

Buenos Aires, April 27, 2005.

**IFAC IPSASB – ED 24 Draft – External Assistance
Financial Reporting under Cash Basis**

Disclosure Requirements for Recipients of External Assistance

ED Comments

I – General Aspects

In terms of the points discussed concerning the **requirements**, the opinion that this standard, as written “should be read in conjunction with the IPSAS Cash Basis”, as additional disclosures about external assistance is shared. On the other hand, we do not share the opinion that “the IPSAS are not destined to be applied to immaterial items”, since – as for goods-in-kind- these can be present in certain cases of external assistance.

In relation to the **objective** of the Standard, in the sense that it is destined for elaborated financial statements in accordance with the NICSP Cash Basis, constitutes a serious limitation. In this way, the Standard is reduced to incomes and fund expenditures, and does not disclose in accounting statements, for example, the contributions received in-kind (goods and services). Such a mistake originates from the error of focusing on the topic from an exclusively monetarist point of view, under cash basis, relegating the accounting information, of accrued basis, which allows incorporation of assets assigned as part of the external assistance.

In reference to what was previously mentioned, yes, we understand the cash basis view is suited to international institutions of credit; one should not undervalue the need to contemplate the totality of goods delivered as external assistance, since in this way there is no damage to the integrity of the information, the corresponding rendition of accounts, and its control, in addition to guaranteeing the transparency of the governmental management in the matter.

By maintaining the order of the mentioned ED, in continuation there are comments included about the points contained in the above mentioned draft (with mention of the paragraph number):

- 1- **Scope:** It would correspond to take into account the transition that is occurring from the cash basis to the accrued basis; that is to say, that the Standard should be restructured in such a way as to contemplate the following alternatives:
 - a) if it is solely on a cash basis then the current standard should be applied, in transition towards the accrued.
 - b) if the cash basis and the accrued basis are applied, two statements will be elaborated on that same basis.

c) if only the accrued basis is applied, then there may be the additional requirement of a cash basis statement.

2- The belief that this Standard should not be applied to “Governmental Business Enterprises” (GBEs) is not shared, because it causes degradation of the principle of integrity of the information.

4) **Definitions:** There is an agreement with the definitions incorporated into the Standard, except in the following cases:

- In defining the GBEs, among the characteristics there is mention of “financial and operational authority...,” when it should say: “financial and operational autonomy”
- For such enterprises it must be added that “they do not depend on continuous governmental funds to continue functioning...,” which is not the case in the majority of Latin American countries, where the above mentioned entities receive contributions from the treasury to cover partially or completely their operating expenses (on the basis of budgets approved by the Executive Power), in addition to being subject to the control of internal and/or external control entities.
- The definition of “External Assistance,” in reference to the fact that it covers “all official resources...” is not correct, because in accordance to cash basis, received goods are not disclosed and in addition, not all resources are “official.”

33) **Guarantees:** On the requisite that the entity must disclose separately the notes to the financial statements:..“.b)...any additional terms and conditions resulting from the guarantee agreement,” it would seem that the scope of the note would be excessive, since it would sufficient to disclose those of major significance, leaving the rest for more detailed examination or control.

44) **Receipt of Goods or Services-in-Kind:** It is said that the “entity must disclose separately in the notes to the financial statements the fair value of goods and services received in-kind...,” which forms a conceptual contradiction from the point of view of the scope of the cash basis of the Standard whereas, on the other hand, it warrants the need to apply the accrued basis, not just in notes but as a general criteria of the mentioned statement.

II- Specific aspects to comment according to IPSASB:

1) The proposed definition of external assistance is only partially inclusive from the cash basis point of view and not from the accrued basis.

- 2) The definition should include other sources of assistance, such as those given by ONGs.
- 3) There is an agreeance with specifying the categories of external assistance (paragraph 13 to 15 of the ED).
- 4) There is an agreeance with the proposal to disclose the balance and changes to the external assistance that has not been cancelled during the period (paragraph 22), without losing sight of the connotations that such information implies from the accrued basis point of view.
- 5) There is an agreeance with the idea of disclosing the terms and conditions contained in the external assistance agreements (paragraph 26 to 28) and any noncompliance of the same (paragraph 36).
- 6) The proposal of disclosing the value of goods-in-kind (paragraph 44) is adequate, even though the inclusion of notes of financial statements is not shared, since it contradicts with the Cash Basis Standard philosophy.
- 7) There is the opinion that the proposed disclosures by the Standard are not excessive, except for those cases that require the exposure of all contractual conditions.
- 8) The transitional period of two years is considered to be suitable to apply this Standard (paragraph 54), as well as the exemption from the requirement of disclosing comparative numbers during the first year of application.

Conclusions:

- 1) It is considered that the Standard should be restructured to incorporate alternatives for presenting information in financial statements not only on the cash basis but also on the accrued basis (for those cases where countries are able to) and if there is a separation from the cash basis, then a period to carry out the transition should be prescribed (for those countries that find themselves in that process of change).
- 2) On the idea presented, the Standard should from the beginning contemplate the joint presentation of financial statements on both accounting bases, including the respective statement models as annexes of the same.
- 3) The Standard in review should require the need for accounting information coming from respective external executing borrowing units to join as part of the principle financial statements, without prejudice for its separate identification in the body of the same (for example: different sub digits for the same account).
- 4) In accordance with the preceding item the lack of accounting integration and harmonization between entities and their external executing borrowing units, and between these last mentioned and the accounting requirements for lenders, provokes the

consequent disorder and lack of control in the capitulation of public accounts. In this way, in the case of lenders, international entities tend to enforce their own accounting requirements that have a wider scope and are more detailed than those in the present ED, with specific plans of accounts for the executing units, due to which it is recommended to previously carry out an integral report in the particular place so as to unify and perfect the ideas in the material.

5) The comments expressed by the signer below have the objective of not only improving the accounting disclosure of the external assistance, but also the need to eradicate the high grades of corruption that are observed in Latin-American governments.

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