

Comments on the Exposure Draft 24
Financial Reporting Under the Cash Basis of Accounting
Disclosure Requirements for Recipients of External Assistance

1. Basic Standpoint

The primary purpose of the financial disclosure requirement of this accounting standard is the fulfillment of the accountability to be carried out by external-aid recipients. However, considering considerably weak public financial management prevailing in most of those countries, we have to also pay attention to the aspects of improving their weaknesses (improvement aspect) and encouraging the willingness to disclose their financial performance (encouragement aspect). In other words, an accounting standard for those countries should be prepared in such a way that the standard carries a constructive nature to promote their improvement in their public financial management, and it does not discourage their willingness for disclosure.

It is also important for us to base the financial reporting requirement for aid recipients upon the concept of their “economic and social development.”

2. Comments on the “Specific Matters” on Page 4

(1) Scope of “External Assistance”

The proposed scope is broad enough to cover major types of external assistance, except the NGO assistance (cf. the next section), however the “military assistance” should be removed because of the following reasons:

- a. The “military assistance” is definitely a type of external assistance in nature. Especially from the viewpoint of the “fund fungibility,” even the military assistance with no direct benefit on economic and social development should be counted as “external assistance” from a theoretical standpoint. However it will obviously discourage their willingness for disclosure; not only the military assistance itself, but it will more or less adversely affect their willingness to disclose other financial matters.
- b. The reporting of “military assistance” may be distorted or manipulated with some political intentions.

(2) Inclusion of “NGO Assistance”

Considering the basic role of the financial reporting of aid recipients to enable every stakeholder to financially monitor their behaviors and performance especially in development activities, the assistance by NGOs, whose role in development is increasingly important, should not be omitted

from the external assistance. However in practice under the condition of poor public financial management prevailing in most recipient countries, it is extremely difficult to financially grasp assistance of NGOs' field activities. Improvement of internal aid information systems so as to financially capture any assistance received (including NGOs' assistance) should be sought in the framework of the public financial management strengthening.

(3) Categorization of External Assistance

(4) Disclosure of "Undrawn External Assistance"

(5) Disclosure of "Terms and Conditions of External Assistance"

Though practically difficult under the present conditions in most recipient countries as stated in above sections, I agree to the ideas of the Draft on (3) (4) (5) treatments, because those detailed information is useful to monitor the recipients' activities more clearly, and again, those requests can provide recipients with explicit guidelines in the efforts to improve their management and information systems.

(6) Fair Value

(a) I agree to disclose the fair value of non-cash goods-in-kind. The disclosure of all of the external assistance received should be required in principle whether it is in cash or non-cash, and the valuation with "fair value" accords with the GAAP. However it is necessary to clearly explain why non-cash items of assistance, such as goods-in-kind, grants, expert dispatches and third-party (offshore) payments, must be counted even under cash-basis accounting in order to avoid the recipients' confusion.

(b) I agree to use fair value based on domestic prices, because (1) if such assistance had been unavailable, the recipients would have tried to procure the equivalents or alternatives primarily in the domestic market, and (2) domestic prices are able to be far more easily obtained (encouragement aspect) than international or oversea prices.

(7) Excessive Disclosures

The "military assistance" should be deleted for the reason described in Section (1) above.

(8) Paragraph 54

(a) Under the circumstances of poor public financial management capability in most recipient countries stated above, the transitional period of two years is too short in general. But, even if it is extended further to, say 5 years, it will make any difference. If the recipients whose managerial capability does not allow them to prepare satisfactory financial statements are requested (or imposed) to submit perfect statements, their willingness for disclosure will be

hampered.

Taking care of the “encouragement” as well as “improvement” aspects, I recommend fixing the transitional period at 2 years, and allow them to submit even imperfect ones but requesting the preparers to specify and mention clearly the current defective points involved and expected timeframe (years) for upgrading.

(b) It is appropriate to exempt comparative figures during the first year.

3. Other Comments

(1) Elucidation of “Entity”

The “Scope” section of this Standard defines the requested preparer of the financial statements to which this standard is to be applied as the entity that are recipients of external assistance. It means that any aid-receiving entity including ministries, departments, agencies, municipal governments, state-owned enterprises, parastatals and so forth who directly or indirectly receive external assistance are supposed to prepare their own financial statements in accordance with this Standard. And then finally those statements are to be consolidated into a national statement to disclose the collective result (because a nation itself is also regarded as an aid-receiving entity) at the national level.

To make this Standard more user-friendly, it is better to elucidate the “aid-receiving entity” more clearly with examples to give a clear image of the structure above.

(2) Receipts and Payments

Major interest in aid recipients’ financial performance from the viewpoint of economic and social development is how much external assistance has been received and how it has been used for different purposes. This Standard (paragraph 11) also clearly specifies the statement of cash receipts and payments as a disclosure requirement. However, the contents of this standard mostly deal with the receipts or revenue side with little attention to the payments or expenditure side. In practice, the donors’ attention often tends to focus on the usage of fund in the framework of the expenditure management whether the fund, both externally assisted and internally generated, has been properly used for nationally targeted purposes (for HIPC’s–Heavily Indebted Poor Countries, purposes set out in PRSP–Poverty Reduction Strategy Paper).

Taking the requirement above into consideration, the Standard should at least show in its Appendix some example formats to cover both receipts (revenue) and payments (expenditure) sides.