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The Technical Director
International Public Sector Accounting Standards Board
International Federation of Accountants
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Dear Sir

1. The International Consortium on Governmental Financial Management (ICGFM) welcomes the opportunity to respond to IPSAS ED61 - 'Financial Reporting under the Cash Basis of Accounting (the Cash Basis IPSAS)'.
2. We are supportive of the proposed changes subject to the comments in the attached paper.
3. We appreciate the opportunity to comment on this exposure draft and would be pleased to discuss this letter with you at your convenience. If you have questions concerning this letter, please contact Michael Parry at Michael.parry@michaelparry.com or on +44 7525 763381.

Yours faithfully,

Michael Parry

ICGFM Accounting Standards Committee

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Cc: Jack Maykoski, President, ICGFM

ICGFM Ad Hoc Committee on Accounting Standards

Response to ED61

Financial Reporting under the Cash Basis of Accounting (the Cash Basis IPSAS)

Specific Matter for Comment 1(i):

[Whether] the changes to the Cash Basis IPSAS proposed by ED 61 are supported

We support the proposed changes subject to the comments below. These changes will make the Cash Basis standard feasible for implementation by almost all countries. This in turn will result in many more countries making a sustained effort to improve their accounting systems and financial reporting to enable compliance with the Cash Basis IPSAS.

Part 1 -

1. **Role of Cash Basis IPSAS** - it is our view that for many countries a move to full accrual is an inappropriate use of scarce resources. Furthermore, attempts to introduce accrual accounting prematurely or with inadequate resources can in some cases actually degrade the quality of financial reporting. We consider that the IPSAS Board should recognise the above facts and not try to impose a global requirement for all countries to move to accrual accounting.
2. **Format of statement of receipts and payments** - we note that in Part 2, Para 2.2.1, entities completing the transition to accrual accounting are encouraged to “*present a statement of cash receipts and payments in the same format as that required by International Public Sector Accounting Standard (IPSAS) 2, Cash Flow Statements*”. This contrasts with the more traditional receipts and payments format as illustrated in Appendix 1A to the Standard. It is our view that the IPSAS 2 cash flow format should be allowed as an alternative format for receipts and payments in all cases in Part 1 because:
 - a. The cash flow format is consistent with the accrual standard IPSAS 2 format
 - b. The cash flow format provides all of the information required in the proposed cash basis standard

- c. The IPSAS cash flow format is broadly consistent with the IMF GFS cash flow statement
- d. The format provides more useful information for fiscal management than the traditional receipts and payment format.

In fact, there is nothing in the proposed Cash Basis Standard to preclude countries using the IPSAS 2 Cash Flow format, since the standard is unspecific as to the presentation or classification of the Statement of Receipts and Payment. We support the approach of leaving individual countries and entities to decide the most appropriate format, but would prefer to see the Cash Flow format specifically mentioned in Part 1 as an acceptable alternative format for the statement of receipts and payments .

Part 2: Encouraged additional disclosures

We support the concept of Part 2 of the standard because:

1. It enables countries moving to accrual accounting to continue to prepare IPSAS compliant financial statements whilst they provide an increasing range of accrual information in a phased transition to full accrual.
2. Where countries are unable or unwilling to move to full accrual, they can provide in the notes financial information, beyond that required to comply with Part 1, so as to meet specific country requirements and still remain IPSAS compliant.

Structure of Part 2 - at present Part 2 is a rather random list of possible additional information. We would like Part 2 to be structured to identify the more important areas of additional information, e.g.

- A financial balance sheet and statement of financial flows - all countries should report on financial assets and liabilities so as to enable fiscal control and this would be a logical step beyond pure cash accounting
- A sequenced approach to consolidation, commencing with central government, then the general government sector (GGS)
- Additional information on contingent liabilities
- Narrative information particularly in accordance with the guidance in RPG 1 and 2
- Information on external support from development partners.

However, we recognise that building such a structure for Part 2 may require further research. This should not be allowed to hold up the issuance of the new cash basis standard.

Specific Matter for Comment 1(ii):

The capacity of public sector entities in [respondent's] jurisdiction to achieve compliance with the requirements of, and present the additional information encouraged by, the Cash Basis IPSAS if amended as proposed by ED 61?

Based on the experience of members in a wide range of countries we consider that almost all sovereign governments should have the capacity to comply with the proposed revised Cash Basis Standard

Specific Matter for Comment 2:

Additional requirements or encouragements drawn from any of the accrual IPSASs or Recommended Practice Guides (RPGs) currently on issue should be added to the Cash Basis IPSAS in the future and, if so, which requirements or guidance

Since Part 2 is not specific as to the additional disclosures, it is possible that almost any of the accrual IPSAS could be applicable. Likely examples include:

- IPSAS 14 - if events after the balance sheet date are reported
- IPSAS 17 - if information on any tangible assets is provided
- IPSAS 19 - if contingent liabilities are reported
- IPSAS 22 - if there is consolidation of the general government sector
- IPSAS 28-30 - if there is a financial balance sheet
- IPSAS 35 - if there is any entity consolidation in order to provide the principles of consolidation

However, rather than specifying particular accrual IPSAS, we consider that there should be a general requirement that any information provided in the Financial Statements or Notes in accordance with either Part 1 or Part 2 of the Cash Basis Standard should be provided in a manner consistent with any relevant accrual IPSAS. By making this a general requirement for accrual IPSAS compliance it will avoid the need to amend the Cash Basis standard for each new or amended accrual IPSAS.

In addition, we consider that the Recommended Practice Guidelines (RPG) 1 and 2 are as relevant to the cash basis as to the accrual basis. Indeed, it may be argued that the need for RPG 1 is even greater under the cash basis since cash basis financial statements provide little information on future sustainability. The applicability of RPG 3 is more doubtful since service performance information is best linked to accrual financial information.

We therefore consider that under Part 2 there should be a specific reference to existing RPGs with a recommendation that the guidance in RPGs 1 and 2 be implemented as part of the provision of additional information.