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International Federation of Accountants
To the IPSASB Technical Director
545 Fifth Avenue, 14th Floor
New York, NY 10017
USA

Dear Sir,

Subject: Draft for new International Public Sector Accounting Standard (IPSAS):
Financial reporting under the cash basis of accounting

It is with great interest that I have read your *Proposed International Public Sector Accounting Standard: Financial reporting Under the Cash Basis of Accounting - Disclosure Requirements for Recipients of External Assistance*.

I am pleased to send you my comments, made on a personal basis, on the exposure draft dated February 2005.

Yours sincerely,

Annex

Copy: Mr. Philippe Adhémar, IPSASB Chair

NOTE on the EXPOSURE DRAFT
"Disclosure requirements for recipients of external assistance"

Introduction

1. The exposure draft is based on and an extension of the standard for financial reporting under the cash basis of accounting. The need for this exposure draft seems to stem from two considerations:

- a) providers of external assistance require recipients to follow a variety of accounting practices. Adhering to a number of different practices and reporting requirements imposes a significant burden on recipients;
- b) the implementation of standards will improve the quality and comparability of financial information reported by the public sector.

It would help providers of external assistance in their decision making on granting assistance to countries.

2. In the compulsory part of the Cash-Basis Standard it is stated that the financial information should be understandable, relevant, reliable and complete (paragraph 1.3.32). The information should be timely (paragraph 1.4.1.) and should allow comparison with other years (paragraph 1.4.16). In the optional part of the Cash-Basis Standard it is recommended to provide information on payments by third parties and proceeding from borrowings (paragraph 2.1.23) and on assets and liabilities (paragraph 2.1.33). To an extent these optional paragraphs are translated into the exposure draft for aid-recipient countries.

3. Three questions are to answered for assessing the exposure draft:

- a) is the information to be provided relevant;
- b) are the disclosure requirements realistic;
- c) are there alternatives.

Relevance of requesting information

4. In principle most of the information requested to be disclosed is relevant for knowing the (macro-economic) financial volume of the recipient countries' activities, whether financed by the countries or by external actors. It is doubtful, however, whether this information will be used by donor countries' decision-makers for granting aid (see Annex, points 2 and 4).

5. The problem of recipient countries concerning reporting to the donor countries according to many different formats partly relates to overall public expenditure reporting (in particular on macro-economic assistance). The problem relates, however, much more to reporting at a much lower operational level, i.e. at the level of programmes and projects. It is difficult to see how the exposure draft contributes to solve that problem.

Is the exposure draft realistic?

6. The requirements, stipulated in the exposure draft, build further on the Cash-Basis Standard. It is very likely, however, that many of the recipient countries will not be able to meet the requirements of that standard (see paragraph 2 above). In that sense the transition period of two years to implement the standard, set out in the exposure draft, may be unrealistic.

7. A number of disclosures, required by the draft are not realistic: in particular the requirements on disclosing information on military aid and the information on conditions of agreements are difficult to materialise (see point 3 and 5 of the Annex).

8. The perceived donors' need for the information to be able to assess sustainability of operations and of assistance is not based on current practice (see point 4 of the Annex).

Are there alternatives

9. Certain information requested by the draft exposure is collected by the OECD at the level of the donors. But even this information is late and incomplete. Beginning 2005 only information is available on transfers made in 2003, as declared by the donors in 2004. Obviously at first an important effort should be made by the donors to provide the information before the recipients can be requested to include this information in their financial statements.

Specific comments requested by the IPSASB

1. External assistance as defined in paragraph 5 excludes NGOs. The problem is that NGOs intervene in a wide variety of domains. One could argue that emergency aid, given by or through NGOs can be excluded as this type of aid is by definition not structural of character. On the other hand NGOs implement a large number of activities in the field of health, education, rural development including water supply and sanitation systems. Given the possible impact on local communities and the financial importance of the cumulation of the interventions, NGOs' interventions should not be excluded from the definition of "external assistance".
2. In the same context it may be reconsidered whether emergency aid (paragraph 48) should be included in the definition of external assistance:
 - a) it is not a structural aid:
 - b) it can not be planned:
 - c) it is not intended to contribute to the development of the country (apart from creating pre-conditions for relaunching further development after the catastrophe);
 - d) it may be extremely difficult to collect reliable financial information concerning the emergency aid.

It is noted that "structural" food aid is a different type of assistance; this can be included in the definition of external assistance.

3. The categories of external assistance to be disclosed as shown under paragraph 14 could be reconsidered:
 - a) Emergency assistance could be abandoned (see point 2 above);
 - b) Military expenditure should be included under "Other assistance" if at all: no donor or recipient country will present this information;
 - c) Macro-economic support (including direct budget support) could be shown as a specific category of development assistance.
4. The disclosure of balances in undrawn external assistance (paragraphs 22-24) is unpractical and irrelevant with the exception of the information on loans. Firstly, the arguments given on sustainability (paragraph 24) assume a causal relationship between the undrawn balances and the sustainability of on-going projects and programmes. In practice there may be no relationship between the undrawn balances for, say, new programmes and the on-going programmes for which no further funding is foreseen.

Secondly, it is assumed that donors take this type of financial information in consideration when deciding on funding programmes of projects. This does not correspond to reality, even

apart from the fact that possible relevant information will not be available at the moment of the decision.

5. Disclosure of terms and conditions of external assistance for grants (paragraphs 26-32) would put an enormous burden on the recipient country and on the reader to digest an enormous amount of extremely varied information. This information should be limited to conditions for loans and/or for reform programmes, including information on the non-compliance of these types of conditions (paragraph 36).
6. The information on non-cash goods in kind (paragraph 44-47) may be extremely difficult to retrieve and may often be outside the "official" channels. However, the information on food aid in particular where channelled through government services should be disclosed.
7. The transition period of two years (paragraphs 52-53) seems reasonable, assuming that an adequate cash-basis is already applied.