

Exposure Draft 61 Summary—Amendments to: *Financial Reporting under the Cash Basis of Accounting (the Cash Basis IPSAS[™])*

This summary provides an overview of Exposure Draft (ED) 61, *Amendments to: Financial Reporting under the Cash Basis of Accounting (the Cash Basis IPSAS)*

Project objectives:

To make amendments to the Cash Basis IPSAS to overcome obstacles to its adoption that result from the current requirements for the preparation of consolidated financial statements and disclosures of information about external assistance and third party payments.

This stage of the project:

The International Public Sector Accounting Standards Board[®] (IPSASB[®]) issued ED 61 in February 2016.

Next steps:

IPSASB seeks feedback on ED 61 to guide it in developing a revised Cash Basis IPSAS.

Comment deadline:

ED 61 is open for public comment until July 31, 2016.

Why is the IPSASB Undertaking this Project?

The Cash Basis IPSAS has an important role to play in the IPSASB's standard-setting strategy but is not widely adopted. This project is directed at removing the major obstacles to its adoption.

The Cash Basis IPSAS has not been widely adopted, but has a role to play

The Cash Basis IPSAS has an important role to play in enhancing the quality of financial reporting by entities reporting on the cash basis of accounting, and in supporting those entities as they transition to the accrual IPSASs. However, the IPSASB's ongoing in-house monitoring and input from preparers, auditors and many other constituents indicate that few jurisdictions prepare financial statements that fully comply with all requirements of the Cash Basis IPSAS.

Many respondents to the IPSASB's strategy consultation in 2014 identified the need for the Cash Basis IPSAS to be included in the suite of IPSASs to enhance financial reporting by governments in developing economies, and as a basis for the transition to the accrual basis of financial reporting and adoption of accrual IPSASs.

Obstacles to adoption of the Cash Basis IPSAS

The Cash Basis IPSAS comprises two parts. Part 1 identifies the requirements that must be adopted by a reporting entity that wishes to claim its financial statements comply with the IPSAS. Part 2 identifies encouraged disclosures which provide additional information useful for accountability and

decision-making purposes and support entities transitioning to the accrual basis of financial reporting and adoption of accrual IPSASs.

The requirements for preparation of consolidated financial statements and for disclosures of information about external assistance and payments made by third parties included in Part 1 of the Cash Basis IPSAS have been identified as the major obstacles to full adoption of the IPSAS by many constituents, and by an IPSASB Task Force which reviewed the operation of the Cash Basis IPSAS.

The proposed amendments

ED 61 proposes that the requirements in Part 1 of the Cash Basis IPSAS for preparation of consolidated financial statements and for disclosures of information about external assistance and payments made by third parties be revised and recast as encouragements in Part 2 of the IPSAS. These amendments will overcome major obstacles to adoption of the Cash Basis IPSAS and establish a clear and achievable transition path to adoption of the accrual IPSASs.

ED 61 also proposes some "housekeeping" type amendments to ensure that the requirements and encouragements in the Cash Basis IPSAS better align with the equivalent accrual IPSASs where appropriate. This will support entities transitioning to adoption of the accrual IPSASs.

Overview of the Proposed Amendments

The proposed amendments will overcome the major obstacles to adoption of the Cash Basis IPSAS, and establish a clear and achievable transition path to adoption of the accrual IPSASs.

Consolidation

ED 61 proposes that the requirement that controlling entities prepare and present consolidated financial statements that consolidate all controlled entities be removed from Part 1 of the IPSAS, and recast as an encouragement in Part 2 of the IPSAS. The ED also proposes that Part 2 of the IPSAS will encourage entities that do not consolidate all controlled entities to prepare financial statements that reflect a budget sector, general government sector or other representation of core government activities.

External assistance and third party payments

ED 61 proposes that the current requirements that reporting entities disclose information about external assistance and third party payments be removed from Part 1 of the IPSAS, simplified and recast as encouragements in Part 2. Part 2 of the IPSAS will then encourage the note disclosures of information about:

- (a) External and other assistance received as cash, and the amount of undrawn assistance; and
- (b) Third party payments, including those made as external or other assistance, when the entity has been formally advised, or otherwise verified, that payments have been made to directly settle its obligations or purchase goods and services for its benefit from third parties.

Other matters

ED 61 also proposes that the Cash Basis IPSAS be amended to:

- (a) Clarify that the role it is intended to play in the IPSASB's overall standard-setting strategy is primarily as a step on the path to adoption of the accrual basis IPSASs, rather than as an end in itself; and
- (b) Deal with minor "housekeeping" type matters to ensure that, while requirements and encouragements in the Cash Basis IPSAS may differ from the requirements of equivalent accrual IPSASs, they are not contrary to requirements of those accrual IPSASs unless this reflects the cash basis focus of the Standard.

Next Steps:

The deadline for comments is July 31, 2016.

During the comment period, IPSASB members are available to discuss the proposals with interested parties.

How can I comment on the proposals?

The IPSASB welcomes comments on any of the amendments to the Cash Basis IPSAS proposed in ED 61. The IPSASB would particularly welcome comments on whether:

1. The changes to the Cash Basis IPSAS proposed by ED 61 are supported. The IPSASB would also welcome the views of respondents on the capacity of public sector entities in their 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; and
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.

This is a limited scope review of the Cash Basis IPSAS. Consequently, the IPSASB seeks comment on only those amendments proposed in ED 61. However, the Cash Basis IPSAS is a lengthy and complex document. To assist constituents in placing the amendments proposed by ED 61 in the context

of the full IPSAS a copy of the complete Cash Basis IPSAS “marked-up” to identify all proposed amendments is also available on the IPSASB website.

Respondents are asked to submit their comments electronically through the IPSASB website, using the “Submit a Comment” link. Please submit comments in both a PDF file and a Word file.

Comment letters will be posted on the IPSASB website.

The IPSASB will carefully consider all feedback and discuss responses at its public meetings after the comment period has ended.

Stay informed

The IPSASB’s website will indicate the meetings at which feedback on the ED will be discussed. The dates and, where known, the locations of 2016 meetings are available at:

<http://www.ipsasb.org/meetings>

To stay up to date about the project, please visit:

<http://www.ipsasb.org/projects/cash-basis-ipsas-limited-scope-review-2015>