.

(b) We support the exemption from disclosing comparative figures, as this will create undue burden on entities, as well as this provision being consistent with those in the accrual based IPSASs.

The Standard is supported, and we are of the opinion that it will provide users with useful and relevant information about the level and types of assistance received.

## **PART B – GENERAL COMMENTS**

### **1. IASB Improvements project**

In the March 2004 meeting of the then PSC, certain decisions were taken regarding the harmonization of the IPSAS with the IFRSs/IASs, namely:

- Adopting the equal authority doctrine going forward,
- Using the term 'shall' instead of 'should',
- Changing appendices to implementation guides where appropriate, and
- Changes under the IASB's General Improvements Project would be incorporated into the relevant 11 IPSASs.

The basis for conclusions developed by the IASB for each IAS/IFRS would not be replicated for the existing IPASASs, although the issue of the impairment of non-cash generating assets would set a precedent for the inclusion of a basis for conclusion in future IPSASs.

It was decided that the impact on the existing cash generating IPSAS would be monitored by the PSC.

In drafting this Standard, decisions on harmonization have not been applied consistently, in that some improvements have been included, while others have not. While we support the view that all new IPSASs issued should be aligned to the IASB improvements, if the IPSASB chooses to harmonise this Standard with the Improvements Project, this should be applied consistently and completely. The discussions that follow illustrate this point.

#### *Change of wording from should to shall*

In drafting this Standard, the wording 'shall' has been used which is consistent with the IASB improvements project. We concur with this change.

#### *Equal authority paragraph*

The equal authority paragraph has not been drafted and positioned akin to the revised IPSASs, but includes the paragraph pre-improvements project, and is positioned in the body of the Standard. This is in conflict with the decision taken in the March 2004 meeting to harmonise new IPSASs. The revised accrual based IPSASs have reflected this change, and we suggest the same for the cash basis IPSAS as well as this Standard.

If this paragraph is included, it should clearly indicate that the Basis for Conclusions in appendix 4 should be read in conjunction with the Standard.(See issue 2 under Part B for further comment)

#### *Revised definitions*

The definitions incorporated into the revised IPSAS 4 in the March 2005 meeting have not been incorporated into this Standard. The definitions affected are:

- Exchange difference,
- Exchange rate,
- Foreign currency, and
- Reporting currency.

Users of financial statements may find the conflicting definitions (i.e. between this Standard and the accrual based IPSASs) confusing. We propose that the definitions in this Standard, along with those in the Cash Basis IPSAS, are aligned with the improvements.

#### *Basis for conclusions*

The inclusion of a Basis for Conclusions is also aligned with the IASB improvements, and is in line with the decision taken at the March 2004 meeting that the issue of 'Impairment of Non-Cash Generating Assets' set a precedent for the issue of a 'Basis for Conclusions' section. We concur with this inclusion.

## **2. Appendix 3**

The commentary included under the heading 'Appendix 3: Rescheduled or cancelled debt' does not indicate whether or not this appendix forms an integral part of the Standard or not. If it does, then a heading should be included along those lines, and the equal authority paragraph should be adjusted to clarify that the Standard is contained in paragraphs x to xx, and appendix 3. If the other appendices, namely 1 and 2 are merely illustrative, should they not then be renamed to 'Guidance on Implementing IPSAS XXX', and wording similar to that contained in the revised IPSAS 1, 3, 6, and 16 should be inserted below the heading (i.e. The guidance accompanies but does not form part of ....).



### 3. Objective of the Standard

The 'Objective' paragraph currently reads as follows:

*'The objective of this Standard is to prescribe the disclosures recipients of external assistance are to make about external assistance provided during the reporting in the general purpose financial statements prepared in accordance with the Cash Basis IPSAS.'*

The purpose of the Standard is to make certain disclosures about external assistance received. With this in mind, it may be more appropriate to substitute the word 'provided' with 'received'.

Over and above this, the sentence does not read easily. A suggested redraft is as follows:

*'The objective of this Standard is to prescribe the disclosures recipients of external assistance are to make about the external assistance received during a reporting period when general purpose financial statements are prepared in accordance with the Cash Basis IPSAS.'*

### 4. Definitions

#### *Official assistance*

It is unclear how NGO's are scoped out of the Standard based on the definition of external assistance. If the definition of 'official resources' is examined there are two aspects that may result in the exclusion of NGO's. Firstly, there must be a binding arrangement which may exclude certain assistance by NGO's, as this type of arrangement may not be practical given the nature of the assistance certain NGO's provide. Secondly, the definition of bilateral agencies may also scope out certain NGO's in that they may not be established under a national law, regulation of other authority. Would the regulation of these types of entities qualify under the definition of 'regulation or authority'? For example does OXFAM fall under a bilateral agency because they are accountable to the Charity Commission? Perhaps this needs clarification or additional guidance (for both bilateral and multilateral).

#### *Economic entity*

In line with the IASB, only new or other significant definitions will be included in an individual Standard.

Definitions which have been defined in the cash basis IPSAS, such as exchange rate, exchange difference, reporting currency, and foreign currency have been repeated in this Standard as they are significant in the understanding of the principles it contains.

'Economic entity' is defined in the Cash Basis IPSAS, but has not been repeated in this Standard, even though paragraph 14 (a) and (b) include references to 'economic entity'. We propose that the definition of an 'economic entity' be included in this Standard.

#### *Non-government organizations (NGO's)*

The current definition is as follows: 'NGO's are all foreign and national agencies established independent of control by any government....' The word 'national' has been used in the definition of 'Government', and has the opposite intended meaning in this sentence as NGO's are independent of government (the word 'national' may now have a government connotation to it). A suggested alternative to 'national' is perhaps 'domestic'.

#### *Assigned and re-lent external assistance*

The difference between assigned and re-lent external assistance is not clear from reading the definitions or the remainder of the Standard. Perhaps elaborate on the differences in the section dealing with definitions i.e. does assigned external assistance not deal at all with loans (currently it may fall under 'other')?

### **5. Paragraph 10**

*'Payments to a third party may include payments to an NGO settling in cash an obligation of the entity for goods or services provided or to be provided by the NGO.'*

It is unclear what is meant or implied by this sentence. Should readers consider the fact that entities may make payments to extinguish their obligations, which should be considered as external assistance, or is it that where goods are provided by an NGO (and paid for by another party), this should be considered regardless of the fact that certain assistance provided by NGO's is scoped out of the Standard.

### **6. Paragraph 20 and 21**

#### *Paragraph 20*

There is some uncertainty around the differences between paragraph 20 and 21 which may need to be clearly communicated in the Standard so as to make it understandable to users.

It needs to be clear in paragraph 20 that, the entity who received the assistance is still ultimately responsible to the providers of such assistance for the use thereof, and results in the proposed treatment. The subsidiary agreement entered into does not remove the obligation from the recipient entity, but merely regulates the relationship between the recipient entity and the other entity.

This would be consistent with the concept of control and requirements for set-off in the Cash Basis IPSAS, paragraphs 1.3.13 and 1.3.21 to 1.3.23.

#### *Paragraph 21*

It may make the paragraph easier to understand if it started off saying that entities may administer transactions on behalf of other entities, instead of using a scenario similar the previous paragraph. The way the paragraph is currently structured, it is difficult to distinguish why the issue is difference between paragraph 20 and 21. In addition to this, there are other considerations in the Cash Basis IPSAS that should be applied when assessing reporting on a net or a gross basis, which have not been highlighted by the last sentence of the paragraph.

#### *Suggested redraft*

'In certain instances, an entity may administer assistance received, in the form of loans and grants, on behalf of another entity. This results in the proceeds, and terms and conditions of the loan or grant being passed on to another entity. The provisions of the Cash Basis IPSAS should be applied in determining whether to report the receipts and payments on a net or a gross basis.'

### **7. Paragraph 22 – Undrawn external assistance**

Paragraph 22(a) and (b) – These two sentences do not read easily. Suggested rephrasing of sentences:

'Total external assistance received as loans, and for each category of assistance, namely development assistance, trade finance, emergency assistance, military assistance, and balance of payments assistance: .....'. The same wording is proposed for (b) except that loans should be substituted for grants.

**8. Receipt of Goods or Services In-kind - Paragraph 48**

In the event of emergency relief being provided, there must be some sort of political (Government) intervention to allow the aid agencies or other governments/government agencies into the country to provide such relief to the citizens of the affected area. Does this not imply relief being provided to the *government* by external parties? It is a priority of all governments to see to the best interests of its constituents, which is not negated by the fact that another entity may be performing this function on its behalf.

There may however be uncertainty involved in establishing the quantity and value of this type of support. It is therefore proposed that the Standard recommend rather than require, and to the extent that information is available, disclose this type of assistance.

**9. Page 39 – Note 5**

‘Goods in-kind received during the year, have not been recorded in the Statement of Cash Receipts and Payments, which reflects only cash received (directly or indirectly) or paid by the Government’.

Is this not an accounting policy issue that should be presented along with the other accounting policies and not in the notes to the financial statements?

**10. Disclosure of restrictions per category (page 32 to 35)**

The disclosure suggested in the appendix for this particular area makes the overall disclosure very lengthy. A proposed alternative is as follows:

		Loans			Grants			Total
		Unrestricted	Restricted	Sub-total	Unrestricted	Restricted	Sub-total	
Development assistance								
Trade finance								
Military assistance								
Balance of payments assistance								
<b>Total</b>								

Restricted loans and grants can be further classified according to their restrictions:

		Loans			Grants		
		General	Procurement	Sub-total	General	Procurement	Sub-total
Development assistance							
Trade finance							
Military assistance							
Balance of payments assistance							
<b>Total</b>							

Narrative description of each type of condition, whether or not they were adhered to etc.

## **PART C - EDITORIAL COMMENTS**

Paragraph 51 – ‘Separate disclosure of the restructuring arrangements, including the amount of external assistance debt rescheduled, cancelled or partly re-scheduled cancelled, will be ...’ The second cancelled should be deleted.

Appendix 1 – page 30 – ‘Undrawn external assistance grants consist of the amount of external assistance grants agreed with external assistance agencies that has not been utilized....’ This should be replaced with have.

Page 36 – Note 4 - ‘All development assistance debt are denominated...’ This word should be replaced with ‘is’.