



27 July 2016

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

Submitted electronically through the IPSASB website

Dear Mr Carruthers,

### **ED 61, Financial Reporting under the Cash Basis of Accounting**

ICAEW welcomes the opportunity to comment on ED 61, *Amendments to Financial Reporting under the Cash Basis of Accounting* (the Cash Basis IPSAS).

We acknowledge the important role that IPSASB's cash basis standard plays in enabling governments unable to or in the process of implementing accrual standards to be compliant with an internationally recognised set of accounting standards. We have, accordingly, considered the Board's proposals for amending the standard. We have not responded to the specific matters for comment within ED 61, but have instead made some general observations that we think are important and will hopefully inform the debate on the future of the Cash Basis IPSAS.

The benefits of accruals accounting over cash accounting in the public sector have been well documented. We note that one of the objectives of ED 61 is to clarify that the role of the Cash Basis IPSAS is to act as a stepping stone to full adoption of accruals basis IPSAS, rather than being an end in itself, and support this approach. However, ED 61 simplifies the Cash Basis IPSAS by not requiring controlling entities to prepare consolidated financial statements and by no longer requiring disclosure of information about external assistance and third party payments. These important accounting principles and disclosures will be merely encouraged.

We do not agree with these proposals. We acknowledge that very few countries (if any) have achieved full compliance with the Cash Basis IPSAS in its current form. The reasons advanced for non-compliance tend to be a lack of resources and capacity, as well as an unwillingness to consolidate all controlled entities that extend beyond the General Government Sector (GGS) or budget boundary. We accept that for a standard to be relevant, high quality implementation has to be within the capacity of potential users of the standard, and that IPSASB is seeking to balance the benefits of wider adoption of the cash basis standard and the usefulness of the resultant IPSAS compliant financial statements. But in our view these arguments are not sustainable in the long run.

The cash basis standard was originally issued in 2003 and we would have expected progress to have been made to address capacity and resource issues during the last 13 years; it is therefore disappointing that IPSASB have decided that the only way to improve the adoption of the cash basis standard is by simplifying it. We would prefer instead that IPSASB redoubles its efforts to explore with other stakeholders how best to increase capacity and strengthen the financial

reporting regime in relevant countries to help governments to apply the standard successfully. ICAEW would be pleased to contribute to this endeavour.

Yours sincerely

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