WORLD BANK GROUP

July 27, 2016

Mr. Ian Carruthers
Chair
International Public Sector Accounting Standards Board
529 Fifth Avenue
New York, NY 10017

Re: Proposed International Public Sector Accounting Standard as Amended by Exposure Draft 61, Amendments to Financial Reporting under the Cash Basis of Accounting (the Cash Basis IPSAS)

Dear Sir:

The World Bank Group appreciates the opportunity to comment on the IPSASB's *Proposed International Public Sector Accounting Standard as Amended by Exposure Draft 61, Amendments to Financial Reporting under the Cash Basis of Accounting (the Cash Basis IPSAS)* (ED61).

1. Importance of Cash Basis IPSAS to promote transparency and accountability and as a stepping stone toward Full (Accrual) IPSAS

The World Bank Group supports ED61's goal of making it possible for more public sector entities to adopt the Cash Basis IPSAS and ultimately transition to the accrual basis of accounting. However, we believe that the proposed amendments have conceptual shortcomings that potentially reduce the quality of the reporting under the Cash Basis IPSAS.

A significant number of the World Bank Group's partner countries lack the capacity to adopt the accrual basis of accounting in the near term, however, an increase in the number of public sector entities reporting in accordance with the Cash Basis IPSAS would represent a very significant milestone. For this reason the World Bank Group believes that the Cash Basis IPSAS reporting is beneficial and should be encouraged. As public-sector entities achieve compliance with the Cash Basis IPSAS, they acquire the technical skills that enable them to incorporate resulting information into their decision making processes. This can serve as an incentive to further expand accounting and financial reporting reforms, and gradually move towards the use of accrual accounting.

2. Proposed Amendments of ED61

The amendments proposed by ED61 provide practical exemptions from certain requirements of current Cash Basis IPSAS, i.e., the standard would encourage, but not require, (a) consolidation of controlled entities, and disclosure of both (b) external assistance from third parties and (c) third party payments by parties outside the economic entity.

a) We agree with the proposed removal of the requirement to present consolidated financial statements. However, we recommend mandatory disclosures about controlled entities—including basic quantitative and qualitative information about each of the significant entities that would be otherwise consolidated.

b) We do **not** support the proposed removal of the requirement to disclose external assistance under Part I.

c) We agree with the proposed removal of the requirement to disclose third party payments by parties outside the economic entity.

The rationale for our views is as follows:

a) ***Consolidation*** of all controlled entities is a fundamental concept of financial reporting because consolidated financial statements present the entire financial position and results of operations of a parent (controlling entity) and subsidiaries (controlled entities) as if the individual entities were a single entity. Removing the consolidation requirement might result in a public sector entity not reporting all cash under their control, i.e., cash that the entity can use for the achievement of its own objectives or otherwise benefit from.

However, considering the current low adoption rate of Cash Basis IPSAS and the fact that there are a significant number of public sector entities without the capacity to adopt the accrual accounting in the near term, the World Bank Group believes that the expected benefits from the proposed exemption from consolidation outweigh the above mentioned conceptual shortcomings.

b) Removing the requirement to disclose ***external assistance*** and ***payments made by third parties*** will likely result in public sector entities not disclosing significant benefits received, thus potentially depriving donors and others of useful information. The issue of external assistance is likely to be especially relevant to countries facing major institutional capacity constraints, for which cash-basis public-sector accounting/reporting is the only realistic goal in the foreseeable future. In those countries, disclosures on external assistance are essential to provide transparency, promote the principle of "open government" and uphold the citizens' right to information.

WORLD BANK GROUP

We recognize that these important disclosures place a significant burden on public sector entities and that the development community needs to continue supporting countries in their efforts to build stronger systems of financial management and reporting.

In addition to the views provided above, we have attached specific suggestions for clarification regarding the scope of requirements under Part 1 and proposed guidance on external assistance and third party payments.

Yours sincerely,

P. O'Connell

Pamela O'Connell
Director and World Bank Group Chief Accountant

WORLD BANK GROUP

Additional Comments – Specific Recommendations

Scope of the Requirements (Part 1)

For completeness, and to meet the objective set in paragraph 1.1.3 of responding to the information needs of resource providers users who are not in a position to demand reports tailored to meet their specific information, "grant" should be added to paragraph 1.1.1, as follows:

"The IPSASs are designed to apply to public sector entities that:

[...]

(b) Mainly finance their activities, directly or indirectly, by means of taxes and/or transfers from other levels of government, social contributions, ***grant,*** *debt or fees and do not have capital providers that are seeking a return on their investment or a return of their investment".*

External assistance in the form of cash

ED61 no longer requires reporting of external assistance in the form of third party payments. However, ED61 should clarify that external assistance in the form of cash should continue to be recognized, on the Statement of Cash Receipts and Payments, should be clearly stated in paragraph 1.3.18 of Part 1, instead of being addressed only in the basis for conclusions in paragraph BC16 of Part 1.

Treasury single account arrangements

Per the amendments to paragraph 1.2.8 of Part 1 of ED61, cash inflows, cash outflows and cash balances of the entity which flow through, or are held in, the treasury single account, will be reported in the statement of cash receipts and payments. The fact that "treasury single account" arrangements do not give rise to third party payments, should be clearly stated in paragraph 1.2.8 instead of being stated only in the basis for conclusions, in paragraph BC20 of Part 1.