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Dear Paul

CASH BASIS IPSAS: FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING – DISCLOSURE REQUIREMENTS FOR RECIPIENTS OF EXTERNAL ASSISTANCE

In response to your request for comments on ED24 - *Disclosure Requirements for Recipients of External Assistance*, attached please find the comment letter prepared by the Accounting Standards Board. The Accounting Standards Board is the official accounting standard setter for the public sector in South Africa. In preparing the comment letter we consulted widely within the public sector in South Africa.

We would like to thank you for the opportunity to provide comments on this document. In addition to our response to the questions raised, we have also included general comments on aspects not specifically dealt with in the questions.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours sincerely

A handwritten signature in black ink that reads 'Erna Swart'. The signature is written in a cursive, flowing style.

Erna Swart

Chief Executive Officer

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Chief Executive Officer: Ms E L Swart

COMMENTS ON SPECIFIC MATTERS

Question 1

Whether the proposed definition of “external assistance” in paragraph 5 is sufficiently broad to encompass all official resources received.

“Official resources” as used in the definition of “external assistance” means loans, grants, technical assistance, guarantees, or other assistance provided. It is not clear from the guidance provided in the proposed Standard why the definition of “official resources” refers to “technical services” when guidance is only provided on the accounting of “goods or services in-kind” (paragraph .44). We recommend that the Standard should clarify whether “goods or services in-kind” is a component of “technical services”, and/or whether “goods or services in-kind” is a component of “official resources”.

Furthermore, we recommend that “assigned” as used in the definition of “assigned external assistance” should be explained and clarified as the meaning of “assigned” can differ, depending on how external assistance is paid to the recipient.

Question 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”. 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.

BC 7 states that the initial scope of the project was widened to address all official external assistance and require the disclosure of all major components of external assistance. We are of the view that if disclosure of external assistance received from NGOs is not required by this Standard, it might result in some entities not disclosing a significant amount of external assistance received in the Statement of Cash Receipts and Payments. We therefore recommend that the Standard should require the disclosure of external assistance received from NGOs.

Question 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 agree that the Standard should specify the categories of external assistance as required in paragraphs .13 and .14 as these categories will indicate the purpose for which the external assistance was received and will also indicate the amount of external assistance provided for each category.

To avoid showing too much information on the face of the Statement of Cash Receipts and Payments, we recommend that the Standard should require the sub-classification of external assistance received and external assistance paid by third parties as a note to the Statement of Cash Receipts and Payments. A single line item should be included on the face of the Statement of Cash Receipts and Payments for external assistance received and external assistance paid by third parties.

We recommend that the Standard should not require the disclosure of both categories of external assistance (paragraph .13 and .14) and the major classes of providers of external assistance (paragraph .15) as this will result in too much information being disclosed in the Statement of Cash Receipts and Payments. We are of the view that the disclosure of the

categories of external assistance will be more useful to the majority of users of the financial statements, and therefore recommend that the disclosure information required by paragraph .15 should be deleted.

Question 4

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

We agree with the disclosure requirements that require the disclosure of the balance and changes in undrawn external loans and grants as required by paragraph .22, as the disclosure will provide useful information to the users on the extent to which assistance is available in the future to assist the entity in meeting its future operations and financial responsibilities.

Question 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 agree with the requirements in paragraphs .26 and .27 to disclose the terms and conditions of external assistance agreements (paragraph .26) and the terms and conditions that apply throughout the life of the external assistance agreement (paragraph .27 first part) as it will provide useful information to the users of the financial statements on the extent to which external assistance is time bound and under what circumstances the external assistance will be made available to entities.

We also agree with the requirement in paragraphs .36 to disclose the non-compliance with the terms and conditions of the external assistance agreements as this will indicate whether or not the entity will continuously receive external assistance, whether penalties for non-compliance were imposed and what other consequences arose as a result of the non-compliance.

However, the practical implication of disclosing the terms and conditions of external assistance agreements as required by paragraph .26 and .27 should be considered as some entities might receive external assistance from a number of external providers, which will result in onerous disclosure in the financial statements.

The second part of paragraph .27 requires the disclosure of the consequence of non-compliance with the terms and conditions of external assistance agreements. Paragraph .36 also requires an entity to disclose non-compliance with the terms and conditions of external assistance agreements when it has occurred. We recommend that the disclosures of the consequences of non-compliance should be combined with the disclosures regarding default.

Furthermore, we are uncertain why paragraph .28 allows for the non-disclosure of certain balance of payments assistance. We are of the view that the same disclosure requirements as required for other external assistance should be required for all balance of payments assistance and that consideration be given to include a general exemption on the disclosure of sensitive data. This exemption should be applied to all types of external assistance, and not only to balance of payments assistance. We therefore recommend that the disclosure requirements in paragraph .28 be incorporated in paragraph .26 and .27 as explained.

Question 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

We agree with the disclosure of external assistance received in the form of goods or services in-kind at fair value as a note to the Statement of Receipts and Payments.

However, it should be noted that paragraph .44 to .49 provides guidance on goods and services in-kind and not on non-cash goods-in-kind. We are therefore uncertain whether the disclosure requirements as stated in paragraph .44 will also be applicable to all non-cash goods-in-kind received, or whether it is only applicable to goods and services in-kind.

As noted in our comments to question 1 above, the definition of “official resources” refers to “technical assistance” and it is not clear from the guidance provided in the proposed Standard why the definition of “official resources” refers to “technical services” when guidance is only provided on the accounting of “goods or services in-kind” (paragraph .44). We recommend that the Standard should clarify whether “goods or services in-kind” is a component of “technical services”, and/or whether “goods or services in-kind” is a component of “official resources”.

(b) That fair value should be based on the prices of equivalent goods or services in the recipient country.

We agree that fair value should firstly be based on the prices of equivalent goods or services in the recipient country, and if this information is not available, that fair value should then be based on the prices of goods or services in the world market. However, we are not sure whether the entity will be able to determine the fair value of the goods or service by reference to the donor’s economy if the recipient country was unable to determine the fair value in the world market.

In addition, we recommend that the Standard should require the following disclosures in instances where the recipient entity was not able to determine the fair value of the goods or services in-kind:

- A description of the goods or services-in-kind received; and
- An explanation of why fair value cannot be determined reliably.

We further recommend that the Standard should provide more guidance on the practical application on how to determine fair value, as this is a new concept and principle for entities reporting under the cash basis of accounting.

Question 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 are of the view that the current disclosure requirements as required by the proposed Standard are too onerous and that they should be simplified.

For comments on how the current disclosure requirements should be simplified, and for comments on additional disclosures that should be considered, reference should be made to our responses to the questions above.

Question 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?*

We are of the view that the relief provided will be sufficient for entities to gather the appropriate information for disclosure purposes.

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

We support the exemption from disclosing comparative figures during the first year of application of this Standard.

GENERAL COMMENTS ON ASPECTS NOT SPECIFICALLY DEALT WITH AS SPECIFIC QUESTIONS

Objective

The objective paragraph should be amended to require the disclosure of external assistance *received* and not external assistance *provided* by recipient entities.

Definitions

In the March 2004 meeting of the then PSC, certain decisions were taken regarding the harmonisation of the IPSAS with the IFRSs/IASs. These included using the term “shall” instead of “should”, and that changes under the IASB’s General Improvements Project would be incorporated into the relevant 11 IPSASs. In drafting this proposed Standard, these decisions on harmonisation have not been applied consistently, in that the wording “shall” has not been used, which was one of the changes under the IASB improvements project. Furthermore, changes to some of the definitions under the improvements project were not incorporated in this proposed Standard. Users of the financial statements may find the conflicting definitions between this proposed Standard and the accrual based IPSASs confusing, and we therefore recommend that the definitions in this proposed Standard, along with those in the Cash Basis IPSAS, should be aligned with the definitions in the IASB’s improvements project.

Furthermore, we recommend that “economic entity” as used in paragraphs .11, .14(a) and .14(b) should be defined.

We also recommend that the word “national” in the definition of “non-governmental organisations (NGOs)” be changed to domestic”.

We further recommend that “agencies” be incorporated in the definition of “government”.

Emergency assistance

We are of the view that emergency assistance might be difficult to quantify if a written agreement does not exist between the donor and the recipient entity. We agree with the disclosure requirements in paragraph .14 but recommend that the Standard should further require the disclosure of emergency assistance received in-kind as a note to the Statement of Cash Receipts and Payments. If the recipient entity is not able to quantify the emergency assistance received because a written agreement was not drawn up between the recipient entity and the donor entity, the Standard should still require the disclosure of the emergency assistance, with the reason as to why the amount of the emergency assistance could not be quantified.

Foreign exchange transactions

We are of the view that paragraph .19 establishes a principle that should be recorded as a bold italic paragraph. The guidance in paragraph .25 should then be used to explain the principle set in the bold italic paragraph.

Furthermore, paragraph .25 states that the opening and closing balance will be determined by applying to the foreign currency amount, the exchange rate on the respective date. We recommend that the statement should be amended to require that the closing balance should be determined by applying to the foreign currency amount, the exchange rate at the end of the reporting date, instead of referring to the respective date.

Netting of transactions

Paragraph .21 states that the netting of transactions where the terms and conditions are substantially the same, may be appropriate in the financial statements of the administrator in

accordance with the provisions of the Cash Basis IPSAS. However, the Cash Basis IPSAS refers to “a net basis” which can be interpreted differently from “netting of transactions”. We recommend that either the same terminology be used as in the Cash Basis IPSAS, or that “netting of transactions” be explained and clarified. Alternatively, if it is intended to mean “off-set” as defined in IPSAS 1, it should be clarified.

In addition, there are other considerations in the Cash Basis IPSAS that should be applied when assessing reporting on a net or a gross basis. We recommend that these considerations are also highlighted in this Standard.

Disclosure of non-compliance

Paragraph .36 requires the disclosure of the terms and conditions associated with external assistance loans, grants or guarantees that have not been complied with. We recommend that the reason for the non-compliance, as illustrated in appendix 1 note 3 (page 35) should also be required by the Standard.

Furthermore, paragraph .36 refers to “non-compliance”, but in paragraph .37 where the principle of non-compliance is discussed, reference is made to “default”. As non-compliance may include default, we recommend that “non-compliance” should be used in paragraph .37.

We also recommend that in addition to the disclosure of the terms and conditions associated with external assistance loans, grants or guarantees that have not been complied with, the Standard should also require the disclosure of the terms and conditions associated with technical services that have not been complied with.

External assistance debt

The guidance provided in paragraphs .39 to .42 and paragraphs .50 and .51 refers to external assistance debt and debt service payments interchangeable with loans. We recommend that the Standard should standardise the terminology, or alternatively include a sentence that the terms “debt” and “loans” are used interchangeably and have the same meaning.

Paragraph .13 and .14

As discussed under the specific comments above, we are of the view that the information required by these paragraphs should be included in a note to the Statement of Cash Receipts and Payments and not on the face of the Statement of Cash Receipts and Payments.

Paragraph .15

As discussed under the specific comments above, we are of the view that the disclosure of the categories of external assistance will be more useful to the majority of users of the financial statements, and therefore recommend that the disclosure requirements of this paragraph should be deleted.

Paragraph .16

As with our comments on the disclosures required by paragraph .13 and .14 above, we recommend that the disclosure requirements of external assistance received in the form of loans and grants as required by this paragraph, should be disclosed as a note to the financial statements and not as a disclosure on the face of the Statement of Cash Receipts and Payments.

Paragraph .20

We recommend that this paragraph be clarified to state that the entity, which received the assistance, is still ultimately responsible to the providers of such assistance for the use thereof, and that the subsidiary agreement entered into does not remove the obligation from the

recipient entity to account for the external assistance received in terms of this Standard. The subsidiary agreement merely regulates the relationship between the recipient entity and the other entity. This would be consistent with the concept of control and netting requirements of the Cash Basis IPSAS, paragraphs 1.3.13 and 1.3.21 to 1.3.23.

Paragraph .22

In both paragraph .22(a) and .22(b) “and other assistance” has been omitted.

We recommend that the Standard should require the disclosure of the interest rate applicable to the undrawn external assistance, if different to the rates applicable to the used facilities.

Paragraph .24

The guidance provided in this paragraph on the disclosure of non-compliance should rather be included as part of the guidance provided under paragraph .36.

Paragraph .39

In addition to the disclosure requirements required under this paragraph, we recommend that the Standard should also require the disclosure of external loans, grants and guarantees payable within the next financial period.

Paragraph .46

In this paragraph, naval vessels are used as an example of equipment that may be transferred under an external assistance agreement. Market prices are difficult, if not impossible to determine for specialised military equipment and are usually negotiated between the parties. Accordingly, we recommend that another more appropriate and relevant example be used.

Appendix 1 – Note 1

As we are of the view that external assistance received from NGOs should also be disclosed in the financial statements of entities reporting under the cash basis of accounting, the examples as included in this annexure should be amended to require disclosure of external assistance received from NGOs.

Appendix 1 - Note 2

The illustrative example differs from the information required by paragraph .22 and .23, as different line items are used in the illustration. For example, paragraph .22(a)(iii) requires the disclosure of the total amount drawn or utilised but this is not illustrated in the note disclosure. Also, the disclosure note illustration requires the disclosure of external assistance received, whereas paragraph 22(a) only requires the disclosure of the amount of new loans approved or otherwise made available during the period.