

Exposure Draft 61, Amendments to Financial Reporting under the Cash Basis of Accounting (the Cash Basis IPSAS)

Electronic response received

Group	Muhammad Sardjono Hadidjaja
Country/Region	Indonesia
Organization/Individual	Individual

Jakarta, July 31, 2016

Mr. Ian Carruthers
Chair of IPSASB
529 Fifth Avenue,
New York,
NY 10017

Dear Mr. Ian

Re. Exposure Draft 61, Amendments to Financial Reporting under the Cash Basis of Accounting (*the Cash Basis IPSAS*)

I would like to send my comments on Exposure Draft 61, Amendments to Financial Reporting under the Cash Basis of Accounting (*the Cash Basis IPSAS*).

Firstly, I would like to comment regarding the statement: "Many respondents to the IPSASB's strategy consultation in 2014 identified the need for the Cash Basis IPSAS to be included in the suite of IPSASs to enhance financial reporting by governments in developing economies, and as a basis for the transition to the accrual basis of financial reporting and adoption of accrual IPSASs. "1)

My comment to the statement: "The IPSASB's strategy consultation in 2014 ... and as a basis for the transition to the accrual basis of financial reporting and adoption of accrual IPSASs."

In my opinion, the accrual method of accounting is a big mistake in measuring the management performance that as usual this done annually, this method didn't in line with the principle of going concern.

When a measurement of corporate or management performance use the accrual method, it will be subjective and it is an artifact, it will never reach the objective measurement.

Secondly, my comment regarding the title shown in At Glance , February 2016, the Exposure Draft 61 Summary— Amendments to: *Financial Reporting under the Cash Basis of Accounting (the Cash Basis IPSAS™)* at point: How can I comment on the proposals?

Basically I support the changes to the Cash Basis IPSAS proposed by ED 61 except some points will be presented later.

1) At Glance , February 2016, Summary: Exposure Draft 61, *Amendments to the Cash Basis IPSAS page 2*

Here I would like to suggest IPSASB to stop in continuing the efforts to apply the accrual basis for entities of public services. The efforts to improve financial management and increase transparency resulting in a more comprehensive and accurate view of a government's financial position are not only one way by adopting the accrual basis of accounting. But many ways can be used to enforce the governments to account for significant liabilities and assets by using technology creating sophisticated sub-ledgers and List of Liabilities and assets. I am not sure whether IPSASB has the authority to enforce all public sector entities in the states to do it. If has not, here I would like to suggest IPSASB to make an approach to Congress to establish of a special body of State that regulate the accounting matters of public services entities of USA and can enforce the entities to adopt all regulations made by this body. For international scope of public services entities, I suggest IPSASB make approaches to one Body of United Nations in this case United Nations Conference on Trade and Development (UNTACD) to coordinate the efforts the establishment the International Accounting Body that the main task is a standard setter of Accounting matters internationally.

The other comments can be found in the Appendix A as attached. Due date limit me to submit more comment, if any additional time the comment will be submitted later.

Your attention is highly appreciated.

Should you any question, please find my e-mail address:

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Yours sincerely,



Muhammad Sardjono Hadidjaja

APPENDIX A

Exposure Draft 61, Amendments to Financial Reporting under the Cash Basis of Accounting (the Cash Basis IPSAS)

Specific Matters for Comment

1. Do you agree with the changes to the Cash Basis IPSAS proposed in this ED? Yes I agree with this ED except that related to adopt the accrual basis. The accrual basis of accounting must be support by subjective matter for example: depreciation method.
- 2.

FINANCIAL REPORTING UNDER THE CASH BASIS OF ACCOUNTING PART 1: REQUIREMENTS

Comment: Please delete the sentences “International Public Sector Accounting Standards are not intended to apply to immaterial items.”. Because we have to say the truth in accounting.

Role of the Cash Basis IPSAS

Comment:

The IPSASB is of the view that the objectives of financial reporting can best be achieved by adoption of the cash basis accrual IPSASs. Consequently the IPSASB encourages governments and other public sector entities to present financial statements that comply with the requirements of the cash basis accrual IPSASs.

~~The Cash Basis IPSAS has been developed as an intermediate step to assist in the transition to the accrual basis of financial reporting and adoption of accrual IPSASs. It is not intended as an end in itself. the end of itself.~~

~~The role of the encouraged disclosures in Part 2 of the Standard is to support an entity’s transition to the accrual basis of financial reporting and adoption of the accrual IPSASs.~~

~~The path chosen to transition to the accrual basis of financial reporting and adoption of the accrual IPSASs will reflect jurisdiction circumstances and, consequently, may differ from jurisdiction to jurisdiction. The IPSASB does not specify that a particular transitional path should be adopted nor that entities must necessarily adopt the Cash Basis IPSAS as the first step in the transition process.~~

Amendments to: 1.1 — Scope of the Requirements and 1.2 — The Cash Basis

Amendments are made to:

- (a) Identify in new paragraph 1.1.1 the characteristics of the public sector entities to which IPSASs are designed to apply. Paragraph 1.1.5, which specifies that the Standard applies to all public sector entities other than government business enterprises, and related commentary paragraphs 1.1.6 and 1.1.7 are deleted as a consequence of the revised approach to identifying the entities to which IPSASs apply. ~~These amendments reflect those proposed for the accrual IPSASs~~

Amendments to: 1.3 — Presentation and Disclosure Requirements

Amendments are made to:

- (a) Update the definition of materiality in paragraph 1.3.1 to reflect the definition in the Conceptual Framework; and

(b) Delete the definition of economic entity from paragraph 1.3.1. It is proposed that requirements to prepare consolidated financial statements be removed from Part 1 of the Cash Basis IPSAS and be recast as encouragements in Part 2 of this Standard. Consequently, the definition of an economic entity, updated to reflect the definition included in IPSAS 35, *Consolidated Financial Statements* (issued in January 2015) is included in Part 2 of this Standard.

1.3 Presentation and Disclosure Requirements

Definitions

1.3.1 *The following terms are used in this Standard with the meanings specified:*

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Materiality: ~~information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that or assessments of users makemade on the basis of the entity's financial statements prepared for that reporting period. Materiality depends on both the nature and amount or size of the item or error judged in the particular circumstances of omission or misstatement each entity.~~

~~1.3.3 The principle of materiality provides that the specific disclosure requirements of International Public Sector Accounting Standards need not be met if the resulting information is not material.~~

Withdrawal of the Cash Basis IPSAS (2007)

1.8.9 This Standard was issued in 20XX. It supersedes the 2007 Standard previously on issue. It has been revised to provide relief from the requirement for preparation of consolidated financial statements and disclosure of information about third party payments and external assistance included in Part 1 of the 2007 Standard. Certain of those requirements are now included as encouragements in Part 2 of this Standard. This Standard has also been amended to better align with *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* (the Conceptual Framework) ~~and the accrual IPSASs currently on issue where appropriate.~~

Basis for Conclusions – Cash Basis IPSAS Part 1

This Basis for Conclusions accompanies, but is not part of the IPSAS, Financial Reporting Under the Cash Basis of Accounting. The Basis for Conclusions which follows Part 2 of this Standard deals with amendments to the encouragements in Part 2.

Introduction

BC1. The IPSAS, *Financial Reporting Under the Cash Basis of Accounting* (the Cash Basis IPSAS) was issued in January 2003 and updated with additional requirements and encouragements about the presentation of budget information in 2006 and external assistance in 2007. It comprises two parts: Part 1 identifies the requirements that must be adopted by a reporting entity whose general purpose financial statements comply with this Standard. Part 2 identifies encouraged additional disclosures which provide additional information useful for accountability and decision-making purposes ~~and support those entities transitioning to the accrual basis of financial reporting and adoption of accrual IPSASs.~~

BC3. , Despite its limited adoption, the IPSASB's strategy consultation in 2014 found that there is strong support for retention of the Cash Basis IPSAS, whether as a Standard in its own right ~~or as first step on the transition to the accrual basis of financial reporting and adoption of accrual IPSASs and, in some cases, for revisions to its requirements to remove obstacles to its adoption.~~ Entities transitioning to the accrual basis of financial reporting are also encouraged to refer to IPSASB Study 14 *Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities* (Third Edition January 2011) which provides guidance on the approaches that may be adopted in transitioning to the accrual basis.

BC4. The amendments proposed for the Cash Basis IPSAS in this Exposure Draft (ED) reflect a limited scope review of the IPSAS intended to respond to input the IPSASB has received from constituents on the operation of the Cash Basis IPSAS. The amendments proposed are intended to:

- (a) Overcome the substantial obstacles to its adoption represented by the requirements relating to consolidation, external assistance and third party payments; and
- (b) Clarify that the role the Cash Basis IPSAS is intended to play in the IPSASB's standards setting strategy is primarily as a step on the path to adoption of the accrual basis IPSASs, rather than an end in itself.

~~BC5. This ED proposes minor "housekeeping" amendments intended to ensure that, while the requirements and encouragements in this Standard may differ from the requirements in equivalent accrual IPSASs, they are not contrary to those requirements unless intended to be so to reflect the cash basis focus in this Standard. Since issue of the Cash Basis IPSAS in 2003, the accrual IPSASs have been updated, and in some cases withdrawn and/or replaced. The "housekeeping" amendments proposed reflect, as far as is appropriate, developments in the accrual IPSASs.~~

BC7. Many constituents have expressed concern that the current consolidation requirements undermine the capacity of the Cash Basis IPSAS to perform its role of enhancing the quality of financial statements prepared under the cash basis of accounting ~~and supporting the transition to the accrual basis of financial reporting and adoption of accrual IPSASs~~ — because governments and other public sector entities cannot comply with the Standard. This ED proposes amendments to the Cash Basis IPSAS to respond to these concerns, as outlined below.

BC9. The ED also proposes that Part 2 of this Standard will encourage controlling entities that do not consolidate all controlled entities to prepare financial statements that reflect a budget sector, general government sector or other representation of core government activities ~~as they transition to the accrual basis of financial reporting and adoption of the accrual IPSASs. This supports an orderly and achievable transition to full consolidation as required by the accrual IPSASs~~, and responds to concerns of some constituents that full consolidation would result in the loss of information about core governmental activities and, in some cases, is contrary to legislative requirements.

~~BC10. To support those entities transitioning to the accrual basis, the key definitions, including that of control, are revised where necessary to ensure that they do not conflict with IPSASs 34, *Separate Financial Statements* and IPSAS 35, *Consolidated Financial Statements*.~~

BC11

(d) Requiring presentation of financial statements for an economic entity that reflects the budget sector or the general government sector or similar interim group of controlled entities, rather than for all controlled entities. Such an approach responds to obstacles identified by constituents in many jurisdictions and is appealing on that basis. However, any attempt to define or specify such an interim group may trigger some jurisdictional specific obstacles, particularly if legislative requirements do not directly align with a specified interim group. ~~It may also give rise to obstacles in jurisdictions that are transitioning to the accrual basis and~~ It has ~~have~~ moved past the interim group reporting entity that might be specified. ~~This ED proposes that the IPSAS should allow and acknowledge that group financial statements reflecting the budget sector or general government sector may be prepared and presented on the path to the full accrual basis.~~¹

BC23. As part of the housekeeping process, this ED proposes that:

(a) The definition and explanation of a *Government Business Enterprise* (GBE) be deleted and replaced by the characteristics of the public sector entities to which IPSASs are designed to apply. ~~This is consistent with amendments currently proposed for the accrual IPSASs by Exposure Draft ED-56 *Applicability of IPSASs* (issued July 2015);~~

BC24 and others will be submitted later if still a