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30 July 2016

Dear Sir/Madam

**COMMENT ON EXPOSURE DRAFT 61: Amendments to Financial Reporting under the Cash Basis of Accounting (the Cash Basis IPSAS)**

***The Technical Director***  
International Public Sector Accounting Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, Ontario M5V 3H2 Canada

We welcome the opportunity to comment on Exposure Draft 61: *Amendments to Financial Reporting under the Cash Basis of Accounting (Cash Basis IPSAS)*.


Overall, we are supportive of the IPSASB's proposed amendments to the Cash Basis IPSAS.

Responses to each Part for Comment are set out in Annexure A.

Please feel free to contact me should you have any queries relating to this letter.

Yours sincerely

KPMG Services Proprietary Limited

  
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KPMG Services Proprietary Limited is a company incorporated under the South African Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG Services Proprietary Limited is not a Registered Auditor in terms of the Auditing Profession Act, 26 of 2005 and does not provide audit services as defined in Section 1 of this Act.

Registration number 1999/012876/07

Policy Board:  
Chief Executive: TH Hoole

Executive Directors: N Dlomu, M Letsisi, SL Louw, NKS Malaba, M Oddy, M Saloojee, CAT Smit

Other Directors: ZA Beseti, ZH De Beer, LP Fourie, N Fubu, AH Jaffer (Chairman of the Board), FA Karreem, ME Magondo, F Mail, GM Pickering, JN Pierce, T Rossouw, GCC Smith

The company's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown, where a list of the directors' names is available for inspection.

## **ANNEXURE A – DETAILED RESPONSES**

The IPSAS Board (IPSASB) has prepared Exposure Draft 61 *Amendments to Financial Reporting under the Cash Basis of Accounting*, thereafter, referred to as *Cash Basis IPSAS*, to achieve the following objectives:

- Remove obstacles to the adoption of the Cash Basis IPSAS dealing with accounting for consolidations, external assistance and third party payments. The IPSASB proposes to remove the abovementioned items from Part 1 mandatory requirements of Cash Basis IPSAS and relocate the requirements as encouragements in Part 2 of that standard. Part 2 of the Cash Basis IPSAS will encourage, but not require, the preparation of consolidated financial statements and the disclosure of certain information about external and other assistance and payments made by third parties;
- Ensure that requirements and encouragements in the Cash Basis IPSAS are not contrary to those of the equivalent accrual IPSASs, except where such differences are appropriate to reflect adoption of the Cash Basis IPSAS; and
- Clarify that the role that the Cash Basis IPSAS is intended to play in the IPSASB's overall standards setting strategy is primarily as a step on the path to adoption of the accrual basis IPSASs, rather than as an end in itself.

The IPSASB would like respondents to comment on the following:

- Whether we agree/disagree with the proposed changes to the Cash Basis IPSAS?
- Whether the guidance on accrual IPSASs and Recommended Practice Guides (RPGs) issued and updated subsequent to 2003 when the Cash Basis IPSAS was issued should be included in Part 2 as additional requirements or encouragements in that Standard.

### **Proposed changes to the Cash Basis IPSAS**

We acknowledge that the requirements for preparation of consolidated financial statements, disclosure of information about external assistance and payments made by third parties have been identified by many jurisdictions as major practical obstacles to full adoption of the IPSAS. As a consequence the IPSASB recommends that they be recast as encouragements in Part 2 of the Cash Basis IPSAS.

### **Relocating consolidations to Part 2 encouraged disclosures**

Controlling entities prepare and present consolidated financial statements that consolidate controlled entities. Some of the concerns that we have identified is the failure of jurisdictions to identify controlled entities, eliminate intercompany transactions and consolidate public sector entities that report on a different framework to central government, such as International Financial Reporting Standards (IFRS).

Therefore, we do agree with the proposal to relocate the requirements to consolidate to the encouraged disclosures of the Cash Basis IPSAS.

However, we are concerned that the financial statements will not provide an accurate and complete picture of the cash receipts, payments and balances of the whole government on a consolidated level.

**Relocating external assistance and third party payments to Part 2 encouraged disclosures.**

Currently, reporting entities disclose in a separate column, payments made by third parties and external assistance received in the statement of cash receipts and payments. The Cash Basis IPSAS proposes that these be relocated to Part 2 encouraged disclosures.

Whilst we appreciate that the recipients of external assistance and third party payments usually do not have all relevant information on the external assistance and third party payments readily available at reporting date, we are concerned that relocating this requirement to Part 2 encouraged disclosures, will undermine transparency and accountability as the donors will not be able to determine how their assistance was utilised by the recipients.

**Clarifying the role of the Cash Basis IPSAS.**

The IPSASB acknowledges that objectives of financial reporting can best be achieved by adoption of the accrual IPSASs. We do agree that Cash Basis IPSAS could be an intermediate step to assist in the transition to the accrual basis of financial reporting and adoption of accrual IPSASs. This is because most jurisdictions, especially in the developing economies, might not have the necessary skills and resources to fully adopt accrual IPSASs and therefore the Cash Basis IPSAS could be appropriate. However, one concern could be that this could prolong the adoption of accrual IPSAS as governments might view themselves as already compliant with an appropriate reporting framework.

**Ensuring that updated versions of accrual IPSASs and amendments to the Cash Basis IPSAS do not contradict each other.**

We agree that the Cash Basis IPSAS needs to be updated to match the terminology and other requirements of the updated versions of the accrual IPSASs to encourage alignment and consistency.

