CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

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The International Public Sector Accounting Standards Board

11th July, 2016

To whom it may concern,

The Institute of Certified Public Accountants in Ireland welcomes the opportunity to comment on:

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

There are some welcome developments proposed in ED61, which should help to make it easier for many to comply with the requirements of the Cash Basis Standard. There are also a few areas that we believe require further reflection. We would like to outline the areas of what we think are improved practice and also those recommended changes that we think are more problematic below.

Positive developments

1. We note and agree with the use of the more authoritative 'shall' rather than 'should' in the phrasing of the Standard (see e.g. 1.3.5). Although this may seem a small point, we have direct experience of situations where the slightly vague 'should' causes confusion as to whether something is mandatory or not, so this is a good development.

2. We note that one of the major changes proposed is to make consolidation an optional 'Part 2' rather than a mandatory 'Part 1' requirement ('old' section 1.6 becomes 'new' 2.1.33 to 2.1.56). Our experience is that one of the major areas of difficulty in fully applying the Cash-Basis Standard is indeed that of consolidation. The proposed changes therefore are broadly very welcome and should help with full application and implementation of the Standard far more easily. Those seeking to make the transition will now have longer to do so and given the challenges they often face in successfully consolidating all relevant entities this is to be welcomed.

   That said, we would suggest that consideration be given to making the listing of all controlled entities as a Part 1 requirement. Although there may be difficulties in some instances in identifying whether or not an entity is controlled this should theoretically be a much simpler requirement than actually accounting for them on a consolidated basis. If consolidation is not actually taking place, an explanatory disclosure could be added to the list of controlled entities to explain why this is so.

   The virtue of this approach would be that it means that the issue of consolidation, which remains in accounting and reporting terms very important, does not become invisible. Otherwise there is a risk that it is permanently off the agenda. Further, the reader does not really have any idea at all of how great the discrepancy due to non-consolidation is without at least an indication of who should be being consolidated in the first instance. A listing of controlled entities with an explanation of the reasons for non-consolidation should help in this respect.

Areas for concern

3. A significant element of the proposed revisions to the Standard is to make it explicit that the Cash Basis Standard is to be seen as a stepping stone to accruals. We do not suggest that this is per se inappropriate but we do think that it is important that a country or organisation is properly prepared before making the move to accruals. Unfortunately, we are aware of some circumstances where this possibly has not been the case.

   It is acknowledged in the ED that there are already examples where those involved have found it difficult to make the transition to the Cash Basis Standard. Indeed, the simplifications that are proposed in the ED presumably arise from this. In other words, the Cash Basis Standard is a major leap for some developing countries as it is (see e.g. BC11 to the ED where this is specifically acknowledged).

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Whilst we do not object to the idea of accruals as an aspiration, we feel that in some cases this is a long way off and the IPSASB runs the risk of advocating a one size fits all approach that does not match realities on a case-by-case basis. A number of developing countries have limited accounting capacity, ineffective financial information systems and a shortage of funds to finance the transition. Donor support can help in this respect but it needs to be part of a coordinated financial management development programme which is fully sustainable in the long-run. In such cases, we feel that the explicit aim of moving to full accruals in every case is potentially impractical; but we also feel that stating it as one runs the risk for a variety of reasons, often a misguided sense of national pride perhaps, of attempting the transition prematurely.

For this reason, we would urge the IPSASB to reconsider the proposed stance on this to ensure that, whilst the Cash Basis Standard can indeed be seen as a stepping stone to full accruals, it is also seen as an important achievement in its own right. There is in our view of danger of negative consequences if this is not the case. We also urge the IPSASB to make clear in the final revision of the Cash Basis Standard that countries and organisations should not make the move to accruals accounting until they are properly prepared to do so. Indeed, this is what is stated in the fairly recently-released IPSAS 33, *First-Time Adoption of Accruals Basis IPSAS.* In our view, more should be made of this in the revised Cash Basis Standard, otherwise there is a risk that the move to accruals is made prematurely with negative outcomes as a result.

4. External Assistance and third-party payments

Moving the requirements regarding much of the accounting for external assistance and third-party payments (apart from Single Treasury Accounts) to Part 2 rather than Part 1 looks on the surface as if it is also a way of making compliance with the Cash Basis Standard a far more straightforward aim for entities/countries to work for. In practical terms, it undoubtedly will as this is a significant problem area in many cases at the moment.

What is more difficult to explain away is why it is currently so difficult. Much of the information required is readily available to the donors who provide external assistance; indeed, they need much of the information required for their own internal reporting purposes, so not a lot extra is required to include the information they are already collecting in the financial statements of beneficiaries.

What appears to be lacking is not so much the information itself but more a coordination process that shares such information, which may often be as much a failing on the part of the donor as on that of the beneficiary. This is often it would seem a result of poor practice rather than any great technical difficulty. As such, this proposed simplification can be contrasted with that concerning consolidation where there are many genuine technical reasons for such a move to defer the process to Part 2; different reporting frameworks, shortage of accounting capacity in the public sector for example.

It should also be borne in mind that the information on external assistance is extremely important for understanding the full picture of the economic position in developing countries. Indeed, it seems somewhat ironic that whilst many donors encourage greater disclosure of fiscal information and ‘off budget’ items particularly, the proposed revision to the Standard regarding external assistance seems to be going the other way. As such the reality of the sustainability or otherwise of an entity’s/country’s finances is likely to be less transparent as a result and this should in our view be avoided. We therefore think that this provision is contradictory to other changes in the Public Financial Management environment more widely and would suggest that this proposed change should therefore be removed.

We hope that you find these comments of use as you move towards the finalisation of the revised Standard.

If you have any questions on the above please do not hesitate to contact me.

Yours sincerely,

Wayne Bartlett
Chair
CPA IPSAS Advisory Board