



PASAI Response to

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

DATE OF SUBMISSION: 30 JULY 2016

Overview of Pacific Association of Supreme Audit Institutions PASAI

The Pacific region is home to many dispersed small island nations. The region has a total population of around 39 million people with a total gross domestic product of around US\$1,396 billion in nominal terms. Australia, Papua New Guinea and New Zealand comprise 94% of the total population figure, and Australia and New Zealand comprise 98% of the gross domestic product. Eighteen of the 23 countries of the Pacific region rank in the 50 countries with the lowest populations in the world.

PASAI has 28 members. Our members operate under three different systems of national governance: most Micronesian nations use the US Congressional system; the Polynesian and Melanesian nations use adaptations of the Westminster system; and New Caledonia and French Polynesia are territories of France. The SAIs and state or territorial audit offices in the Congressional and Westminster systems are responsible to their legislatures, whereas the French territories operate under the judicial model.

For convenience, this paper will use the term 'SAI' to describe all members, irrespective of their actual status as such.¹

PASAI's Secretariat office is located in Auckland, New Zealand with a staff of five, headed by a Chief Executive with ongoing oversight by a Secretary-General, who currently is the Auditor General of New Zealand.

PASAI's Strategic Plan (2014–2024), which guides our work, aligns with this focus. We also have an extensive Monitoring Evaluation and Reporting (MER) framework to enable us to evaluate the effectiveness of our work so that we can ensure we are meeting our strategic objectives. This framework supports PASAI's program activity and will be essential to ensuring that we remain focused on supporting national governments' attempts to implement the SDGs through SAI audit work.

¹ The term 'SAI' (Supreme Audit Institution) normally refers to a governing national auditing institution.

Based on information obtained from the Pacific Financial Technical Assistance Centre (PFTAC) and information obtained from the government financial statements published in the Ministry of Finance websites, the following is a summary of the accounting method used by 22 Pacific Island Country PASAI members (excluding Australia, NZ and also French affiliated countries):

PASAI MEMBERS PACIFIC ISLAND COUNTRIES AND TERRITORIES (STATES)	Accrual	Modified Accrual ^a	Modified Cash ^a	Cash
American Samoa	x			
Cook Islands *	x			
Fiji			x	
Guam	x			
Kiribati				x
Marshall Islands (RMI)	x			
Micronesia (FSM National and States Pohnpei, Yap, Chuuk, Kosrae)	x			
Nauru #			x	
Northern Mariana Islands (NMI)	x			
Palau	x			
Papua New Guinea				x
Samoa			x	
Solomon Islands				x
Tonga			x	
Tuvalu		x		
Vanuatu	x			
% of PICS that are not on full accrual (using cash, modified cash and modified accruals)	50%			

^a *Modified Cash and Modified accrual is a combination of cash basis and accrual accounting, however these are not adequate financial reporting frameworks. Therefore, for the purpose of this exercise, we have counted the modified cash and modified accrual as not using full accruals and this IPSAS (cash) applies.*

** Cook islands and US insular pacific countries such as Guam, NMI, Palau, RMI and Micronesia, are countries which produce consolidated whole of government accounts.*

Nauru has recently only produced WOG accounts for 2013/2014 and 2014/2015 after nearly a 18 year gap of no financial government reporting. We have not been able to determine the financial reporting framework for these recent financial statements.

From this analysis the responses on the two specific matters relating to this ED will be in relation to the context of the situation in the Pacific region.

These responses are also from our perspective as a pacific regional organisation providing the technical support towards these Pacific Island country members, rather than the view of the individual governments.

Specific Matters for Comment # 1

Do you agree with the changes to the Cash Basis IPSAS proposed in this ED? If not, please provide your reasons. The IPSASB would welcome your views on the capacity of public sector entities in your jurisdiction to achieve compliance with the requirements of, and present the additional information encouraged by, the Cash Basis IPSAS amended as proposed by this ED.

1. PASAI agrees and supports the changes to the Cash Basis IPSAS proposed in the Exposure Draft.
2. PASAI welcome the proposed changes as that will motivate the related public sector entity in our member countries to collect necessary information from third parties. Also seven of our member countries are still preparing their financial statement using Cash Basis IPSAS and Modified Cash Basis so the proposed changes will be beneficial for them.
3. The external assistance and payments made by third parties are usually beyond the control of the reporting entity as the reporting of such payments may be delayed or not forthcoming and therefore verification of such payments can be quite challenging. Because this is currently a mandatory requirement, when this is the case, the reporting entity will not comply with IPSAS because they were not able to verify such payments and therefore these payments will not be disclosed. It would be good if IPSAS could provide specific requirements for the documentation and reporting of those third parties transactions.
4. This can be a point of disagreement between the reporting entity and the auditors. The role of Supreme Audit Institutions (SAIs) is to enhance the accountability and transparency of public funds Auditors by ensuring that government financial statements comply with the requirements of IPSAS (cash).
5. The proposed changes to the standard will assist in resolving any disagreement and allow flexibility where disclosure is not possible because of the inability to verify such payments. We understand that in our developing countries, due to the lack of capacity, resources and knowledge and the size of these countries, cash accounting was relevant.
6. Furthermore, due to the lack of capacity and qualified accountants there seemed to be obstacles to complying with IPSAS Cash or Accruals, therefore a modification of both these accounting processes have been adopted across the Pacific. The gradual increase in the use of computerised accounting systems and increase in the number of locals obtaining accounting degrees and the introduction of global markets, prompted the need to also revise the method of accounting to align with these changing financial times.

7. Governments base their decisions on informed, reliable and accurate financial data and if whole of government accounts are still being prepared based on cash basis, the governments will not have a complete picture of the financial position of the government at any point in time, and therefore make decisions based on inaccurate information. It is understandable that governments ultimately make decisions on the accounting framework improvements and sometimes these changes are affected when there are changes in governments.
8. PASAI is working with regional organisations such as the Pacific Financial Technical Assistance Centre (PFTAC) and development partners to strengthen Public Financial Management (PFM) and to also increase the capacity for relevant government agencies that are responsible for preparing financial statements.
9. The key role of a supreme audit institution is to enhance accountability and transparency of public funds and one way to achieve this is to encourage governments to move to accrual accounting. This ED aligns with PASAI's vision which is a key message from our 2015 Accountability and Transparency report that for SAIs to have an impact on transparency and accountability in the Pacific—to make a shift, to make a change—is that SAIs must lead by example. For example SAIs in the region are also moving towards ensuring that high quality audits are conducted according to international standards of supreme audit institutions (ISSAIs) and to make a difference to the lives of citizens as prescribed in ISSAI 12. This will also include providing audit recommendations for governments to enhance transparency and accountability by encouraging the gradual transition to accrual accounting.
10. As reported in our 2015 Accountability and Transparency study *“Auditing government and public sector entities has a positive impact on trust in societies because it focuses the custodians of public resources to think about how well they use those resources. Creating this awareness and focus underpins accountability, which in turn leads to improved decisions. When a SAI’s audit results are made public, citizens can hold the custodians of public resources to account. In this way, SAIs promote the efficiency, accountability, effectiveness and transparency of public administration— ultimately making a difference to the lives of citizens.*
11. This ED is consistent with our vision for pacific governments in developing and fragile countries of the pacific.
12. We are particularly in support of and welcome the changes to the following paragraphs based on the description of our Pacific region above:
 - a) Amendments to : 1.6 – Consolidated Financial statements
 - b) Paragraph 1.2.8 & 1.3.4 (centralised treasury function)
 - c) Paragraph 1.3.18 (external assistance disclosure)

Specific Matters for Comment # 2

The IPSASB would welcome your views on whether requirements or guidance drawn from any of these IPSASs or RPGs should be included as additional requirements or encouragements in the Cash Basis IPSAS in the future and, if so, which requirements or guidance

1. The aim of the RPGs is to provide guidance on public sector-specific reporting issues, including those that relate to information additional to the financial statements and these would be useful for our region. Therefore for the Pacific region all the guidance and RPGs would be useful as resources towards **encouragement** for all governments to move from IPSAS cash to IPSAS accruals in the future.
2. This may not be relevant to other countries, so perhaps a reference to these guidance In the IPSAS would be useful.
3. A reference to a website that will have all these guidance materials or a resource page linked to the IPSAS would be useful.